

**PENNS WOODS BANCORP, INC. AND SUBSIDIARIES
AUDIT COMMITTEE CHARTER**

Organization and Composition:

The audit committee shall be comprised of the independent members of the Penns Woods Bancorp, Inc. board of directors each of whom shall meet the independence requirements of Rule 10A-3(b)(1) promulgated under the Securities Exchange Act of 1934, as amended, and Rule 4350(d)(2) of the listing standards of the Nasdaq Global Market. At least one member of the audit committee shall have past employment experience in finance or accounting, requisite professional certification in accounting or any other comparable experience or background which results in the individual's financial sophistication, including being or having been a chief executive officer, chief financial officer or other senior officer with financial oversight responsibilities, as each such qualification is interpreted by the board in its business judgment. In addition, at least one member of the audit committee shall be an "audit committee financial expert" as such term is defined by the SEC.

Although the audit committee is positioned at the Penns Woods Bancorp, Inc. level, information is communicated to the respective subsidiary boards as needed.

Purpose:

The audit committee oversees the accounting and financial reporting processes of the corporation and the audits of the corporation's financial statements. In that regard, the audit committee monitors:

- the quality and integrity of the corporation's financial statements;
 - the independent auditors' qualifications and independence;
 - the performance of the corporation's internal audit function and the corporation's independent auditors; and
 - the compliance with legal and regulatory requirements.
- The audit committee shall meet as often as it deems necessary but not less frequently than quarterly. The audit committee shall meet periodically in separate executive sessions with management, the internal auditors and the independent auditor, and any other person as the committee deems appropriate.

Responsibilities:

In carrying out its responsibilities, the audit committee believes its policies and procedures should remain flexible, in order to best react to changing conditions and to ensure that the accounting and reporting practices of the corporation are in accordance with applicable requirements and are of the highest quality.

In carrying out these responsibilities, the audit committee will:

- Be directly responsible for the appointment, compensation, retention, oversight of the work, evaluation and termination of any independent auditor employed by the corporation (including resolving disagreements between management and the independent auditor regarding financial reporting) for the purpose of preparing or issuing an audit report or performing other audit, review or attest services, and the independent auditor shall report directly to the audit committee.
- Pre-approve all audit services (which may entail providing comfort letters in connection with securities underwritings) and all non-audit services to be performed by the independent auditors and the related fees for such services other than prohibited non-audit services as promulgated

under the rules and regulations of the SEC (subject to the inadvertent *de minimis* exceptions set forth in the Act and the SEC rules). Pre-approved services shall include blanket pre-approval of non-prohibited services for limited dollar amounts which the audit committee, in its business judgment, does not believe possess the potential for abuse or conflict.

- Ensure the rotation of the audit partners as required by law, and consider whether rotation of the independent auditor is required to ensure independence.
- Establish the scope of the external audit.
- Meet with the independent auditors and financial management of the corporation to review the scope of the proposed audit procedures to be utilized, and at the conclusion thereof review such audit, including any comments or recommendations of the independent auditors.
- Review and discuss with the independent auditors, management the internal auditors, and financial and accounting personnel, the adequacy and effectiveness of the accounting and internal control over financial reporting of the corporation, including any material changes thereto, and elicit any recommendations for the improvement of such internal control procedures or particular areas where new or more detailed controls or procedures are desirable. Particular emphasis should be given to the adequacy of such internal controls to expose any payments, transactions, or procedures that might be deemed illegal, fraudulent or otherwise improper. Further, the audit committee periodically should review corporation policy statements to determine their adherence to the code of conduct.
- Review and discuss with the independent auditors, management, and the internal auditors the adequacy of the corporation's disclosures regarding its internal control over financial reporting, including management's annual report thereon and the independent auditor's related attestation.
- Discuss with management and the independent auditor the effect of regulatory and accounting initiatives as well as off-balance sheet structures on the corporation's financial statements.
- Review the internal audit function of the corporation including the independence and authority of its reporting obligations, the proposed audit plans for the coming year and the coordination of such plans with the independent auditors.
- Receive prior to each meeting, a summary of findings from completed internal audits and progress report on the proposed internal audit plan, with explanations for any deviations from the original plan.
- Review and discuss with management and the independent auditor the corporation's annual audited financial statements, including disclosures made in management's discussion and analysis of financial condition and results of operation, and recommend to the board of directors whether the audited financial statements should be included in the corporation's Form 10-K.
- Review and discuss with management and the independent auditor the corporation's quarterly financial statements, including the disclosures made in management's discussion and analysis of financial condition and results of operations prior to the filing of the corporation's Form 10-Q, including the results of the independent auditors' reviews of the quarterly financial statements.
- Discuss with the independent auditors the matters required to be discussed by Statement on Accounting Standards No. 61 and the matters in the written disclosures required by Independence Standards Board Standard No. 1.
- Review reports required to be submitted by the independent auditor concerning: (a) all critical accounting policies and practices used; (b) all alternative treatments of financial information with

GAAP that have been discussed with management, the ramifications of such alternatives, and the accounting treatment preferred by the independent auditors; and (c) any other material written communications with management, such as any management letter or schedule of unadjusted differences.

- Review earnings releases prior to their release, including the use of any “pro forma,” “adjusted” or other non-GAAP information, as well as financial information and earnings guidance provided to analysts and rating agencies.
- Provide sufficient opportunity for the internal and independent auditors to meet with the members of the audit committee without members of management present. Among the items to be discussed in these meetings are the independent auditor’s evaluation of the corporation’s financial, accounting and auditing personnel, and the cooperation that the independent auditors received during the course of the audit.
- Establish procedures for (i) the receipt, retention, and treatment of complaints received by the corporation from third parties regarding accounting, internal accounting controls, or auditing matters and (ii) the confidential, anonymous submission by employees of the corporation of concerns regarding questionable accounting or auditing matters.
- Prepare the report of the audit committee required by the rules of the SEC to be included in the corporation’s proxy statement for each annual meeting.
- Review and reassess annually the adequacy of this Charter and recommend any changes to the board of directors.
- Submit the minutes of all meetings of the audit committee to, or discuss the matters discussed at each committee meeting with, the board of directors.
- Investigate any matter brought to its attention within the scope of its duties.
- Retain outside counsel or other advisers, as it determines necessary to carry out its duties.

Miscellaneous:

The corporation shall provide for appropriate funding, as determined by the audit committee, for payment of: (a) compensation to any accounting firm engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the corporation; (b) compensation to any independent legal advisers or other advisers engaged by the audit committee, as it determines necessary to carry out its duties; and (c) ordinary administrative expenses of the audit committee that are necessary or appropriate in carrying out its duties.