

PEOPLES STATE BANK WYALUSING PA

2009 ANNUAL DISCLOSURE STATEMENT

PERFORMANCE ANALYSIS

2009

2008

PROFITABILITY

Return on Average Equity (R.O.E.)	-16.62%	13.43%	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.)	-1.12%	0.91%	
Net Interest Income / Average Assets	3.95%	3.73%	Net interest margin is the income available to cover net overhead expenses, taxes, and dividends of the bank.
Overhead Expense / Average Assets	3.68%	3.31%	Overhead expense includes salaries and benefits, occupancy expense, and other operating expenses.

ASSET QUALITY

Nonperforming Loans / Gross Loans	3.17%	2.10%	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	4.09%	1.10%	The loan loss reserve is the account against which future uncollectable loans will be charged.
Net Charge-offs / Average Loans	1.40%	0.44%	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	19.51%	20.63%	Large deposits are usually the most costly type of deposits a bank has.
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CAPITAL

Primary Capital / Assets	8.85%	7.68%	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	5.70%	6.87%	

PEOPLES STATE BANK WYALUSING PA

BALANCE SHEET

Year Ended December 31,

	<u>2009</u>	<u>2008</u>
	\$(000)	\$(000)
<u>ASSETS</u>		
Cash & balances due from depository institutions:		
Noninterest-bearing balances and currency and coin	2,018	4,470
Interest-bearing balances	17,030	904
Securities:		
Held-to-maturity	0	0
Available-for-sale	21,300	39,426
Federal funds sold and securities purchased under agreements to resell	0	0
Loans and lease financing receivables:		
Loans and leases, net of unearned income	163,497	155,318
LESS: Allowance for loan and lease losses	6,683	1,712
LESS: Allocated transfer risk reserve	0	0
Loans and leases, net of unearned income, allowance, and reserve	156,814	153,606
Assets held in trading accounts	0	0
Premises and fixed assets (including capitalized leases)	3,189	3,519
Other real estate owned	132	137
Investments in unconsolidated subsidiaries and associated companies	0	0
Customers' liability to this bank on acceptances outstanding	0	0
Intangible assets	4	32
Other assets	12,000	8,474
Total assets	212,487	210,568
<u>LIABILITIES</u>		
Deposits:		
In domestic offices:		
Noninterest-bearing	34,351	30,515
Interest-bearing	141,641	135,968
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	3,000	8,000
With a remaining maturity of more than one year through three years	19,500	9,500
With a remaining maturity of more than three years	61	10,068
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	1,814	2,052
Total liabilities	200,367	196,103
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	9,989	12,192
Net unrealized holding gains (losses) on available-for-sale securities	169	311
Cumulative foreign currency translation adjustments	N/A	N/A
Total equity capital	12,120	14,465
Total liabilities, limited-life preferred stock, and equity capital	212,487	210,568

PEOPLES STATE BANK WYALUSING PA

INCOME STATEMENT

Year Ended December 31,

	<u>2009</u>	<u>2008</u>
	\$(000)	\$(000)
Interest income:		
Interest and fee income on loans:		
Real estate loans	8,351	8,139
Installment loans	413	487
Credit cards	46	65
Commercial (time and demand) and all other loans	1,917	2,327
Income from lease financing receivables:		
Taxable leases	0	0
Tax-exempt leases	0	0
Interest income on balances due from depository institutions	7	126
Interest and dividend income on securities:		
U.S. Treasury securities and U.S. Government agency and corporation obligations	480	755
Securities issued by states and political subdivisions in the U.S.:		
Taxable securities	0	0
Tax-exempt securities	600	637
Other domestic securities (debt and equity)	1	42
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	11,815	12,578
Interest Expense:		
Interest on deposits:		
Time certificates of deposit of \$100,000 or more	671	958
All other deposits:		
Transaction accounts (NOW accounts, ATS accounts, and telephone and preauthorized transfer accounts)	16	37
Money market deposit accounts (MMDAs)	64	74
Other savings deposits	182	261
All other time deposits	1,293	1,849
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	1,204	1,485
Interest on mortgage indebtedness and obligations under capitalized leases	0	0
Interest on notes and debentures subordinated to deposits	0	0
Total interest expense	3,430	4,664
Net interest income	8,385	7,914
Provisions:		
Provision for loan and lease losses	7,102	650
Provision for allocated transfer risk	0	0
Noninterest income:		
Income from fiduciary activities	0	0
Service charges on deposit accounts	759	786
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	1,675	1,493
Total noninterest income	2,434	2,279
Gains (losses) on securities not held in trading accounts	0	9
Noninterest expense:		
Salaries and employee benefits	3,850	3,648
Expenses of premises and fixed assets (net of rental income)(excluding salaries and employee benefits and mortgage interest)	848	893
Other noninterest expense	3,097	2,485
Total noninterest expense	7,795	7,026
Income (loss) before income taxes and extraordinary items and other adjustments	(4,078)	2,526
Applicable income taxes	(1,698)	603
Income (loss) before extraordinary items and other adjustments	(2,380)	1,923
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)	(2,380)	1,923

PEOPLES STATE BANK WYALUSING PA

Year Ended December 31,

<u>2009</u>	<u>2008</u>
\$(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	75	79
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	14,465	13,989
Equity capital adjustments from amended Reports on Income, net	0	(633)
Amended balance at end of previous calendar year	14,465	13,356
Net income (loss)	(2,380)	1,923
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	822	991
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	(143)	177
Other transactions with parent holding company	1,000	0
Total equity capital at end of period	12,120	14,465

CHANGES IN ALLOWANCE FOR LOAN AND LEASE LOSSES

Allowance for Loan and Lease Losses:		
Balance originally reported at end of previous year	1,712	1,727
Recoveries	144	71
LESS: Charge-offs	2,275	736
Provision for loan and leases losses	7,102	650
Adjustments	0	0
Balance at end of period	6,683	1,712

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PAST DUE AND NONACCRUAL LOANS AND LEASES

	Year Ended December 31,	
	<u>2009</u>	<u>2008</u>
	\$(000)	\$(000)
Loans and leases past due 90 days or more and still accruing:		
Real estate loans	229	368
Installment loans	2	2
Credit cards and related plans	4	23
Commercial (time and demand) and all other loans	10	446
Lease financing receivables	0	0
Total	245	839
Memo: Past due agricultural loans included above	0	0
Nonaccrual loans and leases:		
Real estate loans	3,858	1,993
Installment loans	0	10
Credit cards and related plans	0	0
Commercial (time and demand) and all other loans	1,082	412
Lease financing receivables	0	0
Total	4,940	2,415
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