QUALCOMM INC/DE
Form DEF 14A
January 21, 2016
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
SCHEDULE 14A INFORMATION
PROXY STATEMENT PURSUANT TO SECTION 14(a) OF THE
SECURITIES EXCHANGE ACT OF 1934
(AMENDMENT NO.)
Filed by the Registrant [X]
Filed by a Party other than the Registrant [ ]
Check the appropriate box:
[ ] Preliminary Proxy Statement
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[X] Definitive Proxy Statement
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QUALCOMM INCORPORATED

(Name of Registrant as Specified In Its Charter)
(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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January 21, 2016

Dear Fellow Stockholder:

You are cordially invited to attend Qualcomm's 2016 Annual Meeting of Stockholders (the Annual Meeting) on Tuesday, March 8, 2016. The meeting will begin promptly at 9:30 a.m. Pacific Time at the Irwin M. Jacobs Qualcomm Hall, 5775 Morehouse Drive, San Diego, California 92121. I invite you to arrive early at 8:30 a.m. to preview our product displays. We will begin the Annual Meeting with a discussion and vote on the matters set forth in the Notice of Annual Meeting of Stockholders, followed by presentations and a report on Qualcomm's fiscal 2015 performance.

I would like to highlight Proposal 3, Approval of the 2016 Long-Term Incentive Plan. We offer a broad-based equity compensation program that is critical to attracting, retaining and engaging the finest people in our industry and ensuring alignment among our employees and stockholders. Our program of providing broad merit-based grants of restricted stock units to our employees has been a central part of our compensation and benefits mix, and we believe it has helped to create Qualcomm's inclusive and results-oriented culture. Without this program, we believe Qualcomm's competitiveness would be negatively impacted and would place Qualcomm at a disadvantage in its efforts to attract and retain the most talented and skilled individuals in the industry.

Whether or not you plan to attend the Annual Meeting, please vote as soon as possible. As an alternative to voting in person at the Annual Meeting, you may vote via the Internet, by telephone, or if you receive a paper proxy card in the mail, by mailing the completed proxy card. Voting by any of these methods will ensure your representation at the Annual Meeting.

Your vote is very important to us. I urge you to vote as our Board of Directors recommends.

Thank you for your support and continued interest in Qualcomm. I look forward to seeing you in San Diego at the Irwin M. Jacobs Qualcomm Hall on Tuesday, March 8, 2016.

Sincerely,

Steve Mollenkopf
Chief Executive Officer

5775 Morehouse Drive
San Diego, California 92121-1714

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
To Be Held On March 8, 2016

To the Stockholders of QUALCOMM Incorporated:

NOTICE IS HEREBY GIVEN that the 2016 Annual Meeting of Stockholders (Annual Meeting) of QUALCOMM Incorporated, a Delaware corporation (the Company), will be held at the Irwin M. Jacobs Qualcomm Hall, 5775 Morehouse Drive, San Diego, California 92121, on Tuesday, March 8, 2016 at 9:30 a.m. Pacific Time for the following purposes:

1. To elect 12 directors to hold office until the next annual meeting of stockholders and until their respective successors have been elected and qualified.
2. To ratify the selection of PricewaterhouseCoopers LLP as our independent public accountants for our fiscal year ending September 25, 2016.
3. To approve the 2016 Long-Term Incentive Plan.
4. To hold an advisory vote to approve our executive compensation.
5. To act on a stockholder proposal, if properly presented at the Annual Meeting.
6. To transact such other business as may properly come before stockholders at the Annual Meeting or any adjournment or postponement thereof.

The Board of Directors has fixed the close of business on January 11, 2016 as the record date for the determination of stockholders entitled to notice of and to vote at the Annual Meeting and at any adjournment or postponement thereof.

By Order of the Board of Directors,

Donald J. Rosenberg
Executive Vice President,
General Counsel and Corporate Secretary
San Diego, California
January 21, 2016

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PROXY OVERVIEW

2016 ANNUAL MEETING OF STOCKHOLDERS (ANNUAL MEETING)

Date and Time	March 8, 2016 9:30 a.m. Pacific Time
Location	Irwin M. Jacobs Qualcomm Hall 5775 Morehouse Drive, San Diego, California 92121
Record Date	January 11, 2016
Voting	Stockholders of record as of the record date may vote via the Internet at www.proxyvote.com; by telephone at 1-800-690-6903; by completing and returning their proxy card; or in person at the Annual Meeting.
Date of First Distribution of Proxy Materials	January 21, 2016

VOTING MATTERS AND BOARD RECOMMENDATIONS

Proposal		Board Recommendation	Page Reference
PROPOSAL 1	Election of Directors	FOR each Nominee	17
PROPOSAL 2	Ratification of the selection of PricewaterhouseCoopers LLP as our independent public accountants for our fiscal year ending September 25, 2016	FOR	25
PROPOSAL 3	Approval of the 2016 Long-Term Incentive Plan	FOR	27
PROPOSAL 4	Approval of our executive compensation	FOR	39
PROPOSAL 5	Stockholder proposal	AGAINST	41

Proxy Overview

DIRECTOR NOMINEES (SEE PAGE 17)

Name	Age	Director Since	Occupation	Independent
Barbara T. Alexander	67	2006	Independent Consultant	X
Raymond V. Dittamore	72	2002	Retired Audit Partner, Ernst &Young LLP	X
Jeffrey W. Henderson	51	2016	Advisory Director to Berkshire Partners LLC	X
Thomas W. Horton *	54	2008	Senior Advisor to Warburg Pincus LLC	X
Paul E. Jacobs	53	2005	Executive Chairman and Chairman of the Board, QUALCOMM Incorporated	
Harish Manwani	62	2014	Former Chief Operating Officer, Unilever	X
Mark D. McLaughlin	50	2015	Chairman, President and Chief Executive Officer, Palo Alto Networks, Inc.	X
Steve Mollenkopf	47	2013	Chief Executive Officer, QUALCOMM Incorporated	
Clark T. Randt, Jr.	70	2013	President, Randt & Co. LLC	X
Francisco Ros	65	2010	Founder and President, First International Partners, S.L.	X
Jonathan J. Rubinstein	59	2013	Former Chairman and CEO, Palm, Inc.	X
Anthony J. Vinciquerra	61	2015	Senior Advisor to Texas Pacific Group	X

* Presiding Director

EXECUTIVE COMPENSATION HIGHLIGHTS

Our executive compensation decisions in fiscal 2015 were influenced by retention actions we took in fiscal 2014, feedback from stockholders, enhancements to align executive pay with company performance and continuing executive compensation programs and policies, all within the framework of what the Compensation Committee believed to be in the best interests of the Company and our stockholders. We highlight these factors in the following sections to provide context for the more detailed Compensation Discussion & Analysis (CD&A) that follows.

In fiscal 2014, the Board determined that strong defensive actions were necessary to maintain the continuity of our senior executive team in the intensely competitive mobile communications industry, where their expertise made them candidates-of-choice at other companies. We realigned leadership responsibilities, awarded selective special equity grants and granted early (or "front-loaded") a portion of future equity for the next three-to-five years (varied by individual). We believe these Board initiatives successfully served the long-term interests of our stockholders; however, reaction from some investors and proxy advisory services providers was mixed.

At the 2015 annual meeting, 58% of our stockholders who voted were in favor of our advisory say-on-pay proposal covering fiscal 2014 compensation. Prior to the vote, the Chairman of our Compensation Committee and executives from our investor relations department engaged in discussions with institutional stockholders, who in aggregate owned approximately 50% of our outstanding shares. Our engagement with stockholders both before and after the vote, which also included our Presiding Director, provided constructive feedback that informed further Compensation Committee actions during fiscal 2015. We considered the voting results and stockholder feedback and changed our executive compensation program for increased strategic alignment. In addition, we initiated a Strategic Realignment Plan designed to improve execution, enhance financial performance and drive profitable growth as we work to create sustainable long-term value for stockholders. As part of that plan, we implemented and continue to implement cost reductions to reduce our annual costs from fiscal 2015 levels (adjusted for variable compensation) of $7.3 billion (as announced on July 22, 2015) by approximately $1.1 billion through a series of targeted reductions that will not jeopardize our growth objectives or core technology roadmap. We are also reducing annual share-based compensation grants by approximately $300 million. We expect these cost initiatives to be fully implemented by the end of fiscal 2016.

In fiscal 2015, we only granted performance stock units (PSUs) to our Named Executive Officers (NEOs). We did not grant time-vested restricted stock units (RSUs) to our NEOs in fiscal 2015 because they had received front-loaded RSUs for retention in fiscal 2014. This resulted in a reduction in the equity and total direct compensation (TDC) amounts included in the Summary Compensation Table for fiscal 2015 compared to fiscal 2014. This, and the reduced Annual Cash Incentive Plan (ACIP) compensation amounts earned for fiscal 2015, resulted in an 81% reduction in TDC among our executives who were NEOs in both fiscal 2014 and 2015 from an aggregate of $172.6 million in fiscal 2014 to $33.6 million in 2015.

Our fiscal 2015 financial and relative TSR performance resulted in performance-based pay that was significantly below the target amounts. The final payouts of two components of the NEOs' fiscal 2015 performance-based pay were determined at the end of fiscal 2015: (1) earnings under the fiscal 2015 ACIP and (2) earnings under the PSUs granted in fiscal 2013 (Fiscal 2013 PSUs) for which the multi-year performance period was completed at the end of fiscal 2015. Mr. Mollenkopf's earnings for performance-based pay determined at the end of fiscal 2015 were $1,025,000, which was only 14% of his aggregate target amount of $7,120,000. Dr. Jacobs's earnings for performance-based pay were $0 compared to his target amount of $8,100,000.

- The NEOs' aggregate earnings under the fiscal 2015 ACIP were 47% of their target award amounts because we achieved only 90% of our Adjusted Revenues objective and 89% of our Adjusted Operating Income objective. (See page 65 for the definitions of the performance measures used in calculating ACIP amounts for fiscal 2015.)

  Mr. Mollenkopf earned $1,025,000, or only 45%, of his target amount of $2,260,000. Dr. Jacobs is not eligible to participate in the ACIP.

- The NEOs did not earn any shares of our common stock under the Fiscal 2013 PSUs (whose multi-year performance period was completed at the end of fiscal 2015). The Fiscal 2013 PSUs were based on relative TSR for fiscal 2014 - 2015.

The grant date fair values of the Fiscal 2013 PSUs granted to Mr. Mollenkopf and Dr. Jacobs were $4,860,000 and $8,100,000, respectively. Because relative TSR was below the payout threshold, no shares were earned.

- In addition to the Fiscal 2013 PSUs, there is one other PSU award with a performance period that includes fiscal 2015. The PSUs granted in fiscal 2014 (Fiscal 2014 PSUs) are based on relative TSR for fiscal 2015 - 2017. No measurement

period was completed in fiscal 2015, and the first interim measurement period will be completed on March 27, 2016. If a measurement period had been completed as of the end of fiscal 2015, the payout would have been 0% of the target award because relative TSR for fiscal 2015 was below the payout threshold.

- The PSUs granted in fiscal 2015 (Fiscal 2015 PSUs) were granted on September 25, 2015. One-half of the Fiscal 2015 PSUs is based on relative TSR for fiscal 2016 - 2018, and the other half is based on Adjusted Return On Invested Capital (ROIC) for the same performance period. There is a single measurement period at the end of fiscal 2018. (See page 65 for the definition of the Adjusted ROIC performance measure to be used in determining the number of Fiscal 2015 PSUs earned over the fiscal 2016 - 2018 performance period.)
- The remainder of equity granted to executive officers in prior years was in the form of RSUs. We did not grant any RSUs to our NEOs in fiscal 2015. The grants made to Mr. Mollenkopf and Dr. Jacobs in fiscal 2014 were front-loaded (Fiscal 2014 RSUs), and the grant date fair values reflected five years of annual RSUs, including the value of RSUs that would have been granted in fiscal 2015. Our fiscal 2015 stock price performance resulted in significant reductions in the value of the Fiscal 2014 RSUs.

Mr. Mollenkopf’s front-loaded RSUs reflected an annualized grant date fair value of $6,000,000 and vest in equal annual installments over five years. One-fifth of the RSUs vested in fiscal 2015, and the fair value of these vested RSUs as of the end of fiscal 2015 was 27% lower than the annualized fair value on the date of grant.

Dr. Jacobs’s front-loaded RSUs reflected an annualized grant date fair value of $9,000,000 and vest in equal installments on the third, fourth and fifth anniversaries of the grant date. While no RSUs from this front-loaded award vested in fiscal 2015, the front-loaded grant reflected five years of annual RSUs. The fair value of one-fifth of the RSUs as of the end of fiscal 2015 was 33% lower than the annualized fair value on the date of grant.

To illustrate the impact of fiscal 2015 performance on the cash and equity compensation components for Mr. Mollenkopf and Dr. Jacobs, the following table compares the target amounts to the actual earnings for performance-based pay at the end of fiscal 2015.

Figure 1: Impact of Performance on Cash and Equity Compensation

Name	Pay Component	Effective Date/ Grant Date	Target Amount ($)	Cash Earned/ Fair Value of Equity Awards ($)	Percent of Target Amount
Steve Mollenkopf	Fiscal 2015 ACIP	11/30/2014	2,260,000	1,025,000	45%
	Fiscal 2013 PSUs	9/29/2013	4,860,000	0	0%
	Total		7,120,000	1,025,000	14%
Paul Jacobs	Fiscal 2015 ACIP	11/30/2014	N/A	N/A	N/A
	Fiscal 2013 PSUs	9/29/2013	8,100,000	0	0%
	Total		8,100,000	0	0%

Compensation Program Changes to Strengthen Stockholder Alignment

In response to stockholder feedback during fiscal 2015, our Compensation Committee approved changes to the ACIP for fiscal 2016 and for PSUs granted in fiscal 2015 that may be earned for the fiscal 2016 - 2018 performance period as described in the table below. In structuring our cash and long-term equity incentive award programs, we continue to use variations of non-GAAP performance measures as financial objectives. (See page 65 for definitions of the various performance measures used in determining our cash and long-term equity incentives.)

Figure 2: Summary of Key Changes to Executive Compensation

Executive compensation component	Feedback from our stockholders	Actions we took and anticipated impact
Annual Cash Incentive Plan (ACIP)	NEOs' ACIP earnings are determined based on metrics that may not adequately align with stockholder value creation and exclude share-based compensation expense from the definition of operating income.	Replaced an adjusted operating income measure with an adjusted earnings per share (EPS) measure that includes share-based compensation expense. The change further encourages NEOs to focus on (1) growing per share net income (a perspective not captured by operating income alone); (2) reducing our share count; and (3) managing our share-based compensation expense. Also, as a stockholder safeguard, the Adjusted EPS calculation will exclude any share repurchases that were not anticipated in establishing the ACIP target.
Performance Stock Units (PSUs)	NEOs' earned PSUs are based entirely on the Company's relative TSR compared to the NASDAQ-100, which does not directly encourage value-creating capital allocation, which is a strategic priority.	Added an adjusted return on invested capital (ROIC) measure for determining 50% of PSU awards beginning with fiscal 2015 grants (ROIC PSUs), with the remaining 50% continuing to be earned based on relative TSR compared to the NASDAQ-100 (Relative TSR PSUs).
PSU interim measurement periods	The use of three-year relative TSR for determining NEOs' earned PSUs based on overlapping interim measurement periods of 18, 24, 30 and 36 months is complicated and potentially mitigates downside performance risk during the overall measurement period.	Removed the interim measurement periods for determining earned PSUs based on relative TSR performance and will measure performance only for the full three years for grants beginning in fiscal 2015. The new ROIC PSUs will also measure performance over the full three years.

Proxy Overview

Compensation Program Best Practices

Our compensation program is market-based and supports our business strategy, and governance is strong under the oversight of an independent Compensation Committee. We have avoided problematic pay practices and have implemented compensation plans that reinforce a performance-based company culture.

What We Do

þ A significant portion of our NEOs' compensation varies with the Company's performance. For fiscal 2015, approximately 95% of our NEOs' aggregate TDC was attributable to the grant date fair values of the Relative TSR and ROIC PSUs, the portion of the grant date fair value of RSUs awarded in fiscal 2014 that we attribute to fiscal 2015, and target ACIP amounts (Figures 6 and 7 in the CD&A).

þ We have a balanced approach to incentive programs with differentiated measures. ACIP is based on annual performance, and PSUs are based on three-year performance periods.

þ We have limits on the amounts of variable compensation that may be earned. Earned annual cash incentives are limited to 2x target amounts, and earned PSUs are limited to 2x the target shares. We further limit earned PSUs to no more than 1x the target shares if absolute TSR is negative over the three-year performance period regardless of the level of relative TSR or the extent to which we achieve the ROIC objective.

þ We have a cash incentive compensation repayment ("clawback") policy. We require executive officers, including NEOs, to repay to us the amount of any earned annual cash incentive that was paid as required by our policy, SEC regulations or stock exchange rules.

þ We have robust stock ownership guidelines. Our CEO is required to own 6x his salary, our President is required to own 3x his salary, and our other NEOs and executive officers are required to own 2x their respective salaries in our common stock. The ownership guideline for our Executive Chairman, whose annual salary is $1, is 6x his prior salary as CEO.

þ We manage potential compensation-related risks to the Company. We perform annual risk assessments for our executive compensation program, as well as incentive arrangements below the executive level. This review is conducted by the Compensation Committee's independent consultant, Frederic W. Cook & Co., Inc. (FWC).

þ Our 2006 Long-Term Incentive Plan (LTIP) and our proposed 2016 LTIP include a "double-trigger" provision for vesting of equity in connection with a change in control. In the event of a change in control where the acquirer assumes our outstanding unvested equity awards, the vesting of an NEO's awards would accelerate only if the NEO was involuntarily terminated or the NEO voluntarily resigned for "good reason" during a specified period after the change in control.

What We Don't Do

ý Our insider trading policy, as applicable to executive officers, including NEOs and nonemployee directors, prohibits the hedging and pledging of our common stock and trading in put and call options and other types of equity derivatives.

ý Our NEOs do not have severance agreements or employment contracts. Generally, all U.S. employees, including all of our NEOs, have "at will" employment relationships without severance agreements or contracts. This enables us to terminate employment with discretion as to the

terms and conditions of any separation.

ý We do not provide tax gross-ups for benefits unless they are provided under a policy generally applicable to all U.S.-based employees, such as relocation.

ý We do not have guaranteed severance arrangements upon a change in control (i.e., no “single trigger” payments) or excise tax gross-ups for change-in-control payments.

PROXY STATEMENT

In this document, the words “Qualcomm,” “the Company,” “we,” “our,” “ours” and “us” refer only to QUALCOMM Incorpora
a Delaware corporation, and its consolidated subsidiaries and not to any other person or entity.

MEETING INFORMATION

The Board of Directors (Board) of QUALCOMM Incorporated is soliciting your proxy for use at the Company’s 2016 Annual Meeting of Stockholders (Annual Meeting) to be held on Tuesday, March 8, 2016, at 9:30 a.m. Pacific Time and at any adjournment or postponement thereof.

VOTING RIGHTS AND OUTSTANDING SHARES

Only holders of record of common stock at the close of business on January 11, 2016 (Record Date) will be entitled to notice of and to vote at the Annual Meeting. At the close of business on the Record Date, we had 1,494,754,354 shares of common stock outstanding and entitled to vote. Each holder of record of common stock on the Record Date will be entitled to one vote for each share held on all matters to be voted upon. If no choice is indicated on the proxy, the shares will be voted as described in the section “How Your Shares Will Be Voted” below. All votes will be counted by an independent inspector of election appointed for the Annual Meeting, who will separately tabulate affirmative and negative votes, abstentions and broker non-votes.

NOTICE OF INTERNET AVAILABILITY OF PROXY MATERIALS

We are furnishing proxy materials to our stockholders primarily via the Internet under rules adopted by the U.S. Securities and Exchange Commission (SEC), instead of mailing printed copies of those materials to each stockholder. On January 21, 2016, we commenced mailing to our stockholders (other than those who previously requested electronic delivery or a full set of printed proxy materials) a Notice of Internet Availability of Proxy Materials containing instructions on how to access our proxy materials, including this proxy statement. The Notice of Internet Availability of Proxy Materials also provides instructions on how to access your proxy card to vote via the Internet. This process is designed to expedite stockholders’ receipt of proxy materials, lower the cost of the Annual Meeting and help conserve natural resources. If you received the Notice of Internet Availability of Proxy Materials and would prefer to receive printed proxy materials, please follow the instructions included in the Notice of Internet Availability of Proxy Materials. If you have previously elected to receive our proxy materials electronically, you will continue to receive these materials via email unless you elect otherwise.

This proxy statement and our Annual Report on Form 10-K for fiscal year 2015 are available at http://www.qualcomm.com.

VOTING METHODS

If you are a stockholder with shares registered in your name, you may vote by one of the following three options depending on the method of delivery by which you received the proxy materials:

- Vote via the Internet. Go to the web address http://www.proxyvote.com and follow the instructions for Internet voting shown on the proxy card or the Notice of Internet Availability of Proxy Materials mailed to you or the instructions that you received by email.
- Vote by Telephone. Dial 1-800-690-6903 and follow the instructions for telephone voting shown on the proxy card you received by mail.
- Vote by Proxy Card. Complete, sign, date and mail the proxy card in the envelope provided. If you vote via the Internet or by telephone, please do not mail your proxy card.

If your shares are held by a broker, bank or other stockholder of record, in nominee name or otherwise, exercising fiduciary powers (typically referred to as being held in “street name”), please follow the instructions you receive from them. You may need to contact your broker, bank or other stockholder of record to determine whether you will be able to vote electronically via the Internet or by telephone.

PLEASE NOTE THAT IF YOUR SHARES ARE HELD BY A BROKER, BANK OR OTHER STOCKHOLDER OF RECORD AND YOU WISH TO VOTE AT THE ANNUAL MEETING, YOU MUST FIRST OBTAIN A LEGAL PROXY ISSUED IN YOUR NAME FROM THE RECORD HOLDER. OTHERWISE, YOU WILL NOT BE PERMITTED TO VOTE IN PERSON AT THE MEETING.

HOW YOUR SHARES WILL BE VOTED

Your shares will be voted in accordance with your instructions. If you do not specify voting instructions on your proxy, the shares will be voted as follows:

Proposal		Vote	Page Reference
PROPOSAL 1	Election of Directors	FOR each Nominee	17
PROPOSAL 2	Ratification of the selection of PricewaterhouseCoopers LLP as our independent public accountants for our fiscal year ending September 25, 2016	FOR	25
PROPOSAL 3	Approval of the 2016 Long-Term Incentive Plan	FOR	27
PROPOSAL 4	Approval of our executive compensation	FOR	39
PROPOSAL 5	Stockholder proposal	AGAINST	41

In the absence of instructions to the contrary, proxies will be voted in accordance with the judgment of the person exercising the proxy on any other matter properly presented at the Annual Meeting.

BROKER NON-VOTES

A broker non-vote occurs when a broker, bank or other stockholder of record, in nominee name or otherwise, exercising fiduciary powers (typically referred to as being held in “street name”) submits a proxy for the Annual Meeting, but does not vote on a particular proposal because that holder does not have discretionary voting power with respect to that proposal and has not received voting instructions from the beneficial owner. Abstentions and broker non-votes have no effect on the determination of whether a nominee or the proposal has received the vote of a majority of the shares of common stock present or represented by proxy and voting at the Annual Meeting. Under the rules that govern brokers who are voting with respect to shares held in street name, brokers have the discretion to vote those shares on routine matters, but not on non-routine matters. Routine matters include ratification of the selection of independent public accountants. Non-routine matters include the election of directors, actions on incentive plans, advisory votes on executive compensation and stockholder proposals.

REVOCABILITY OF PROXIES

Any person giving a proxy pursuant to this solicitation has the power to revoke it at any time before it is voted. A proxy may be revoked by filing a written notice of revocation or a duly executed proxy bearing a later date with our Corporate Secretary at our principal executive offices, 5775 Morehouse Drive, N-520I, San Diego, California 92121-1714, or it may be revoked by attending the Annual Meeting and voting in person. Attendance at the Annual Meeting will not, by itself, revoke a proxy.

PROXY SOLICITATION

We will bear the entire cost of the solicitation of proxies, including the preparation, assembly, printing and mailing of the Notice of Internet Availability of Proxy Materials, this proxy statement, the proxy card and any additional information furnished to stockholders. Copies of solicitation materials will be furnished to banks, brokerage houses, fiduciaries and custodians holding in their names shares of common stock beneficially owned by others to forward to such beneficial owners. We may reimburse persons representing beneficial owners of common stock for their costs of forwarding solicitation materials to such beneficial owners. In addition, we have retained Morrow & Company to act as a proxy solicitor in conjunction with the Annual Meeting. We have agreed to pay that firm $12,500, plus reasonable out-of-pocket expenses, for proxy solicitation services. Solicitation of proxies by mail may be supplemented by telephone or personal solicitation by our directors, officers or other employees. No additional compensation will be paid to directors, officers or other employees for such services.

STOCKHOLDER PROPOSALS

The deadline for submitting a stockholder proposal for inclusion in our proxy materials for our 2017 Annual Meeting of Stockholders is September 23, 2016. Stockholder nominations for director that are to be included in our proxy materials under the proxy access provision of our bylaws must be received no earlier than August 24, 2016 and no later than the close of business on September 23, 2016. Stockholder nominations for director and other proposals that are not to be included in such materials must be received no earlier than November 9, 2016 and no later than the close of business on December 9, 2016. Any such stockholder proposals or nominations for director must be submitted to our Corporate Secretary in writing at 5775 Morehouse Drive, N-520I, San Diego, California 92121-1714. Stockholders are advised to review our Amended and Restated Bylaws, which contain additional requirements for submitting stockholder proposals and director nominations. See page 14 for further information.

HOUSEHOLDING

The SEC allows companies and intermediaries (such as brokers) to implement a delivery procedure called “householding.” Under this procedure, multiple stockholders who reside at the same address may receive a single copy of our proxy materials, including the Notice of Internet Availability of Proxy Materials, unless the affected stockholder has notified us that they want to continue receiving multiple copies. This practice is designed to reduce duplicate mailings and save printing and postage costs, as well as natural resources. Householding for bank and brokerage accounts is limited to accounts within the same bank or brokerage firm. For example, if you and your spouse share the same last name and mailing address and you and your spouse each have two accounts containing Qualcomm stock at two different brokerage firms, your household will receive two copies of the Qualcomm proxy materials, one from each brokerage firm. To reduce the number of duplicate sets of proxy materials your household receives, you may wish to enroll some or all of your accounts in our electronic delivery program at http://enroll.icsdelivery.com/qcom.

If you received a householded mailing this year and you would like to have separate copies of our Notice of Internet Availability of Proxy Materials and proxy materials mailed to you, please submit your request to Broadridge ICS, either by calling toll-free (866) 540-7095 or by writing to Broadridge ICS, Householding Department, 51 Mercedes Way, Edgewood, New York 11717. They will promptly send additional copies of our Notice of Internet Availability of Proxy Materials and proxy materials upon receipt of such request. Once you have received notice from your bank or broker that it will be householding communications to your address, householding will continue until you are notified otherwise or until you revoke your consent. Stockholders may revoke their consent at any time by contacting Broadridge ICS as provided above. Please note, however, that if you want to receive a paper proxy or voting instruction form or other proxy materials for purposes of this year’s Annual Meeting, you should follow the instructions included in the Notice of Internet Availability that was sent to you. If you received multiple copies of the proxy materials and would prefer to receive a single copy in the future or if you would like to opt out of householding for future mailings, you may contact Broadridge ICS as provided above.

FINANCIAL INFORMATION

Attached as Appendix 1 is certain financial information from our Annual Report on Form 10-K for fiscal 2015 that we filed with the SEC on November 4, 2015. We have not undertaken any updates or revisions to such information since the date it was filed with the SEC. Accordingly, we encourage you to review Appendix 1 together with any subsequent information we have filed with the SEC and other publicly available information.

PERFORMANCE MEASUREMENT COMPARISON OF STOCKHOLDER RETURN

Attached as Appendix 2 is a graph that compares total stockholder return on our common stock since September 26, 2010 to two indices: the Standard & Poor’s 500 Stock Index (S&P 500) and the NASDAQ-100 Index (NASDAQ-100).

CORPORATE DIRECTORY

Attached as Appendix 3 is a listing of our executive officers and members of our Board.

CORPORATE GOVERNANCE

CODE OF ETHICS AND CORPORATE GOVERNANCE PRINCIPLES AND PRACTICES

The Board has adopted a Code of Ethics applicable to all of our employees, including our executive officers and employees of our subsidiaries, and members of our Board. Any amendments to, or waivers under, the Code of Ethics that are required to be disclosed by SEC rules will be disclosed on our website at www.qualcomm.com under the "Corporate Governance" section of our "Investor Relations" page, which appears under the "Company" tab. To date, there have not been any waivers by us under the Code of Ethics.

The Board has also adopted Corporate Governance Principles and Practices, which include information regarding the Board's policies that guide its governance practices, including the roles, responsibilities and composition of the Board, director qualifications, committee matters and stock ownership guidelines, among others.

The Code of Ethics and the Corporate Governance Principles and Practices are available on our website at http://www.qualcomm.com under the "Corporate Governance" section of our "Investor Relations" page.

BOARD LEADERSHIP STRUCTURE

Chairman and CEO Roles

The Board believes that it should maintain flexibility to establish and revise Qualcomm's Board leadership structure from time to time. Our charter documents and policies do not prevent our Chief Executive Officer from also serving as our Chairman of the Board. Our Board evaluates its leadership structure and elects the Chairman and the Chief Executive Officer based on the criteria it deems to be appropriate and in the best interests of the Company and its stockholders, given the circumstances at the time of such election. While we have in the past had one person serve as Chairman of the Board and Chief Executive Officer, the positions are currently held by separate individuals.

Presiding (Lead Independent) Director Role

Our Board believes that the role of Presiding Director, which pursuant to our Corporate Governance Principles and Practices must be an independent director, provides an appropriate balance in Qualcomm's leadership. The Presiding Director helps ensure a strong, independent and active Board. Under our Corporate Governance Principles and Practices, at or before each annual meeting of the Board, which follows immediately after the annual meeting of stockholders, (i) the Governance Committee shall recommend the director who would serve as Presiding Director for the next term, and (ii) the Presiding Director shall be elected by a vote of the independent members of the Board. An individual shall serve as the Presiding Director for a one-year period, commencing with the annual meeting of the Board. No Presiding Director shall serve more than two consecutive terms. Mr. Thomas Horton, a member of the Audit Committee, is currently the Presiding Director, having commenced his service in this role in March 2015. The Presiding Director has the following roles and responsibilities:

- Presiding at all Board meetings at which the Chairman is not present, including executive sessions of the independent directors;
- Collaborating with the Chairman and the Chief Executive Officer in developing agendas for Board meetings;
- Acting as the principal liaison between the independent directors and the Chairman and the Chief Executive Officer;
- Communicating with independent directors to ensure that matters of interest are included on agendas for Board meetings;
- Communicating with independent directors and management to affirm that appropriate briefing materials are being provided to directors sufficiently in advance of Board meetings to allow for proper preparation and participation in meetings; and
- Calling special meetings of the Board, with the concurrence of at least one additional director, as appropriate.

Corporate Governance

BOARD MEETINGS, COMMITTEES AND ATTENDANCE

During fiscal 2015, the Board held ten meetings. Board agendas include regularly scheduled sessions for the independent directors to meet without management present, and the Board's Presiding Director leads those sessions. The Board delegates various responsibilities and authority to different Board committees. We have four standing Board committees: the Audit, Compensation, Governance and Finance committees. Committees regularly report on their activities and actions to the full Board. Committee assignments are re-evaluated annually and approved by the Board at an annual meeting that follows the annual meeting of stockholders, typically in March of each year. Each committee acts according to a written charter approved by the Board. Copies of each charter can be found on our website at www.qualcomm.com under the "Corporate Governance" section of our "Investor Relations" page as follows:

Name of Committee	Website Link
Audit Committee	http://investor.qualcomm.com/documentdisplay.cfm?DocumentID=463
Compensation Committee	http://investor.qualcomm.com/documentdisplay.cfm?DocumentID=462
Governance Committee	http://investor.qualcomm.com/documentdisplay.cfm?DocumentID=461
Finance Committee	http://investor.qualcomm.com/documentdisplay.cfm?DocumentID=464

The table below provides current committee membership information for each of the Board committees.

	Committees			
Name	Audit	Compensation	Governance	Finance
Barbara T. Alexander				C
Donald G. Cruickshank	X			
Raymond V. Dittamore	C			
Jeffrey W. Henderson				
Susan Hockfield			X	
Thomas W. Horton *	X			
Paul E. Jacobs				
Sherry Lansing		X		
Harish Manwani				X
Mark D. McLaughlin			X	
Steve Mollenkopf				
Clark T. Randt, Jr.			C	
Francisco Ros				X
Jonathan J. Rubinstein		X		
Marc I. Stern		C		
Anthony J. Vinciquerra	X			

C Committee Chair

* Presiding Director

The Audit Committee. The Audit Committee meets at least quarterly with our management and independent public accountants to review the results of the annual integrated audit and quarterly reviews of our consolidated financial statements and to discuss our financial statements and earnings releases. The Audit Committee selects, engages, oversees and evaluates the qualifications, performance and independence of our independent public accountants, reviews the plans and results of internal audits and reviews evaluations by management and the independent public accountants of our internal control over financial reporting and the quality of our financial reporting, among other functions. The Audit Committee met ten times during fiscal 2015. All of the members of the Audit Committee are audit committee financial

experts as defined by the SEC and independent directors within the meaning of Rule 5605 of the NASDAQ Stock Market LLC (NASDAQ Rule 5605) and Rule 10A-3(b)(1)(ii) of the Securities Exchange Act of 1934, as amended.

The Compensation Committee. The Compensation Committee determines compensation levels for the Chief Executive Officer, the named executive officers (as listed in the Fiscal 2015 Summary Compensation Table), the Chief Accounting Officer, the other executive officers and Board members, administers and approves stock offerings under our employee stock purchase and long-term incentive plans and performs such other functions regarding compensation as the Board may delegate. The Compensation Committee met seven times during fiscal 2015. All of the members of the Compensation Committee are independent directors within the meaning of NASDAQ Rule 5605 and outside directors within the meaning of Section 162(m) of the Internal Revenue Code of 1986, as amended.

The Governance Committee. The Governance Committee reviews, approves and oversees various corporate governance-related policies and procedures applicable to us, including emergency procedures (such as disaster recovery and security). The Committee also reviews and evaluates the effectiveness of our executive development and succession planning processes and provides active leadership and oversight with respect to these processes. In addition, the Governance Committee evaluates and recommends nominees for membership on the Board and its committees. The Governance Committee met twelve times during fiscal 2015. All of the members of the Governance Committee are independent directors within the meaning of NASDAQ Rule 5605.

The Finance Committee. The Finance Committee reviews our financial position, cash management, dividend and stock repurchase programs, securities issuances, acquisitions and other major strategic investment decisions and provides oversight of our budgeting process. The Finance Committee met nine times during fiscal 2015. All of the members of the Finance Committee are independent directors within the meaning of NASDAQ Rule 5605.

During fiscal 2015, each Board member attended at least 75% of the aggregate of the meetings of the Board and of the meetings of the committees on which he or she served and that were held during the period for which he or she was a Board or committee member, respectively.

BOARD’S ROLE IN RISK OVERSIGHT

Qualcomm does not view risk in isolation, but considers risk as part of its regular evaluation of business strategy and business decisions. Assessing and managing risk is the responsibility of Qualcomm’s management, which establishes and maintains risk management processes, including action plans and controls, to balance risk mitigation and opportunities to create stockholder value. It is management’s responsibility to anticipate, identify and communicate risks to the Board and/or its committees. The Board oversees and reviews certain aspects of the Company’s risk management efforts, either directly or through its committees. Qualcomm approaches risk management by integrating its strategic planning, operational decision making and risk oversight and communicating risks and opportunities to the Board. The Board commits extensive time and effort every year to discussing and agreeing upon the Company’s strategic plan, and it reconsiders key elements of the strategic plan as significant events and opportunities arise during the year. As part of the review of the strategic plan, as well as in evaluating events and opportunities that occur during the year, the Board and management focus on the primary success factors and risks for the Company.

While the Board has primary responsibility for oversight of the Company’s risk management, the Board’s standing committees support the Board by regularly addressing various risks in their respective areas of oversight. Specifically, the Audit Committee assists the Board in fulfilling its oversight responsibilities with respect to risk management in the areas of financial reporting, internal controls and compliance with certain public reporting requirements. The Compensation Committee assists the Board in fulfilling its risk management oversight responsibilities with respect to risks arising from compensation policies and programs. The Governance Committee assists the Board in fulfilling its risk management oversight responsibilities with respect to risks related to corporate governance, succession planning and emergency procedures (including disaster recovery and security). The Finance Committee assists the Board in fulfilling its risk management oversight responsibilities with respect to risks related to major strategic investment decisions and other financial transactions, treasury functions and policies and budget processes. Each of the committee Chairs reports to the full Board at regular meetings concerning the activities of the committee, the significant issues it has discussed and the actions taken by the committee.

We believe that our leadership structure supports the risk oversight function of the Board. With two members of management, our Executive Chairman and our Chief Executive Officer, serving on the Board, they are able to promote open

communication between management and directors relating to risk. Additionally, each Board committee is comprised solely of independent directors, and all directors are actively involved in the risk oversight function.

DIRECTOR NOMINATIONS

Our Amended and Restated Bylaws contain provisions that address the process (including required information and deadlines) by which a stockholder may nominate an individual to stand for election to the Board at our annual meeting of stockholders. In addition, the "proxy access" provisions of our Amended and Restated Bylaws provide that, under certain circumstances, a stockholder or group of up to 20 stockholders seeking to include director candidates in our proxy statement must own at least 3% of our outstanding common stock continuously for at least the previous three years. The number of stockholder-nominated candidates appearing in the proxy statement for our annual meeting cannot exceed 20% of the number of directors to be elected. If 20% of the number of directors is not a whole number, the maximum number of stockholder-nominated candidates is rounded down to the next whole number. If the number of stockholder-nominated candidates exceeds 20%, one nominee from each nominating stockholder or group of stockholders, based on the order of priority provided by such nominating stockholder or group of stockholders, would be selected for inclusion in our proxy materials until the maximum number is reached. The order of priority among nominating stockholders or groups of stockholders would be determined based on the number (largest to smallest) of shares of our common stock held by such nominating stockholders or groups of stockholders. Each nominating stockholder or group of stockholders must provide the information required by our Amended and Restated Bylaws, and each nominee must meet the qualifications required by our Amended and Restated Bylaws. Requests to include stockholder-nominated candidates in our proxy materials for next year's annual meeting must be received by the Corporate Secretary at our corporate offices at 5775 Morehouse Drive, N-520I, San Diego, California 92121-1714, no earlier than August 24, 2016 and no later than the close of business on September 23, 2016. Stockholders are advised to review our Amended and Restated Bylaws, which contain additional requirements for submitting director candidates.

The Board has also adopted a formal policy concerning stockholder recommendations of Board candidates to the Governance Committee. This policy is set forth in our Corporate Governance Principles and Practices, which is available on our website at www.qualcomm.com under the "Corporate Governance" section of our "Investor Relations" page. Under this policy, the Governance Committee will review a reasonable number of candidates recommended by a single stockholder who has held over 1% of our common stock for over one year and who satisfies the notice, information and consent requirements set forth in our Amended and Restated Bylaws. To recommend a nominee for election to the Board, a stockholder must submit his or her recommendation to the Corporate Secretary at our corporate offices at 5775 Morehouse Drive, N-520I, San Diego, California 92121-1714. A stockholder's recommendation must be received by us within the time limits set forth above under "Stockholder Proposals." A stockholder's recommendation must be accompanied by the information with respect to the stockholder nominee as specified in the Amended and Restated Bylaws, including among other things, the name, age, address and occupation of the recommended person, the proposing stockholder's name and address, the ownership interests of the proposing stockholder and any beneficial owner on whose behalf the nomination is being made (including the number of shares beneficially owned, any hedging, derivative, short or other economic interests and any rights to vote any shares), and any material monetary or other relationships between the recommended person and the proposing stockholder and/or the beneficial owners on whose behalf the nomination is being made. The proposing stockholder must also provide evidence of owning the requisite number of shares of our common stock for over one year. Candidates so recommended will be reviewed using the same process and standards for reviewing Governance Committee recommended candidates.

In evaluating director nominees, the Governance Committee considers the following factors:

- The appropriate size of the Board;
- Our needs with respect to the particular talents and experience of our directors;
- The knowledge, skills and experience of nominees, including experience in technology, business, finance, administration or public service, in light of prevailing business conditions and the knowledge, skills and experience already possessed by other members of the Board;

- Familiarity with national and international business matters;
- Experience in political affairs;
- Experience with accounting rules and practices;

Corporate Governance

- Appreciation of the relationship of our business to the changing needs of society;
- The nominee’s other commitments, including the other boards on which the nominee serves; and
- The desire to balance the considerable benefit of continuity with the periodic injection of the fresh perspective provided by new members.

The Governance Committee’s goal is to assemble a board of directors that brings to us a diversity of perspectives and skills derived from high quality business and professional experience. In doing so, the Governance Committee also considers candidates with appropriate non-business backgrounds.

Other than the foregoing, there are no stated minimum criteria for director nominees, although the Governance Committee may also consider such other factors as it may deem are in the best interests of the Company and its stockholders. The Governance Committee does, however, believe it appropriate for at least one, and preferably several, members of the Board to meet the criteria for an “audit committee financial expert” as defined by the SEC, and for a majority of the members of the Board to meet the definition of “independent director” under NASDAQ Rule 5605. The Governance Committee also believes that it is in the best interests of stockholders that at least one key member of our current management participates as a member of the Board. The Governance Committee identifies nominees by first evaluating the current members of the Board willing to continue their service. Current members of the Board with skills and experience that are relevant to our business and who are willing to continue their service are considered for re-nomination, balancing the value of continuity of service by existing members of the Board with that of obtaining a new perspective. If any member of the Board does not wish to continue to serve or if the Governance Committee or the Board decides not to re-nominate a member for re-election, and if the Board determines not to reduce the Board size as a result, the Governance Committee identifies the desired skills and experience of a new nominee based on the criteria above. Current members of the Governance Committee and Board are polled for suggestions as to individuals meeting the criteria of the Governance Committee. Research may also be performed to identify qualified individuals. We have, in the past, engaged third parties to assist in identifying and evaluating potential nominees.

MAJORITY VOTING

Under our Amended and Restated Bylaws, in an uncontested election, if any incumbent nominee for director receives a greater number of “withhold” votes (ignoring abstentions and broker non-votes) than votes cast “for” his or her election, the director shall promptly tender his or her resignation from the Board, subject to acceptance by the Board. In that event, the Governance Committee shall make a recommendation to the Board as to whether to accept or reject the tendered resignation or whether other actions should be taken. In making its recommendation, the Governance Committee will consider all factors it deems relevant, including, without limitation, the stated reasons why stockholders withheld votes from such director, the length of service and qualifications of such director, the director’s past contributions to us and the availability of other qualified candidates for director. The Governance Committee’s evaluation shall be forwarded to the Board to permit the Board to act on it no later than 90 days following the date of the stockholder meeting. In reviewing the Governance Committee’s recommendation, the Board shall consider the factors evaluated by the Governance Committee and such additional information and factors as the Board believes to be relevant. If the Board determines that the director’s resignation is in the best interests of the Company and its stockholders, the Board shall promptly accept the resignation. We will publicly disclose the Board’s decision within four business days in a Current Report on Form 8-K, providing an explanation of the process by which the decision was reached and, if applicable, the reasons for not accepting the director’s resignation. The director in question will not participate in the Governance Committee’s or the Board’s considerations of the appropriateness of his or her continued service, except to respond to requests for information.

STOCK OWNERSHIP GUIDELINES

We adopted stock ownership guidelines for our directors and executive officers to help ensure that they each maintain an equity stake in the Company and, by doing so, appropriately link their interests with those of other stockholders. The guideline for executive officers is based on a multiple of the executive’s base salary, ranging from two to six times, with the size of the multiple based on the individual’s position with the Company. Only shares actually owned (as shares or as vested deferred stock units) count toward the requirement. Executives are required to achieve these

stock ownership levels within five years of becoming an executive officer. Nonemployee directors are required to hold a number of shares of our common stock with a value equal to five times the annual retainer for Board service paid to U.S. residents. Nonemployee directors

are required to achieve this ownership level within five years of joining the Board. In addition to the preceding ownership guidelines, all directors are expected to own shares of our common stock within one year of joining the Board.

COMMUNICATIONS WITH DIRECTORS

We have adopted a formal process for stockholder communications with the Board. This process is also set forth in our Corporate Governance Principles and Practices. Stockholders who wish to communicate to the Board should do so in writing to the following address:

[Name of Director(s) or Board of Directors]
Qualcomm Incorporated
Attn: General Counsel
5775 Morehouse Drive, N-520I
San Diego, California 92121-1714

Our General Counsel logs all such communications (and the disposition of such communications as set forth below) and forwards those not deemed frivolous, threatening or otherwise inappropriate to the Chair of the Governance Committee for distribution to the appropriate members of the Board and/or management.

ANNUAL MEETING ATTENDANCE

Our Corporate Governance Principles and Practices set forth a policy on director attendance at annual meetings. Directors are encouraged to attend absent unavoidable conflicts. All directors then in office attended our last annual meeting, except for Sherry Lansing.

DIRECTOR INDEPENDENCE

The Board has determined that, except for Dr. Paul E. Jacobs and Mr. Steve Mollenkopf, all of the members of the Board are "independent directors" within the meaning of NASDAQ Rule 5605.

Proposal 1: Election of Directors

PROPOSAL 1: ELECTION OF DIRECTORS
ELECTION OF DIRECTORS

Our Restated Certificate of Incorporation and Amended and Restated Bylaws provide that directors are to be elected at our annual meeting of stockholders to hold office until the next annual meeting and until their respective successors are elected and qualified. Vacancies on the Board resulting from death, resignation, disqualification, removal or other causes may be filled by either the affirmative vote of the holders of a majority of the then-outstanding shares of common stock or by the affirmative vote of a majority of the remaining directors then in office, even if less than a quorum of the Board is present. Newly created directorships resulting from any increase in the number of directors may, unless the Board determines otherwise, be filled only by the affirmative vote of the directors then in office, even if less than a quorum of the Board is present. Any director elected as a result of a vacancy shall hold office for a term expiring at the next annual meeting of stockholders and until such director's successor has been elected and qualified.
Our Restated Certificate of Incorporation provides that the number of directors shall be fixed exclusively by one or more resolutions adopted from time to time by the Board. Sir Donald Cruickshank, Dr. Susan Hockfield, Ms. Sherry Lansing and Mr. Marc Stern will conclude their service as directors at the Annual Meeting. The Board, upon recommendation of its Governance Committee, has decided to set the number of directors at 12 effective as of the time the stockholders vote on the election of directors at the Annual Meeting. Therefore, 12 directors will stand for election at the Annual Meeting.
In an uncontested election, our Bylaws provide that a director nominee will be elected only if he or she receives a majority of the votes cast with respect to his or her election (that is, the number of shares voted "for" a director nominee must exceed the number of "withhold" votes cast against that nominee). Abstentions and broker non-votes have no effect on the vote. In an uncontested election, if any nominee for director who is currently serving on the Board receives a greater number of "withhold" votes than votes "for" his or her election, the director shall promptly tender his or her resignation from the Board, subject to acceptance by the Board. The process that will be followed by the Board in that event is described above under the heading "Majority Voting."
The nominees receiving a majority of votes cast with respect to his or her election will be elected directors of the Company. Shares of common stock represented by executed proxies will be voted, if authority to do so is not withheld, for the election of the 12 nominees named below. Each person nominated for election has agreed to serve, if elected, and the Board has no reason to believe that any nominee will be unable to serve.
NOMINEES FOR ELECTION

BARBARA T. ALEXANDER

Age: 67

Director since: 2006

Ms. Alexander has been an independent consultant since February 2004. She was a senior advisor for UBS from October 1999 to January 2004 and a managing director of Dillon Read & Co., Inc. (Dillon Read) from January 1992 to September 1999. Prior to joining Dillon Read, Ms. Alexander was a managing director in the corporate finance department of Salomon Brothers. Ms. Alexander is past Chairman of the Board of the Joint Center for Housing Studies at Harvard University (the Center) and is currently a member of that board's executive committee and a senior industry fellow of the Center. Ms. Alexander has been a director of Allied World Assurance Company Holdings, Ltd. since August 2009 and Choice Hotels

since February 2012. Ms. Alexander previously served as a director of KB Home from October 2010 to April 2014, Federal Home Loan Mortgage Corporation (Freddie Mac) from November 2004 to March 2010, Centex Corporation from July 1999 to August 2009, Harrah's Entertainment, Inc. from February 2002 to April 2007 and Burlington Resources, Inc. from January 2004 to March 2006. She holds B.S. and M.S. degrees in theoretical mathematics from the University of Arkansas.

We believe that Ms. Alexander's qualifications to serve on our Board include her significant financial and accounting experience. In addition, she has extensive experience serving on several other public company boards, including in most instances service on the compensation committee and/or the audit committee of those other boards, which provides valuable insights to our Board. Her experience at Freddie Mac has added to her knowledge regarding risk management issues.

RAYMOND V. DITTAMORE

Age: 72

Director since: 2002

Mr. Dittamore retired in June 2001 as a partner of Ernst & Young LLP, an international public accounting firm, after 35 years of service. Mr. Dittamore previously served as a director of Life Technologies Corporation from July 2001 to February 2014, Gen-Probe Incorporated from August 2002 to September 2009 and Digirad Corporation from March 2004 to March 2008. Mr. Dittamore holds a B.S. degree in accounting from San Diego State University.

We believe that Mr. Dittamore's qualifications to serve on our Board include his many years of financial and accounting experience, including his long service with an international accounting firm as an audit partner and as a member of that firm's management. In addition, Mr. Dittamore has served on other public company boards, where he has gained extensive audit committee experience as well as additional insight into the practices of other boards and their committees. He has been designated as an audit committee financial expert.

JEFFREY W. HENDERSON

Age: 51

Director since: 2016

Mr. Henderson has been an Advisory Director to Berkshire Partners LLC, a private equity firm, since September 2015. He served as Chief Financial Officer of Cardinal Health Inc., a health care services company, from May 2005 to November 2014. Prior to joining Cardinal Health, Mr. Henderson held multiple positions at Eli Lilly and General Motors, including serving as President and General Manager of Eli Lilly Canada, Controller and Treasurer of Eli Lilly Inc., and in management positions with General Motors in Great Britain, Singapore, Canada and the U.S. Mr. Henderson has been a director of Halozyme Therapeutics, Inc. since August 2015 and a director of FibroGen, Inc. since August 2015. Mr. Henderson holds a B.S. degree in electrical engineering from Kettering University and an M.B.A. degree from Harvard Business School.

We believe that Mr. Henderson's qualifications to serve on our Board of Directors include his financial and operational management experience, including his significant experience in international operations, which is a source of valuable insights to our Board. His experience in senior operational and financial management positions at companies that experienced significant growth and transformation, including into additional business areas, also provides a useful resource to our senior management. Additionally, pursuant to the Cooperation Agreement with JANA Partners, we have committed to include Mr. Henderson on the slate of director nominees recommended by the Board for election at the Annual Meeting.

THOMAS W. HORTON

Age: 54

Director since: 2008

Mr. Horton is a Senior Advisor in the Industrials and Business Services Group of Warburg Pincus LLC, a private equity firm focused on growth investing. Mr. Horton was Chairman of American Airlines Group Inc. (formed upon the merger of AMR Corporation (AMR) and US Airways Group, Inc.) from December 2013 to June 2014 and Chairman of American Airlines, Inc. (American) from November 2011 to June 2014. He was Chairman and Chief Executive Officer of AMR and Chief Executive Officer of American from November 2011 to December 2013, and President of AMR and American from July 2010 to December 2013. He served as Executive Vice President and Chief Financial Officer of AMR and American from March 2006 to July 2010. He served as Vice Chairman and Chief Financial Officer of AT&T Corporation (AT&T) from January 2002 to February 2006. Prior to joining AT&T, Mr. Horton was Senior Vice President and Chief Financial Officer of AMR from January 2000 to January 2002 and served in numerous management positions with AMR since 1985. Mr. Horton has been a director of Wal-Mart Stores, Inc. since November 2014. Mr. Horton holds a B.B.A. degree in accounting from Baylor University and an M.B.A. degree from Southern Methodist University.

We believe that Mr. Horton's qualifications to serve on our Board include his management, financial and accounting experience, including his former service as President of AMR, as Vice Chairman and Chief Financial Officer of AT&T and as Executive Vice President and Chief Financial Officer of AMR. In particular, Mr. Horton's roles in operational and financial management at AMR and AT&T bring valuable insights to our Board, as well as providing a useful resource to our senior management. He has been designated as an audit committee financial expert.

PAUL E. JACOBS

Age: 53

Director since: 2005

Dr. Jacobs is our Executive Chairman and Chairman of the Board of Directors. He has served as Chairman of the Board since March 2009 and as Executive Chairman since March 2014. He served as Chief Executive Officer from July 2005 to March 2014 and as Group President of Qualcomm Wireless & Internet from July 2001 to July 2005. In addition, he served as an executive vice president from February 2000 to June 2005. Dr. Jacobs was a director of A123 Systems, Inc. from November 2002 to July 2012. Dr. Jacobs holds a B.S. degree in electrical engineering and computer science, an M.S. degree in electrical engineering and a Ph.D. degree in electrical engineering and computer science from the University of California, Berkeley.

We believe that Dr. Jacobs's qualifications to serve on our Board include his extensive business, operational and management experience in the wireless telecommunications industry, including his current position as our Executive Chairman and his prior service as our Chief Executive Officer. His extensive knowledge of our business, products, strategic relationships and opportunities, as well as the rapidly evolving technologies and competitive environment in our industry, bring valuable insights and knowledge to our Board.

HARISH MANWANI

Age: 62

Director since: 2014

Mr. Manwani was the Chief Operating Officer for Unilever PLC, a leading global consumer products company, from September 2011 to December 2014. He served as Unilever's President, Asia, Africa, Middle East and Turkey, which was later extended to include Central and Eastern Europe, from April 2005 to August 2011. He served as Unilever's President, Home & Personal Care, North America from March 2004 to March 2005. He served as Unilever's President, Home & Personal Care, Latin America and as the Chairman of Unilever's Latin America Advisory Council from April 2001 to February 2004. He served as Unilever's Senior Vice President, Global Hair and Oral Care from June 2000 to March 2001. He served as a whole time Director on the board of Hindustan Unilever Limited from August 1995 to April 2000, a company he joined as a management trainee in 1976, and subsequently held various general management positions of increasing responsibilities within Unilever globally. Mr. Manwani has been a director of Whirlpool Corporation since August 2011 and Pearson plc since October 2013, and has been the Non-Executive Chairman of Hindustan Unilever Limited since July 2005. He has also been a Global Executive Advisor to the Blackstone Private Equity Group since February 2015 and a director of The Economic Development Board (Singapore) since February 2013 and the Indian School of Business since April 2006. Mr. Manwani previously served as a director of ING Group from April 2008 to April 2010, the Citigroup India Advisory Board from November 2010 to February 2013 and the Human Capital Leadership Institute from October 2012 to February 2014. Mr. Manwani holds a B.Sc. honors degree in statistics and an M.M.S. degree in management studies, both from Mumbai University in India. He has also attended the Advanced Management Program at Harvard Business School.

We believe that Mr. Manwani's qualifications to serve on our Board include his substantial management experience involving international operations, particularly in Asia. His executive management experience, particularly with respect to strategic planning and leadership of complex organizations, provides a valuable resource for our senior management. His experience on the boards of several other companies also brings valuable insights to our Board.

Proposal 1: Election of Directors

MARK D. McLAUGHLIN

Age: 50

Director since: 2015

Mr. McLaughlin is Chairman of the Board, President and Chief Executive Officer of Palo Alto Networks, Inc., a network security company. He joined Palo Alto Networks as President and Chief Executive Officer, and as a director, in August 2011 and became Chairman of the Board in April 2012. Mr. McLaughlin served as President and Chief Executive Officer and as a director of VeriSign, Inc., a provider of Internet infrastructure services, from August 2009 through July 2011 and as President and Chief Operating Officer from January 2009 to August 2009. Mr. McLaughlin served in several roles at VeriSign, including as Executive Vice President, Products and Marketing, from February 2000 through November 2007. Prior to joining VeriSign, Mr. McLaughlin was Vice President, Sales and Business Development at Signio Inc., an internet payments company acquired by VeriSign in February 2000. President Barack Obama appointed Mr. McLaughlin to serve on the National Security Telecommunications Advisory Committee (NSTAC) in January 2011 and to the position of Chairman of the NSTAC in 2014. Mr. McLaughlin has been a director of Opower, Inc. since April 2014. Mr. McLaughlin holds a B.S. degree from the U.S. Military Academy at West Point and a J.D. from Seattle University School of Law.

We believe that Mr. McLaughlin's qualifications to serve on our Board include his operational and management experience at several technology companies. Mr. McLaughlin's service on the National Security Telecommunications Advisory Committee, as well as his experience as Chief Executive Officer and a member of the Board of Directors of a network security company, provide him with significant knowledge regarding the operations and security of telecommunications systems and cybersecurity matters, which bring valuable insights to our Board. Additionally, pursuant to the Cooperation Agreement with JANA Partners, we have committed to include Mr. McLaughlin on the slate of director nominees recommended by the Board for election at the Annual Meeting.

STEVE MOLLENKOPF

Age: 47

Director since: 2013

Mr. Mollenkopf has served as our Chief Executive Officer since March 2014 and as a director since December 2013. Mr. Mollenkopf has served as our Chief Executive Officer since March 2014. He served as Chief Executive Officer-elect and President from December 2013 to March 2014 and as President and Chief Operating Officer from November 2011 to December 2013. In addition, he served as Executive Vice President and Group President from September 2010 to November 2011, as Executive Vice President and President of QCT from August 2008 to September 2010, as Executive Vice President, QCT Product Management from May 2008 to August 2008, as Senior Vice President, Engineering and Product Management from July 2006 to May 2008 and as Vice President, Engineering from April 2002 to July 2006. Mr. Mollenkopf joined Qualcomm in 1994 as an engineer and throughout his tenure at Qualcomm has held several other technical and leadership roles. Mr. Mollenkopf holds a B.S. degree in electrical engineering from Virginia Tech and an M.S. degree in electrical engineering from the University of Michigan.

We believe that Mr. Mollenkopf's qualifications to serve on our Board include his extensive business, operational and management experience in the wireless telecommunications industry, including his current position as our Chief Executive Officer. His extensive knowledge of our business, products, strategic relationships and opportunities, as well as the rapidly evolving technologies and competitive environment in our industry, bring valuable insights and knowledge to our Board.

CLARK T. "SANDY" RANDT, JR.

Age: 70

Director since: 2013

Ambassador Randt has been President of Randt & Co. LLC, a company that advises firms with interests in China, since February 2009. He is a former U.S. ambassador to the People's Republic of China, where he served from July 2001 to January 2009. He was a partner resident in the Hong Kong office of Shearman & Sterling, a major international law firm, where he headed the firm's China practice, from January 1994 to June 2001. Ambassador Randt served as First Secretary and Commercial Attaché at the U.S. Embassy in Beijing from August 1982 to October 1984. He was the China representative of the National Council for United States-China Trade in 1974 and he served in the U.S. Air Force Security Service from August 1968 to March 1972. Ambassador Randt is a member of the New York Bar Association and the Council on Foreign Relations. He is also a former governor and first vice president of the American Chamber of Commerce in Hong Kong. Ambassador Randt has been a director of Valmont Industries, Inc. since February 2009, a director of the United Parcel Service, Inc. since August 2010 and a director of Wynn Resorts Ltd. since October 2015, and he serves on the Advisory Board of the Duke Kunshan University. He is fluent in Mandarin Chinese. Ambassador Randt graduated from Yale University with a B.A. degree in English literature and received a J.D. degree from the University of Michigan. He also attended Harvard Law School where he was awarded the East Asia Legal Studies Traveling Fellowship to China.

We believe that Ambassador Randt's qualifications to serve on our Board include his deep understanding of Asia and experience in facilitating business throughout Asia, which is one of the most important regions to our business. He brings to our Board substantial experience in both diplomacy and international trade, including service as the U.S. Ambassador to The People's Republic of China. His international experience and knowledge of Asian business operations provide valuable insights to our Board.

FRANCISCO ROS

Age: 65

Director since: 2010

Dr. Ros is President of First International Partners, S.L., a business consulting firm he founded in 2002. He was Secretary of State (vice minister) of the Government of Spain from May 2004 to July 2010. He served as a senior director of business development of Qualcomm from July 2003 to April 2004. He was Chairman and CEO of Alua Broadband Optical Access, a company he co-founded, from January 2000 to June 2002. Dr. Ros served as President and CEO of Unisource (a joint venture among KPN, Telia, Swisscom and Telefónica) from May 1996 to October 1998. Dr. Ros headed several business areas within

the Telefónica Group from April 1983 to November 1996 and became Managing Director of the holding company and a member of its Executive Management Board. Dr. Ros has been a director of Elephant Talk Communications Corp. since September 2014 and Non-Executive Chairman of Asurion Europe Limited in Spain since April 2014. He was a director of Proteccion On-Line S.L. from October 2012 to June 2013. In 2011, he was the recipient of the Great Cross of the Order of Civil Merit and the Great Plate of Telecommunications and the Information Society, both granted by the Government of Spain. Dr. Ros holds an engineering and a Ph.D. degree in telecommunications from the Universidad Politecnica de Madrid, an M.S. degree in electrical engineering and a Ph.D. degree in electrical engineering and computer science from the Massachusetts Institute of Technology and an advanced management degree from the Instituto de Estudios Superiores de la Empresa Business School in Madrid.

We believe that Dr. Ros's qualifications to serve on our Board include his significant experience related to the regulatory environment in Europe for wireless technology, as well as his technical and business background and education. In addition, Dr. Ros brings a non-U.S. perspective to issues facing us, enhancing the understanding of our Board.

JONATHAN J. RUBINSTEIN

Age: 59

Director since: 2013

Mr. Rubinstein was Senior Vice President, Product Innovation for the Personal Systems Group of the Hewlett-Packard Company (HP) from July 2011 to January 2012 and Senior Vice President and General Manager, Palm Global Business Unit of HP from July 2010 to July 2011. Mr. Rubinstein was Chief Executive Officer and President of Palm, Inc. (Palm) from June 2009 until its acquisition by HP in July 2010 and Chairman of the Board of Palm from October 2007 through the date of acquisition. He was Senior Vice President, iPod Division of Apple Inc. (Apple) from 2003 to 2006 and Senior Vice President, Hardware Engineering of Apple from 1997 to 2003. Mr. Rubinstein is a member of the National Academy of Engineering. Mr. Rubinstein has been a director of Amazon.com, Inc. since December 2010. Mr. Rubinstein holds B.S. and M.Eng. degrees in electrical engineering from Cornell University and an M.S. degree in computer science from Colorado State University.

We believe that Mr. Rubinstein's qualifications to serve on our Board include his substantial operational and executive management experience at a range of large technology companies, including senior management responsibilities at HP, Palm and Apple. His experience in addressing product development issues in emerging and evolving technology environments provides our Board with valuable knowledge and insights.

ANTHONY J. VINCIQUERRA

Age: 61

Director since: 2015

Mr. Vinciquerra is Senior Advisor to Texas Pacific Group (TPG) in the Technology, Media and Telecom sectors, where he advises TPG on acquisitions and operations. He has been Senior Advisor of TPG since September 2011. Mr. Vinciquerra was

Chairman of Fox Networks Group, the largest and most profitable operating unit of News Corporation, from September 2008 to February 2011 and President and Chief Executive Officer from June 2002 to February 2011. Earlier in his career, he held various management positions in the broadcasting and media industry. Mr. Vinciquerra has also been a director of DirecTV since September 2013. He previously served as a director of Motorola Mobility Holdings, Inc. from January 2011 to May 2012, and Motorola, Inc. from July 2007 to January 2011. Mr. Vinciquerra holds a B.A. degree in marketing from the State University of New York.

We believe that Mr. Vinciquerra's qualifications to serve on our Board include his management experience, including significant experience in operations, which is a source of important insights to our Board, as well as providing a useful resource to our senior management. His prior media industry experience is especially valuable with the convergence of the Internet, wireless, media and computing industries. He has been designated as an audit committee financial expert. Additionally, pursuant to the Cooperation Agreement with JANA Partners, we have committed to include Mr. Vinciquerra on the slate of director nominees recommended by the Board for election at the Annual Meeting.

REQUIRED VOTE AND BOARD RECOMMENDATION

If a quorum is present and voting, each of the 12 nominees for director will be elected by a vote of a majority of the votes cast, meaning that the number of shares cast "for" a director's election exceeds the number of "withhold" votes cast against that director. If you hold your shares in your own name and abstain from voting on this matter, your abstention will have no effect on the vote. If you hold your shares through a broker and you do not instruct the broker on how to vote for each of the 12 nominees, your broker will not have the authority to vote your shares. Abstentions and broker non-votes will each be counted as present for purposes of determining the presence of a quorum but will not have any effect on the outcome of the vote.

THE BOARD RECOMMENDS A VOTE "FOR" THE ELECTION OF EACH OF THE ABOVE NOMINEES.

PROPOSAL 2: RATIFICATION OF SELECTION OF INDEPENDENT PUBLIC ACCOUNTANTS

The Audit Committee of the Board has selected PricewaterhouseCoopers LLP as our independent public accountants for the fiscal year ending September 25, 2016, and the Board has directed that management submit this selection for ratification by the stockholders at the Annual Meeting. PricewaterhouseCoopers LLP has audited our consolidated financial statements since we commenced operations in 1985.

The Audit Committee has evaluated PricewaterhouseCoopers LLP's qualifications, performance and independence, including that of the lead audit partner. This evaluation was conducted with input from senior management. Stockholder ratification of the selection of PricewaterhouseCoopers LLP as our independent public accountants is not required by our Amended and Restated Bylaws or otherwise. However, the Board is submitting the selection of PricewaterhouseCoopers LLP to stockholders for ratification as a matter of good corporate governance. If stockholders fail to ratify the selection, the Audit Committee will reconsider whether or not to retain PricewaterhouseCoopers LLP. Even if the selection is ratified, the Audit Committee at its discretion may direct the appointment of different independent public accountants at any time during the year if it determines that such a change would be in the best interests of the Company and its stockholders.

FEES FOR PROFESSIONAL SERVICES

The following table presents fees for professional services rendered by PricewaterhouseCoopers LLP during our fiscal years ended September 27, 2015 and September 28, 2014 for the audits of our annual consolidated financial statements and fees for other services. All of the services described in the following table were approved in conformity with the Audit Committee's pre-approval process described below.

	Fiscal 2015	Fiscal 2014
Audit fees (1)	$6,725,000	$6,777,000
Audit-related fees (2)	4,597,700	3,481,000
Tax fees (3)	115,200	10,000
All other fees (4)	82,400	413,000
Total	$11,520,300	$10,681,000

(1) Audit fees consist of fees for professional services rendered for the audit of our annual consolidated financial statements and the effectiveness of our internal control over financial reporting, the reviews of our interim condensed consolidated financial statements included in quarterly reports and audits of certain subsidiaries and businesses for statutory, regulatory and other purposes.

(2) Audit-related fees consist of fees for assurance and related services that are reasonably related to the performance of the audit or reviews of our consolidated financial statements and are not reported under "audit fees." This category includes fees principally related to field verification of royalties from certain licensees.

(3) Tax fees consist of fees for permissible advisory services regarding general tax consulting services, including consulting on tax matters related to merger and acquisition activity (2015) and fees for professional services rendered for transfer pricing advice (2014).

(4) All other fees consist of fees for permissible advisory services provided in connection with market condition studies, services related to conflict minerals reporting requirements and technical publications purchased from the independent public accountants.

POLICY ON AUDIT COMMITTEE PRE-APPROVAL OF AUDIT AND NON-AUDIT SERVICES OF INDEPENDENT PUBLIC ACCOUNTANTS

The Audit Committee's policy is to pre-approve all audit and non-audit services provided by our independent public accountants. These services may include audit services, audit-related services, tax services and other services. Pre-approval is generally provided for up to one year, and any pre-approval is detailed as to the particular service or category of services

and an estimated fee. The Audit Committee has delegated certain pre-approval authority to certain committee members and members of management when expedition of approval is necessary. Our independent public accountants and management periodically report to the full Audit Committee regarding the extent of services provided by the independent public accountants and the fees for the services performed to date.

REPRESENTATION FROM PRICEWATERHOUSECOOPERS LLP AT THE ANNUAL MEETING

Representatives of PricewaterhouseCoopers LLP are expected to be present at the Annual Meeting, will have an opportunity to make a statement if they so desire and will be available to respond to appropriate questions.

REQUIRED VOTE AND BOARD RECOMMENDATION

The affirmative vote of a majority of the votes cast at the Annual Meeting at which a quorum is present, either in person or by proxy, is required to approve this proposal. If you hold your shares in your own name and abstain from voting on this matter, your abstention will have no effect on the vote. If you hold your shares through a broker and you do not instruct the broker on how to vote on this proposal, your broker will have the authority, but is not required, to vote your shares. Abstentions and any broker non-votes will each be counted as present for purposes of determining the presence of a quorum but will not have any effect on the outcome of the proposal.

THE BOARD RECOMMENDS A VOTE “FOR” THE RATIFICATION OF THE SELECTION OF PRICEWATERHOUSECOOPERS LLP AS OUR INDEPENDENT PUBLIC ACCOUNTANTS FOR THE FISCAL YEAR ENDING SEPTEMBER 25, 2016.

PROPOSAL 3: APPROVAL OF THE 2016 LONG-TERM INCENTIVE PLAN

We offer a broad-based equity compensation program that is critical to attracting, retaining and engaging the finest people in our industry and ensuring alignment among our employees and stockholders. Employees with a stake in the future success of our business are highly motivated to innovate, execute and partner to achieve long-term growth and increase stockholder value. The purpose of Proposal 3, which seeks to establish the 2016 Long-Term Incentive Plan (the 2016 LTIP), is to provide the Company with a sufficient share reserve and added flexibility to continue to provide our employees with opportunities for equity ownership in a highly competitive and dynamic employment market.

While the 2016 LTIP provides flexibility in the type of equity compensation awards we may grant, we currently intend to continue to grant time-based restricted stock units to our general employee population and both time-based and performance-based restricted stock units to our executive officers. Our program of providing broad merit-based grants of restricted stock units to our employees has been a central part of our compensation and benefits mix, and we believe it has helped to create an inclusive and results-oriented culture of collaborative innovation. Without this program, we believe our competitiveness would be negatively impacted and would place us at a significant disadvantage in our efforts to attract and retain the most talented and skilled individuals in the industry.

In fiscal 2015, we granted 2.46% of our annual share-based compensation expense to our Named Executive Officers (NEOs), 0.76% to our other executive officers and 96.78% to our remaining employee population in the form of on-going retention and new hire grants. Equity compensation remains a significant component of our compensation and benefits mix. Over 98% of our regular, full-time employees currently have unvested restricted stock units.

In July 2015, we announced that we plan to reduce annual share-based compensation grants by approximately $300 million from fiscal 2015 levels. We expect these cost reduction initiatives to be fully implemented by the end of fiscal 2016. We recognize that share-based grants dilute existing stockholders, and therefore, we are committed to continued responsible management of our equity compensation program.

SUMMARY OF THE 2016 LONG-TERM INCENTIVE PLAN

At the Annual Meeting, stockholders will be asked to approve the Qualcomm Incorporated 2016 Long-Term Incentive Plan (the 2016 LTIP), which was adopted by the Board of Directors on December 7, 2015, subject to stockholder approval.

The Company currently maintains the Qualcomm Incorporated 2006 Long-Term Incentive Plan (the 2006 LTIP). As of December 14, 2015, a total of 63,850,864 shares of the Company’s common stock were subject to outstanding awards granted under the 2006 LTIP, and an additional 19,766,726 shares were available for new award grants under the 2006 LTIP.

No awards will be issued under the 2016 LTIP unless stockholders approve it at the Annual Meeting. If stockholders approve the 2016 LTIP, no new awards will be granted under the 2006 LTIP after the Annual Meeting, although all outstanding awards under that plan will remain outstanding according to their terms. If stockholders do not approve the 2016 LTIP, the Company will continue to have the authority to grant awards under the 2006 LTIP until March 7, 2018.

We believe that equity incentives are critical to attracting and retaining the most talented employees in our industry. Stockholder approval of the proposed 2016 LTIP will allow us to continue to provide such incentives.

Significant Historical Award Information

The following table provides information regarding the grant of equity awards under our 2006 LTIP over the past three completed fiscal years:

Key Equity Metrics	2013	2014	2015
Percentage of equity awards granted to NEOs (1)	5.0%	12.5%	3.4%
Equity burn rate (2)	0.9%	1.0%	1.0%
Dilution (3)(5)	12.1%	8.7%	6.9%
Overhang (4)(5)	6.2%	4.4%	3.9%

(1) Percentage of equity awards granted to individuals who were named executive officers (NEOs) in the relevant year is calculated by dividing the number of shares that were issuable pursuant to equity awards that were granted to NEOs

during the fiscal year by the number of shares issuable pursuant to all equity awards that were granted during the fiscal year.

(2) Equity burn rate is calculated by dividing the number of shares issuable pursuant to equity awards granted during the fiscal year by the weighted-average number of shares outstanding during the period.

(3) Dilution is calculated by dividing the sum of (x) the number of shares issuable pursuant to equity awards outstanding at the end of the fiscal year (59,890,371) and (y) the number of shares available under the 2006 LTIP for future grants (45,465,812), by the number of shares outstanding at the end of the fiscal year (1,524,308,039).

(4) Overhang is calculated by dividing the number of shares issuable pursuant to equity awards outstanding at the end of the fiscal year (59,890,371) by the number of shares outstanding at the end of the fiscal year (1,524,308,039).

(5) The Company repurchased 172,434,913 shares during fiscal 2015. If the Company had not repurchased these shares, 1,696,742,952 shares would have been outstanding at the end of fiscal 2015, and dilution and overhang would have been 6.2% and 3.5%, respectively, for fiscal 2015.

For purposes of the table above, the number of shares issuable pursuant to equity awards does not include any dividend equivalents that may be earned after the date of grant, and the number of shares issuable pursuant to an award that provides for issuance of a variable number of shares based on the extent to which performance targets are satisfied is deemed to be the maximum number of shares that may be issued on attainment of maximum performance targets, even though a lesser number of shares may be issued based on actual performance.

Summary of the 2016 LTIP

The following is a summary of the principal features of the 2016 LTIP. This summary does not purport to be a complete description of all of the provisions of the 2016 LTIP. It is qualified in its entirety by reference to the full text of the 2016 LTIP, a copy of which is attached to this Proxy Statement as Appendix 5.

General

The 2016 LTIP provides for the grant of incentive and nonstatutory stock options, stock appreciation rights, restricted stock, unrestricted stock, restricted stock units, performance units, performance shares (including performance stock units or PSUs), deferred compensation awards and other stock-based awards. Incentive stock options granted under the 2016 LTIP are intended to qualify as “incentive stock options” within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended (the Code). Nonstatutory stock options granted under the 2016 LTIP are not intended to qualify as incentive stock options under the Code.

Purpose

The purpose of the 2016 LTIP is to advance the interests of the Company and its stockholders by providing an incentive to attract and retain the best qualified personnel to perform services for the Company, by motivating such persons to contribute to the growth and profitability of the Company, by aligning their interests with the interests of the Company’s stockholders, and by rewarding such persons for their services by tying a portion of their total compensation package to the success of the Company.

Administration

The 2016 LTIP would be administered by the Compensation Committee of the Board or, if there is no Compensation Committee, it would be administered by the Board. Subject to the limitations in the 2016 LTIP, the Compensation Committee has the authority to interpret the 2016 LTIP and to determine the recipients of awards, the number of shares subject to each award, the times when an award will become exercisable or vest, the exercise price, the type of consideration to be paid upon exercise and other terms of the award. To the extent permitted by applicable law and the terms of the 2016 LTIP, the Committee may delegate to the appropriate officers of the Company the authority to grant, amend, modify, cancel, extend or renew awards to persons other than directors or executive officers whose transactions are subject to Section 16 of the Securities Exchange Act of 1934, as amended. Accordingly, as used herein with respect to the 2016 LTIP, references to the “Committee” include the full Board, the Compensation Committee and any officer of the Company to whom such authority may be delegated as provided in the 2016 LTIP.

Maximum Number of Shares Issuable Under the 2016 LTIP

Maximum Number of Shares Issuable. The maximum number of shares that may be issued pursuant to awards under the 2016 LTIP will equal:

Proposal 3: Approval of the 2016 Long-Term Incentive Plan

- 90,000,000 shares, plus
- the number of any shares available for new award grants under the 2006 LTIP on the date of the Annual Meeting, determined before giving effect to the termination of the authority to grant new awards under the 2006 LTIP, plus
- the number of any shares subject to stock options granted under the 2006 LTIP and outstanding as of the date of the Annual Meeting which expire, or for any reason are forfeited, canceled or terminated, after that date without being exercised, plus
- the number of any shares subject to full-value awards (including restricted stock units, performance shares and deferred stock units) granted under the 2006 LTIP that are outstanding as of the date of the Annual Meeting which are forfeited, terminated, canceled, not earned due to any performance goal that is not met or that fail to vest or are otherwise reacquired after that date without having become vested, in each case with the number of shares that may be issued pursuant to the 2016 LTIP being increased by two times the number of such shares, plus
- the number of any shares subject to full-value awards granted under the 2006 LTIP and outstanding on the date of the Annual Meeting that are paid in cash, exchanged by a participant or withheld by the Company after the date of the Annual Meeting to satisfy any tax withholding or tax payment obligations related to such award, in each case with the number of shares that may be issued pursuant to the 2016 LTIP being increased by two times the number of such shares.

As of December 14, 2015, 19,766,726 shares were available for new grants under the 2006 LTIP. The table below presents the number of shares, including dividend equivalents, that were subject to various outstanding equity awards at December 14, 2015 under the 2006 LTIP:

Outstanding Award	
Stock options (number of shares)	26,233,039
Weighted-average exercise price of stock options	$41.69
Weighted-average remaining term of stock options (years)	2.4
Restricted stock units (number of shares)	35,253,978
Performance shares (number of shares)	2,255,001
Deferred stock units (number of shares)	108,846

Share Counting. The following are other rules for counting shares against the maximum number of shares that may be issued pursuant to the 2016 LTIP:

- Shares issued with respect to awards granted under the 2016 LTIP other than stock options or stock appreciation rights (referred to as a full-value award) are counted against the 2016 LTIP's aggregate share limit as two shares for every one share actually issued in connection with the award.
- To the extent that shares are delivered pursuant to the exercise of a stock option or stock appreciation right, the number of underlying shares to which the exercise related shall be counted against the applicable share limits, regardless of the number of shares actually issued. Further, any shares that are exchanged by a participant or withheld by the Company as full or partial payment of the exercise price of any stock option or stock appreciation right or to satisfy any tax withholding or payment obligations related to any stock option or stock appreciation right will not be available for issuance of subsequent awards under the 2016 LTIP.
- To the extent that an award is settled in cash, the shares that would have been issued had there been no such cash settlement will not be counted against the number of shares available for issuance under the 2016 LTIP.
- Shares that are subject to awards that are forfeited, terminated, canceled, not earned due to any performance goal that is not met or otherwise fail to vest or are reacquired by the Company will again be available for subsequent awards under the 2016 LTIP. Any such shares subject to full value awards will be credited as two shares for purposes of determining the maximum number of shares available for issuance under the 2016 LTIP.
- If shares are exchanged by a participant or withheld by the Company to satisfy the tax withholding or payment obligations related to any full-value award, the maximum number of shares that are issuable pursuant to the 2016 LTIP will be credited with two (2) shares for each such share.
- Shares tendered (by attestation or otherwise), exchanged or withheld as full or partial payment of the exercise price of any option or stock appreciation right will not be available for subsequent awards; shares exchanged or withheld to satisfy the tax withholding or tax payment obligations related to any option or stock appreciation right

will not be available for subsequent awards; shares purchased or repurchased by the Company with option proceeds will not be available for subsequent awards; and shares covered by an option or stock appreciation right, to the extent that it is exercised and settled in shares, and whether or not shares are actually issued upon exercise, will be considered issued or transferred pursuant to the 2016 LTIP.

- Shares issued in connection with awards that are granted by or become obligations of the Company through the assumption of awards (or in substitution for awards) in connection with an acquisition of another company will not count against the shares available for issuance under the 2016 LTIP unless determined otherwise by the Board, and such awards may reflect the original terms of the related award being assumed or substituted for and need not comply with other specific terms of the 2016 LTIP.
- Shares of stock of an acquired company that are available under a pre-existing plan approved by its stockholders and not adopted in contemplation of such acquisition (as adjusted using the exchange ratio or other adjustment formula used in such acquisition or combination to determine the consideration payable to its stockholders) may be used for awards under the 2016 LTIP and will not reduce the number of shares available for issuance under the 2016 LTIP, provided that awards using such available shares cannot be made after the date the awards or grants could have been made under the terms of the pre-existing plan and will only be made to individuals who were not employees, consultants or nonemployee directors of the Company prior to such acquisition or combination.

Eligibility and Award Limitations

Awards other than incentive stock options are generally granted to our employees and directors, although the 2016 LTIP permits the grant of awards to consultants. Incentive stock options may be granted only to employees. As of December 14, 2015, the Company had approximately 26,800 employees and 13 nonemployee directors who would have been eligible to participate in the 2016 LTIP had it been in effect on that date.

If an incentive stock option is granted to any person who, at the time of the grant, owns (or is deemed to own) stock possessing more than 10% of the total combined voting power of the Company, or any of its parent or subsidiary corporations, the option must be granted at an exercise price that is at least 110% of the fair market value of the Company’s stock on the date of grant, and the term of the option must not exceed five years. The aggregate fair market value, determined at the time of grant, of the shares of common stock with respect to which incentive stock options granted under the 2016 LTIP that are exercisable for the first time by an optionee during any calendar year (under all our plans and our parent and subsidiary corporations) may not exceed $100,000.

Service Vesting Requirements. Generally, full-value awards, stock options and stock appreciation rights will vest based on a continued service with the Company over a period of no less than twelve months from the date on which such award is granted, except in connection with death, disability, retirement, termination of service without cause or upon a change in control. However, 5% of the aggregate number of shares authorized for issuance under the 2016 LTIP will not be subject to such service vesting requirements.

Section 162(m) Award Limits. In order to permit awards to qualify as “performance-based compensation” under Section 162(m) of the Code, the 2016 LTIP provides the following limits:

- Stock options and stock appreciation rights: No employee shall be granted within any fiscal year of the Company one or more options or freestanding stock appreciation rights which in the aggregate are for more than 3,000,000 shares.
- Restricted stock and restricted stock unit awards vesting based upon the attainment of performance goals: No employee shall be granted within any fiscal year of the Company one or more restricted stock awards or restricted stock unit awards subject to vesting conditions based on the attainment of performance goals for more than 2,000,000 shares.
- Performance share awards: No employee shall be granted within any fiscal year of the Company performance shares which could result in such employee receiving more than 2,000,000 shares.
- Performance unit awards: No employee shall be granted within any fiscal year of the Company performance units which could result in such employee receiving more than $10,000,000.

Limitation on Awards to Nonemployee Directors: The aggregate grant date fair value (computed as of the date of grant in accordance with applicable financial accounting rules) of awards granted to any nonemployee director under the 2016 LTIP during any single calendar year shall not exceed $500,000. However, this limit does not apply to any awards made at the election of a nonemployee director to receive awards in lieu of all or a portion of any annual

committee cash retainers or other similar cash-based payments.

Stock Options and Stock Appreciation Rights

The following is a general description of the terms of stock options and stock appreciation rights that may be awarded under the 2016 LTIP. Individual grants may have different terms, subject to the overall requirements of the 2016 LTIP.

Exercise Price; Payment. The exercise price of incentive stock options under the 2016 LTIP may not be less than the fair market value of the Company's common stock subject to the option on the date of grant, and in some cases may not be less than 110% of the fair market value on the grant date (see "Eligibility"). As of December 14, 2015, the fair market value (i.e., closing price) of a share of the Company's common stock was $46.83. The exercise price of a nonstatutory stock option and a stock appreciation right may not be less than the fair market value of the Company's stock subject to the award on the date of grant. The exercise price of options granted under the 2016 LTIP must be paid: (1) in cash, check or a cash equivalent; (2) by tender of shares of common stock of the Company subject to attestation to the ownership of the shares and to having a fair market value not less than the exercise price; (3) if permitted by the Committee and to the extent allowed by law, by means of a promissory note; (4) by net exercise whereby the number of shares issuable upon the exercise of the option is reduced by a number of shares having a fair market value equal to the exercise price; (5) in any other form of payment as may be approved by the Committee; or (6) by a combination of the above forms of payment.

Repricing and Reload Options Prohibited. The Company may not, without obtaining stockholder approval, (1) amend or modify the terms of any outstanding option or stock appreciation right to reduce the exercise price; (b) cancel, exchange or permit or accept the surrender of any outstanding option or stock appreciation right in exchange for an option or stock appreciation right with a lower exercise price; or (c) cancel, exchange or permit or accept the surrender of any outstanding option or stock appreciation right in exchange for any other award, cash or other securities for purposes of repricing that option or stock appreciation right. Also, no option may be granted to any participant on account of the use of shares to exercise a prior option.

Exercise. Stock options and stock appreciation rights granted under the 2016 LTIP vest in cumulative increments as determined by the Committee, provided that the holder's employment by, or service as a director of or consultant to, the Company or certain related entities or designated affiliates, continues from the date of grant until the applicable vesting date. Stock options and stock appreciation rights granted under the 2016 LTIP may be subject to different vesting terms, subject to the one-year minimum service vesting requirement (see "Service Vesting Requirements"). In addition, the Committee has the power to accelerate the time during which an award may be exercised, subject to these limitations.

Term. The maximum term of stock options and stock appreciation rights under the 2016 LTIP is 10 years, except for certain incentive stock options with a maximum term of five years (see "Eligibility"). The 2016 LTIP provides for the earlier termination of an award due to the holder's termination of service.

Restrictions on Transfer. During a participant's lifetime, stock options may be exercised only by the participant or the participant's guardian or legal representative. Stock options are not subject in any manner to anticipation, alienation, sale, exchange, transfer, assignment, pledge, encumbrance or garnishment. Participants may not transfer incentive stock options granted under the 2016 LTIP, except by will or by the laws of descent and distribution. The terms and conditions of award agreements may provide that nonstatutory stock options are transferrable by written designation of a beneficiary taking effect upon the death of the participant or by delivering written notice to the Company, in a form acceptable to the Company, that the participant will be gifting the option to certain family members, other specific entities controlled by or for the benefit of such family members.

Restricted Stock Units

The Committee may grant restricted stock units under the 2016 LTIP. Restricted stock units represent a right to receive shares of the Company's common stock at a future date determined in accordance with the participant's award agreement. There is no purchase or exercise price associated with restricted stock units or with the shares issued in settlement of the award. The Committee may grant restricted stock unit awards that vest subject to the one-year minimum service vesting requirement (see "Service Vesting Requirements") or upon attainment of one or more performance goals described below in connection with performance awards. Participants may not transfer shares acquired pursuant to restricted stock units until the units vest and are settled. Participants have no voting rights or

rights to receive cash dividends with respect to restricted stock unit awards until shares of common stock are issued in settlement of such awards. However, the Committee may grant restricted stock units that entitle the holders to receive dividend equivalents, which are rights to receive additional restricted stock units or cash amounts on restricted stock units that vest based on the value of any cash dividends the Company declares prior to the settlement of vested restricted stock units.

Restricted Stock Awards

Proposal 3: Approval of the 2016 Long-Term Incen-family:inherit;font-size:10pt;">

48,215

3.88
%

1,190,157

48,135

4.04
%

1,124,322

47,825

4.25
%

Other assets

99,500

97,103

100,983

Total assets

$
1,341,783

$
1,287,260

$
1,225,305

Liabilities and shareholders’ equity:

Savings

$
151,397

58

0.04
%

$
143,055

56

0.04
%

$
140,575

81

0.06
%
Super Now deposits

187,106

458

0.24
%

187,396

491

0.26
%

182,229

583

0.32
%
Money market deposits

238,175

648

0.27
%

207,252

554

0.27
%

210,066

561

0.27

%
Time deposits

221,498

2,383

1.08
%

220,360

2,028

0.92
%

223,537

1,770

0.79
%
Total interest-bearing deposits

798,176

3,547

0.44
%

758,063

3,129

0.41
%

756,407

2,995

0.40
%

Short-term borrowings

18,518

46

0.25
%

38,909

116

0.30
%

22,342

54

0.24
%
Long-term borrowings

90,554

1,974

2.14
%

84,721

1,974

2.30
%

71,195

1,913

2.65
%
Total borrowings

109,072

2,020

1.82
%

123,630

2,090

1.67
%

93,537

1,967

2.07
%

Total interest-bearing liabilities

907,248

5,567

0.61
%

881,693

5,219

0.59
%

849,944

4,962

0.58
%

Demand deposits

279,130

251,029

225,981

Other liabilities

16,152

17,047

13,933

Shareholders’ equity

139,253

137,491

135,447

Total liabilities and shareholders’ equity	$ 1,341,783	$ 1,287,260	$ 1,225,305

Interest rate spread

3.27
%

3.45
%

3.67
%
Net interest income/margin

$
42,648

3.44
%

$
42,916

3.61

%

$
42,863

3.81
%

· Fees on loans are included with interest on loans as follows: 2016 - $873,000; 2015 - $422,000; 2014 - $487,000.
· Information in this table has been calculated using average daily balance sheets to obtain average balances.
· Nonaccrual loans have been included with loans for the purpose of analyzing net interest earnings.
· Income and rates on a fully taxable equivalent basis include an adjustment for the difference between annual income from tax-exempt obligations and the taxable equivalent of such income at the standard 34% tax rate.

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Reconciliation of Taxable Equivalent Net Interest Income

(In Thousands)	2016	2015	2014
Total interest income	$46,813	$46,124	$45,606
Total interest expense	5,567	5,219	4,962
Net interest income	41,246	40,905	40,644
Tax equivalent adjustment	1,402	2,011	2,219
Net interest income (fully taxable equivalent)	$42,648	$42,916	$42,863

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,					
	2016 vs. 2015			2015 vs. 2014		
	Increase (Decrease) Due To			Increase (Decrease) Due To		
(In Thousands)	Volume	Rate	Net	Volume	Rate	Net
Interest income:						
Loans, tax-exempt	$173	$—	$173	$555	$(171)	$384
Loans	3,093	(285)	2,808	4,278	(1,892)	2,386
Taxable investment securities	(1,048)	(63)	(1,111)	(1,151)	(292)	(1,443)
Tax-exempt investment securities	(1,338)	(627)	(1,965)	(595)	(402)	(997)
Interest-bearing deposits	91	84	175	(22)	3	(19)
Total interest-earning assets	971	(891)	80	3,065	(2,754)	311
Interest expense:						
Savings deposits	4	(2)	2	—	(2)	(2)
Super Now deposits	(1)	(32)	(33)	17	(109)	(92)
Money market deposits	90	4	94	(7)	—	(7)
Time deposits	11	344	355	(27)	285	258
Short-term borrowings	(52)	(18)	(70)	47	15	62
Long-term borrowings	133	(133)	—	330	(269)	61
Total interest-bearing liabilities	185	163	348	360	(80)	280
Change in net interest income	$786	$(1,054)	$(268)	$2,705	$(2,674)	$31

PROVISION FOR LOAN LOSSES

2016 vs 2015

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 Company. Management remains committed to an aggressive program of problem loan identification and resolution.

The allowance is calculated by applying loss factors to outstanding loans by type, excluding loans for which a specific allowance 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.

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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, 2016, 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 Banks' 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 $12,044,000 at December 31, 2015 to $12,896,000 at December 31, 2016. At December 31, 2016, the allowance for loan losses was 1.18% of total loans compared to 1.15% of total loans at December 31, 2015.

The provision for loan losses totaled $1,196,000 for the year ended December 31, 2016 compared to $2,300,000 for the year ended December 31, 2015. The decrease in the provision was appropriate when considering the gross loan growth and low level of net charge-offs during 2016. Net charge-offs of $344,000 represented 0.03% of average loans for the year ended December 31, 2016 compared to net charge-offs of $835,000 or 0.09% of average loans for the year ended December 31, 2015. The growth in the loan portfolio was driven by home equity product growth which historically is a lower risk product than commercial loans and requires a lower allowance for loan losses. While nonperforming loans increased, the majority of the nonperforming loans are centered on several loans that are either 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.

2015 vs 2014

The allowance for loan losses increased from $10,579,000 at December 31, 2014 to $12,044,000 at December 31, 2015. At December 31, 2015, the allowance for loan losses was 1.15% of total loans compared to 1.16% of total loans at December 31, 2014.

The provision for loan losses totaled $2,300,000 for the year ended December 31, 2015 compared to $2,850,000 for the year ended December 31, 2014. The decrease in the provision was appropriate when considering the gross loan growth offset by the $2,802,000 or 22.88% decrease in non-performing loans and level of net charge-offs. Net charge-offs of $835,000 represented 0.09% of average loans for the year ended December 31, 2015 compared to net charge-offs of $2,451,000 or 0.28% of average loans for the year ended December 31, 2014. The growth in the loan portfolio was driven by home equity product growth which historically is a lower risk product than commercial loans and requires a lower allowance for loan losses. The decrease in nonperforming loans is primarily the result of the payoff of a large commercial real estate loan and the resolution of several smaller commercial real estate loans. The majority of the nonperforming loans are centered on several loans that are either 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.

NON-INTEREST INCOME

2016 vs. 2015

Total non-interest income decreased $652,000 from the year ended December 31, 2015 to December 31, 2016. Excluding net security gains, non-interest income increased $249,000 year over year. Service charges decreased due to decreased level of overdraft income. Bank owned life insurance income decreased due to decrease in the earnings rate. Insurance commissions and brokerage commissions increased in part due to the book of business that was purchased in 2016. Gain on sale of loans increased due to a shift product mix that began in the latter part of 2015 and the addition of mortgage loan originators. The decrease in other income was primarily from an increased level of debit card income.

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(In Thousands)	2016 Amount	% Total	2015 Amount	% Total	Change Amount	%
Service charges	$2,249	18.57 %	$2,383	18.67 %	$(134)	(5.62)%
Net securities gains, available for sale	1,611	13.30	2,592	20.31	(981)	(37.85)
Net securities gains (losses), trading	58	0.48	(22)	(0.17)	80	363.64
Bank owned life insurance	684	5.65	720	5.64	(36)	(5.00)
Gain on sale of loans	2,102	17.35	1,743	13.65	359	20.60
Insurance commissions	795	6.56	781	6.12	14	1.79
Brokerage commissions	1,098	9.06	1,064	8.34	34	3.20
Other	3,516	29.03	3,504	27.44	12	0.34
Total non-interest income	$12,113	100.00%	$12,765	100.00 %	$(652)	(5.11)%

2015 vs. 2014

Total non-interest income decreased $1,743,000 from the year ended December 31, 2014 to December 31, 2015. Excluding net security gains, non-interest income decreased $798,000 year over year. Service charges decreased slightly due to decreased level of overdraft income. Bank owned life insurance income decreased as a gain on death benefit was recognized in 2014. Insurance commissions and brokerage commissions decreased due to a shift in product mix and a decreased level of commissions received on each sale. Gain on sale of loans decreased due to product mix. The decrease in other income was primarily from a decreased level of debit card income.

(In Thousands)	2015 Amount	% Total	2014 Amount	% Total	Change Amount	%
Service charges	$2,383	18.67 %	$2,419	16.67 %	$(36)	(1.49)%
Net securities gains, available for sale	2,592	20.31	3,515	24.23	(923)	(26.26)
Net securities losses, trading	(22)	(0.17)	—	—	(22)	N/A
Bank owned life insurance	720	5.64	923	6.36	(203)	(21.99)
Gain on sale of loans	1,743	13.65	1,803	12.43	(60)	(3.33)
Insurance commissions	781	6.12	1,146	7.90	(365)	(31.85)
Brokerage commissions	1,064	8.34	1,077	7.42	(13)	(1.21)
Other	3,504	27.44	3,625	24.99	(121)	(3.34)
Total non-interest income	$12,765	100.00 %	$14,508	100.00%	$(1,743)	(12.01)%

NON-INTEREST EXPENSE

2016 vs. 2015

Total non-interest expenses increased $1,355,000 from the year ended December 31, 2015 to December 31, 2016. The increase in salaries and employee benefits was attributable to increased health insurance expense and annual wage increases. Furniture and equipment expenses increased due to the continued enhancement of systems. Amortization of investment in limited partnerships decreased as two investments were fully amortized during 2016. The increase in marketing expense was primarily related to the home equity and time deposit campaigns conducted during 2016. Other expenses were impacted by a mass replacement of debit cards to implement EMV card technology to better protect the security of our customers. In addition, expenses increased due to a data breach at a national restaurant chain that impacted our customer base.

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	2016		2015		Change	
(In Thousands)	Amount	% Total	Amount	% Total	Amount	%
Salaries and employee benefits	$17,813	50.76 %	$17,023	50.46 %	$790	4.64 %
Occupancy	2,223	6.33	2,248	6.66	(25)	(1.11)
Furniture and equipment	2,793	7.96	2,622	7.77	171	6.52
Pennsylvania shares tax	873	2.49	954	2.83	(81)	(8.49)
Amortization of investment in limited partnerships	312	0.89	661	1.96	(349)	(52.80)
FDIC deposit insurance	767	2.19	867	2.57	(100)	(11.53)
Marketing	740	2.11	612	1.81	128	20.92
Intangible amortization	366	1.04	311	0.92	55	17.68
Other	9,204	26.23	8,438	25.02	766	9.08
Total non-interest expense	$35,091	100.00%	$33,736	100.00%	$1,355	4.02 %

2015 vs. 2014

Total non-interest expenses decreased $154,000 from the year ended December 31, 2014 to December 31, 2015. The decrease in salaries and employee benefits was attributable to the defined benefit pension plan ceasing to accrue additional benefits as of December 31, 2014. Furniture and equipment expenses increased due to the full year impact of significant upgrades to the core operating system, a new teller system, and various enhancements to other ancillary systems that were undertaken during 2014. Other expenses decreased as the acquisition of Luzerne Bank is allowing for greater purchasing power as various contracts are renewed.

	2015		2014		Change	
(In Thousands)	Amount	% Total	Amount	% Total	Amount	%
Salaries and employee benefits	$17,023	50.46 %	$17,273	50.97 %	$(250)	(1.45)%
Occupancy	2,248	6.66	2,301	6.79	(53)	(2.30)
Furniture and equipment	2,622	7.77	2,536	7.48	86	3.39
Pennsylvania shares tax	954	2.83	907	2.68	47	5.18
Amortization of investment in limited partnerships	661	1.96	661	1.95	—	—
FDIC deposit insurance	867	2.57	746	2.20	121	16.22
Marketing	612	1.81	532	1.57	80	15.04
Intangible amortization	311	0.92	345	1.02	(34)	—
Other	8,438	25.02	8,589	25.34	(151)	(1.76)
Total non-interest expense	$33,736	100.00%	$33,890	100.00%	$(154)	(0.45)%

INCOME TAXES

2016 vs. 2015

The provision for income taxes for the year ended December 31, 2016 resulted in an effective income tax rate of 26.93% compared to 21.19% for 2015. This increase is primarily the result of decreased tax-exempt investment income and bank-owned life insurance income which has resulted in a greater percentage of the pre-tax income being taxable.

The Company currently is in a deferred tax asset position. 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.

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2015 vs. 2014

The provision for income taxes for the year ended December 31, 2015 resulted in an effective income tax rate of 21.19% compared to 20.66% for 2014. This increase is primarily the result of decreased tax-exempt investment income and bank-owned life insurance income which has resulted in a greater percentage of the pre-tax income being taxable.

FINANCIAL CONDITION

INVESTMENTS

2016

The fair value of the investment portfolio decreased $42,680,000 from December 31, 2015 to December 31, 2016. The decrease in value is the result of the investment portfolio being actively managed in order to reduce interest rate and market risk. This process began in 2014 and is being undertaken primarily through the sale of long term municipal bonds that have a maturity date greater than ten years and securities with a call date within the next five years. In addition, the decrease in corporate bond holdings is being undertaken to reduce risk and also in response to the changes in bank regulatory capital calculations per Basel III. The proceeds of the bond sales are primarily being deployed into loans. The strategy to sell a portion of the long-term bond portfolio does negatively impact current earnings, but this action plays a key role in our long-term asset/liability management strategy as the balance sheet is shortened to better prepare for a rising rate environment. The unrealized losses within the debt securities portfolio are the result of market activity, not credit issues/ratings, as approximately 88% of the debt securities portfolio on an amortized cost basis is currently rated A or higher by either S&P or Moody’s.

2015

The fair value of the investment portfolio decreased $55,983,000 from December 31, 2014 to December 31, 2015. The decrease in value is the result of the investment portfolio being actively managed in order to reduce interest rate and market risk. This process began in 2014 and is being undertaken primarily through the sale of long term municipal bonds that have a maturity date of 2025 or later and securities with a call date within the next five years. In addition, the decrease in corporate bond holdings is being undertaken to reduce risk and also in response to the changes in bank regulatory capital calculations per Basel III. The proceeds of the bond sales are primarily being deployed into loans. The strategy to sell a portion of the long-term bond portfolio does negatively impact current earnings, but this action plays a key role in our long-term asset/liability management strategy as the balance sheet is shortened to better prepare for a rising rate environment. The unrealized losses within the debt securities portfolio are the result of market activity, not credit issues/ratings, as approximately 90% of the debt securities portfolio on an amortized cost basis is currently rated A or higher by either S&P or Moody’s.

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The carrying amounts of investment securities are summarized as follows for the years ended December 31, 2016 and 2015:

(In Thousands)	2016 Balance	% Portfolio	2015 Balance	% Portfolio	2014 Balance	% Portfolio
U.S. Government agency securities:						
Available for sale	$—	— %	$3,549	2.01 %	3,841	1.65 %
Mortgage-backed securities:						
Available for sale	9,313	6.97	10,009	5.68	12,697	5.47
Asset-backed securities:						
Available for sale	109	0.08	1,940	1.10	2,492	1.07
State and political securities (tax-exempt):						
Available for sale	45,506	34.08	73,110	41.49	89,024	38.34
State and political securities (taxable):						
Available for sale	15,428	11.55	13,445	7.63	19,092	8.22
Other bonds, notes and debentures:						
Available for sale	51,118	38.28	57,772	32.78	89,463	38.53
Total bonds, notes and debentures	121,474	90.96	159,825	90.69	216,609	93.28
Financial institution equity securities:						
Available for sale	10,535	7.89	11,483	6.52	9,915	4.27
Other equity securities:						
Available for sale	1,483	1.11	4,849	2.75	5,689	2.45
Trading	58	0.04	73	0.04	—	—
Total equity securities	12,076	9.04	16,405	9.31	15,604	6.72
Total	$133,550	100.00 %	$176,230	100.00 %	$232,213	100.00 %

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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, 2016:

(In Thousands)	Three Months or Less	Over Three Months Through One Year	Over One Year Through Five Years	Over Five Years Through Ten Years	Over Ten Years	Amortized Cost Total
U.S. Government agency securities:						
AFS Amount	$—	$—	$—	$—	$—	$—
Yield	— %	— %	— %	— %	— %	— %
Mortgage-backed securities:						
AFS Amount	—	—	6,028	—	3,267	9,295
Yield	— %	— %	2.33 %	— %	3.45 %	2.72 %
Asset-backed securities:						
AFS Amount	—	109	—	—	—	109
Yield	— %	1.16 %	— %	— %	— %	1.16 %
State and political securities (tax-exempt):						
AFS Amount	1,596	8,000	18,435	17,113	418	45,562
Yield	4.18 %	3.65 %	2.30 %	2.30 %	2.40 %	2.60 %
State and political securities (taxable):						
AFS Amount	—	—	6,915	8,300	—	15,215
Yield	— %	— %	4.46 %	3.54 %	— %	3.96 %
Other bonds, notes, and debentures:						
AFS Amount	346	—	21,836	30,864	—	53,046
Yield	3.75 %	— %	3.01 %	2.61 %	— %	2.78 %
Total Amount	$1,942	$8,109	$53,214	$56,277	$3,685	123,227
Total Yield	4.10 %	3.61 %	2.88 %	2.65 %	3.33 %	2.86 %
Equity Securities						
AFS Amount						11,233
Trading Amount						56
Total Investment Portfolio Value						$134,516
Total Investment Portfolio Yield						2.62 %

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%).

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The distribution of credit ratings by amortized cost and estimated fair value for the debt security portfolio at December 31, 2016 follows:

(In Thousands)	A- to AAA		B- to BBB+		C to CCC+		Not Rated		Total	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Available for sale										
U.S. Government and agency securities	$—	$—	$—	$—	$ —	$ —	$—	$—	$—	$—
Mortgage-backed securities	9,295	9,313	—	—	—	—	—	—	9,295	9,313
Asset-backed securities	109	109	—	—	—	—	—	—	109	109
State and political securities	59,252	59,406	—	—	—	—	1,525	1,528	60,777	60,934
Other debt securities	39,643	38,472	13,403	12,646	—	—	—	—	53,046	51,118
Total debt securities	$108,299	$107,300	$13,403	$12,646	$ —	$ —	$1,525	$1,528	$123,227	$121,474

LOAN PORTFOLIO

2016

Gross loans of $1,093,681,000 at December 31, 2016 represented an increase of $48,474,000 from December 31, 2015. The continued emphasis on well collateralized real estate loans was the primary driver of the overall increase in loans outstanding, with home equity loans and lines of credit leading the way. The emphasis to add home equity lines of credit is part of the overall strategy to shorten the duration of the earning asset portfolio in preparation of a rising interest rate environment. Indirect auto lending was introduced during the latter portion of 2016 and contributed to the increase in installment loans to individuals.

2015

Gross loans of $1,045,207,000 at December 31, 2015 represented an increase of $129,628,000 from December 31, 2014. The continued emphasis on well collateralized real estate loans was the primary driver of the overall increase in loans outstanding, with home equity loans and lines of credit leading the way. The emphasis to add home equity lines of credit is part of the overall strategy to shorten the duration of the earning asset portfolio in preparation of a rising interest rate environment. Several successful campaigns to increase home equity, multifamily residential, and auto loans were undertaken during 2015 with the increase in residential and commercial loans being directly correlated to the campaigns.

The amounts of loans outstanding at the indicated dates are shown in the following table according to type of loan at December 31, 2016, 2015, 2014, 2013, and 2012:

(In Thousands)	2016 Amount	% Total		2015 Amount	% Total		2014 Amount	% Total		2013 Amount	% Total		2012 Amount	% To
Commercial, financial, and agricultural	$146,110	13.36	%	$164,072	15.70	%	$124,156	13.56	%	$105,029	12.83	%	$48,455	9.46

Real estate mortgage:										
Residential	564,740	51.64	526,183	50.34	457,760	50.00	399,781	48.86	252,142	49.2
Commercial	306,182	28.00	302,539	28.95	291,348	31.82	282,476	34.52	182,031	35.5
Construction	34,650	3.17	26,824	2.57	21,996	2.40	17,282	2.11	20,067	3.92
Installment loans to individuals	43,256	3.96	27,001	2.58	21,509	2.35	14,647	1.79	10,659	2.08
Net deferred loan fees and discounts	(1,257)	(0.11)	(1,412)	(0.14)	(1,190)	(0.13)	(871)	(0.11)	(1,122)	(0.22
Gross loans	$1,093,681	100.00 %	$1,045,207	100.00 %	$915,579	100.00 %	$818,344	100.00 %	$512,232	100.0

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The amounts of domestic loans at December 31, 2016 are presented below by category and maturity:

(In Thousands)	Commercial, financial, and agricultural	Real Estate Residential	Commercial	Construction	Installment Loans to Individuals	Total
Loans with variable interest rates:						
1 year or less	$ 24,622	$13,036	$ 16,547	$ 1,694	$ 1,150	$57,049
1 through 5 years	7,620	3,401	6,709	—	56	17,786
5 through 10 years	30,223	21,532	47,724	1,086	—	100,565
After 10 years	36,697	495,569	221,738	25,637	2,590	782,231
Total floating interest rate loans	99,162	533,538	292,718	28,417	3,796	957,631
Loans with fixed interest rates:						
1 year or less	1,532	1,193	1,401	2,328	738	7,192
1 through 5 years	22,631	6,099	6,290	2,340	23,097	60,457
5 through 10 years	21,612	9,274	4,251	631	13,560	49,328
After 10 years	1,173	14,636	1,522	934	2,065	20,330
Total predetermined interest rate loans	46,948	31,202	13,464	6,233	39,460	137,307
Total	$ 146,110	$564,740	$ 306,182	$ 34,650	$ 43,256	1,094,938
Net deferred loan fees and discounts						(1,257)
						$1,093,681

· 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 Banks do not make loans that provide for negative amortization, nor do any loans contain conversion features. The Banks did not have any foreign loans outstanding at December 31, 2016.

The following table shows the amount of accrual and nonaccrual TDRs at December 31, 2016 and 2015:

	2016			2015			2014		
(In Thousands)	Accrual	Nonaccrual	Total	Accrual	Nonaccrual	Total	Accrual	Nonaccrual	Total
Commercial, financial, and agricultural	$109	$ 132	$241	$320	$ 149	$469	$551	$ 440	$991
Real estate mortgage:									
Residential	1,491	541	2,032	1,428	353	1,781	697	181	878
Commercial	4,723	2,184	6,907	5,085	2,312	7,397	3,267	6,160	9,427
Construction	—	—	—	—	—	—	514	—	514
Installment loans to individuals	—	—	—	—	—	—	—	—	—
	$6,323	$ 2,857	$9,180	$6,833	$ 2,814	$9,647	$5,029	$ 6,781	$11,810

ALLOWANCE FOR LOAN LOSSES

2016

The allowance for loan losses represents the amount which management estimates is adequate to provide for probable losses inherent in its loan portfolio, as of the consolidated balance sheet date. All loan losses are charged to the allowance and all recoveries are credited to it per the allowance method of providing for loan losses. The allowance

for loan losses is established through a provision for loan losses charged to operations. The provision for loan losses is based upon management's quarterly review of the loan portfolio. The purpose of the review is to assess loan quality, identify impaired loans, analyze delinquencies,

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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 Banks. Management remains committed to an aggressive program of problem loan identification and resolution.

The allowance is calculated by applying loss factors to outstanding loans by type, excluding loans for which a specific allowance 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.

The allowance for loan losses increased from $12,044,000 at December 31, 2015 to $12,896,000 at December 31, 2016. At December 31, 2016, the allowance for loan losses was 1.18% of total loans compared to 1.15% of total loans at December 31, 2015. The increase in the allowance for loan losses to total loans was the result of the increased allowance for loan losses that was partially offset by the increase in loan growth. The growth in the loan portfolio was driven by home equity product growth which historically is a lower risk product than commercial loans and requires a lower allowance for loan losses. Net loan charge-offs of $344,000 or 0.03% of average loans for the year ended December 31, 2016 limited the impact of the provision for loan losses of $1,196,000. Management concluded that the allowance for loan losses is adequate to provide for probable losses inherent in its loan portfolio as of the balance sheet date as noted in the provision for loan losses discussion.

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

2015

The allowance for loan losses increased from $10,579,000 at December 31, 2014 to $12,044,000 at December 31, 2015. At December 31, 2015, the allowance for loan losses was 1.15% of total loans compared to 1.16% of total loans at December 31, 2014. The decrease in the allowance for loan losses to total loans was the result of the increased allowance for loan losses that was more than offset by the increase in loan growth. The growth in the loan portfolio was driven by home equity product growth which historically is a lower risk product than commercial loans and requires a lower allowance for loan losses. Net loan charge-offs of $835,000 or 0.09% of average loans for the year ended December 31, 2015 limited the impact of the provision for loan losses of $2,300,000.

Allocation of The Allowance For Loan Losses

	December 31, 2016			December 31, 2015			December 31, 2014			December 31, 2013			December 31, 2012		
(In Thousands)	Amount	% Total		Amount	% Total		Amount	% Total		Amount	% Total		Amount	% Total	
Balance at end of period applicable to:															
Commercial, financial, and agricultural	$1,554	13.34	%	$1,532	15.68	%	$1,124	13.54	%	$474	12.82	%	$361	9.44	%
Real estate mortgage:															
Residential	5,383	51.58		5,116	50.27		3,755	49.93		3,917	48.80		1,954	49.11	
Commercial	4,975	27.96		4,217	28.91		4,205	31.78		4,079	34.48		3,831	35.46	

Construction	178	3.17	160	2.56	786	2.40	741	2.11	950	3.91
Installment loans to individuals	416	3.95	243	2.58	245	2.35	139	1.79	144	2.08
Unallocated	390	—	776	—	464	—	794	—	377	—
	$12,896	100.00%	$12,044	100.00%	$10,579	100.00%	$10,144	100.00%	$7,617	100.00%

NONPERFORMING LOANS

The increase in nonperforming loans during 2016 is primarily the result of a large commercial real estate loan that was placed on non-accrual status. The majority of the nonperforming loans are centered on several loans that are either in a secured position and have sureties with a strong underlying financial position and/or a specific allowance within the allowance for loan losses.

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The following table presents information concerning nonperforming loans. The accrual of interest will be discontinued when the principal or interest of a loan is in default for 90 days or more, or as soon as payment is questionable, unless the loan is well secured and in the process of collection. Consumer loans and residential real estate loans secured by 1 to 4 family dwellings are not ordinarily subject to those guidelines. The reversal of previously accrued but uncollected interest applicable to any loan placed in a nonaccrual status and the treatment of subsequent payments of either principal or interest is handled in accordance with GAAP. These principles do not require a write-off of previously accrued interest if principal and interest are ultimately protected by sound collateral values. A nonperforming loan may be restored to accruing status when:

1. Principal and interest is no longer due and unpaid;
2. It becomes well secured and in the process of collection; and
3. Prospects for future contractual payments are no longer in doubt.

	Total Nonperforming Loans		
(In Thousands)	90 Days Past Due	Nonaccrual	Total
2016	$ 1,457	$ 10,756	$ 12,213
2015	979	8,467	9,446
2014	387	11,861	12,248
2013	604	9,074	9,678
2012	351	11,355	11,706

The level of non-accruing loans continues to fluctuate annually and is attributed to the various economic factors experienced both regionally and nationally. Overall, the portfolio is well secured with a majority of the balance making regular payments or scheduled to be satisfied in the near future. Presently, there are no significant amounts of loans where serious doubts exist as to the ability of the borrower to comply with the current loan payment terms which are not included in the nonperforming categories as indicated above.

Management's judgment in determining the amount of the additions to the allowance charged to operating expense considers the following factors with no single factor being determinative:

1. Economic conditions and the impact on the loan portfolio.
2. Analysis of past loan charge-offs experienced by category and comparison to outstanding loans.
3. Effect of problem loans on overall portfolio quality.
4. Reports of examination of the loan portfolio by the Department and the FDIC.

DEPOSITS

2016 vs. 2015

Total average deposits increased $68,214,000 or 6.76% from 2015 to 2016. The growth is a result of an emphasis to increase and solidify deposit relationships by focusing on core deposits, not time deposits. The actions caused average core deposits, which exclude time deposits, to increase to 79.44% in 2016 from 78.16% for 2015.

2015 vs. 2014

Total average deposits increased $26,704,000 or 2.72% from 2014 to 2015. The growth is a result of an emphasis to increase and solidify deposit relationships by focusing on core deposits, not time deposits. The actions caused average core deposits, which exclude time deposits, to increase to 78.16% in 2015 from 77.25% for 2014. The level of deposits has been negatively impacted by the Commonwealth of Pennsylvania budget impasse which has resulted in a

decreased level of deposits held by the various governmental entities serviced by the Banks.

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The average amount and the average rate paid on deposits are summarized below for the years ended December 31, 2016, 2015, and 2014:

(In Thousands)	2016 Average Amount	Rate	2015 Average Amount	Rate	2014 Average Amount	Rate
Noninterest-bearing	$279,130	0.00%	$251,029	0.00%	$225,981	0.00%
Savings	151,397	0.04	143,055	0.04	140,575	0.06
Super Now	187,106	0.24	187,396	0.26	182,229	0.32
Money Market	238,175	0.27	207,252	0.27	210,066	0.27
Time	221,498	1.08	220,360	0.92	223,537	0.79
Total average deposits	$1,077,306	0.33%	$1,009,092	0.31%	$982,388	0.31%

SHAREHOLDERS' EQUITY

2016

Shareholders' equity increased $1,970,000 to $138,249,000 at December 31, 2016 compared to December 31, 2015. Since December 31, 2015, treasury stock purchases of $574,000 for 14,600 shares were completed as part of the stock repurchase plan. The change in accumulated other comprehensive loss from $3,799,000 at December 31, 2015 to $4,928,000 at December 31, 2016 is a result of an increase in unrealized losses on available for sale securities from an unrealized gain of $258,000 at December 31, 2015 to an unrealized loss of $639,000 at December 31, 2016. The amount of accumulated other comprehensive loss at December 31, 2016 was also impacted by the change in net excess of the projected benefit obligation over the fair value of the plan assets of the defined benefit pension plan resulting in a increase in the net loss of $232,000 to $4,289,000 at December 31, 2016. The current level of shareholders' equity equates to a book value per share of $29.20 at December 31, 2016 compared to $28.71 at December 31, 2015 and an equity to asset ratio of 10.25% at December 31, 2016 compared to 10.32% at December 31, 2015. Excluding goodwill and intangibles, book value per share was $25.21 at December 31, 2016 compared to $24.84 at December 31, 2015. Dividends declared for each of the three and twelve months ended December 31, 2016 and 2015 were $0.47 and $1.88 per share.

2015

Shareholders' equity increased $312,000 to $136,279,000 at December 31, 2015 compared to December 31, 2014. Since December 31, 2014, treasury stock purchases of $2,603,000 for 60,018 shares were completed as part of the stock repurchase plan. The change in accumulated other comprehensive loss from $1,667,000 at December 31, 2014 to $3,799,000 at December 31, 2015 is a result of a decrease in unrealized gains on available for sale securities from an unrealized gain of $2,930,000 at December 31, 2014 to an unrealized gain of $258,000 at December 31, 2015. The amount of accumulated other comprehensive loss at December 31, 2015 was also impacted by the change in net excess of the projected benefit obligation over the fair value of the plan assets of the defined benefit pension plan resulting in a decrease in the net loss of $540,000 to $4,057,000 at December 31, 2015. The current level of shareholders' equity equates to a book value per share of $28.71 at December 31, 2015 compared to $28.30 at December 31, 2014 and an equity to asset ratio of 10.32% at December 31, 2015 compared to 10.92% at December 31, 2014. Excluding goodwill and intangibles, book value per share was $24.84 at December 31, 2015 compared to $24.44 at December 31, 2014. Dividends declared for each of the three and twelve months ended December 31, 2015 and 2014 were $0.47 and $1.88 per share.

Bank regulators have risk based capital guidelines. Under these guidelines the Company and each Bank are required to maintain minimum ratios of core capital and total qualifying capital as a percentage of risk weighted assets and certain off-balance sheet items. At December 31, 2016, both the Company's and each Bank's required ratios were well above the minimum ratios as follows:

	Company	Jersey Shore State Bank	Luzerne Bank	Minimum Standards
Common equity tier 1 capital ratio	12.62 %	11.14 %	10.16 %	4.50 %
Tier 1 capital ratio	12.62 %	11.14 %	10.16 %	6.00 %
Total capital ratio	13.38 %	11.73 %	10.98 %	8.00 %
Tier 1 capital	9.43 %	8.89 %	8.54 %	4.00 %

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For a more comprehensive discussion of these requirements, see "Regulation and Supervision" in Item 1 of the Annual Report on Form 10-K. Management believes that the Company will continue to exceed regulatory capital requirements.

RETURN ON EQUITY AND ASSETS

The ratio of net income to average total assets and average shareholders' equity, and other certain equity ratios are presented as follows:

	2016	2015	2014
Percentage of net income to:			
Average total assets	0.93 %	1.08 %	1.19 %
Average shareholders' equity	8.96 %	10.11%	10.79%
Percentage of dividends declared to net income	71.37%	64.52%	61.99%
Percentage of average shareholders' equity to average total assets	10.38%	10.68%	11.05%

LIQUIDITY, INTEREST RATE SENSITIVITY, AND MARKET RISK

The Asset/Liability Committee addresses the liquidity needs of the Company to ensure that sufficient funds are available to meet credit demands and deposit withdrawals as well as to the placement of available funds in the investment portfolio. In assessing liquidity requirements, equal consideration is given to the current position as well as the future outlook.

The following liquidity measures are monitored for compliance and were within the limits cited at December 31, 2016:

1. Net Loans to Total Assets, 85% maximum
2. Net Loans to Total Deposits, 100% maximum
3. Cumulative 90 day Maturity GAP %, +/- 20% maximum
4. Cumulative 1 Year Maturity GAP %, +/- 25% maximum

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

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

Management monitors the Company's liquidity on both a short and long-term basis, thereby, providing management necessary information to react to current balance sheet trends. Cash flow needs are assessed and sources of funds are determined. Funding strategies consider both customer needs and economical cost. Both short and long term funding

needs are addressed by maturities and sales of available for sale investment securities, loan repayments and maturities, and liquidating money market investments such as federal funds sold. The use of these resources, in conjunction with access to credit, provides core ingredients to satisfy depositor, borrower, and creditor needs.

Management monitors and determines the desirable level of liquidity. Consideration is given to loan demand, investment opportunities, deposit pricing and growth potential, as well as the current cost of borrowing funds. The Company has a current borrowing capacity at the FHLB of $538,195,000 with $85,625,000 utilized, leaving $452,571,000 available. In addition to this credit arrangement, the Company has additional lines of credit with correspondent banks of $45,247,000. The Company's management believes that it has sufficient liquidity to satisfy estimated short-term and long-term funding needs.

Interest rate sensitivity, which is closely related to liquidity management, is a function of the repricing characteristics of the Company's portfolio of assets and liabilities. Asset/liability management strives to match maturities and rates between loan and

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investment security assets with the deposit liabilities and borrowings that fund them. Successful asset/liability management results in a balance sheet structure which can cope effectively with market rate fluctuations. The matching process is affected by segmenting both assets and liabilities into future time periods (usually 12 months, or less) based upon when repricing can be effected. Repriceable assets are subtracted from repriceable liabilities, for a specific time period to determine the "gap", or difference. Once known, the gap is managed based on predictions about future market interest rates. Intentional mismatching, or gapping, can enhance net interest income if market rates move as predicted. However, if market rates behave in a manner contrary to predictions, net interest income will suffer. Gaps, therefore, contain an element of risk and must be prudently managed. In addition to gap management, the Company has an asset liability management policy which incorporates a market value at risk calculation which is used to determine the effects of interest rate movements on shareholders' equity and a simulation analysis to monitor the effects of interest rate changes on the Company's balance sheet.

The Company currently maintains a gap position of being asset sensitive. The Company has strategically taken this position as it has decreased the duration of the earning asset portfolio by adding quality short and intermediate term loans such as home equity loans and the selling of long-term municipal bonds. Lengthening of the liability portfolio is being undertaken to build protection in a rising rate environment.

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

INTEREST RATE SENSITIVITY

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

The following is a rate shock forecast for the twelve month period ended December 31, 2017 assuming a static balance sheet as of December 31, 2016.

	Parallel Rate Shock in Basis Points						
(In Thousands)	(200)	(100)	Static	100	200	300	400
Net interest income	$38,002	$40,401	$42,761	$44,678	$46,473	$48,031	$49,456
Change from static	(4,759)	(2,360)	—	1,917	3,712	5,270	6,695
Percent change from static	-11.13 %	-5.52 %	—	4.48 %	8.68 %	12.32 %	15.66 %

The model utilized to create the report presented above makes various estimates at each level of interest rate change regarding cash flow from principal repayment on loans and mortgage-backed securities and/or call activity on investment securities. Actual results could differ significantly from these estimates which would result in significant differences in the calculated projected change. In addition, the limits stated above do not necessarily represent the level of change under which management would undertake specific measures to realign its portfolio in order to reduce the projected level of change. Generally, management believes the Company is well positioned to respond expeditiously when the market interest rate outlook changes.

INFLATION

The asset and liability structure of a financial institution is primarily monetary in nature; therefore, interest rates rather than inflation have a more significant impact on the Company's performance. Interest rates are not always affected in the same direction or magnitude as prices of other goods and services, but are reflective of fiscal policy initiatives or economic factors that are not measured by a price index.

CRITICAL ACCOUNTING POLICIES

The Company's accounting policies are integral to understanding the results reported. The accounting policies are described in detail in Note 1 of the "Notes to Consolidated Financial Statements." Our most complex accounting policies require management's judgment to ascertain the valuation of assets, liabilities, commitments, and contingencies. We have established detailed policies and control procedures that are intended to ensure valuation methods are well controlled and applied consistently from period to period. In addition, the policies and procedures are intended to ensure that the process for changing methodologies occurs in an

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appropriate manner. The following is a brief description of our current accounting policies involving significant management valuation judgments.

Other Than Temporary Impairment of Debt and Equity Securities

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

Allowance for Loan Losses

Arriving at an appropriate level of allowance for loan losses involves a high degree of judgment. The Company's allowance for loan losses provides for probable losses based upon evaluations of known and inherent risks in the loan portfolio.

Management uses historical information to assess the adequacy of the allowance for loan losses as well as the prevailing business environment; as it is affected by changing economic conditions and various external factors, which may impact the portfolio in ways currently unforeseen. The allowance is increased by provisions for loan losses and by recoveries of loans previously charged-off and reduced by loans charged-off. For a full discussion of the Company's methodology of assessing the adequacy of the reserve for allowance for loan losses, refer to Note 1 of the "Notes to Consolidated Financial Statements."

Goodwill and Other Intangible Assets

As discussed in Note 8 of the "Notes to Consolidated Financial Statements," the Company must assess goodwill and other intangible assets each year for impairment. This assessment involves estimating cash flows for future periods. If the future cash flows were less than the recorded goodwill and other intangible assets balances, we would be required to take a charge against earnings to write down the assets to the lower value.

Deferred Tax Assets

Management uses an estimate of future earnings to support their position that the benefit of their deferred tax assets will be realized. If future income should prove non-existent or less than the amount of the deferred tax assets within the tax years to which they may be applied, the asset may not be realized and the Company's net income will be reduced. The Company's deferred tax assets are described further in Note 12 of the "Notes to Consolidated Financial Statements."

Pension Benefits

Pension costs and liabilities are dependent on assumptions used in calculating such amounts. These assumptions include discount rates, benefits earned, interest costs, expected return on plan assets, mortality rates, and other factors. In accordance with GAAP, actual results that differ from the assumptions are accumulated and amortized over future periods and, therefore, generally affect recognized expense and the recorded obligation of future periods. While

management believes that the assumptions used are appropriate, differences in actual experience or changes in assumptions may affect the Company’s pension obligations and future expense. Our pension benefits are described further in Note 13 of the “Notes to Consolidated Financial Statements.”

CONTRACTUAL OBLIGATIONS

The Company has various financial obligations, including contractual obligations which may require future cash payments. The following table presents, as of December 31, 2016, significant fixed and determinable contractual obligations to third parties by payment date. Further discussion of the nature of each obligation is included in the “Notes to Consolidated Financial Statements.”

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(In Thousands)	Payments Due In				
	One Year or Less	One to Three Years	Three to Five Years	Over Five Years	Total
Deposits without a stated maturity	$876,839	$ —	$ —	$ —	$876,839
Time deposits	93,847	107,293	15,805	1,430	218,375
Repurchase agreements	13,241	—	—	—	13,241
Short-term borrowings	—	—	—	—	—
Long-term borrowings	45,028	19,350	18,394	3,226	85,998
Operating leases	589	1,079	832	1,507	4,007

The Company's operating lease obligations represent short and long-term lease and rental payments for branch facilities and equipment. The Bank leases certain facilities under operating leases which expire on various dates through 2027. Renewal options are available on the majority of these leases.

CAUTIONARY STATEMENT FOR PURPOSES OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

This Report contains certain "forward-looking statements" including statements concerning plans, objectives, future events or performance and assumptions and other statements which are other than statements of historical fact. The Company wishes to caution readers that the following important factors, among others in addition to the factors discussed in Item 1 - Business and in Item 1A - Risk Factors, may have affected and could in the future affect the Company's actual results and could cause the Company's actual results for subsequent periods to differ materially from those expressed in any forward-looking statement made by or on behalf of the Company herein: (i) the effect of changes in laws and regulations, including federal and state banking laws and regulations, with which the Company must comply, and the associated costs of compliance with such laws and regulations either currently or in the future as applicable; (ii) the effect of changes in accounting policies and practices, as may be adopted by the regulatory agencies as well as by the Financial Accounting Standards Board, or of changes in the Company's organization, compensation and benefit plans; (iii) the effect on the Company's competitive position within its market area of the increasing consolidation within the banking and financial services industries, including the increased competition from larger regional and out-of-state banking organizations as well as non-bank providers of various financial services; (iv) the effect of changes in interest rates;and (v) the effect of changes in the business cycle and downturns in the local, regional or national economies.

ITEM 7A QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk for the Company is comprised primarily from interest rate risk exposure and liquidity risk. Interest rate risk and liquidity risk management is performed at the Banks' level as well as the Company level. The Company's interest rate sensitivity is monitored by management through selected interest rate risk measures produced internally. Additional information and details are provided in the Interest Sensitivity section of Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations.

Generally, management believes the Company is well positioned to respond expeditiously when the market interest rate outlook changes.

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ITEM 8 FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders
Penns Woods Bancorp, Inc.

We have audited the accompanying consolidated balance sheet of Penns Woods Bancorp, Inc. and subsidiaries as of December 31, 2016 and 2015, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2016. These consolidated financial statements are the responsibility of Penns Woods Bancorp, Inc.'s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Penns Woods Bancorp, Inc. and subsidiaries as of December 31, 2016 and 2015, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2016, in conformity with U.S. generally accepted accounting principles.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Penns Woods Bancorp, Inc. and subsidiaries' internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013, and our report dated March 10, 2017, expressed an unqualified opinion on the effectiveness of Penns Woods Bancorp, Inc.'s internal control over financial reporting.

Cranberry Township, Pennsylvania
March 10, 2017

PENNS WOODS BANCORP, INC.
CONSOLIDATED BALANCE SHEET

(In Thousands, Except Share Data)	December 31, 2016	2015
ASSETS:		
Noninterest-bearing balances	$26,766	$22,044
Interest-bearing deposits in other financial institutions	16,905	752
Total cash and cash equivalents	43,671	22,796
Investment securities available for sale, at fair value	133,492	176,157
Investment securities, trading	58	73
Loans held for sale	1,953	757
Loans	1,093,681	1,045,207
Allowance for loan losses	(12,896)	(12,044)
Loans, net	1,080,785	1,033,163
Premises and equipment, net	24,275	21,830
Accrued interest receivable	3,672	3,686
Bank-owned life insurance	27,332	26,667
Investment in limited partnerships	586	899
Goodwill	17,104	17,104
Intangibles	1,799	1,240
Deferred tax asset	8,397	8,990
Other assets	5,466	6,695
TOTAL ASSETS	$1,348,590	$1,320,057
LIABILITIES:		
Interest-bearing deposits	$791,937	$751,797
Noninterest-bearing deposits	303,277	280,083
Total deposits	1,095,214	1,031,880
Short-term borrowings	13,241	46,638
Long-term borrowings	85,998	91,025
Accrued interest payable	455	426
Other liabilities	15,433	13,809
TOTAL LIABILITIES	1,210,341	1,183,778
SHAREHOLDERS’ EQUITY:		
Preferred stock, no par value, 3,000,000 shares authorized; no shares issued	—	—
Common stock, par value $8.33, 15,000,000 shares authorized; 5,007,109 and 5,004,984 shares issued	41,726	41,708
Additional paid-in capital	50,075	49,992
Retained earnings	61,610	58,038
Accumulated other comprehensive loss:		
Net unrealized (loss) gain on available for sale securities	(639)	258
Defined benefit plan	(4,289)	(4,057)
Treasury stock at cost, 272,452 and 257,852 shares	(10,234)	(9,660)
TOTAL SHAREHOLDERS’ EQUITY	138,249	136,279
TOTAL LIABILITIES AND SHAREHOLDERS’ EQUITY	$1,348,590	$1,320,057

See accompanying notes to the consolidated financial statements.

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PENNS WOODS BANCORP, INC.
CONSOLIDATED STATEMENT OF INCOME

(In Thousands, Except Per Share Data)	Year Ended December 31, 2016	2015	2014
INTEREST AND DIVIDEND INCOME:			
Loans, including fees	$42,056	$39,134	$36,495
Investment securities:			
Taxable	2,424	3,426	5,111
Tax-exempt	1,498	2,795	3,453
Dividend and other interest income	835	769	547
TOTAL INTEREST AND DIVIDEND INCOME	46,813	46,124	45,606
INTEREST EXPENSE:			
Deposits	3,547	3,129	2,995
Short-term borrowings	46	116	54
Long-term borrowings	1,974	1,974	1,913
TOTAL INTEREST EXPENSE	5,567	5,219	4,962
NET INTEREST INCOME	41,246	40,905	40,644
PROVISION FOR LOAN LOSSES	1,196	2,300	2,850
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	40,050	38,605	37,794
NON-INTEREST INCOME:			
Service charges	2,249	2,383	2,419
Securities gains, available for sale	1,611	2,592	3,515
Securities gains (losses), trading	58	(22)	—
Bank-owned life insurance	684	720	923
Gain on sale of loans	2,102	1,743	1,803
Insurance commissions	795	781	1,146
Brokerage commissions	1,098	1,064	1,077
Other	3,516	3,504	3,625
TOTAL NON-INTEREST INCOME	12,113	12,765	14,508
NON-INTEREST EXPENSE:			
Salaries and employee benefits	17,813	17,023	17,273
Occupancy	2,223	2,248	2,301
Furniture and equipment	2,793	2,622	2,536
Pennsylvania shares tax	873	954	907
Amortization of investment in limited partnerships	312	661	661
Federal Deposit Insurance Corporation deposit insurance	767	867	746
Marketing	740	612	532
Intangible amortization	366	311	345
Other	9,204	8,438	8,589
TOTAL NON-INTEREST EXPENSE	35,091	33,736	33,890
INCOME BEFORE INCOME TAX PROVISION	17,072	17,634	18,412
INCOME TAX PROVISION	4,597	3,736	3,804

NET INCOME	$12,475	$13,898	$14,608
EARNINGS PER SHARE - BASIC AND DILUTED	$2.64	$2.91	$3.03
WEIGHTED AVERAGE SHARES OUTSTANDING - BASIC AND DILUTED	4,735,457	4,772,239	4,816,149
DIVIDENDS PER SHARE	$1.88	$1.88	$1.88

See accompanying notes to the consolidated financial statements.

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PENNS WOODS BANCORP, INC.
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(In Thousands)	Year Ended December 31, 2016	2015	2014
Net Income	$12,475	$13,898	$14,608
Other comprehensive (loss) income:			
Change in unrealized gain (loss) on available for sale securities	252	(1,457)	11,242
Tax effect	(85)	495	(3,822)
Net realized gain included in net income	(1,611)	(2,592)	(3,515)
Tax effect	547	882	1,195
(Accretion) amortization of unrecognized pension and post-retirement items	(352)	817	(2,837)
Tax effect	120	(277)	964
Total other comprehensive (loss) income	(1,129)	(2,132)	3,227
Comprehensive income	$11,346	$11,766	$17,835

See accompanying notes to the consolidated financial statements.

PENNS WOODS BANCORP, INC.
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(In Thousands, Except Per Share Data)	COMMON STOCK SHARES	COMMON STOCK AMOUNT	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME	TREASURY STOCK	TOTAL SHAREHOLDERS' EQUITY
Balance, December 31, 2013	4,999,929	$41,665	$49,800	$47,554	$(4,894)	$(6,310)	$127,815
Net income				14,608			14,608
Other comprehensive income					3,227		3,227
Dividends declared, ($1.88 per share)				(9,055)			(9,055)
Common shares issued for employee stock purchase plan	2,720	23	96				119
Purchase of treasury stock (17,238 shares)						(747)	(747)
Balance, December 31, 2014	5,002,649	41,688	49,896	53,107	(1,667)	(7,057)	135,967
Net income				13,898			13,898
Other comprehensive loss					(2,132)		(2,132)
Dividends declared, ($1.88 per share)				(8,967)			(8,967)
Common shares issued for employee stock purchase plan	2,335	20	96				116
Purchase of treasury stock (60,018 shares)						(2,603)	(2,603)
Balance, December 31, 2015	5,004,984	41,708	49,992	58,038	(3,799)	(9,660)	136,279
Net income				12,475			12,475
Other comprehensive loss					(1,129)		(1,129)
Dividends declared, ($1.88 per share)				(8,903)			(8,903)
	2,125	18	83				101

Common shares issued for employee stock purchase plan							
Purchase of treasury stock (14,600 shares)						(574)	(574)
Balance, December 31, 2016	5,007,109	$41,726	$50,075	$61,610	$(4,928)	$(10,234)	$138,249

See accompanying notes to the consolidated financial statements.

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PENNS WOODS BANCORP, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS

(In Thousands)	Year Ended December 31, 2016	2015	2014
OPERATING ACTIVITIES:			
Net Income	$12,475	$13,898	$14,608
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	3,146	3,366	3,078
Amortization of intangible assets	366	311	345
Provision for loan losses	1,196	2,300	2,850
Accretion and amortization of investment security discounts and premiums	870	873	672
Securities gains, net	(1,611)	(2,592)	(3,515)
Originations of loans held for sale	(68,362)	(56,058)	(51,119)
Proceeds of loans held for sale	69,268	57,594	53,998
Gain on sale of loans	(2,102)	(1,743)	(1,803)
Net securities (gains) losses, trading	(58)	22	—
Proceeds from sales of trading securities	3,826	709	—
Purchases of trading securities	(3,753)	(804)	—
Earnings on bank-owned life insurance	(684)	(720)	(923)
Decrease in deferred tax asset	1,543	209	124
Other, net	(7)	(1,630)	423
Net cash provided by operating activities	16,113	15,735	18,738
INVESTING ACTIVITIES:			
Investment securities available for sale:			
Proceeds from sales	44,829	65,672	102,145
Proceeds from calls and maturities	25,558	22,859	13,354
Purchases	(28,322)	(32,776)	(47,902)
Net increase in loans	(49,590)	(130,803)	(101,816)
Acquisition of bank premises and equipment	(4,061)	(2,285)	(2,795)
Proceeds from the sale of foreclosed assets	859	1,868	1,059
Purchase of bank-owned life insurance	(27)	(30)	(30)
Proceeds from bank-owned life insurance death benefit	—	—	367
Proceeds from redemption of regulatory stock	3,160	10,790	3,955
Purchases of regulatory stock	(3,178)	(12,818)	(4,583)
Net cash used for investing activities	(10,772)	(77,523)	(36,246)
FINANCING ACTIVITIES:			
Net increase (decrease) in interest-bearing deposits	40,140	13,756	(17,584)
Net increase in noninterest-bearing deposits	23,194	36,705	26,001
Proceeds from long-term borrowings	—	30,625	—
Repayment of long-term borrowings	(5,027)	(10,776)	(26)
Net (decrease) increase in short-term borrowings	(33,397)	5,820	14,102
Dividends paid	(8,903)	(8,967)	(9,055)
Issuance of common stock	101	116	119
Purchase of treasury stock	(574)	(2,603)	(747)
Net cash provided by financing activities	15,534	64,676	12,810
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	20,875	2,888	(4,698)
CASH AND CASH EQUIVALENTS, BEGINNING	22,796	19,908	24,606
CASH AND CASH EQUIVALENTS, ENDING	$43,671	$22,796	$19,908

See accompanying notes to the consolidated financial statements.

	Year Ended December 31,		
(In Thousands)	2016	2015	2014
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Interest paid	$ 5,538	$ 5,174	$ 4,986
Income taxes paid	4,025	2,933	3,750
Transfer of loans to foreclosed real estate	772	340	2,166

See accompanying notes to the consolidated financial statements.

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PENNS WOODS BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 — OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Penns Woods Bancorp, Inc. and its wholly owned subsidiaries, Jersey Shore State Bank ("JSSB"), Luzerne Bank ("Luzerne" collectively with JSSB "Banks"), Woods Real Estate Development Co., Inc., Woods Investment Company, Inc., and The M Group Inc. D/B/A The Comprehensive Financial Group ("The M Group"), a wholly owned subsidiary of JSSB, (collectively, the "Company"). All significant intercompany balances and transactions have been eliminated.

Nature of Business

The Banks engage in a full-service commercial banking business, making available to the community a wide range of financial services including, but not limited to, installment loans, credit cards, mortgage and home equity loans, lines of credit, construction financing, farm loans, community development loans, loans to non-profit entities and local government, and various types of demand and time deposits including, but not limited to, checking accounts, savings accounts, money market deposit accounts, certificates of deposit, and IRAs. Deposits are insured by the Federal Deposit Insurance Corporation ("FDIC") to the extent provided by law.

The financial services are provided by the Banks to individuals, partnerships, non-profit organizations, and corporations through their twenty-three offices located in Clinton, Lycoming, Centre, Montour, Union, and Luzerne Counties, Pennsylvania.

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

Woods Investment Company, Inc., a Delaware holding company, is engaged in investing activities.

The M Group engages in securities brokerage and financial planning services, which include the sale of life insurance products, annuities, and estate planning services.

Operations are managed and financial performance is evaluated on a corporate-wide basis. Accordingly, all financial service operations are considered by management to be aggregated in one reportable operating segment.

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the Consolidated Financial Statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan losses, valuation of net deferred tax assets, impairment of goodwill, other than temporary impairment of debt and equity securities, fair value of financial instruments, and the valuation of real estate acquired through, or in lieu of, foreclosure on settlement of debt.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and in banks and federal funds sold. Interest-earning deposits mature within 90 days and are carried at cost. Net cash flows are reported for loan, deposit, and short-term borrowing transactions.

Restrictions on Cash and Cash Equivalents

Based on deposit levels, the Banks must maintain cash and other reserves with the Federal Reserve Bank of Philadelphia (FRB).

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Investment Securities

Investment securities are classified at the time of purchase, based on management's intention and ability, as securities held to maturity, securities available for sale, or securities held for trading. Debt securities acquired with the intent and ability to hold to maturity are stated at cost, adjusted for amortization of premium and accretion of discount, which are computed using the interest method and recognized as adjustments of interest income. Certain other debt securities have been classified as available for sale to serve principally as a source of liquidity. Unrealized holding gains and losses for available for sale securities are reported as a separate component of shareholders' equity, net of tax, until realized. Unrealized holding gains and losses for equity securities held for trading are recognized as a separate component within the income statement. Realized security gains and losses are computed using the specific identification method for debt securities and the average cost method for marketable equity securities. Interest and dividends on investment securities are recognized as income when earned.

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

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

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff generally are stated at the principal amount outstanding, net of deferred fees and discounts, unamortized loan fees and costs, and the allowance for loan losses. Interest on loans is recognized as income when earned on the accrual method. The Company's general policy has been to stop accruing interest on loans when it is determined a reasonable doubt exists as to the collectability of additional interest. Income is subsequently recognized only to the extent that cash payments are received provided the loan is not delinquent in payment and, in management's judgment, the borrower has the ability and intent to make future principal payments. Otherwise, payments are applied to the unpaid principal balance of the loan. Loans are restored to accrual status if certain conditions are met, including but not limited to, the repayment of all unpaid interest and scheduled principal due, ongoing performance consistent with the contractual agreement, and the future expectation of continued, timely payments.

Loan origination and commitment fees as well as certain direct loan origination costs are being deferred and amortized as an adjustment to the related loan's yield over the contractual lives of the related loans.

Allowance for Loan Losses

The allowance for loan losses represents the amount which management estimates is adequate to provide for probable losses inherent in its loan portfolio, as of the Consolidated Balance Sheet date. The allowance method is used in providing for loan losses. Accordingly, all loan losses are charged to the allowance and all recoveries are credited to it. The allowance for loan losses is established through a provision for loan losses charged to operations. The

provision for loan losses is based upon management's quarterly review of the 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, historical loan loss experience, and general economic conditions. 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, 2016, future adjustments could be necessary if circumstances or economic conditions

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differ substantially from the assumptions used in making the initial determinations. A downturn in the local economy, rising unemployment, or negative performance trends in financial information from borrowers could be indicators of subsequent increased levels of nonperforming assets and possible charge-offs, which would normally require increased loan loss provisions. An integral part of the periodic regulatory examination process is the review of the adequacy of the Banks' loan loss allowance. The regulatory agencies could require the Banks, based on their evaluation of information available at the time of their examination, to provide additional loan loss provisions to further supplement the allowance.

Impaired loans are commercial and commercial real estate loans for which it is probable the Banks will not be able to collect all amounts due according to the contractual terms of the loan agreement. The Banks individually evaluate such loans for impairment and do not aggregate loans by major risk classifications. The definition of "impaired loans" is not the same as the definition of "nonaccrual loans," although the two categories overlap. The Banks may choose to place a loan on nonaccrual status due to payment delinquency or uncertain collectability, while not classifying the loan as impaired if the loan is not a commercial or commercial real estate loan. Factors considered by management in determining impairment include payment status and collateral value. The amount of impairment for these types of loans is determined by the difference between the present value of the expected cash flows related to the loan, using the original interest rate, and its recorded value, or as a practical expedient in the case of collateralized loans, the difference between the fair value of the collateral and the recorded amount of the loans. When foreclosure is probable, impairment is measured based on the fair value of the collateral.

Mortgage loans on one-to-four family properties and all consumer loans are large groups of smaller-balance homogeneous loans and are measured for impairment collectively. Loans that experience insignificant payment delays, which are defined as 90 days or less, generally are not classified as impaired. Management determines the significance of payment delays on a case-by-case basis taking into consideration all circumstances surrounding the loan and the borrower including the length of the delay, the borrower's prior payment record, and the amount of shortfall in relation to the principal and interest owed.

Loan Charge-off Policies

Loans are generally fully or partially charged down to the fair value of collateral securing the asset when:
- management judges the asset to be uncollectible;
- repayment is deemed to be protracted beyond reasonable time frames;
- the asset has been classified as a loss by either the internal loan review process or external examiners;
- the borrower has filed bankruptcy and the loss becomes evident due to a lack of assets; or
- the loan is 180 days past due unless both well secured and in the process of collection.

Troubled Debt Restructurings

In situations where, for economic or legal reasons related to a borrower's financial difficulties, management may grant a concession for other than an insignificant period of time to the borrower that would not otherwise be considered, the related loan is classified as a troubled debt restructuring (TDR). Management strives to identify borrowers in financial difficulty early and work with them to modify to more affordable terms before their loan reaches nonaccrual status. These modified terms may include rate reductions, principal forgiveness, payment forbearance, and other actions intended to minimize the economic loss and to avoid foreclosure or repossession of the collateral. In cases where borrowers are granted new terms that provide for a reduction of either interest or principal, management measures any impairment on the restructuring as noted above for impaired loans.

In addition to the allowance for the pooled portfolios, management has developed a separate allowance for loans that are identified as impaired through a TDR. These loans are excluded from pooled loss forecasts and a separate reserve

is provided under the accounting guidance for loan impairment. Consumer loans whose terms have been modified in a TDR are also individually analyzed for estimated impairment.

Loans Held for Sale

In general, fixed rate residential mortgage loans originated by the Banks are held for sale and are carried at cost due to their short holding period, which can range from less than two weeks to a maximum of thirty days. Sold loans are not serviced by the Banks. Proceeds from the sale of loans in excess of the carrying value are accounted for as a gain. Total gains on the sale of loans are shown as a component of non-interest income within the Consolidated Statement of Income.

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Foreclosed Assets

Foreclosed assets are carried at the lower of cost or fair value less estimated selling costs. Prior to foreclosure, the value of the underlying loan is written down to the fair value of the real estate to be acquired by a charge to the allowance for loan losses, if necessary. Any subsequent write-downs are charged against operating expenses. Net operating expenses and gains and losses realized from disposition are included in non-interest expense and income, respectively, within the Consolidated Statement of Income.

Premises and Equipment

Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed using straight-line and accelerated methods over the estimated useful lives of the related assets, which range from five to ten years for furniture, fixtures, and equipment and fifteen to forty years for buildings and improvements. Costs incurred for routine maintenance and repairs are charged to operations as incurred. Costs of major additions and improvements are capitalized.

Bank-Owned Life Insurance

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

Goodwill

The Company performs an annual impairment analysis of goodwill for its purchased subsidiaries, Luzerne and The M Group. Based on the fair value of these reporting units, estimated using the expected present value of future cash flows, no impairment of goodwill was recognized in 2016, 2015, or 2014.

Intangible Assets

At December 31, 2016, the Company had intangible assets of $876,000 as a result of the acquisition of Luzerne National Bank Corporation, which is net of accumulated amortization of $1,138,000. These intangible assets will continue to be amortized using the sum-of-the-years digits method of amortization over ten years. The Company also had intangible assets of $923,000, which is net of accumulated amortization of $97,000, as a result of the purchase of two books of business related to investment product sales. The book of business intangible is being amortized using the straight-line method over a period of ten years.

Investments in Limited Partnerships

The Company is a limited partner in four partnerships at December 31, 2016 that provide low income elderly housing in the Company’s geographic market area. The carrying value of the Company’s investments in limited partnerships was $586,000 at December 31, 2016 and $899,000 at December 31, 2015. The investments are being amortized over the ten-year tax credit receipt period utilizing the straight-line method. The partnerships are amortized once the projects reach the level of occupancy needed to begin the ten year tax credit recognition period. Amortization of limited partnership investments amounted to $312,000 in 2016 and $661,000 in 2015 and 2014.

Off-Balance Sheet Financial Instruments

In the ordinary course of business, the Company enters into off-balance sheet financial instruments. Those instruments consist of commitments to extend credit and standby letters of credit. When those instruments are funded or become payable, the Company reports the amounts in its financial statements.

Marketing Cost

Marketing costs are generally expensed as incurred.

Income Taxes

The Company prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Benefits from tax positions should be recognized in the financial statements only when it is more likely than not that the tax position will be sustained upon examination by the

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appropriate taxing authority that would have full knowledge of all relevant information. A tax position that meets the more-likely-than-not recognition threshold is measured at the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. Tax positions that previously failed to meet the more-likely-than-not recognition threshold should be recognized in the first subsequent financial reporting period in which that threshold is met. Previously recognized tax positions that no longer meet the more-likely-than-not recognition threshold should be derecognized in the first subsequent financial reporting period in which that threshold is no longer met.

Deferred tax assets and liabilities result from temporary differences in financial and income tax methods of accounting, and are reflected at currently enacted income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes. The Company analyzed its deferred tax asset position and determined that there was not a need for a valuation allowance due to the Company’s ability to generate future ordinary and capital taxable income.

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

Earnings Per Share

The Company provides dual presentation of basic and diluted earnings per share. Basic earnings per share is calculated utilizing net income as reported in the numerator and weighted average shares outstanding in the denominator. The computation of diluted earnings per share differs in that the dilutive effects of any stock options are adjusted in the denominator.

Employee Benefits

Pension and employee benefits include contributions, determined actuarially, to a defined benefit retirement plan covering the eligible employees of JSSB. The plan is funded on a current basis to the extent that it is deductible under existing federal tax regulations. Pension and other employee benefits also include contributions to a defined contribution Section 401(k) plan covering eligible employees. Contributions matching those made by eligible employees are funded throughout the year. In addition, an elective contribution may be made annually at the discretion of the board of directors for the employees of JSSB with a contribution being made in 2015. No elective contributions were made for 2016.

The M Group Products and Income Recognition

The M Group product line is comprised primarily of annuities, life insurance, and mutual funds. The revenues generated from life insurance sales are commission only, as The M Group does not underwrite the policies. Life insurance sales include permanent and term policies with the majority of the policies written being permanent. Term life insurance policies are written for 10, 15, 20, and 30 year terms with the majority of the policies being written for 20 years. None of these products are offered as an integral part of lending activities.

Commissions from the sale of annuities are recognized at the time notice is received from the third party broker/dealer or an insurance company that the transaction has been accepted and approved, which is also the time when commission income is received.

Life insurance commissions are recognized at varying points based on the payment option chosen by the customer. Commissions from monthly and annual payment plans are recognized at the start of each annual period for the life

insurance, while quarterly and semi-annual premium payments are recognized quarterly and semi-annually when the earnings process is complete. For example, semi-annual payments on the first of January and July would result in commission income recognition on the first of January and July, while payments on the first of January, April, July, and October would result in commission income recognition on those dates. The potential for chargebacks only exists for those policies on a monthly payment plan since income is recognized at the beginning of the annual coverage period versus at the time of each monthly payment. No liability is maintained for chargebacks as these are removed from income at the time of the occurrence.

Accumulated Other Comprehensive Income (Loss)

The Company is required to present accumulated other comprehensive income (loss) in a full set of general-purpose financial statements for all periods presented. Accumulated other comprehensive income (loss) is comprised of unrealized holding gains (losses) on the available for sale securities portfolio and the unrecognized components of net periodic benefit costs of the defined benefit pension plan.

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Segment Reporting

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

Reclassification of Comparative Amounts

Certain items previously reported have been reclassified to conform to the current year's reporting format. Such reclassifications did not affect net income or shareholders' equity.

Recent Accounting Pronouncements

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

In August 2014, the FASB issued ASU 2014-15, Presentation of Financial Statements - Going Concern (Subtopic 205-40). The amendments in this Update provide guidance in accounting principles generally accepted in the United States of America about management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. The amendments in this Update are effective for the annual period ending after December 15, 2016, and for annual periods and interim periods thereafter. Early application is permitted. This Update is not expected to have a significant impact on the Company's financial statements.

In August 2015, the FASB issued ASU 2015-14, Revenue from Contract with Customers (Topic 606). The amendments in this Update defer the effective date of ASU 2014-09 for all entities by one year. Public business entities, certain not-for-profit entities, and certain employee benefit plans should apply the guidance in ASU 2014-09 to annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. All other entities should apply the guidance in ASU 2014-09 to annual reporting periods beginning after December 15, 2018, and interim reporting periods within annual reporting periods beginning after December 15, 2019. The Company is evaluating the effect of adopting this new accounting Update.

In November 2015, the FASB issued ASU 2015-17, Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes. The amendments in this Update require that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. The amendments in this Update apply to all entities that present a classified statement of financial position. For public business entities, the amendments in this Update are effective for financial statements issued for annual periods beginning after December 15, 2016, and interim periods within those annual periods. For all other entities, the amendments in this Update are effective for financial statements issued for annual periods beginning after December 15, 2017, and interim periods within annual periods beginning after December 15, 2018. Earlier application is permitted for all entities as of the beginning of an interim or annual reporting period. The amendments in this Update may be applied either prospectively to all deferred tax liabilities and assets or retrospectively to all periods presented. This Update is not expected to have a significant impact on the Company's financial statements.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. This Update applies to all entities that hold financial assets or owe financial liabilities and is intended to provide more useful information on the recognition, measurement, presentation, and disclosure of financial instruments. Among other things, this Update (a) requires equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income; (b) simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment; (c) eliminates the requirement to disclose the fair value of financial instruments measured at amortized

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cost for entities that are not public business entities; (d) eliminates the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet; (e) requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; (f) requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (that is, securities or loans and receivables) on the balance sheet or the accompanying notes to the financial statements; and (g) clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity's other deferred tax assets. For public business entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. For all other entities, including not-for-profit entities and employee benefit plans within the scope of Topics 960 through 965 on plan accounting, the amendments in this Update are effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. All entities that are not public business entities may adopt the amendments in this Update earlier as of the fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company is currently evaluating the impact the adoption of the standard will have on the Company's financial position or results of operations.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). The standard requires lessees to recognize the assets and liabilities that arise from leases on the balance sheet. A lessee should recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. A short-term lease is defined as one in which (a) the lease term is 12 months or less and (b) there is not an option to purchase the underlying asset that the lessee is reasonably certain to exercise. For short-term leases, lessees may elect to recognize lease payments over the lease term on a straight-line basis. For public business entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2018, and interim periods within those years. For all other entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2019, and for interim periods within fiscal years beginning after December 15, 2020. The amendments should be applied at the beginning of the earliest period presented using a modified retrospective approach with earlier application permitted as of the beginning of an interim or annual reporting period. The Company is currently evaluating the impact the adoption of the standard will have on the Company's financial position or results of operations.

In March 2016, the FASB issued ASU 2016-05, Derivatives and Hedging (Topic 815). The amendments in this Update apply to all reporting entities for which there is a change in the counterparty to a derivative instrument that has been designated as a heading instrument under Topic 815. The standards in this Update clarify that a change in the counterparty to a derivative instrument that has been designated as the hedging instrument under Topic 815 does not, in and of itself, require designation of that hedging relationship provided that all other hedge accounting criteria continue to be met. For public business entities, the amendments in this Update are effective for financial statements issued for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. For all other entities, the amendments in this Update are effective for financial statements issued for fiscal years beginning after December 15, 2017, and interim periods within fiscal years beginning after December 15, 2018. An entity has an option to apply the amendments in this Update on either a prospective basis or a modified retrospective basis. Early adoption is permitted, including adoption in an interim period. This Update is not expected to have a significant impact on the Company's financial statements.

In March 2016, the FASB issued ASU 2016-06, Derivatives and Hedging (Topic 815). The amendments apply to all entities that are issuers of or investors in debt instruments (or hybrid financial instruments that are determined to have a debt host) with embedded call (put) options. The amendments in this Update clarify the requirements for assessing whether contingent call (put) options that can accelerate the payment of principal on debt instruments are clearly and closely related to their debt host. An entity performing the assessment under the amendments in this Update is

required to assess the embedded call (put) options solely in accordance with the four-step decision sequence. For public business entities, the amendments in this Update are effective for financial statements issued for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. For entities other than public business entities, the amendments in this Update are effective for financial statements issued for fiscal years beginning after December 15, 2017, and interim periods within fiscal years beginning after December 15, 2018. Early adoption is permitted, including

adoption in an interim period. This Update is not expected to have a significant impact on the Company’s financial statements.

In March 2016, the FASB issued ASU 2016-07, Investments - Equity Method and Joint Ventures (Topic 323). The Update affects all entities that have an investment that becomes qualified for the equity method of accounting as a result of an increase in the level of ownership interest or degree of influence. The amendments in this Update eliminate the requirement that when an investment qualifies for use of the equity method as a result of an increase in the level of ownership interest or degree of influence, an investor must adjust the investment, results of operations, and retained earnings retroactively on a step-by-step basis as if the equity method had been in effect during all previous periods that the investment had been held. The amendments require that the equity method investor add the cost of acquiring the additional interest in the investee to the current basis of the investor's previously held interest and adopt the equity method of accounting as of the date the investment becomes qualified for equity method accounting. Therefore, upon qualifying for the equity method of accounting, no retroactive adjustment of the investment is required. The amendments in this Update require that an entity that has an available-for-sale equity security that becomes qualified for the equity method of accounting recognize through earnings the unrealized holding gain or loss in accumulated other comprehensive income at the date the investment becomes qualified for use of the equity method. The amendments in this Update are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. The amendments should be applied prospectively upon their effective date to increases in the level of ownership interest or degree of influence that result in the adoption of the equity method. Earlier application is permitted. This Update is not expected to have a significant impact on the Company’s financial statements.

In March 2016, the FASB issued ASU 2016-08, Revenue from Contracts with Customers (Topic 606). The amendments in this Update affect entities with transactions included within the scope of Topic 606, which includes entities that enter into contracts with customers to transfer goods or services (that are an output of the entity’s ordinary activities) in exchange for consideration. The amendments in this Update do not change the core principle of the guidance in Topic 606; they simply clarify the implementation guidance on principal versus agent considerations. The amendments in this Update are intended to improve the operability and understandability of the implementation guidance on principal versus agent considerations. The amendments in this Update affect the guidance in ASU 2014-09, Revenue from Contracts with Customers (Topic 606), which is not yet effective. The effective date and transition requirements for the amendments in this Update are the same as the effective date and transition requirements of Update 2014-09. ASU No. 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date, defers the effective date of Update 2014-09 by one year. The Company is currently evaluating the impact the adoption of the standard will have on the Company’s financial position or results of operations.

In March 2016, the FASB issued ASU 2016-09, Compensation - Stock Compensation (Topic 718). The amendments in this Update affect all entities that issue share-based payment awards to their employees. The standards in this Update provide simplification for several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as with equity or liabilities, and classification on the statement of cash flows. Some of the areas for simplification apply only to nonpublic entities. In addition to those simplifications, the amendments eliminate the guidance in Topic 718 that was indefinitely deferred shortly after the issuance of FASB Statement No. 123 (revised 2004), Share-Based Payment. This should not result in a change in practice because the guidance that is being superseded was never effective. For public business entities, the amendments in this Update are effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. For all other entities, the amendments are effective for annual periods beginning after December 15, 2017, and interim periods within annual periods beginning after December 15, 2018. Early adoption is permitted for any entity in any interim or annual period. This Update is not expected to have a significant impact on the Company’s financial statements.

In April 2016, the FASB issued ASU 2016-10, Revenue from Contracts with Customers (Topic 606). The amendments in this Update affect entities with transactions included within the scope of Topic 606, which includes entities that enter into contracts with customers to transfer goods or services in exchange for consideration. The amendments in this Update do not change the core principle for revenue recognition in Topic 606. Instead, the amendments provide (1) more detailed guidance in a few areas and (2) additional implementation guidance and examples based on feedback the FASB received from its stakeholders. The amendments are expected to reduce the degree of judgment necessary to comply with Topic 606, which the FASB expects will reduce the potential for diversity arising in practice and reduce

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the cost and complexity of applying the guidance. The amendments in this Update affect the guidance in ASU 2014-09, Revenue from Contracts with Customers (Topic 606), which is not yet effective. The effective date and transition requirements for the amendments in this Update are the same as the effective date and transition requirements in Topic 606 (and any other Topic amended by Update 2014-09). ASU 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date, defers the effective date of Update 2014-09 by one year. The Company is currently evaluating the impact the adoption of the standard will have on the Company's financial position or results of operations.

In May 2016, the FASB issued ASU 2016-11, Revenue Recognition (Topic 605) and Derivative and Hedging (Topic 815), which rescinds SEC paragraphs pursuant to two SEC Staff Announcements at the March 3, 2016, Emerging Issues Task Force meeting. This Update did not have a significant impact on the Company's financial statements

In May 2016, the FASB issued ASU 2016-12, Revenue from Contracts with Customers (Topic 606), which among other things clarifies the objective of the collectability criterion in Topic 606, as well as certain narrow aspects of Topic 606. The amendments in this Update affect the guidance in ASU 2014-09, Revenue from Contracts with Customers (Topic 606), which is not yet effective. The effective date and transition requirements for the amendments in this Update are the same as the effective date and transition requirements for Topic 606 (and any other Topic amended by Update 2014-09). ASU 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date, defers the effective date of Update 2014-09 by one year. This Update is not expected to have a significant impact on the Company's financial statements

In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments ("ASU 2016-13"), which changes the impairment model for most financial assets. This Update is intended to improve financial reporting by requiring timelier recording of credit losses on loans and other financial instruments held by financial institutions and other organizations. The underlying premise of the Update is that financial assets measured at amortized cost should be presented at the net amount expected to be collected, through an allowance for credit losses that is deducted from the amortized cost basis. The allowance for credit losses should reflect management's current estimate of credit losses that are expected to occur over the remaining life of a financial asset. The income statement will be effected for the measurement of credit losses for newly recognized financial assets, as well as the expected increases or decreases of expected credit losses that have taken place during the period. ASU 2016-13 is effective for annual and interim periods beginning after December 15, 2019, and early adoption is permitted for annual and interim periods beginning after December 15, 2018. With certain exceptions, transition to the new requirements will be through a cumulative effect adjustment to opening retained earnings as of the beginning of the first reporting period in which the guidance is adopted. The Company is currently evaluating the impact the adoption of the standard will have on the Company's financial position or results of operations.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments ("ASU 2016-15"), which addresses eight specific cash flow issues with the objective of reducing diversity in practice. Among these include recognizing cash payments for debt prepayment or debt extinguishment as cash outflows for financing activities; cash proceeds received from the settlement of insurance claims should be classified on the basis of the related insurance coverage; and cash proceeds received from the settlement of bank-owned life insurance policies should be classified as cash inflows from investing activities while the cash payments for premiums on bank-owned policies may be classified as cash outflows for investing activities, operating activities, or a combination of investing and operating activities. The amendments in this Update are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. An entity that

elects early adoption must adopt all of the amendments in the same period. The amendments in this Update should be applied using a retrospective transition method to each period presented. If it is impracticable to apply the amendments retrospectively for some of the issues, the amendments for those issues would be applied prospectively as of the earliest date practicable. The
Company is currently evaluating the impact the adoption of the standard will have on the Company's statement of cash flows.

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In October 2016, the FASB issued ASU 2016-16, Income Taxes (Topic 740) (“ASU 2016-16”), which requires recognition of current and deferred income taxes resulting from an intra-entity transfer of any asset (excluding inventory) when the transfer occurs. Consequently, the amendments in this Update eliminate the exception for an intra-entity transfer of an asset other than inventory. The amendments in this Update are effective for public business entities for fiscal years beginning after December 15, 2017, including interim periods within those annual reporting periods. For all other entities, the amendments are effective for annual reporting periods beginning after December 15, 2018, and interim reporting periods within annual periods beginning after December 15, 2019. Early adoption is permitted for all entities as of the beginning of an annual reporting period for which financial statements (interim or annual) have not been issued or made available for issuance. That is, earlier adoption should be in the first interim period if an entity issues interim financial statements. The amendments in this Update should be applied on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. This Update is not expected to have a significant impact on the Company’s financial statements.

In October 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230) (“ASU 2016-18”), which requires that a statement of cash flows explains the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendments in this Update are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. The amendments in this Update should be applied using a retrospective transition method to each period presented. The Company is currently evaluating the impact the adoption of the standard will have on the Company’s statement of cash flows.

In December 2016, the FASB issued ASU 2016-19, Technical Corrections and Improvements, which represents changes to clarify, correct errors, or make minor improvements to the Accounting Standards Codification. The amendments make the Accounting Standards Codification easier to understand and easier to apply by eliminating inconsistencies and providing clarifications. Most of the amendments in this Update do not require transition guidance and are effective upon issuance of this Update. This Update is not expected to have a significant impact on the Company’s financial statements.

In December 2016, the FASB issued ASU 2016-20, Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers “ASU 2016-20”. This Update, among others things, clarifies that guarantee fees within the scope of Topic 460, Guarantees, (other than product or service warranties) are not within the scope of Topic 606. The effective date and transition requirements for ASU 2016-20 are the same as the effective date and transition requirements for the new revenue recognition guidance. For public entities with a calendar year-end, the new guidance is effective in the quarter and year beginning January 1, 2018. For all other entities with a calendar year-end, the new guidance is effective in the year ending December 31, 2019, and interim periods in 2020. The Company is currently evaluating the impact the adoption of the standard will have on the Company’s financial position or results of operations.

In January 2017, the FASB issued ASU 2017-01, Business Combinations (Topic 805), Clarifying the Definition of a Business “ASU 2017-01”, which provides a more robust framework to use in determining when a set of assets and activities (collectively referred to as a “set”) is a business. The screen requires that when substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or a group of similar identifiable assets, the set is not a business. This screen reduces the number of transactions that need to be further

evaluated. Public business entities should apply the amendments in this Update to annual periods beginning after December 15, 2017, including interim periods within those periods. All other entities should apply the amendments to annual periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. The amendments in this Update should be applied prospectively on or after the effective date. This Update is not expected to have a significant impact on the Company’s financial statements.

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NOTE 2 - ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The changes in accumulated other comprehensive income (loss) by component shown net of tax as of December 31, 2016 and 2015 were as follows:

(In Thousands)	Twelve Months Ended December 31, 2016			Twelve Months Ended December 31, 2015			Twelve Months Ended December 31, 2014		
	Net Unrealized Gain(Loss) on Available for Sale Securities	Defined Benefit Plan	Total	Net Unrealized Gain (Loss) on Available for Sale Securities	Defined Benefit Plan	Total	Net Unrealized Gain (Loss) on Available for Sale Securities	Defined Benefit Plan	Total
Beginning balance	$258	$(4,057)	$(3,799)	$2,930	$(4,597)	$(1,667)	$(2,169)	$(2,725)	$(4,894)
Other comprehensive income (loss) before reclassifications	167	(333)	(166)	(962)	435	(527)	7,419	(2,010)	5,409
Amounts reclassified from accumulated other comprehensive (loss) income	(1,064)	101	(963)	(1,710)	105	(1,605)	(2,320)	138	(2,182)
Net current-period other comprehensive (loss) income	(897)	(232)	(1,129)	(2,672)	540	(2,132)	5,099	(1,872)	3,227
Ending balance	$(639)	$(4,289)	$(4,928)	$258	$(4,057)	$(3,799)	$2,930	$(4,597)	$(1,667)

The reclassifications out of accumulated other comprehensive income shown, net of tax and parenthesis indicating debits to net income, as of December 31, 2016 and 2015 were as follows:

(In Thousands)	Amount Reclassified from Accumulated Other Comprehensive Income			
Details about Accumulated Other Comprehensive Income Components	Twelve Months Ended December 31, 2016	December 31, 2015	December 31, 2014	Affected Line Item in the Consolidated Statement of Income
Net realized gain on available for sale securities	$ 1,611	$ 2,592	$ 3,515	Securities gains, net
Income tax effect	(547)	(882)	(1,195)	Income tax provision
	1,064	1,710	2,320	Net of tax
Net unrecognized pension costs	(153)	(159)	(209)	Salaries and employee benefits
Income tax effect	52	54	71	Income tax provision
	$ (101)	$ (105)	$ (138)	Net of tax

NOTE 3 - PER SHARE DATA

There are no convertible securities which would affect the denominator in calculating basic and dilutive earnings per share; therefore, net income as presented on the consolidated statement of income will be used as the numerator. The following table sets forth the composition of the weighted average common shares (denominator) used in the basic and dilutive per share computation.

	Year Ended December 31,		
	2016	2015	2014
Weighted average common shares issued	5,005,971	5,003,691	5,001,171

Average treasury stock shares	(270,514)	(231,452)	(185,022)
Weighted average common shares used to calculate basic and diluted earnings per share	4,735,457	4,772,239	4,816,149

There were 38,750 stock options issued during the third quarter of 2015 with 26,500 outstanding at December 31, 2016. The outstanding stock options did not impact diluted earnings per share as the strike price of the options was greater than the market price. There were no stock options outstanding during 2014.

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NOTE 4 - INVESTMENT SECURITIES

The amortized cost, gross gains and losses, and fair values of investment securities at December 31, 2016 and 2015 are as follows:

	2016			
(In Thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale (AFS):				
U.S. Government and agency securities	$—	$ —	$ —	$—
Mortgage-backed securities	9,295	182	(164)	9,313
Asset-backed securities	109	—	—	109
State and political securities	60,777	666	(509)	60,934
Other debt securities	53,046	137	(2,065)	51,118
Total debt securities	123,227	985	(2,738)	121,474
Financial institution equity securities	9,566	969	—	10,535
Other equity securities	1,667	—	(184)	1,483
Total equity securities	11,233	969	(184)	12,018
Total investment securities AFS	$134,460	$ 1,954	$ (2,922)	$133,492

	2015			
(In Thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale (AFS):				
U.S. Government and agency securities	$3,586	$ —	$ (37)	$3,549
Mortgage-backed securities	9,785	284	(60)	10,009
Asset-backed securities	1,960	—	(20)	1,940
State and political securities	84,992	1,797	(234)	86,555
Other debt securities	59,832	185	(2,245)	57,772
Total debt securities	160,155	2,266	(2,596)	159,825
Financial institution equity securities	10,397	1,100	(14)	11,483
Other equity securities	5,214	70	(435)	4,849
Total equity securities	15,611	1,170	(449)	16,332
Total investment securities AFS	$175,766	$ 3,436	$ (3,045)	$176,157

The amortized cost and fair values of trading investment securities at December 31, 2016 and 2015 are as follows.

	2016			
(In Thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Trading:				
Financial institution equity securities	$—	$ —	$ —	$ —
Other equity securities	56	2	—	58
Total trading securities	$56	$ 2	$ —	$ 58

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(In Thousands)	2015 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Trading:				
Financial institution equity securities	$78	$ —	$ (5)	$ 73
Other equity securities	—	—	—	—
Total trading securities	$78	$ —	$ (5)	$ 73

The following tables show the Company's gross unrealized losses and fair value, aggregated by investment category and length of time that the individual securities have been in a continuous unrealized loss position, at December 31, 2016 and 2015.

	2016					
	Less than Twelve Months		Twelve Months or Greater		Total	
(In Thousands)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Available for Sale (AFS)						
U.S. Government and agency securities	$—	$ —	$ —	$ —	$—	$ —
Mortgage-backed securities	3,572	(106)	3,627	(58)	7,199	(164)
Asset-backed securities	—	—	—	—	—	—
State and political securities	26,113	(509)	—	—	26,113	(509)
Other debt securities	28,140	(1,179)	12,240	(886)	40,380	(2,065)
Total debt securities	57,825	(1,794)	15,867	(944)	73,692	(2,738)
Financial institution equity securities	—	—	—	—	—	—
Other equity securities	727	(140)	756	(44)	1,483	(184)
Total equity securities	727	(140)	756	(44)	1,483	(184)
Total Investment Securities AFS	$58,552	$ (1,934)	$ 16,623	$ (988)	$75,175	$ (2,922)

	2015					
	Less than Twelve Months		Twelve Months or Greater		Total	
(In Thousands)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Available for Sale (AFS)						
U.S. Government and agency securities	$—	$ —	$ 3,549	$ (37)	$3,549	$ (37)
Mortgage-backed securities	6,081	(60)	—	—	6,081	(60)
Asset-backed securities	1,626	(16)	314	(4)	1,940	(20)
State and political securities	7,345	(47)	1,656	(187)	9,001	(234)
Other debt securities	24,381	(530)	22,547	(1,715)	46,928	(2,245)
Total debt securities	39,433	(653)	28,066	(1,943)	67,499	(2,596)
Financial institution equity securities	—	—	53	(14)	53	(14)
Other equity securities	2,363	(277)	1,001	(158)	3,364	(435)
Total equity securities	2,363	(277)	1,054	(172)	3,417	(449)
Total Investment Securities AFS	$41,796	$ (930)	$ 29,120	$ (2,115)	$70,916	$ (3,045)

At December 31, 2016 there were 73 individual securities in a continuous unrealized loss position for less than twelve months and 10 individual securities in a continuous unrealized loss position for greater than twelve months.

The Company reviews its position quarterly and has asserted that at December 31, 2016 and 2015, the declines outlined in the above table represent temporary declines and the Company does not intend to sell and does not believe they will be required to sell these securities before recovery of their cost basis, which may be at maturity. The Company has concluded that any impairment

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of its investment securities portfolio is not other than temporary but is the result of interest rate changes that are not expected to result in the non-collection of principal and interest during the period.

The amortized cost and fair value of debt securities at December 31, 2016, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities since borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

(In Thousands)	Amortized Cost	Fair Value
Due in one year or less	$ 577	$ 577
Due after one year to five years	41,114	40,646
Due after five years to ten years	67,181	65,631
Due after ten years	14,355	14,620
Total	$ 123,227	$ 121,474

Total gross proceeds from sales of securities available for sale were $44,829,000 , $65,672,000, and $102,145,000 for 2016, 2015, and 2014, respectively. The following table represents gross realized gains and losses on those transactions:

	Year Ended December 31,		
(In Thousands)	2016	2015	2014
Gross realized gains:			
U.S. Government and agency securities	$ 11	$ —	$ 59
Mortgage-backed securities	35	—	89
State and political securities	787	1,571	2,327
Other debt securities	283	825	622
Financial institution equity securities	572	183	710
Other equity securities	217	132	491
Total gross realized gains	$ 1,905	$ 2,711	$ 4,298
Gross realized losses:			
U.S. Government and agency securities	$ 5	$ —	$ 45
Asset-backed securities	13	—	—
State and political securities	1	22	412
Other debt securities	189	54	209
Financial institution equity securities	—	—	—
Other equity securities	86	43	117
Total gross realized losses	$ 294	$ 119	$ 783

There were no impairment charges included in gross realized losses for the years ended December 31, 2016, 2015, and 2014.

Investment securities with a carrying value of approximately $95,199,000 and $131,089,000 at December 31, 2016 and 2015, respectively, were pledged to secure certain deposits, repurchase agreements, and for other purposes as required by law.

There is no concentration of investments that exceed ten percent of shareholders’ equity for any individual issuer, excluding those guaranteed by the U.S. Government.

NOTE 5 - FEDERAL HOME LOAN BANK STOCK

The Banks are members of the Federal Home Loan Bank ("FHLB") of Pittsburgh and as such, is required to maintain a minimum investment in stock of the FHLB that varies with the level of advances outstanding with the FHLB. The stock is bought from and sold to the FHLB based upon its $100 par value. The stock does not have a readily determinable fair value and as such is classified as restricted stock, carried at cost and evaluated for impairment as necessary. The stock's value is determined by the ultimate recoverability of the par value rather than by recognizing temporary declines. The determination of whether the par value will ultimately be recovered is influenced by criteria such as the following: (a) the significance of the decline in net assets of the FHLB

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as compared to the capital stock amount and the length of time this situation has persisted (b) commitments by the FHLB to make payments required by law or regulation and the level of such payments in relation to the operating performance (c) the impact of legislative and regulatory changes on the customer base of the FHLB and (d) the liquidity position of the FHLB.

Management evaluated the stock and concluded that the stock was not impaired for the periods presented herein. Management considered that the FHLB maintains regulatory capital ratios in excess of all regulatory capital requirements, liquidity appears adequate, new shares of FHLB stock continue to change hands at the $100 par value, and the payment of dividends.

NOTE 6 - LOAN CREDIT QUALITY AND RELATED ALLOWANCE FOR LOAN LOSSES

Management segments the Banks' loan portfolio to a level that enables risk and performance monitoring according to similar risk characteristics. Loans are segmented based on the underlying collateral characteristics. Categories include commercial, financial,
and agricultural, real estate, and installment loans to individuals. Real estate loans are further segmented into three categories: residential, commercial, and construction.

The following table presents the related aging categories of loans, by segment, as of December 31, 2016 and 2015:

	2016				
(In Thousands)	Current	Past Due 30 To 89 Days	Past Due 90 Days Or More & Still Accruing	Non-Accrual	Total
Commercial, financial, and agricultural	$145,179	$785	$ 14	$ 132	$146,110
Real estate mortgage:					
Residential	553,053	9,112	587	1,988	564,740
Commercial	296,537	786	268	8,591	306,182
Construction	33,879	771	—	—	34,650
Installment loans to individuals	43,008	202	1	45	43,256
	1,071,656	$11,656	$ 870	$ 10,756	1,094,938
Net deferred loan fees and discounts	(1,257)				(1,257)
Allowance for loan losses	(12,896)				(12,896)
Loans, net	$1,057,503				$1,080,785

	2015				
(In Thousands)	Current	Past Due 30 To 89 Days	Past Due 90 Days Or More & Still Accruing	Non-Accrual	Total
Commercial, financial, and agricultural	$162,312	$ 164	$ —	$ 1,596	$164,072
Real estate mortgage:					
Residential	517,753	6,827	714	889	526,183
Commercial	295,784	720	265	5,770	302,539
Construction	26,545	67	—	212	26,824
Installment loans to individuals	26,572	429	—	—	27,001
	1,028,966	$ 8,207	$ 979	$ 8,467	1,046,619
Net deferred loan fees and discounts	(1,412)				(1,412)
Allowance for loan losses	(12,044)				(12,044)
Loans, net	$1,015,510				$1,033,163

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

Upon acquisition, the Company evaluated whether each acquired loan (regardless of size) was within the scope of ASC 310-30. Purchased credit-impaired loans are loans that have evidence of credit deterioration since origination and it is probable at the date of acquisition that the Company will not collect all contractually required principal and interest payments. The fair value of

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purchased credit-impaired loans, on the acquisition date, was determined, primarily based on the fair value of loan collateral. The carrying value of purchased loans acquired with deteriorated credit quality was $125,000 at December 31, 2016.

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

The following table presents the interest income if interest had been recorded based on the original loan agreement terms and rate of interest for non-accrual loans and interest income recognized on a cash basis for non-accrual loans as of December 31, 2016, 2015, and 2014:

(In Thousands)	Year Ended December 31,					
	2016		2015		2014	
	Interest Income That Would Have Been Recorded Based on Original Term and Rate	Interest Income Recorded on a Cash Basis	Interest Income That Would Have Been Recorded Based on Original Term and Rate	Interest Income Recorded on a Cash Basis	Interest Income That Would Have Been Recorded Based on Original Term and Rate	Interest Income Recorded on a Cash Basis
Commercial, financial, and agricultural	$6	$ —	$ 48	$ 53	$ 42	$ 33
Real estate mortgage:						
Residential	151	101	53	38	63	34
Commercial	496	105	281	54	600	264
Construction	3	2	16	—	63	2
	$656	$ 208	$ 398	$ 145	$ 768	$ 333

Impaired Loans

Impaired loans are loans for which it is probable the Banks will not be able to collect all amounts due according to the contractual terms of the loan agreement. The Banks individually evaluate such loans for impairment and do not aggregate loans by major risk classifications. The definition of "impaired loans" is not the same as the definition of "non-accrual loans," although the two categories overlap. The Banks may choose to place a loan on non-accrual status due to payment delinquency or uncertain collectability, while not classifying the loan as impaired. Factors considered by management in determining impairment include payment status and collateral value. The amount of impairment for these types of loans is determined by the difference between the present value of the expected cash flows related to the loan, using the original interest rate, and its recorded value, or as a practical expedient in the case of collateralized loans, the difference between the fair value of the collateral and the recorded amount of the loan. When foreclosure is probable, impairment is measured based on the fair value of the collateral.

Management evaluates individual loans in all of the commercial segments for possible impairment if the loan is greater than $100,000 and if the loan is either on non-accrual status or has a risk rating of substandard or worse. Management may also elect to measure an individual loan for impairment if less than $100,000 on a case by case basis.

Mortgage loans on one-to-four family properties and all consumer loans are large groups of smaller-balance homogeneous loans and are measured for impairment collectively with the exception of loans identified as troubled debt restructurings. Loans that experience insignificant payment delays, which are defined as 90 days or less, generally are not classified as impaired. Management determines the significance of payment delays on a case-by-case basis taking into consideration all circumstances surrounding the loan and the borrower including the length of the delay, the borrower's prior payment record, and the amount of shortfall in relation to the principal and interest owed. Interest income for impaired loans is recorded consistent to the Banks' policy on non-accrual loans.

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The following table presents the recorded investment, unpaid principal balance, and related allowance of impaired loans by segment as of December 31, 2016 and 2015:

	2016		
(In Thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded:			
Commercial, financial, and agricultural	$ 109	$ 109	$ —
Real estate mortgage:			
Residential	1,584	1,584	—
Commercial	1,833	1,833	—
Construction	—	—	—
	3,526	3,526	—
With an allowance recorded:			
Commercial, financial, and agricultural	132	132	74
Real estate mortgage:			
Residential	1,893	1,893	437
Commercial	10,425	10,520	1,668
Construction	—	—	—
	12,450	12,545	2,179
Total:			
Commercial, financial, and agricultural	241	241	74
Real estate mortgage:			
Residential	3,477	3,477	437
Commercial	12,258	12,353	1,668
Construction	—	—	—
	$ 15,976	$ 16,071	$ 2,179

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(In Thousands)	2015 Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded:			
Commercial, financial, and agricultural	$319	$ 319	$ —
Real estate mortgage:			
Residential	1,142	1,142	—
Commercial	1,735	1,785	—
Construction	212	212	—
	3,408	3,458	—
With an allowance recorded:			
Commercial, financial, and agricultural	150	150	75
Real estate mortgage:			
Residential	1,573	1,703	376
Commercial	10,752	10,752	1,653
Construction	—	—	—
	12,475	12,605	2,104
Total:			
Commercial, financial, and agricultural	469	469	75
Real estate mortgage:			
Residential	2,715	2,845	376
Commercial	12,487	12,537	1,653
Construction	212	212	—
	$15,883	$ 16,063	$ 2,104

The following table presents the average recorded investment in impaired loans and related interest income recognized for December 31, 2016, 2015, and 2014:

(In Thousands)	2016 Average Investment in Impaired Loans	Interest Income Recognized on an Accrual Basis on Impaired Loans	Interest Income Recognized on a Cash Basis on Impaired Loans
Commercial, financial, and agricultural	$400	$ 16	$ 1
Real estate mortgage:			
Residential	3,471	89	101
Commercial	12,887	187	110
Construction	138	—	—
	$16,896	$ 292	$ 212

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	2015		
(In Thousands)	Average Investment in Impaired Loans	Interest Income Recognized on an Accrual Basis on Impaired Loans	Interest Income Recognized on a Cash Basis on Impaired Loans
Commercial, financial, and agricultural	$1,031	$ 21	$ 10
Real estate mortgage:			
Residential	2,570	72	47
Commercial	17,529	342	80
Construction	865	1	53
	$21,995	$ 436	$ 190

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

Additional funds totaling $23,000 are committed to be advanced in connection with impaired loans.

Modifications

The loan portfolio also includes certain loans that have been modified in a Troubled Debt Restructuring (TDR), where economic concessions have been granted to borrowers who have experienced or are expected to experience financial difficulties. These concessions typically result from loss mitigation activities and could include reductions in the interest rate, payment extensions, forgiveness of principal, forbearance, or other actions. Certain TDRs are classified as nonperforming at the time of restructure and may only be returned to performing status after considering the borrower's sustained repayment performance for a reasonable period, generally six months.

Loan modifications that are considered TDRs completed during the twelve months ended December 31, 2016 and 2015 were as follows:

	Year Ended December 31,					
	2016			2015		
(In Thousands, Except Number of Contracts)	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial, financial, and agricultural	—	$ —	$ —	4	$ 213	$ 213
Real estate mortgage:						
Residential	3	397	397	11	962	962
Commercial	1	400	400	6	1,013	1,013
Construction	—	—	—	1	398	398
Total	4	$ 797	$ 797	22	$ 2,586	$ 2,586

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The four new troubled debt restructurings that were granted for the year ended December 31, 2016 totaling $797,000 were granted term concessions.
Of the twenty-two new troubled debt restructurings granted for the year ended December 31, 2015, seven loans totaling $1,008,000 were granted payment concessions, four loans totaling $183,000 were granted term concessions, two loans totaling $287,000 were granted rate concessions, and nine loans totaling 1,108,000 were granted concessions due to other default.

Loan modifications considered troubled debt restructurings made during the twelve months previous to December 31, 2016 and December 31, 2015, that defaulted during the corresponding twelve month periods were as follows:

	Year Ended December 31, 2016		Year Ended December 31, 2015	
(In Thousands, Except Number of Contracts)	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment
Commercial, financial, and agricultural	—	$ —	1	$ 106
Real estate mortgage:				
Residential	—	—	6	374
Commercial	—	—	1	242
Total	—	$ —	8	$ 722

Internal Risk Ratings

Management uses a ten point internal risk rating system to monitor the credit quality of the overall loan portfolio. The first six categories are considered not criticized, and are aggregated as “Pass” rated. The criticized rating categories utilized by management generally follow bank regulatory definitions. The Special Mention category includes assets that are currently protected but are potentially weak, resulting in an undue and unwarranted credit risk, but not to the point of justifying a Substandard classification. Loans in the Substandard category have well-defined weaknesses that jeopardize the liquidation of the debt, and have a distinct possibility that some loss will be sustained if the weaknesses are not corrected. All loans greater than 90 days past due are evaluated for Substandard classification. Loans in the Doubtful category exhibit the same weaknesses found in the Substandard loans, however, the weaknesses are more pronounced. Such loans are static and collection in full is improbable. However, these loans are not yet rated as loss because certain events may occur which would salvage the debt. Loans classified Loss are considered uncollectible and charge-off is imminent.

To help ensure that risk ratings are accurate and reflect the present and future capacity of borrowers to repay a loan as agreed, the Banks have a structured loan rating process with several layers of internal and external oversight. Generally, consumer and residential mortgage loans are included in the pass category unless a specific action, such as bankruptcy, repossession, or death occurs to raise awareness of a possible credit event. An external annual loan review of large commercial relationships is performed, as well as a sample of smaller transactions. During 2016, the threshold for the annual loan review was commercial relationships $1,300,000 or greater for JSSB and $1,600,000 or greater for Luzerne. Confirmation of the appropriate risk category is included in the review. Detailed reviews, including plans for resolution, are performed on loans classified as Substandard, Doubtful, or Loss on a quarterly basis.

The following table presents the credit quality categories identified above as of December 31, 2016 and 2015:

2016		
Commercial and	Real Estate Mortgages	Installment Loans

(In Thousands)	Agricultural	Residential	Commercial	Construction	to Individuals	Totals
Pass	$140,497	$561,440	$ 277,916	$ 34,493	$ 43,256	$1,057,602
Special Mention	2,943	740	11,143	—	—	14,826
Substandard	2,670	2,560	17,123	157	—	22,510
Total	$146,110	$564,740	$ 306,182	$ 34,650	$ 43,256	$1,094,938

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	2015					
	Commercial and	Real Estate Mortgages			Installment Loans	
(In Thousands)	Agricultural	Residential	Commercial	Construction	to Individuals	Totals
Pass	$160,734	$522,853	$ 277,248	$ 26,612	$ 27,001	$1,014,448
Special Mention	1,669	823	8,625	—	—	11,117
Substandard	1,669	2,507	16,666	212	—	21,054
Total	$164,072	$526,183	$ 302,539	$ 26,824	$ 27,001	$1,046,619

	2014					
	Commercial and	Real Estate Mortgages			Installment Loans	
(In Thousands)	Agricultural	Residential	Commercial	Construction	to Individuals	Totals
Pass	$118,210	$454,885	$ 256,444	$ 20,927	$ 21,509	$871,975
Special Mention	3,186	2,384	16,262	445	—	22,277
Substandard	2,760	491	18,642	624	—	22,517
Total	$124,156	$457,760	$ 291,348	$ 21,996	$ 21,509	$916,769

Allowance for Loan Losses

An allowance for loan losses (“ALL”) is maintained to absorb losses from the loan portfolio. The ALL is based on management’s continuing evaluation of the risk characteristics and credit quality of the loan portfolio, assessment of current economic conditions, diversification and size of the portfolio, adequacy of collateral, past and anticipated future loss experience, and the amount of non-performing loans.

The Banks' methodology for determining the ALL is based on the requirements of ASC Section 310-10-35 for loans individually evaluated for impairment (previously discussed) and ASC Subtopic 450-20 for loans collectively evaluated for impairment, as well as the Interagency Policy Statements on the Allowance for Loan and Lease Losses and other bank regulatory guidance. The total of the two components represents the Banks' ALL.

Loans that are collectively evaluated for impairment are analyzed with general allowances being made as appropriate. Allowances are segmented based on collateral characteristics previously disclosed, and consistent with credit quality monitoring. Loans that are collectively evaluated for impairment are grouped into two classes for evaluation. A general allowance is determined for “Pass” rated credits, while a separate pool allowance is provided for “Criticized” rated credits that are not individually evaluated for impairment.

For the general allowances historical loss trends are used in the estimation of losses in the current portfolio. These historical loss amounts are modified by other qualitative factors. A historical charge-off factor is calculated utilizing a twelve quarter moving average. However, management may adjust the moving average time frame by up to four quarters to adjust for variances in the economic cycle. Management has identified a number of additional qualitative factors which it uses to supplement the historical charge-off factor because these factors are likely to cause estimated credit losses associated with the existing loan pools to differ from historical loss experience. The additional factors that are evaluated quarterly and updated using information obtained from internal, regulatory, and governmental sources are: national and local economic trends and conditions; levels of and trends in delinquency rates and non-accrual loans; trends in volumes and terms of loans; effects of changes in lending policies; experience, ability, and depth of lending staff; and concentrations of credit from a loan type, industry, and/or geographic standpoint.

Loans in the criticized pools, which possess certain qualities or characteristics that may lead to collection and loss issues, are closely monitored by management and subject to additional qualitative factors. Management also monitors industry loss factors by loan segment for applicable adjustments to actual loss experience.

Management reviews the loan portfolio on a quarterly basis in order to make appropriate and timely adjustments to the ALL. When information confirms all or part of specific loans to be uncollectible, these amounts are promptly charged off against the ALL.

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Activity in the allowance is presented for the twelve months ended December 31, 2016 and 2015:

2016							
	Commercial and Agricultural	Real Estate Mortgages			Installment Loans		
(In Thousands)		Residential	Commercial	Construction	to Individual	Unallocated	Totals
Beginning Balance	$1,532	$5,116	$ 4,217	$ 160	$ 243	$ 776	$12,044
Charge-offs	(167)	(39)	(93)	(2)	(229)	—	(530)
Recoveries	62	15	8	9	92	—	186
Provision	127	291	843	11	310	(386)	1,196
Ending Balance	$1,554	$5,383	$ 4,975	$ 178	$ 416	$ 390	$12,896

2015							
	Commercial and	Real Estate Mortgages			Installment Loans		
(In Thousands)	Agricultural	Residential	Commercial	Construction	to Individuals	Unallocated	Totals
Beginning Balance	$1,124	$3,755	$ 4,205	$ 786	$ 245	$ 464	$10,579
Charge-offs	(283)	(49)	(743)	(46)	(240)	—	(1,361)
Recoveries	176	81	182	23	64	—	526
Provision	515	1,329	573	(603)	174	312	2,300
Ending Balance	$1,532	$5,116	$ 4,217	$ 160	$ 243	$ 776	$12,044

2014							
	Commercial and	Real Estate Mortgages			Installment Loans		
(In Thousands)	Agricultural	Residential	Commercial	Construction	to Individuals	Unallocated	Totals
Beginning Balance	$474	$3,917	$ 4,079	$ 741	$ 139	$ 794	$10,144
Charge-offs	(289)	(65)	(2,038)	—	(142)	—	(2,534)
Recoveries	18	15	—	22	64	—	119
Provision	921	(112)	2,164	23	184	(330)	2,850
Ending Balance	$1,124	$3,755	$ 4,205	$ 786	$ 245	$ 464	$10,579

The Company grants commercial, industrial, residential, and installment loans to customers throughout north-central and north-eastern Pennsylvania. Although the Company has a diversified loan portfolio at December 31, 2016 and 2015, a substantial portion of its debtors' ability to honor their contracts is dependent on the economic conditions within this region.

The Company has a concentration of loans at December 31, 2016 and 2015 as follows:

	2016	2015
Owners of residential rental properties	16.10%	16.21%
Owners of commercial rental properties	14.18%	14.22%

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The following table presents the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method as of December 31, 2016 and 2015:

	2016						
	Commercial and Agricultural	Real Estate Mortgages			Installment Loans to Individuals	Unallocated	Totals
(In Thousands)		Residential	Commercial	Construction			
Allowance for Loan Losses:							
Ending allowance balance attributable to loans:							
Individually evaluated for impairment	$74	$437	$ 1,668	$ —	$ —	$ —	$2,179
Collectively evaluated for impairment	1,480	4,946	3,307	178	416	390	10,717
Total ending allowance balance	$1,554	$5,383	$ 4,975	$ 178	$ 416	$ 390	$12,896
Loans:							
Individually evaluated for impairment	$241	$3,477	$ 12,258	$ —	$ —		$15,976
Loans acquired with deteriorated credit quality	—	—	—	—	—		—
Collectively evaluated for impairment	145,869	561,263	293,924	34,650	43,256		1,078,962
Total ending loans balance	$146,110	$564,740	$ 306,182	$ 34,650	$ 43,256		$1,094,938

	2015						
	Commercial and	Real Estate Mortgages			Installment Loans to		
(In Thousands)	Agricultural	Residential	Commercial	Construction	Individuals	Unallocated	Totals
Allowance for Loan Losses:							
Ending allowance balance attributable to loans:							
Individually evaluated for impairment	$75	$376	$ 1,653	$ —	$ —	$ —	$2,104
Collectively evaluated for impairment	1,457	4,740	2,564	160	243	776	9,940
Total ending allowance balance	$1,532	5,116	$ 4,217	$ 160	$ 243	$ 776	$12,044
Loans:							
Individually evaluated for impairment	$469	$2,374	$ 12,487	$ 212	$ —		$15,542
Loans acquired with deteriorated credit quality	—	341	—	—	—		341
Collectively evaluated for impairment	163,603	523,468	290,052	26,612	27,001		1,030,736
Total ending loans balance	$164,072	526,183	$ 302,539	$ 26,824	$ 27,001		$1,046,619

NOTE 7 - PREMISES AND EQUIPMENT

Major classifications of premises and equipment are summarized as follows at December 31, 2016 and 2015:

(In Thousands)	2016	2015

Land	$6,400	$5,764
Premises	18,568	16,074
Furniture and equipment	8,825	8,231
Leasehold improvements	1,698	1,462
Total	35,491	31,531
Less accumulated depreciation and amortization	11,216	9,701
Net premises and equipment	$24,275	$21,830

Depreciation and amortization related to premises and equipment for the years ended 2016, 2015, and 2014 was $1,578,000, $1,564,000, and $1,494,000, respectively.

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NOTE 8 - GOODWILL AND OTHER INTANGIBLES

As of December 31, 2016 and 2015 goodwill had a gross carrying value of $17,380,000 and accumulated amortization of $276,000 resulting in a net carrying amount of $17,104,000.

The gross carrying amount of goodwill is tested for impairment in the third quarter of each fiscal year. Based on the fair value of the reporting unit, estimated using the expected present value of future cash flows, there was no evidence of impairment of the carrying amount at December 31, 2016 or 2015.

Identifiable intangibles are amortized to their estimated residual values over the expected useful lives. Such lives are also periodically reassessed to determine if any amortization period adjustments are required. Since the acquisition, no such adjustments were recorded. The identifiable intangible assets consist of a core deposit intangible and a trade name intangible which are being amortized on an accelerated basis, and also book of business intangible that is being amortized on a straightline basis over the useful life of such assets. The net carrying amount of the core deposit intangible, the trade name intangible, and the book of business intangible at December 31, 2016 was $818,000, $58,000, and $923,000 respectively, with $1,063,000, $75,000, and $97,000 accumulated amortization as of that date.

As of December 31, 2016, the estimated future amortization expense for the core deposit and trade name intangible was:

(In Thousands)	Core Deposit Intangible	Trade Name Intangible	Book of Business Intangible
2017	$ 220	$ 15	$ 102
2018	185	13	102
2019	151	11	102
2020	117	8	102
2021	83	6	102
2022	48	4	102
2023	14	1	102
2024	—	—	102
2025	—	—	102
2026	—	—	5
	$ 818	$ 58	$ 923

NOTE 9 - TIME DEPOSITS

Time deposits of $250,000 or more totaled approximately $32,167,000 on December 31, 2016 and $28,953,000 on December 31, 2015. Interest expense on time deposits of $100,000 or more was approximately $1,305,000, $1,112,000, and $875,000, for the years ended December 31, 2016, 2015, and 2014, respectively.

At December 31, 2016, the scheduled maturities on time deposits of $100,000 or more are as follows:

(In Thousands)	2016
Three months or less	$ 19,511
Three months to six months	11,307
Six months to twelve months	12,550

Over twelve months	63,500
Total	$106,868

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Total time deposit maturities are as follows at December 31, 2016:

(In Thousands)	2016
2017	$93,847
2018	63,939
2019	43,354
2020	11,957
2021	3,848
Thereafter	1,430
Total	$218,375

NOTE 10 - SHORT-TERM BORROWINGS

Short-term borrowings consist of securities sold under agreements to repurchase and primarily FHLB advances, which generally represent overnight or less than six month borrowings. In addition to the outstanding balances noted below, the Banks also have additional lines of credit totaling $45,247,000 available from correspondent banks other than the FHLB. The outstanding balances and related information for short-term borrowings are summarized as follows at December 31, 2016, 2015, and 2014:

(In Thousands)	2016		2015		2014	
Repurchase Agreements:						
Balance at year end	$13,241		$18,334		$13,987	
Maximum amount outstanding at any month end	17,827		18,614		18,801	
Average balance outstanding during the year	15,394		15,834		16,350	
Weighted-average interest rate:						
At year end	0.16	%	0.21	%	0.23	%
Paid during the year	0.18	%	0.21	%	0.22	%
Overnight:						
Balance at year end	$—		$28,304		$26,831	
Maximum amount outstanding at any month end	24,346		42,760		26,831	
Average balance outstanding during the year	3,124		23,075		5,992	
Weighted-average interest rate:						
At year end	—	%	0.43	%	0.27	%
Paid during the year	0.57	%	0.36	%	0.30	%

We utilize securities sold under agreements to repurchase to facilitate the needs of our customers and to facilitate secured short-term funding needs. Securities sold under agreements to repurchase are stated at the amount of cash received in connection with the transaction. We monitor collateral levels on a continuous basis. We may be required to provide additional collateral based on the fair value of the underlying securities. Securities pledged as collateral under repurchase agreements are maintained with our safekeeping agents.

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The remaining contractual maturity of repurchase agreements in the consolidated balance sheets as of December 31, 2016 and December 31, 2015 is presented in the following tables.

(In Thousands)	2016 Remaining Contractual Maturity of the Agreements Overnight and Continuous	2015 Overnight and Continuous
Repurchase Agreements:		
U.S. Government and agency securities	$—	$ 3,586
Mortgage-back securities	6,684	8,368
Asset-backed securities	109	1,960
State and political securities	5,241	8,015
Other debt securities	8,866	2,155
Total carrying value of collateral pledged	$20,900	$ 24,084
Total liability recognized for repurchase agreements	$13,241	$ 18,334

NOTE 11 - LONG-TERM BORROWINGS

The following represents outstanding long-term borrowings with the FHLB by contractual maturities at December 31, 2016 and 2015:

(In Thousands)		Weighted Average Interest Rate		Stated Interest Rate Range			
Description	Maturity	2016	2015	From	To	2016	2015
Variable	2017	4.22%	4.22%	4.15%	4.28%	20,000	20,000
Variable	2018	3.18%	3.18%	3.18%	3.18%	10,000	10,000
Total Variable		3.87%	3.87%			30,000	30,000
Fixed	2016	— %	0.75%	0.75%	0.75%	—	5,000
Fixed	2017	0.91%	0.91%	0.90%	0.97%	25,000	25,000
Fixed	2018	1.13%	1.13%	1.13%	1.13%	2,000	2,000
Fixed	2019	1.55%	1.55%	1.54%	1.55%	7,292	7,292
Fixed	2020	1.70%	1.70%	1.62%	1.79%	18,333	18,333
Fixed	2022	2.04%	2.04%	2.04%	2.04%	3,000	3,000
Total Fixed		1.32%	1.28%			55,625	60,625
Total		2.21%	2.14%			$85,625	$90,625

(In Thousands) Year Ending December 31,	Amount	Weighted Average Rate
2017	$45,000	2.38 %
2018	12,000	2.84 %
2019	7,292	1.55 %
2020	18,333	1.70 %
Thereafter	3,000	2.04 %
	$85,625	2.21 %

The terms of the convertible borrowings allow the FHLB to convert the interest rate to an adjustable rate based on the three month London Interbank Offered Rate ("LIBOR") at a predetermined anniversary date of the borrowing's origination, ranging from three months to five years. If the FHLB converts the interest rate on one of the predetermined dates, the Bank has the ability to pay off the debt on the conversion date and quarterly thereafter without incurring the customary pre-payment penalty.

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The Banks maintain a credit arrangement which includes a revolving line of credit with the FHLB. Under this credit arrangement, at December 31, 2016 JSSB has a remaining borrowing capacity of $304,044,000 and Luzerne has a remaining capacity of $148,527,000, which are subject to annual renewal and typically incur no service charges. Under terms of a blanket agreement, collateral for the FHLB borrowings must be secured by certain qualifying assets of each Bank which consist principally of first mortgage loans and mortgage-backed securities.

In December 2012, JSSB entered in to a capital lease on a piece of land in Lewisburg, Pennsylvania. The carrying amount of the land as of December 31, 2016 and 2015 was $827,000. The present value of minimum lease payments at December 31, 2016 and 2015 was $373,000 and $400,000. The following is a schedule showing the future minimum lease payments under the capital lease by years and the present value of the minimum lease payments as of December 31, 2015. The interest rate related to the lease obligation is 2.75% and the maturity date is October 2023.

(In Thousands)	Lease Payment	Interest	Present Value of Minimum Lease Payment
2017	$ 38	$ 10	$ 28
2018	38	9	29
2019	38	9	29
2020	38	8	30
2021	38	7	31
Thereafter	237	11	226
	$ 427	$ 54	$ 373

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NOTE 12 - INCOME TAXES

The following temporary differences gave rise to the net deferred tax asset position at December 31, 2016 and 2015:

(In Thousands)	2016	2015
Deferred tax assets:		
Allowance for loan losses	$4,400	$3,976
Deferred compensation	1,840	1,696
Defined Pension	1,450	1,525
Deferred Loan fees and discounts	320	272
Investment securities allowance	517	517
Low income housing credit carryforward	—	1,181
Unrealized loss on available for sale securities	329	—
Other	1,393	1,696
Total	10,249	10,863
Deferred tax liabilities:		
Unrealized gain on available for sale securities	—	133
Investment security accretion	244	231
Depreciation	588	478
Amortization	1,020	1,031
Total	1,852	1,873
Deferred tax asset, net	$8,397	$8,990

No valuation allowance was established at December 31, 2016 and 2015, because of the Company's ability to carry back capital losses to recover taxes paid in previous years and certain tax strategies, together with the anticipated future taxable income as evidenced by the Company's earning potential. The Corporation is no longer subject to federal, state, and local examinations by tax authorities for years before 2013.

The provision or benefit for income taxes is comprised of the following for the year ended December 31, 2016, 2015, and 2014:

(In Thousands)	2016	2015	2014
Currently payable	$3,054	$3,527	$3,680
Deferred benefit	1,543	209	124
Total provision	$4,597	$3,736	$3,804

A reconciliation between the expected income tax or benefit and the effective income tax rate on income before income tax provision or benefit follows for the year ended December 31, 2016, 2015, and 2014:

	2016		2015		2014	
(In Thousands)	Amount	%	Amount	%	Amount	%
Provision at expected rate	$5,804	34.00 %	$5,996	34.00 %	$6,260	34.00 %
(Decrease) increase in tax resulting from:						
Tax-exempt income	(1,092)	(6.40)	(1,492)	(8.46)	(1,673)	(9.09)
Tax credits	(312)	(1.83)	(737)	(4.17)	(737)	(4.00)
Other, net	197	1.16	(31)	(0.18)	(46)	(0.25)
Effective income tax provision and rate	$4,597	26.93 %	$3,736	21.19 %	$3,804	20.66 %

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NOTE 13 - EMPLOYEE BENEFIT PLANS

Defined Benefit Pension Plan

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

The following table sets forth the obligation and funded status as of December 31, 2016 and 2015:

(In Thousands)	2016	2015
Change in benefit obligation:		
Benefit obligation at beginning of year	$18,947	$23,450
Interest cost	775	757
Actuarial loss (gain)	139	(144)
Benefits paid	(800)	(639)
Curtailment gain	—	(3,155)
Other, change in actuarial assumptions	228	(1,322)
Benefit obligation at end of year	$19,289	$18,947
Change in plan assets:		
Fair value of plan assets at beginning of year	$14,223	$13,906
Actual return on plan assets	910	25
Employer contribution	750	965
Benefits paid	(797)	(704)
Adjustment to fair value of plan assets	4	31
Fair value of plan assets at end of year	15,090	14,223
Funded status	$(4,199)	$(4,724)
Accounts recognized on balance sheet as:		
Total liabilities	$(4,199)	$(4,724)
Amounts not yet recognized as a component of net periodic pension cost:		
Amounts recognized in accumulated other comprehensive income (loss) consist of:		
Net loss	$6,498	$6,267

The accumulated benefit obligation for the Plan was $19,289,000 and $18,947,000 at December 31, 2016 and 2015, respectively.

Components of Net Periodic Cost and Other Amounts Recognized in Other Comprehensive Income (loss) as of December 31, 2016, 2015, and 2014 are as follows:

(In Thousands)	2016	2015	2014
Net periodic pension cost:			
Service cost	$55	$64	$560
Interest cost	775	757	859

Expected return on plan assets	(989)	(983)	(1,153)
Amortization of unrecognized net loss	153	159	209
Net periodic (cost) benefit	$(6)	$(3)	$475

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Assumptions

Weighted-average assumptions used to determine benefit obligations at December 31, 2016, 2015, and 2014:

	2016	2015	2014
Discount rate	3.98%	4.17%	3.83%
Rate of compensation increase	N/A	N/A	3.00%

Weighted-average assumptions used to determine net periodic cost for years ended December 31, 2016, 2015, and 2014:

	2016	2015	2014
Discount rate	4.17%	3.83%	4.75%
Expected long-term return on plan assets	7.00%	7.00%	8.00%
Rate of compensation increase	N/A	N/A	3.00%

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

Plan Assets

The Plan’s weighted-average asset allocations at December 31, 2016 and 2015 by asset category are as follows:

Asset Category	2016	2015
Cash	6.54 %	8.56 %
Fixed income securities	9.15 %	10.33 %
Equity	64.79 %	61.73 %
Inflation Hedges/Real Assets	5.55 %	5.03 %
Hedged Strategies	13.97 %	14.35 %
Total	100.00%	100.00%

The investment objective for the Plan is to maximize total return with tolerance for slightly above average risk, meaning the fund is able to tolerate short-term volatility to achieve above-average returns over the long term.

Asset allocation favors equities, with target allocation of approximately 62% equity securities, 15.0% fixed income securities, 10% inflation hedges/real assets, 10% hedged strategies, and 2.5% cash. Due to volatility in the market, the target allocation is not always desirable and asset allocations will fluctuate between the acceptable ranges. The equity portfolio’s exposure is primarily in mid and large capitalization domestic equities with limited exposure to small capitalization and international stocks.

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

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The following table sets forth by level, within the fair value hierarchy detailed in Note 21 - Fair Value Measurements, the Plan's assets at fair value as of December 31, 2016 and 2015:

	2016			
(In Thousands)	Level I	Level II	Level III	Total
Assets:				
Cash and cash equivalents	$987	$ —	$ —	$987
Mutual funds - taxable fixed income	1,379	—	—	1,379
Mutual funds - domestic equity	8,944	—	—	8,944
Mutual funds - international equity	835	—	—	835
Inflation Hedges/Real Assets	838	—	—	838
Hedged Strategies	2,107	—	—	2,107
Total assets at fair value	$15,090	$ —	$ —	$15,090

	2015			
(In Thousands)	Level I	Level II	Level III	Total
Assets:				
Cash and cash equivalents	$1,218	$ —	$ —	$1,218
Mutual funds - taxable fixed income	1,467	—	—	1,467
Mutual funds - domestic equity	8,150	—	—	8,150
Mutual funds - international equity	631	—	—	631
Inflation Hedges/Real Assets	715	—	—	715
Hedged Strategies	2,042	—	—	2,042
Total assets at fair value	$14,223	$ —	$ —	$14,223

The following future benefit payments are expected to be paid:

(In Thousands)	
2017	$814
2018	824
2019	860
2020	893
2021	885
Thereafter	4,985
	$9,261

The company expects to contribute a minimum of $500,000 to its Pension Plan in 2017.

401(k) Savings Plan

The Company also offers a 401(k) savings plan in which eligible participating employees may elect to contribute up to a maximum percentage allowable not to exceed the limits of Code Sections 401(k), 404, and 415. The Company may make matching contributions equal to a discretionary percentage that is determined by the Board of Directors. Participants are at all times fully vested in their contributions and vest over a period of five years regarding the employer contribution. Contribution expense was approximately $215,000, $230,000, and $171,000 for the years ended December 31, 2016, 2015, and 2014, respectively.

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Deferred Compensation Plan

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

To fund benefits under the deferred compensation plan, the Company has acquired bank-owned life insurance policies on the lives of the participating directors for which insurance benefits are payable to the Company. The Company incurred expenses related to the plan of $303,000, $252,000, and $235,000 for the years ended December 31, 2016, 2015, and 2014, respectively. Benefits paid under the plan were approximately $85,000, $103,000, and $88,000 in 2016, 2015, and 2014, respectively.

NOTE 14 - STOCK OPTIONS

In 2014, the Company adopted the 2014 Equity Incentive Plan designed to help the Company attract, retain, and motivate employees and non-employee directors. Incentive stock options, non-qualified stock options, and restricted stock may be granted as part of the plan.

On August 27, 2015, the Company issued 38,750 stock options to a group of employees. Each option granted has a strike price of $42.03 and is exercisable after five years following the date of the grant of such options. The options expire ten years following the date of the grant of such options.

A summary of stock option activity is presented below:

	2016		2015	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding, beginning of year	34,750	$ 42.03	—	$ —
Granted	—	—	38,750	42.03
Exercised	—	—	—	—
Forfeited	(8,250)	42.03	(4,000)	42.03
Outstanding, end of year	26,500	$ 42.03	34,750	$ 42.03

The estimated fair value of options, including the effect of estimated forfeitures, is recognized as expense on a straightline basis over the options' vesting periods while ensuring that the cumulative amount of compensation cost recognized at least equals the value of the vested portion of the award at that date. The Company determines the fair value of options granted using the Black-Scholes option-pricing model. The risk-free interest rate is based on the United States Treasury bond with a similar term to the expected life of the options at the grant date. Expected volatility was estimated based on the adjusted historic volatility of the Company's shares. The expected life was estimated to equal the contractual life of the options. The dividend yield rate was based upon recent historical dividends paid on shares.

The following assumptions were used in determining the fair value of share options granted:

	2015
Risk-free interest rate	1.63 %

Expected volatility	31.58 %
Expected dividend yield	4.22 %
Expected life	7.51 years
Weighted average grant date fair value per option	$3.96

For the years ended December 31, 2016 and 2015, there was $14,000 and $19,000 in total share-based compensation expense, respectively. The compensation expense is recorded as part of the non-interest expenses in the Consolidated Statement of Income.

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As at December 31, 2016, total unrecognized compensation costs related to non-vested options was $77,000 which is expected to be recognized over a period of 3.66 years.

NOTE 15 - EMPLOYEE STOCK PURCHASE PLAN

The Company maintains a Penns Woods Bancorp, Inc. Employee Stock Purchase Plan ("Plan"). The Plan is intended to encourage employee participation in the ownership and economic progress of the Company. The Plan allows for up to 1,000,000 shares to be purchased by employees. The purchase price of the shares is 95% of market value with an employee eligible to purchase up to the lesser of 15% of base compensation or $12,000 in market value annually. There were 2,125 and 2,335 shares issued under the plan for the years ended December 31, 2016 and 2015, respectively.

NOTE 16 - RELATED PARTY TRANSACTIONS

Certain directors and executive officers of the Company and the Bank, including their immediate families and companies in which they are principal owners (more than ten percent), are indebted to the Company. Such indebtedness was incurred in the ordinary course of business on the same terms and at those rates prevailing at the time for comparable transactions with others.

A summary of loan activity with executive officers, directors, principal shareholders, and associates of such persons is listed below for the years ended December 31, 2016 and 2015:

(In Thousands)	Beginning Balance	New Loans	Repayments	Ending Balance
2015	$ 8,946	$8,693	$ (8,381)	$ 9,258
2016	9,258	5,875	(6,256)	8,877

Deposits from related parties held by the Banks amounted to $13,052,000 at December 31, 2016 and $13,330,000 at December 31, 2015.

NOTE 17 - COMMITMENTS AND CONTINGENT LIABILITIES

The following schedule shows future minimum rental payments under operating leases with noncancellable terms in excess of one year as of December 31, 2016:

(In Thousands)	
2017	$589
2018	599
2019	480
2020	463
2021	369
Thereafter	1,507
	$4,007

The Company's operating lease obligations represent short and long-term lease and rental payments for facilities and equipment. Total rental expense for all operating leases for the years ended December 31, 2016, 2015, and 2014 were $573,000, $591,000 and $523,000.

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

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NOTE 18 - OFF-BALANCE SHEET RISK

The Company is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. These instruments involve, to varying degrees, elements of credit, interest rate, or liquidity risk in excess of the amount recognized in the Consolidated Balance Sheet. The contract amounts of these instruments express the extent of involvement the Company has in particular classes of financial instruments.

The Company's exposure to credit loss from nonperformance by the other party to the financial instruments for commitments to extend credit and standby letters of credit is represented by the contractual amount of these instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments. The Company may require collateral or other security to support financial instruments with off-balance sheet credit risk.

Financial instruments whose contract amounts represent credit risk are as follows at December 31, 2016 and 2015:

(In Thousands)	2016	2015
Commitments to extend credit	$263,487	$241,936
Standby letters of credit	6,515	4,786

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

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

NOTE 19 - CAPITAL REQUIREMENTS

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

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

As of December 31, 2016 and 2015, the FDIC categorized the Banks as well capitalized under the regulatory framework for prompt corrective action. To be classified as a well capitalized financial institution, common equity

tier I risk-based, tier I risked-based, total risk-based, and tier I leverage capital ratios must be at least 6.5%, 8%, 10%, and 5%, respectively.

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

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Consolidated Company

(In Thousands)	2016 Amount	Ratio	2015 Amount	Ratio
Common Equity Tier I Capital (to Risk-weighted Assets)				
Actual	$125,804	12.620%	$121,665	11.240%
For Capital Adequacy Purposes	44,849	4.500 %	48,722	4.500 %
Minimum To Maintain Capital Conservation Buffer	51,078	5.125 %	N/A	N/A
To Be Well Capitalized	64,782	6.500 %	70,377	6.500 %
Total Capital (to Risk-weighted Assets)				
Actual	$133,393	13.380%	$134,067	12.380%
For Capital Adequacy Purposes	79,732	8.000 %	86,617	8.000 %
Minimum To Maintain Capital Conservation Buffer	85,961	8.625 %	N/A	N/A
To Be Well Capitalized	99,665	10.000%	108,272	10.000%
Tier I Capital (to Risk-weighted Assets)				
Actual	$125,804	12.620%	$121,665	11.240%
For Capital Adequacy Purposes	59,799	6.000 %	64,963	6.000 %
Minimum To Maintain Capital Conservation Buffer	66,028	6.625 %	N/A	N/A
To Be Well Capitalized	79,732	8.000 %	86,617	8.000 %
Tier I Capital (to Average Assets)				
Actual	$125,804	9.432 %	$121,665	9.380 %
For Capital Adequacy Purposes	53,352	4.000 %	51,862	4.000 %
To Be Well Capitalized	66,691	5.000 %	64,828	5.000 %

Jersey Shore State Bank

(In Thousands)	2016 Amount	Ratio	2015 Amount	Ratio
Common Equity Tier I Capital (to Risk-weighted Assets)				
Actual	$86,397	11.136%	$82,682	10.700%
For Capital Adequacy Purposes	34,914	4.500 %	34,773	4.500 %
Minimum To Maintain Capital Conservation Buffer	39,763	5.125 %	N/A	N/A
To Be Well Capitalized	50,431	6.500 %	50,227	6.500 %
Total Capital (to Risk-weighted Assets)				
Actual	$90,992	11.728%	$92,036	11.910%
For Capital Adequacy Purposes	62,069	8.000 %	61,818	8.000 %
Minimum To Maintain Capital Conservation Buffer	66,918	8.625 %	N/A	N/A
To Be Well Capitalized	77,587	10.000%	77,272	10.000%
Tier I Capital (to Risk-weighted Assets)				
Actual	$86,397	11.136%	$82,682	10.700%
For Capital Adequacy Purposes	46,552	6.000 %	46,363	6.000 %
Minimum To Maintain Capital Conservation Buffer	51,401	6.625 %	N/A	N/A
To Be Well Capitalized	62,069	8.000 %	61,818	8.000 %
Tier I Capital (to Average Assets)				
Actual	$86,397	8.894 %	$82,682	8.660 %
For Capital Adequacy Purposes	38,856	4.000 %	38,175	4.000 %
To Be Well Capitalized	48,570	5.000 %	47,719	5.000 %

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Luzerne Bank

	2016		2015	
(In Thousands)	Amount	Ratio	Amount	Ratio
Common Equity Tier I Capital (to Risk-weighted Assets)				
Actual	$31,102	10.165%	$30,549	10.660%
For Capital Adequacy Purposes	13,769	4.500 %	12,901	4.500 %
Minimum To Maintain Capital Conservation Buffer	15,682	5.125 %	N/A	N/A
To Be Well Capitalized	19,889	6.500 %	18,635	6.500 %
Total Capital (to Risk-weighted Assets)				
Actual	$33,589	10.977%	$33,274	11.610%
For Capital Adequacy Purposes	24,479	8.000 %	22,935	8.000 %
Minimum To Maintain Capital Conservation Buffer	26,391	8.625 %	N/A	N/A
To Be Well Capitalized	30,599	10.000%	28,669	10.000%
Tier I Capital (to Risk-weighted Assets)				
Actual	$31,102	10.165%	$30,549	10.660%
For Capital Adequacy Purposes	18,359	6.000 %	17,201	6.000 %
Minimum To Maintain Capital Conservation Buffer	20,272	6.625 %	N/A	N/A
To Be Well Capitalized	24,479	8.000 %	22,935	8.000 %
Tier I Capital (to Average Assets)				
Actual	$31,102	8.535 %	$30,549	8.900 %
For Capital Adequacy Purposes	14,576	4.000 %	13,725	4.000 %
To Be Well Capitalized	18,220	5.000 %	17,157	5.000 %

NOTE 20 - REGULATORY RESTRICTIONS

The Pennsylvania Banking Code restricts the availability of capital funds for payment of dividends by all state-chartered banks. Accordingly, at December 31, 2016, the balance in the additional paid in capital account totaling $11,657,000 for JSSB and $42,214,000 for Luzerne Bank is unavailable for dividends.

The Banks are subject to regulatory restrictions, which limit the ability to loan funds to Penns Woods Bancorp, Inc. At December 31, 2016, the regulatory lending limit amounted to approximately $16,769,000.

Cash and Due from Banks

Jersey Shore State Bank and Luzerne Bank had no reserve requirements by the district Federal Reserve Bank at December 31, 2016 or 2015; however, if they did they would be reported with cash and due from banks. The required reserves are computed by applying prescribed ratios to the classes of average deposit balances. These are held in the form of cash on hand and a balance maintained directly with the Federal Reserve Bank.

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NOTE 21 - FAIR VALUE MEASUREMENTS

The following disclosures show the hierarchal disclosure framework associated with the level of pricing observations utilized in measuring assets and liabilities at fair value. The three broad levels of pricing observations are as follows:

Level I: Quoted prices are available in active markets for identical assets or liabilities as of the reported date.

Level II: Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reported date. The nature of these assets and liabilities includes items for which quoted prices are available but traded less frequently, and items that are fair valued using other financial instruments, the parameters of which can be directly observed.

Level III: Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

This hierarchy requires the use of observable market data when available.

The following table presents the assets reported on the balance sheet at their fair value on a recurring basis as of December 31, 2016 and 2015, by level within the fair value hierarchy. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

	2016			
(In Thousands)	Level I	Level II	Level III	Total
Assets measured on a recurring basis:				
Investment securities, available for sale:				
U.S. Government and agency securities	$—	$—	$ —	$—
Mortgage-backed securities	—	9,313	—	9,313
Asset-backed securities	—	109	—	109
State and political securities	—	60,934	—	60,934
Other debt securities	—	51,118	—	51,118
Financial institution equity securities	10,535	—	—	10,535
Other equity securities	1,483	—	—	1,483
Investment securities, trading:				
Other equity securities	58	—	—	58
Total assets measured on a recurring basis	$12,076	$121,474	$ —	$133,550

	2015			
(In Thousands)	Level I	Level II	Level III	Total
Assets measured on a recurring basis:				
Investment securities, available for sale:				
U.S. Government and agency securities	$—	$3,549	$ —	$3,549
Mortgage-backed securities	—	10,009	—	10,009
Asset-backed securities	—	1,940	—	1,940
State and political securities	—	86,555	—	86,555
Other debt securities	—	57,772	—	57,772
Financial institution equity securities	11,483	—	—	11,483
Other equity securities	4,849	—	—	4,849
Investment securities, trading:				
Financial institution equity securities	73	—	—	73

Total assets measured on a recurring basis	$16,405	$159,825	$ —	$176,230

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The following table presents the assets reported on the balance sheet at their fair value on a non-recurring basis as of December 31, 2016 and 2015, by level within the fair value hierarchy. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

	2016			
(In Thousands)	Level I	Level II	Level III	Total
Assets measured on a non-recurring basis:				
Impaired loans	$ —	$ —	$ 13,797	$ 13,797
Other real estate owned	—	—	839	839
Total assets measured on a non-recurring basis	$ —	$ —	$ 14,636	$ 14,636

	2015			
(In Thousands)	Level I	Level II	Level III	Total
Assets measured on a non-recurring basis:				
Impaired loans	$ —	$ —	$ 13,779	$ 13,779
Other real estate owned	—	—	1,696	1,696
Total assets measured on a non-recurring basis	$ —	$ —	$ 15,475	$ 15,475

The following table provides a listing of significant unobservable inputs used in the fair value measurement process for items valued utilizing level III techniques as of December 31, 2016 and 2015:

	2016 Quantitative Information About Level III Fair Value Measurements				
(In Thousands)	Fair Value	Valuation Technique(s)	Unobservable Inputs	Range	Weighted Average
Impaired loans	$ 5,304	Discounted cash flow	Temporary reduction in payment amount	0 to (70)%	(20)%
			Probability of default	—%	
	8,493	Appraisal of collateral	Appraisal adjustments (1)	0 to (20)%	(15)%
Other real estate owned	$ 839	Appraisal of collateral (1)			

	2015 Quantitative Information About Level III Fair Value Measurements				
(In Thousands)	Fair Value	Valuation Technique(s)	Unobservable Inputs	Range	Weighted Average
Impaired loans	$ 5,696	Discounted cash flow	Temporary reduction in payment amount	0 to (70)%	(17)%
			Probability of default	—%	
	8,083	Appraisal of collateral	Appraisal adjustments (1)	0 to (20)%	(15)%
Other real estate owned	$ 1,696	Appraisal of collateral (1)			

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

The significant unobservable inputs used in the fair value measurement of the Company’s impaired loans using the discounted cash flow valuation technique include temporary changes in payment amounts and the probability of default. Significant increases (decreases) in payment amounts would result in significantly higher (lower) fair value

measurements. The probability of default is 0% for impaired loans using the discounted cash flow valuation technique because all defaulted impaired loans are valued using the appraisal of collateral valuation technique.

The significant unobservable input used in the fair value measurement of the Company’s impaired loans using the appraisal of collateral valuation technique include appraisal adjustments, which are adjustments to appraisals by management for qualitative

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factors such as economic conditions and estimated liquidation expenses. The significant unobservable input used in the fair value measurement of the Company's other real estate owned are the same inputs used to value impaired loans using the appraisal of collateral valuation technique.

NOTE 22 - FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

The fair values of the Company's financial instruments are as follows at December 31, 2016 and 2015:

			Fair Value Measurements at December 31, 2016		
(In Thousands)	Carrying Value	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level I)	Significant Other Observable Inputs (Level II)	Significant Unobservable Inputs (Level III)
Financial assets:					
Cash and cash equivalents	$43,671	$43,671	$ 43,671	$ —	$ —
Investment securities:					
Available for sale	133,492	133,492	12,018	121,474	—
Trading	58	58	58		
Loans held for sale	1,953	1,953	1,953	—	—
Loans, net	1,080,785	1,088,122	—	—	1,088,122
Bank-owned life insurance	27,332	27,332	27,332	—	—
Accrued interest receivable	3,672	3,672	3,672	—	—
Financial liabilities:					
Interest-bearing deposits	$791,937	$789,401	$ 571,768	$ —	$ 217,633
Noninterest-bearing deposits	303,277	303,277	303,277	—	—
Short-term borrowings	13,241	13,241	13,241	—	—
Long-term borrowings	85,998	86,353	—	—	86,353
Accrued interest payable	455	455	455	—	—

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(In Thousands)	Carrying Value	Fair Value	Fair Value Measurements at December 31, 2015 Quoted Prices in Active Markets for Identical Assets (Level I)	Significant Other Observable Inputs (Level II)	Significant Unobservable Inputs (Level III)
Financial assets:					
Cash and cash equivalents	$22,796	$22,796	$ 22,796	$ —	$ —
Investment securities:					
Available for sale	176,157	176,157	16,332	159,825	—
Trading	73	73	73		
Loans held for sale	757	757	757	—	—
Loans, net	1,033,163	1,045,140	—	—	1,045,140
Bank-owned life insurance	26,667	26,667	26,667	—	—
Accrued interest receivable	3,686	3,686	3,686	—	—
Financial liabilities:					
Interest-bearing deposits	$751,797	$729,685	$ 509,206	$ —	$ 220,479
Noninterest-bearing deposits	280,083	280,083	280,083	—	—
Short-term borrowings	46,638	46,638	46,638	—	—
Long-term borrowings	91,025	91,783	—	—	91,783
Accrued interest payable	426	426	426	—	—

Cash and Cash Equivalents, Trading Securities, Loans Held for Sale, Accrued Interest Receivable, Short-term Borrowings, and Accrued Interest Payable:

The fair value is equal to the carrying value.

Investment Securities:

The fair value of investment securities available for sale is equal to the available quoted market price. If no quoted market price is available, fair value is determined by using the quoted market price for similar securities. Regulatory stocks' fair value is equal to the carrying value.

Loans:

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

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

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

market information and specific borrower information.

Bank-Owned Life Insurance:

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

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Deposits:

The fair value of deposits with no stated maturity, such as noninterest-bearing demand deposits, savings, NOW, and money market accounts, is equal to the amount payable on demand as of December 31, 2016 and 2015. The fair value of certificates of deposit is based on the discounted value of contractual cash flows.

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

Long Term Borrowings:

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

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

There is no material difference between the notional amount and the fair value of off-balance sheet items at December 31, 2016 and 2015. The contractual amounts of unfunded commitments and letters of credit are presented in Note 17.

NOTE 23 - PARENT COMPANY ONLY FINANCIAL STATEMENTS

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

CONDENSED BALANCE SHEET, DECEMBER 31,

(In Thousands)	2016	2015
ASSETS:		
Cash	$578	$263
Investment in subsidiaries:		
Bank	129,421	127,126
Non-bank	8,037	8,332
Other assets	373	705
Total Assets	$138,409	$136,426
LIABILITIES AND SHAREHOLDERS' EQUITY:		
Other liabilities	$160	$147
Shareholders' equity	138,249	136,279
Total liability and shareholders' equity	$138,409	$136,426

CONDENSED STATEMENT OF INCOME FOR THE YEARS ENDED DECEMBER 31,

(In Thousands)	2016	2015	2014
Operating income:			
Dividends from subsidiaries	$10,007	$11,367	$10,080
Security gains	—	—	3
Equity in undistributed earnings of subsidiaries	3,128	3,167	5,261
Operating expenses	(660)	(636)	(736)
Net income	$12,475	$13,898	$14,608
Comprehensive income	$11,346	$11,766	$17,835

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

(In Thousands)	2016	2015	2014
OPERATING ACTIVITIES:			
Net income	$12,475	$13,898	$14,608
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in undistributed earnings of subsidiaries	(3,128)	(3,167)	(5,261)
Other, net	344	(313)	(50)
Net cash provided by operating activities	9,691	10,418	9,297
FINANCING ACTIVITIES:			
Dividends paid	(8,903)	(8,967)	(9,055)
Issuance of common stock	101	116	118
Purchase of treasury stock	(574)	(2,603)	(747)
Net cash used for financing activities	(9,376)	(11,454)	(9,684)
NET (DECREASE) INCREASE IN CASH	315	(1,036)	(387)
CASH, BEGINNING OF YEAR	263	1,299	1,686
CASH, END OF YEAR	$578	$263	$1,299

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NOTE 24 - CONSOLIDATED QUARTERLY FINANCIAL DATA (UNAUDITED)

(In Thousands, Except Per Share Data)	For the Three Months Ended			
2016	March 31,	June 30,	Sept. 30,	Dec. 31,
Interest income	$11,726	$11,669	$11,660	$11,758
Interest expense	1,352	1,381	1,413	1,421
Net interest income	10,374	10,288	10,247	10,337
Provision for loan losses	350	258	258	330
Non-interest income, excluding securities gains	2,522	2,686	2,821	2,415
Securities gains, net	475	492	261	441
Non-interest expense	9,061	8,666	8,739	8,625
Income before income tax provision	3,960	4,542	4,332	4,238
Income tax provision	882	1,152	1,273	1,290
Net income	$3,078	$3,390	$3,059	$2,948
Earnings per share - basic and diluted	$0.65	$0.72	$0.65	$0.62

(In Thousands, Except Per Share Data)	For the Three Months Ended			
2015	March 31,	June 30,	Sept. 30,	Dec. 31,
Interest income	$11,397	$11,529	$11,523	$11,675
Interest expense	1,286	1,307	1,289	1,337
Net interest income	10,111	10,222	10,234	10,338
Provision for loan losses	700	600	520	480
Non-interest income, excluding securities gains	2,599	2,535	2,644	2,417
Securities gains, net	661	522	493	894
Non-interest expense	8,468	8,421	8,530	8,317
Income before income tax provision	4,203	4,258	4,321	4,852
Income tax provision	848	825	957	1,106
Net income	$3,355	$3,433	$3,364	$3,746
Earnings per share - basic and diluted	$0.70	$0.72	$0.71	$0.79

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

None.

ITEM 9A CONTROLS AND PROCEDURES

The Company, under the supervision and with the participation of the Company’s management, including the Company’s President and Chief Executive Officer along with the Company’s Chief Financial Officer, conducted an evaluation of the effectiveness as of December 31, 2016 of the design and operation of the Company’s disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Exchange Act. Based upon that evaluation, the Company’s President and Chief Executive Officer along with the Company’s Chief Financial Officer concluded that the Company’s disclosure controls and procedures were effective as of December 31, 2016.

There have been no changes in the Company’s internal control over financial reporting during the fourth quarter of 2016 that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

Management’s Report on Internal Control Over Financial Reporting

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. The Company’s internal control over financial reporting is

designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a significant deficiency (as defined in Public Company Accounting Oversight Board Auditing Standard No. 2), or a combination of significant deficiencies, that results in there being more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis by management or employees in the normal course of performing their assigned functions.

Management assessed the effectiveness of the Company’s internal control over financial reporting as of December 31, 2016. Management’s assessment did not identify any material weaknesses in the Company’s internal control over financial reporting.

In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in "Internal Control-Integrated Framework" issued by COSO in May 2013. Because there were no material weaknesses discovered, management believes that, as of December 31, 2016, the Company’s internal control over financial reporting was effective.

S.R. Snodgrass, P.C. an independent registered public accounting firm, has audited the consolidated financial statements included in this Annual Report on Form 10-K, and, as part of the audit, has issued a report, which appears below, on the effectiveness of the Company’s internal control over financial reporting as of December 31, 2016.

Date: March 7, 2017	/s/ Richard A. Grafmyre	/s/ Brian L. Knepp
	Chief Executive Officer	Chief Financial Officer
		(Principal Financial Officer)

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited Penns Woods Bancorp, Inc. and subsidiaries' internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in 2013. Penns Woods Bancorp, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Report on Management's Assessment of Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Penns Woods Bancorp, Inc.'s internal control over financial reporting based on our audit.

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

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

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.
In our opinion, Penns Woods Bancorp, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control - Integrated Framework issued by COSO in 2013.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Penns Woods Bancorp, Inc. and subsidiaries as of December 31, 2016 and 2015, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2016, and our report dated March 10, 2017, expressed an unqualified opinion.

Cranberry Township, Pennsylvania
March 10, 2017

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ITEM 9B OTHER INFORMATION

None.

PART III

ITEM 10 DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERNANCE

The information appearing under the captions “The Board of Directors and its Committees,” “Election of Directors,” “Information as to Nominees and Directors,” “Section 16(a) Beneficial Ownership Reporting Compliance,” “Principal Officers of the Corporation,” and “Certain Transactions” in the Company’s Proxy Statement for the Company’s 2017 annual meeting of shareholders (the “Proxy Statement”) is incorporated herein by reference.

ITEM 11 EXECUTIVE COMPENSATION

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

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

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

ITEM 13 CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information appearing under the captions “Election of Directors” and “Certain Transactions” in the Proxy Statement is incorporated herein by reference.

ITEM 14 PRINCIPAL ACCOUNTING FEES AND SERVICES

The information appearing in the Proxy Statement under the captions, “Audit Fees,” “Audit-Related Fees,” “Tax Fees,” “Other Fees,” and “Pre-Approval of Audit and Permissible Non-Audit Services” is incorporated herein by reference.

PART IV

ITEM 15 EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a)1. Financial Statements

The following consolidated financial statements and reports are set forth in Item 8:

Report of Independent Auditors
Consolidated Balance Sheet
Consolidated Statement of Income
Consolidated Statement of Comprehensive Income
Consolidated Statement of Changes in Shareholders’ Equity

Consolidated Statement of Cash Flows
Notes to the Consolidated Financial Statements

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2. Financial Statement Schedules

Financial statement schedules are omitted because the required information is either not applicable, not required or is shown in the respective financial statements or in the notes thereto.

(b) Exhibits:

(3) (i)	Articles of Incorporation of the Registrant, as presently in effect (incorporated by reference to Exhibit 3(i) of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2005).
(3) (ii)	Bylaws of the Registrant (incorporated by reference to Exhibit 3(ii) of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2011).
(10) (i)	Form of First Amendment to the Jersey Shore State Bank Amendment and Restatement of the Director Fee Agreement, dated as of October 1, 2004 (incorporated by reference to Exhibit 10.7 of the Registrant's Current Report on Form 8-K filed on June 29, 2006).
(10) (ii)	Consulting Agreement, dated July 18, 2005 between Hubert A. Valencik and Penns Woods Bancorp, Inc. (incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K filed on July 18, 2005).
(10) (iii)	Amended and Restated Employment Agreement, dated February 1, 2014, among Penns Woods Bancorp, Inc., Jersey Shore State Bank and Brian L. Knepp (incorporated by reference to Exhibit 10.2 of the Registrant's Current Report on Form 8-K filed on February 6, 2014).*
(10) (iv)	Amended and Restated Employment Agreement, dated November 1, 2014, among Penns Woods Bancorp, Inc., Jersey Shore State Bank and Richard A. Grafmyre (incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K filed on October 31, 2014).*
(10) (v)	Employment Agreement, dated February 1, 2014, among Penns Woods Bancorp, Inc., Jersey Shore State Bank and Aron M. Carter*
(10) (vi)	Employment Agreement, dated February 1, 2014, among Penns Woods Bancorp, Inc., Jersey Shore State Bank and Michelle M. Karas*
(21)	Subsidiaries of the Registrant.
(23)	Consent of Independent Certified Public Accountants.
(31) (i)	Rule 13a-14(a)/Rule 15d-14(a) Certification of Chief Executive Officer.
(31) (ii)	Rule 13a-14(a)/Rule 15d-14(a) Certification of Principal Financial Officer.
(32) (i)	Section 1350 Certification of Chief Executive Officer.
(32) (ii)	Section 1350 Certification of Principal Financial Officer.
Exhibit 101	Interactive data file containing the following financial statements formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Balance Sheet at December 31, 2016 and December 31, 2015; (ii) the Consolidated Statement of Income for the years ended December 31, 2016, 2015 and 2014; (iii) the Consolidated Statements of Shareholders' Equity for the years ended December 31, 2016, 2015, and 2014; (iv) the Consolidated Statement of Comprehensive Income for the years ended December 31, 2016, 2015 and 2014; (v) the Consolidated Statement of Cash Flows for the years ended December 31, 2016, 2015, and 2014; and (vi) the Notes to Consolidated Financial Statements, tagged as blocks of text. As provided in Rule 406T of Regulation S-T, this interactive data file shall not be deemed to be "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, and shall not be deemed "filed" or part of any registration statement or prospectus for purposes of Section 11 or 12 under the Securities Act of 1933, or otherwise subject to liability under those sections.

* Denotes compensatory plan or arrangement.

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EXHIBIT INDEX

(10) (v)	Employment Agreement, dated February 1, 2014, among Penns Woods Bancorp, Inc., Jersey Shore State Bank and Aron M. Carter*
(10) (vi)	Employment Agreement, dated February 1, 2014, among Penns Woods Bancorp, Inc., Jersey Shore State Bank and Michelle M. Karas*
(21)	Subsidiaries of the Registrant.
(23)	Consent of Independent Certified Public Accountants.
(31) (i)	Rule 13a-14(a)/Rule 15d-14(a) Certification of Chief Executive Officer.
(31) (ii)	Rule 13a-14(a)/Rule 15d-14(a) Certification of Principal Financial Officer.
(32) (i)	Section 1350 Certification of Chief Executive Officer.
(32) (ii)	Section 1350 Certification of Principal Financial Officer.
Exhibit 101	Interactive data file containing the following financial statements formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Balance Sheet at December 31, 2016 and December 31, 2015; (ii) the Consolidated Statement of Income for the years ended December 31, 2016, 2015 and 2014; (iii) the Consolidated Statements of Shareholders' Equity for the years ended December 31, 2016, 2015, and 2014; (iv) the Consolidated Statement of Comprehensive Income for the years ended December 31, 2016, 2015 and 2014; (v) the Consolidated Statement of Cash Flows for the years ended December 31, 2016, 2015, and 2014; and (vi) the Notes to Consolidated Financial Statements, tagged as blocks of text. As provided in Rule 406T of Regulation S-T, this interactive data file shall not be deemed to be "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, and shall not be deemed "filed" or part of any registration statement or prospectus for purposes of Section 11 or 12 under the Securities Act of 1933, or otherwise subject to liability under those sections.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

March 7, 2017	PENNS WOODS BANCORP, INC.
	/s/ Richard A. Grafmyre
	President and Chief Executive Officer

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

/s/ Richard A. Grafmyre Richard A. Grafmyre, President, Chief Executive Officer and Director (Principal Executive Officer)	March 7, 2017
/s/ Brian L. Knepp Brian L. Knepp, Chief Financial Officer and Director (Principal Financial and Accounting Officer)	March 7, 2017
/s/ R. Edward Nestlerode, Jr. R. Edward Nestlerode, Jr., Chairman of the Board	March 7, 2017
/s/ Daniel K. Brewer Daniel K. Brewer, Director	March 7, 2017
/s/ Michael J. Casale, Jr. Michael J. Casale, Jr., Director	March 7, 2017
/s/ William J. Edwards William J. Edwards, Director	March 7, 2017
/s/ James M. Furey, II James M. Furey, II, Director	March 7, 2017
/s/ D. Michael Hawbaker D. Michael Hawbaker, Director	March 7, 2017
/s/ Leroy H. Keiler, III Leroy H. Keiler, III, Director	March 7, 2017
/s/ Joseph E. Kluger Joseph E. Kluger, Director	March 7, 2017
/s/ John G. Nackley John G. Nackley, Director	March 7, 2017
/s/ Jill F. Schwartz Jill F. Schwartz, Director	March 7, 2017
/s/ William H. Rockey William H. Rockey, Director	March 7, 2017
/s/ Hubert A. Valencik Hubert A. Valencik, Director	March 7, 2017
/s/ Ronald A. Walko Ronald A. Walko, Director	March 7, 2017

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