

PEOPLES STATE BANK WYALUSING PA

2008 ANNUAL DISCLOSURE STATEMENT

PERFORMANCE ANALYSIS

2008

2007

PROFITABILITY

Return on Average Equity (R.O.E.)	13.43%	12.23%	R.O.E. is the return on the shareholders' investment in the bank, whereas R.O.A. is the return on all of the assets of the bank.
Return on Average Assets (R.O.A.)	0.91%	0.85%	
Net Interest Income / Average Assets	3.73%	3.57%	Net interest margin is the income available to cover net overhead expenses, taxes, and dividends of the bank.
Overhead Expense / Average Assets	3.31%	3.35%	Overhead expense includes salaries and benefits, occupancy expense, and other operating expenses.

ASSET QUALITY

Nonperforming Loans / Gross Loans	2.10%	1.52%	This represents the percent of the bank's loans which are past due 90 + days or are not accruing interest. Over 45% of all banks in the nation have more than 2% nonperforming loans.
Loan Loss Reserve / Total Loans	1.10%	1.20%	The loan loss reserve is the account against which future uncollectable loans will be charged.
Net Charge-offs / Average Loans	0.44%	0.14%	Net charge-offs are an indication of past loan quality, measuring loans, net of recoveries, actually written off as losses.

LIQUIDITY

\$100,000 + Time Deposits / Total Deposits	20.63%	20.89%	Large deposits are usually the most costly type of deposits a bank has.
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CAPITAL

Primary Capital / Assets	7.68%	8.07%	Capital ratios indicate the degree of capital a bank has to deal with earnings problems. The regulatory minimum for these ratios is 5.5% for primary capital and 6.0% for total capital.
Total Capital / Assets	6.87%	7.18%	

PEOPLES STATE BANK WYALUSING PA

BALANCE SHEET

Year Ended December 31,

	<u>2008</u>	<u>2007</u>
	\$(000)	\$(000)
<u>ASSETS</u>		
Cash & balances due from depository institutions:		
Noninterest-bearing balances and currency and coin	4,470	6,067
Interest-bearing balances	904	1,700
Securities:		
Held-to-maturity	0	0
Available-for-sale	39,426	33,020
Federal funds sold and securities purchased under agreements to resell	0	0
Loans and lease financing receivables:		
Loans and leases, net of unearned income	155,318	143,817
LESS: Allowance for loan and lease losses	1,712	1,727
LESS: Allocated transfer risk reserve	0	0
Loans and leases, net of unearned income, allowance, and reserve	153,606	142,090
Assets held in trading accounts	0	0
Premises and fixed assets (including capitalized leases)	3,519	3,527
Other real estate owned	137	35
Investments in unconsolidated subsidiaries and associated companies	0	0
Customers' liability to this bank on acceptances outstanding	0	0
Intangible assets	32	67
Other assets	8,474	8,255
Total assets	210,568	194,761
<u>LIABILITIES</u>		
Deposits:		
In domestic offices:		
Noninterest-bearing	30,515	24,630
Interest-bearing	135,968	122,115
In foreign offices, Edge & Agreement subs, and IBFs:		
Noninterest-bearing	N/A	N/A
Interest-bearing	N/A	N/A
Federal funds purchased and securities sold under agreements to repurchase	N/A	N/A
Demand notes issued to the U.S. Treasury	0	0
Other borrowed money		
With a remaining maturity of one year or less	8,000	4,000
With a remaining maturity of more than one year through three years	9,500	14,000
With a remaining maturity of more than three years	10,068	14,572
Mortgage indebtedness and obligations under capitalized leases	0	0
Bank's liability on acceptances executed and outstanding	0	0
Notes and debentures subordinates to deposits	0	0
Other liabilities	2,052	1,455
Total liabilities	196,103	180,772
Limited-life preferred stock	0	0
<u>EQUITY CAPITAL</u>		
Perpetual preferred stock	0	0
Common stock	213	213
Surplus	1,749	1,749
Undivided profits and capital reserves	12,192	11,892
Net unrealized holding gains (losses) on available-for-sale securities	311	135
Cumulative foreign currency translation adjustments	N/A	N/A
Total equity capital	14,465	13,989
Total liabilities, limited-life preferred stock, and equity capital	210,568	194,761

PEOPLES STATE BANK WYALUSING PA

INCOME STATEMENT

Year Ended December 31,

	<u>2008</u>	<u>2007</u>
	\$(000)	\$(000)
Interest income:		
Interest and fee income on loans:		
Real estate loans	8,139	7,810
Installment loans	487	467
Credit cards	65	66
Commercial (time and demand) and all other loans	2,327	2,541
Income from lease financing receivables:		
Taxable leases	0	0
Tax-exempt leases	0	0
Interest income on balances due from depository institutions	126	313
Interest and dividend income on securities:		
U.S. Treasury securities and U.S. Government agency and corporation obligations	755	829
Securities issued by states and political subdivisions in the U.S.:		
Taxable securities	0	0
Tax-exempt securities	637	639
Other domestic securities (debt and equity)	42	104
Foreign securities (debt and equity)	0	0
Interest income from assets held in trading accounts	0	0
Interest income on federal funds sold and securities purchased under agreements to resell	0	0
Total interest income	12,578	12,769
Interest Expense:		
Interest on deposits:		
Time certificates of deposit of \$100,000 or more	958	1,321
All other deposits:		
Transaction accounts (NOW accounts, ATS accounts, and telephone and preauthorized transfer accounts)	37	44
Money market deposit accounts (MMDAs)	74	199
Other savings deposits	261	313
All other time deposits	1,849	2,447
Expense of federal funds purchased and securities sold under agreement to repurchase	0	0
Interest on demand notes issued to the U.S. Treasury and on other borrowed money	1,485	1,541
Interest on mortgage indebtedness and obligations under capitalized leases	0	0
Interest on notes and debentures subordinated to deposits	0	0
Total interest expense	4,664	5,865
Net interest income	7,914	6,904
Provisions:		
Provision for loan and lease losses	650	360
Provision for allocated transfer risk	0	0
Noninterest income:		
Income from fiduciary activities	0	0
Service charges on deposit accounts	786	707
Trading gains (losses) and fees from foreign exchange transactions	0	0
Other foreign transaction gains (losses)	0	0
Gains (losses) and fees from assets held in trading accounts	0	0
Other noninterest income	1,493	1,337
Total noninterest income	2,279	2,044
Gains (losses) on securities not held in trading accounts	9	0
Noninterest expense:		
Salaries and employee benefits	3,648	3,380
Expenses of premises and fixed assets (net of rental income)(excluding salaries and employee benefits and mortgage interest)	893	928
Other noninterest expense	2,485	2,185
Total noninterest expense	7,026	6,493
Income (loss) before income taxes and extraordinary items and other adjustments	2,526	2,095
Applicable income taxes	603	443
Income (loss) before extraordinary items and other adjustments	1,923	1,652
Extraordinary itmes and other adjustment:		
Extraordinary items and other adjustments, gross of income taxes	0	0
Applicable income taxes	0	0
Extraordinary items and other adjustments, net of income taxes	0	0
Net income (loss)	1,923	1,652

PEOPLES STATE BANK WYALUSING PA

Year Ended December 31,

2008 2007
 \$(000) \$(000)

Income Statement Memoranda:

Interest expense incurred to carry tax-exempt securities, loans, and leases acquired after August 7, 1986, that is not deductible for federal income tax purposes	0	0
Estimated income on tax-exempt loans and leases to states and political subdivisions in the U.S. (excludes income on tax-exempt securities)	0	0
Number of full time equivalent employee payroll at end of period	79	74
Interest and fee income on agricultural loans	N/A	N/A

CHANGES IN EQUITY CAPITAL

Total equity capital originally reported at end of previous calendar year	13,989	13,048
Equity capital adjustments from amended Reports on Income, net	(633)	0
Amended balance at end of previous calendar year	13,356	13,048
Net income (loss)	1,923	1,652
Sale, conversion, acquisition, or retirement of capital stock, net	0	0
Changes incident to business combinations, net	0	0
LESS: Cash dividends declared on preferred stock	0	0
LESS: Cash dividends declared on common stock	991	904
Cumulative effect of changes in accounting principles from prior years	0	0
Corrections of material accounting errors from prior years	0	0
Change in net unrealized loss on marketable equity securities	177	193
Other transactions with parent holding company	0	0
Total equity capital at end of period	14,465	13,989

CHANGES IN ALLOWANCE FOR LOAN AND LEASE LOSSES

Allowance for Loan and Lease Losses:		
Balance originally reported at end of previous year	1,727	1,562
Recoveries	71	189
LESS: Charge-offs	736	384
Provision for loan and leases losses	650	360
Adjustments	0	0
Balance at end of period	1,712	1,727

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PAST DUE AND NONACCRUAL LOANS AND LEASES

	Year Ended December 31,	
	<u>2008</u>	<u>2007</u>
	\$(000)	\$(000)
Loans and leases past due 90 days or more and still accruing:		
Real estate loans	368	970
Installment loans	2	4
Credit cards and related plans	23	1
Commercial (time and demand) and all other loans	446	276
Lease financing receivables	0	0
Total	839	1,251
Memo: Past due agricultural loans included above	0	0
Nonaccrual loans and leases:		
Real estate loans	1,993	695
Installment loans	10	0
Credit cards and related plans	0	0
Commercial (time and demand) and all other loans	412	241
Lease financing receivables	0	0
Total	2,415	936
Memo: Past due agricultural loans included above	0	0

I do hereby attest that this Disclosure Statement has been prepared in conformance with the instructions issued by the appropriate Federal regulatory authority and is true and correct to the best of my knowledge and belief.

Officer of the Bank