

NORWOOD FINANCIAL CORP
Form 424B3
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A Merger Proposal — Your Vote Is Very Important

To the Shareholders of North Penn Bancorp, Inc.:

You are cordially invited to attend a special meeting of the shareholders of North Penn Bancorp, Inc. (North Penn) to be held on Friday, April 8, 2011 at 9:00 a.m., local time, at The Radisson Lackawanna Station Hotel Scranton, 700 Lackawanna Avenue, Scranton, Pennsylvania.

At the special meeting, you will be asked to consider the merger of North Penn and Norwood Financial Corp. (Norwood) and adopt the Agreement and Plan of Merger (the merger agreement) dated December 14, 2010, that North Penn and North Penn Bank entered into with Norwood and Wayne Bank, a wholly owned subsidiary of Norwood. You will also be asked to approve the adjournment, postponement, or continuation of the special meeting, if necessary, to solicit additional proxies in favor of adoption of the merger agreement.

If the merger is completed, each outstanding share of North Penn common stock will be converted into the right to receive either: (1) \$19.12 in cash, without interest, or (2) 0.6829 of a share of Norwood common stock. You will be able to elect to receive cash for all of your shares of North Penn common stock, shares of Norwood common stock for all of your shares of North Penn common stock or cash for some of your shares of North Penn common stock and Norwood common stock for the remainder. Regardless of your choice, however, elections will be limited by the requirement that the aggregate amount of cash to be paid by Norwood (which includes, for this purpose, cash paid in settlement of stock options, unallocated shares held by the North Penn employee stock ownership plan and any dissenting shares) must equal \$12,194,000. Therefore, all allocations of cash and Norwood common stock that you will receive will depend on the elections of other North Penn shareholders. The federal income tax consequences of the merger to you will depend on whether you receive cash, stock or a combination of cash and stock in exchange for your shares of North Penn common stock.

Under the terms of the merger agreement, the cash consideration and the exchange ratio will remain fixed, while the value of the stock consideration will fluctuate with the market price of Norwood common stock. Based on the closing price of Norwood common stock on the NASDAQ Global Market on December 14, 2010, the last trading day before public announcement of the merger agreement, the value of the stock consideration represented approximately \$19.62 in value for each share of North Penn common stock. You should obtain current stock price quotations for Norwood and North Penn common stock. Norwood common stock trades on the NASDAQ Global Market under the symbol "NWFL" and North Penn common stock trades on the OTC Bulletin Board under the symbol "NPBP."

Your board of directors has unanimously determined that the merger and the merger agreement are fair and in the best interests of North Penn and its shareholders and unanimously recommends that you vote "FOR" approval of the merger agreement and the merger. The merger cannot be completed unless a majority of the votes cast at the special meeting at which a quorum is present vote to approve the merger agreement. Whether or not you plan to attend the special meeting of shareholders, please take the time to vote by completing the enclosed proxy card and mailing it in the enclosed envelope. If you sign, date and mail your proxy card without indicating how you want to vote, your proxy will be counted as a vote "FOR" adoption of the merger agreement and "FOR" the proposal to adjourn the special meeting, if necessary, to solicit additional votes in favor of adoption of the merger agreement.

This proxy statement/prospectus provides you with detailed information about the proposed merger. It also contains information about Norwood and North Penn and related matters. You are encouraged to read this document carefully. In particular, you should read the "Risk Factors" section beginning on page 16 for a discussion of the risks you should consider in evaluating the proposed merger and how it will affect you.

On behalf of the board of directors, I thank you for your prompt attention to this important matter.

Sincerely yours,

Frederick L. Hickman
President and Chief Executive Officer

Neither the Securities and Exchange Commission nor any state securities commission or bank regulatory agency has approved or disapproved of the merger, the issuance of the Norwood common stock in connection with the merger or the other transactions described in this proxy statement/prospectus, or passed upon the adequacy or accuracy of the disclosure in this document. Any representation to the contrary is a criminal offense.

The securities to be issued in the merger are not savings accounts, deposits or other obligations of any bank or savings association and are not insured by the Federal Deposit Insurance Corporation or any other governmental agency.

This proxy statement/prospectus is dated February 25, 2011, and is first being mailed to shareholders of North Penn on or about March 4, 2011.

NORTH PENN BANCORP, INC.

216 Adams Avenue
Scranton, Pennsylvania 18503
(570) 344-6113

NOTICE OF SPECIAL MEETING OF SHAREHOLDERS
To Be Held On April 8, 2011

NOTICE IS HEREBY GIVEN, that a special meeting of shareholders of North Penn Bancorp, Inc. will be held at The Radisson Lackawanna Station Hotel Scranton, located at 700 Lackawanna Avenue, Scranton, Pennsylvania, on Friday, April 8, 2011 at 9:00 a.m., local time, for the following purposes:

1. To consider and vote upon a proposal to adopt the Agreement and Plan of Merger, dated December 14, 2010, by and among Norwood Financial Corp., Wayne Bank, North Penn Bancorp, Inc. and North Penn Bank, under which North Penn will merge with and into Norwood;
2. To consider and vote upon a proposal to adjourn, postpone or continue the special meeting, if necessary, to permit further solicitation of proxies in favor of adopting the merger agreement; and
3. To transact such business as may properly come before the special meeting or any adjournment, postponement or continuance thereof.

Shareholders of record at the close of business on February 18, 2011 are entitled to notice of and to vote at the special meeting and at any adjournment or postponement thereof. The enclosed proxy statement/prospectus describes the merger agreement in detail, and a copy of the merger agreement is annexed as Annex A to the proxy statement/prospectus and incorporated by reference therein.

The board of directors of North Penn unanimously recommends that North Penn's shareholders vote "FOR" the proposal to approve the merger agreement and "FOR" the adjournment proposal described above.

Your vote is very important. Your proxy is being solicited by the board of directors of North Penn. The proposal to approve the merger agreement must be approved by the affirmative vote of a majority of the votes cast at the special meeting; provided, that a majority of the outstanding shares of North Penn common stock entitled to vote at the special meeting is present, in person or by proxy. Whether or not you expect to attend the special meeting, please complete, sign and date the accompanying proxy card and return it in the enclosed postage prepaid envelope. You may revoke your proxy by written notice to North Penn, by submitting a proxy card dated as of a later date or by voting in person at the special meeting.

Under Pennsylvania law, if the merger is completed, North Penn shareholders of record who do not vote to approve the merger agreement and otherwise comply with the applicable provisions of Pennsylvania law pertaining to dissenters' rights will be entitled to exercise dissenters' rights and obtain payment in cash of the fair value of their shares of North Penn common stock by following the procedures set forth in detail in the enclosed proxy statement/prospectus. A copy of the section of the Pennsylvania Business Corporation Law pertaining to dissenters' rights is included as Annex C to the accompanying proxy statement/prospectus.

By Order of the Board of Directors

Frank H. Mechler
Secretary

If you have any questions or need assistance voting your shares, please contact our proxy solicitor, Regan & Associates, Inc., toll-free at (800) 737-3426.

WHERE YOU CAN FIND MORE INFORMATION

This document, which is sometimes referred to as this “proxy statement/prospectus” constitutes a proxy statement of North Penn with respect to the solicitation of proxies for the North Penn special meeting and a prospectus of Norwood for the shares of common stock that Norwood will issue to North Penn’s shareholders in the Merger.

Norwood filed a registration statement on Form S-4 to register with the Securities and Exchange Commission (the “SEC”) the shares that Norwood will issue to North Penn’s shareholders in the merger. This proxy statement/prospectus constitutes a part of that registration statement on Form S-4. For further information about Norwood, you should review the registration statement filed with the SEC.

Norwood and North Penn file annual, quarterly and current reports, proxy statements and other information with the SEC required to be filed by them as reporting companies under Sections 13 or 15(d) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). You may read and copy any materials that Norwood and North Penn file with the SEC at the SEC’s Public Reference Room, 100 F Street, N.E., Washington, D.C. 20549 on official business days during the hours of 10:00 a.m. to 3:00 p.m. You should call the SEC at 1-800-SEC-0330 for further information on the operation of the Public Reference Room. In addition, the SEC maintains an Internet site at www.sec.gov that contains the reports, proxy and information statements, and other information that Norwood and North Penn file with the SEC. You may also obtain free copies of the documents that (i) Norwood files with the SEC by going to the Stockholder Services section of Norwood’s website, www.waynebank.com or by contacting William S. Lance, Senior Vice President and Chief Financial Officer, Norwood Financial Corp., 717 Main Street, Honesdale, Pennsylvania 18431, Telephone: (570) 253-1455, and (ii) North Penn files with the SEC by going to the Investor Relations section of North Penn’s website, www.northpennbank.com or by contacting Bridget Orue, Assistant Secretary, North Penn Bancorp, Inc., 216 Adams Avenue, Scranton, Pennsylvania 18503, Telephone: (570) 344-6113. Information contained on Norwood’s and North Penn’s website is not incorporated into this proxy statement/prospectus and you should not consider information contained on either website to be part of this proxy statement/prospectus or any supplement thereto.

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ANNEXES

A. Agreement and Plan of Merger, dated as of December 14, 2010, by
and among Norwood Financial Corp., Wayne Bank, North Penn
Bancorp,

Inc. and North Penn Bank

B. Opinion of The Kafafian Group

C. Pennsylvania Business Corporation Law, Subchapter D of Chapter 15

QUESTIONS AND ANSWERS ABOUT THE MERGER AND THE SPECIAL MEETING

The following are answers to certain questions that you may have regarding the merger and the special meeting. We urge you to read carefully the remainder of this proxy statement/prospectus because the information in this section may not provide all the information that might be important to you in determining how to vote. Additional important information is also contained in the annexes to this proxy statement/prospectus.

Q: Why am I receiving this document?

A: Norwood and North Penn have agreed to combine under the terms of a merger agreement that is described in this proxy statement/prospectus. A copy of the merger agreement is attached to this proxy statement/prospectus as Annex A. In order to complete the merger, North Penn shareholders must vote to approve the merger agreement and the merger. North Penn is holding a special meeting of shareholders to obtain this approval. This proxy statement/prospectus contains important information about the merger, the merger agreement, the special meeting, and other related matters, and you should read it carefully.

Q: What will happen to North Penn as a result of the merger?

A: If the merger is completed, North Penn will merge with and into Norwood and its separate corporate existence will end. In addition, immediately following the merger, North Penn Bank will merge with and into Wayne Bank with Wayne Bank being the surviving bank.

Q: What will North Penn shareholders receive in the merger?

A: If the merger agreement is approved and the merger is subsequently completed, each outstanding share of North Penn common stock (other than any dissenting shares) will be converted into the right to receive either:

- \$19.12 in cash, without interest; or
- 0.6829 of a share of Norwood common stock,

in each case, subject to adjustment, election and allocation procedures specified in the merger agreement.

Shareholders may elect to receive all cash, all stock, or cash for some shares and stock for the remainder of the shares they own, subject to adjustment, election and allocation procedures specified in the merger agreement. The ability to receive all stock, all cash or a mix of both will depend on the elections of other North Penn shareholders. The allocation of the mix of consideration payable to North Penn shareholders in the merger will not be known until Norwood tallies the results of the cash/stock elections made by North Penn shareholders. No guarantee can be made that you will receive the amounts of cash or stock that you elect. See “The Merger and the Merger Agreement — Consideration to be Received in the Merger” beginning on page 50 and “— Allocation Procedures” beginning on page 53.

Q: Will North Penn shareholders receive the form of consideration they elect?

A: Each North Penn shareholder may not receive the form of consideration that it elects in the merger. The allocation procedures in the merger agreement are intended to provide that the aggregate amount of cash paid as cash consideration, in settlement of outstanding stock options, for unallocated shares held by the North Penn Bank Employee Stock Ownership Plan (the “ESOP”) and for any

dissenting shares equals \$12,194,000 (the "Aggregate Cash Consideration"). Pursuant to this limitation, if the aggregate number of shares with respect to which a valid cash consideration election is made multiplied by \$19.12, together with amounts paid in settlement of stock options, unallocated shares held by the ESOP and any dissenting shares, is greater than the Aggregate Cash Consideration, a pro rata portion of those shares will be converted into the right to receive Norwood common stock such that the amount of cash paid out in the transaction is \$12,194,000. Similarly, if the number of shares pursuant to which a valid cash consideration election multiplied by \$19.12, together with amounts paid in settlement of stock options, for unallocated shares held by the ESOP, and for any dissenting shares is less than the Aggregate Cash Consideration, shares for which no election has been made first and shares for which a stock consideration election has been made will be converted, as necessary, such that the amount of cash paid out in the transaction equals \$12,194,000.

Q: How do North Penn shareholders register their election for cash, Norwood common stock or a combination thereof?

A: Each North Penn shareholder should complete and return an election form, along with the North Penn stock certificate(s), according to the instructions included with the form. The election form will be provided to North Penn shareholders under separate cover. The election deadline will be 5:00 p.m., Eastern time, on the date specified in the election form. If you own shares of North Penn common stock in "street name" through a bank, broker or other financial institution and you wish to make an election, you should seek instructions from the financial institution holding your shares concerning how to make an election. If you do not send in the election form with your stock certificate(s) by the election deadline, you will be treated as though you had not made an election.

Q: What happens if a North Penn shareholder does not make a valid election as to whether to receive cash or stock?

A: If a North Penn shareholder does not return a properly completed election form by the election deadline specified in the election form, such shareholder's shares of North Penn common stock will be considered "non-election shares" and will be converted into the right to receive the stock consideration or the cash consideration according to the allocation procedures specified in the merger agreement.

Q: When will the merger be completed?

A: We expect the merger will be completed when all of the conditions to completion contained in the merger agreement are satisfied or waived, including the receipt of required regulatory approvals and the approval of the merger agreement by North Penn shareholders at the special meeting. We currently expect to complete the merger during the second calendar quarter of 2011. However, because fulfillment of some of the conditions to completion of the merger, such as the receipt of required regulatory approvals, is not entirely within our control, we cannot predict the actual timing.

Q: What happens if the merger is not completed?

A: If the merger is not completed, North Penn shareholders will not receive any consideration for their shares of common stock in connection with the merger. Instead, North Penn will remain an independent public company and its common stock will continue to be quoted on the OTC Bulletin Board. Under specified circumstances, North Penn may be required to pay to Norwood a fee with respect to the termination of the merger agreement, as described under “The Merger and the Merger Agreement — Termination Fee” beginning on page 73.

Q: Who is being asked to approve matters in connection with the merger?

A: North Penn shareholders are being asked to vote to approve the merger agreement and the merger and to approve a proposal to adjourn the special meeting, if necessary, to solicit additional proxies. No approval of Norwood shareholders is required. Under Pennsylvania law, the merger cannot be completed unless North Penn shareholders vote to adopt the merger agreement and the merger. By this proxy statement/prospectus, North Penn’s board of directors is soliciting proxies of North Penn shareholders to provide this approval at the special meeting of North Penn shareholders discussed below.

Q: Should North Penn shareholders send in their stock certificates with their proxy card?

A: No. An election form and transmittal materials, with instructions for their completion, will be provided to North Penn shareholders under separate cover and the stock certificates should be sent at that time.

Q: What are the material United States federal income tax consequences of the merger to North Penn shareholders?

A: Norwood and North Penn will not be required to complete the merger unless they receive legal opinions from their respective counsel to the effect that the merger will qualify as a tax-free reorganization for United States federal income tax purposes. Provided that the merger qualifies as a reorganization for United States federal income tax purposes, the specific tax consequences of the merger to a North Penn shareholder will depend upon the form of consideration such shareholder will receive in the merger.

The consequences of the merger to any particular shareholder will depend on that shareholder’s particular facts and circumstances. Accordingly, you are urged to consult your tax advisor to determine your tax consequences from the merger.

For a more detailed discussion of the material United States federal income tax consequences of the transaction, see “The Merger and the Merger Agreement — Tax Consequences of the Merger” beginning on page 55.

Q: Are North Penn shareholders entitled to appraisal rights?

A: Yes. Under Pennsylvania law, record holders of North Penn common stock who submit a written demand and do not vote in favor of the proposal to adopt the merger agreement will be entitled to seek appraisal rights in connection with the merger, and if the merger is completed, obtain payment in cash equal to the fair value of their shares of North Penn common stock instead of the merger consideration. To exercise their appraisal rights, North Penn shareholders must strictly follow the procedures prescribed by Pennsylvania law. These procedures are summarized in this proxy

statement/prospectus. In addition, the text of the applicable provisions of Pennsylvania law is included as Annex C to this document. Failure to strictly comply with these provisions will result in the loss of appraisal rights. For a more complete description of appraisal rights, please refer to the section entitled “The Merger and the Merger Agreement — Dissenters’ Rights of Appraisal” beginning on page 73.

Q: Are there any risks that I should consider in deciding whether to vote for approval of the merger-related proposals?

A: Yes. You should read and carefully consider the risk factors set forth in the section of this proxy statement/prospectus entitled “Risk Factors” beginning on page 16.

Q: When and where will North Penn shareholders meet?

A: North Penn will hold a special meeting of its shareholders on April 8, 2011, at 9:00 a.m., Eastern Time, at The Radisson Lackawanna Station Hotel Scranton, located at 700 Lackawanna Avenue, Scranton, Pennsylvania.

Q: What matters are North Penn shareholders being asked to approve at the special meeting pursuant to the proxy statement/prospectus?

A: North Penn shareholders are being asked to adopt the merger agreement and approve the transactions contemplated by the merger agreement, including the merger. North Penn shareholders also are being asked to approve a proposal to adjourn, postpone or continue the special meeting, if necessary, to solicit additional proxies in favor of adoption of the merger agreement.

Q: What does North Penn’s Board of Directors recommend with respect to the proposals?

A: North Penn’s board of directors has unanimously approved the merger agreement and determined that the merger agreement and the merger are fair to and in the best interests of North Penn and its shareholders and unanimously recommends that North Penn shareholders vote “FOR” the merger agreement and “FOR” the adjournment proposal.

Q: Did the Board of Directors of North Penn receive an opinion from a financial advisor with respect to the merger?

A: Yes. On December 14, 2010, The Kafafian Group, which we refer to in this proxy statement/prospectus as “TKG,” rendered its oral opinion to the board of directors of North Penn, subsequently confirmed in writing, that, as of such date and based upon and subject to the factors and assumptions described to the North Penn board during its presentation and set forth in the opinion, the consideration in the proposed merger was fair, from a financial point of view, to holders of North Penn common stock. The full text of TKG’s written opinion is attached as Annex B to this proxy statement/prospectus. North Penn shareholders are urged to read the opinion in its entirety.

Q: Who can vote at the special meeting?

A: Holders of record of North Penn common stock at the close of business on February 18, 2011, which is the record date for the special meeting, are entitled to vote at the special meeting.

Q: How many votes must be represented in person or by proxy at the special meeting to have a quorum?

A: The holders of a majority of the shares of North Penn common stock outstanding and entitled to vote at the special meeting, present in person or represented by proxy, will constitute a quorum at the special meeting.

Q: What vote by shareholders is required to approve each of the proposals?

A: Assuming a quorum is present at the special meeting, approval of the merger agreement will require the affirmative vote of the holders of a majority of the votes cast at the special meeting. Approval of the adjournment proposal will require the affirmative vote of a majority of the votes cast at the special meeting assuming a quorum is present. Abstentions and broker non-votes will have no effect on voting for or against the merger agreement proposal or the adjournment proposal.

As of the record date for the special meeting, directors and executive officers of North Penn, together with their affiliates, had sole or shared voting power over approximately 17.7% of the North Penn common stock outstanding and entitled to vote at the special meeting.

Q: How may the North Penn shareholders vote their shares for the proposals being presented at the special meeting?

A: North Penn shareholders may vote by completing, signing, dating and returning the proxy card in the enclosed prepaid return envelope as soon as possible. This will enable their shares to be represented and voted at the special meeting.

Q: Will a broker or bank holding shares in "street name" for a North Penn shareholder automatically vote those shares for a shareholder at the special meeting?

A: No. A broker or bank WILL NOT be able to vote your shares with respect to the North Penn merger agreement proposal without first receiving instructions from you on how to vote. If your shares are held in "street name," you will receive separate voting instructions with your proxy materials. It is therefore important that you provide timely instruction to your broker or bank to ensure that all shares of North Penn common stock that you own are voted at the special meeting.

Q: Will North Penn shareholders be able to vote their shares in person at the Special Meeting?

A: Yes. Submitting a proxy will not affect the right of any North Penn shareholder to vote in person at the special meeting. However, if a North Penn shareholder holds shares in "street name," the shareholder must first ask its broker or bank how to vote those shares in person at the special meeting and obtain a "legal proxy."

Q: What do North Penn shareholders need to do now?

A: After carefully reading and considering the information contained in this proxy statement/prospectus, please vote your shares promptly. If you hold your shares of North Penn common stock as a shareholder of record, you should complete, sign, date and promptly return the enclosed proxy card. The proxy card will instruct the persons named on the proxy card to vote your North Penn shares at the special meeting as you direct. If you sign and send in a proxy card and do not indicate how you wish to vote, the proxy will be voted "FOR" the special meeting proposals. If you hold your stock in "street

name” through a bank or broker, you must direct your bank or broker to vote in accordance with the instructions you have received from your bank or broker. Submitting your proxy card or directing your bank or broker to vote your shares will ensure that your shares are represented and voted at the special meeting.

Q: What should a North Penn shareholder do if he or she receives more than one set of voting materials?

A: As a North Penn shareholder, you may receive more than one set of voting materials, including multiple copies of this proxy statement/prospectus and multiple North Penn proxy cards or voting instruction cards. For example, if you hold your North Penn shares in more than one brokerage account, you will receive a separate voting instruction card for each brokerage account in which you hold North Penn shares. If you are a holder of record and your North Penn shares are registered in more than one name, you will receive more than one proxy card. Please complete, sign, date and return each proxy card and voting instruction card that you receive or otherwise follow the voting instructions set forth in this proxy statement/prospectus in the section entitled “The Special Meeting of Shareholders” beginning on page 33.

Q: May a North Penn shareholder change or revoke the shareholder’s vote after submitting a proxy?

A: Yes. If you have not voted through your broker, you can change your vote by:

- providing written notice of revocation to the Corporate Secretary of North Penn, which must be filed with the Corporate Secretary by the time the special meeting begins;
- submitting a new proxy card (any earlier proxies will be revoked automatically); or
- attending the special meeting and voting in person. Any earlier proxy will be revoked. However, simply attending the special meeting without voting will not revoke your proxy.
- If you have instructed a broker to vote your shares, you must follow your broker’s directions to change your vote.

Q: What happens if I sell my shares of North Penn common stock before the special meeting?

A: The record date for North Penn shareholders entitled to vote at the special meeting is earlier than both the date of the special meeting and the completion of the merger. If you transfer your North Penn shares of common stock after the record date but before the special meeting, you will, unless special arrangements are made, retain your right to vote at the special meeting but will transfer the right to receive the merger consideration to the person to whom you transfer your shares.

Q: Who can help answer my questions?

A: If you have any questions about the merger or the special meeting, or if you need additional copies of this proxy statement/prospectus or the enclosed proxy card, you should contact North Penn’s proxy solicitor, Regan & Associates, Inc. at (800) 737-3426.

SUMMARY

This summary, together with the section of this proxy statement/prospectus entitled “Questions and Answers About the Merger and the Special Meeting” highlights selected information from this proxy statement/prospectus and may not contain all of the information that is important to you. To understand the merger fully, and for a more complete description of the legal terms of the merger, you should carefully read this entire proxy statement/prospectus, the annexes attached to this proxy statement/prospectus and the documents which are referred to in this proxy statement/prospectus. The Agreement and Plan of Merger dated as of December 14, 2010 is attached as Annex A to this proxy statement/prospectus. We have included page references in parentheses to direct you to the appropriate place in this proxy statement/prospectus for a more complete description of the topics presented in this summary. The terms “we,” “us” and “our” refer to both Norwood and North Penn. This summary and the rest of this document contain forward-looking statements about events that are not certain to occur, and you should not place undue reliance on those statements. Please carefully read “Cautionary Statement Regarding Forward-Looking Information” on page 30 of this document.

The Parties

Norwood Financial Corp.
717 Main Street
Honesdale, Pennsylvania 18431
(570) 253-1455

Norwood Financial Corp., a Pennsylvania corporation, is the holding company for Wayne Bank. Wayne Bank is a Pennsylvania chartered commercial bank headquartered in Honesdale, Pennsylvania. Wayne Bank was originally chartered on February 17, 1870 as Wayne County Savings Bank. Wayne County Savings Bank changed its name to Wayne County Bank and Trust in December 1943. In September 1993, Wayne Bank adopted the name Wayne Bank. On March 29, 1996, Wayne Bank completed a holding company reorganization and became a wholly owned subsidiary of Norwood. Wayne Bank is an independent community bank with five offices in Wayne County, three offices in Pike County and three offices in Monroe County. It offers a wide variety of personal and business credit services and trust and investment products and real estate settlement services to the consumers, businesses, nonprofit organizations, and municipalities in each of the communities that it serves. Wayne Bank primarily serves the Pennsylvania counties of Wayne, Pike and Monroe, and to a much lesser extent, the counties of Lackawanna and Susquehanna. In addition, Wayne Bank operates eleven ATMs, one in each of its branch locations. Norwood’s common stock is traded on the NASDAQ Global Market under the symbol “NWFL.”

At September 30, 2010, Norwood had total assets of \$534.6 million, deposits of \$398.6 million, and stockholders’ equity of \$68.4 million.

North Penn Bancorp, Inc.
216 Adams Avenue
Scranton, Pennsylvania 18503
(570) 344-6113

North Penn Bancorp, Inc., a Pennsylvania corporation, is the holding company for North Penn Bank, a Pennsylvania savings bank headquartered in Scranton, Pennsylvania. North Penn Bank operates five full-service locations in Northeast Pennsylvania. North Penn Bank conducts a community banking business, offering a variety of deposit and loan products to individuals and small businesses in its market area. North Penn’s common stock is quoted on the OTC Bulletin Board under the symbol “NPBP.OB.”

At September 30, 2010, North Penn had total assets of \$164.5 million, total deposits of \$136.5 million and total stockholders' equity of \$19.9 million.

The Merger and the Merger Agreement (page 35)

The terms and conditions of the merger are contained in the merger agreement, which is attached to this proxy statement/prospectus as Annex A. We encourage you to read this agreement carefully, as it is the legal document that governs the merger.

Under the terms of the merger agreement, North Penn will merge with and into Norwood with Norwood as the surviving entity of the merger. Immediately thereafter, North Penn Bank will merge with and into Norwood's wholly owned banking subsidiary Wayne Bank with Wayne Bank as the surviving entity of the bank merger.

Consideration to be Received in the Merger (page 50)

Under the terms of the merger agreement, North Penn shareholders (other than dissenting shareholders) have the opportunity to elect, for each outstanding share of North Penn common stock they own, to receive:

- \$19.12 in cash, without interest, which we refer to as the "cash consideration;" or
- 0.6829 of a share of Norwood common stock, which we refer to as the "stock consideration."

North Penn shareholders may also elect to receive the cash consideration for some of their shares of North Penn common stock and the stock consideration for the remainder. Elections will be subject to the adjustment, election and allocation procedures specified in the merger agreement.

The allocation procedures are intended to provide that the amount of cash Norwood will expend in the merger which includes the aggregate number of shares for which it pays the cash consideration, the cash paid in settlement of outstanding options, the cash consideration paid for unallocated shares held by the ESOP as well as any amounts paid to dissenting shareholders will equal \$12,194,000. In the event the cash consideration pool is oversubscribed, North Penn shareholders who make a cash election will receive a mix of cash and stock consideration in the merger. In the event the cash consideration pool is undersubscribed, shares for which no election has been made first and shares for which a stock consideration election has been made will be converted, as necessary, such that the amount of cash paid out in the transaction equals \$12,194,000. The allocation of the mix of consideration payable to North Penn shareholders in the merger will not be known until Norwood tallies the results of the cash/stock elections made by North Penn shareholders.

Election Procedures; Surrender of Stock Certificates (page 52)

An election form and transmittal materials, with instructions for their completion, will be provided to North Penn shareholders of record as of February 18, 2011 under separate cover. The election form entitles such shareholders to elect to receive cash, Norwood common stock, or to elect cash for some of their shares and stock for the remainder, or make no election with respect to the merger consideration. To make an effective election, a North Penn shareholder of record must submit a properly completed election form along with the stock certificate(s) to the exchange agent by the election deadline, which shall be as specified in the election form. North Penn shareholders are urged to carefully read and follow the instructions for completion of the election form and to submit the form in advance of the election deadline.

Effective Time of the Merger (page 65)

The merger will occur after the satisfaction of all the closing conditions, including the receipt of all regulatory and shareholder approvals and after the expiration of all regulatory waiting periods. As of the date of this proxy statement/prospectus, the parties expect that the merger will be effective during the second calendar quarter of 2011. However, there can be no assurance as to when or if the merger will occur.

North Penn Special Meeting of Shareholders (page 33)

A special meeting of the shareholders of North Penn will be held at The Radisson Lackawanna Station Hotel Scranton, located at 700 Lackawanna Avenue, Scranton, Pennsylvania, at 9:00 a.m., Eastern Time, on April 8, 2011, for the following purposes:

- to approve the proposal to adopt the merger agreement and approve the transactions contemplated by the merger agreement, including the merger;
- to approve a proposal to adjourn, postpone or continue the special meeting, if necessary, to permit further solicitation of proxies in favor of adopting the merger agreement; and
- to transact any other business which may properly come before the special meeting or any adjournment, postponement or continuance of the special meeting.

You can vote at the special meeting of North Penn shareholders if you owned North Penn common stock at the close of business on February 18, 2011, the record date. On that date, there were 1,336,136 shares of North Penn common stock outstanding and entitled to vote, approximately 17.7% of which were owned and entitled to be voted by North Penn directors and executive officers and their affiliates. These individuals have entered into agreements with Norwood requiring them to vote all of these shares in favor of adoption of the merger agreement. You can cast one vote for each share of North Penn common stock you owned on the record date.

In order to approve the proposal to adopt the merger agreement, assuming a quorum is present at the North Penn special meeting, the holders of at least a majority of the votes cast must be in favor of the proposal. In order to approve the adjournment proposal, if necessary, the holders of a majority of the votes cast in person or represented by proxy at the special meeting and entitled to vote must vote in favor of the proposal.

Recommendation of the North Penn Board of Directors and Reasons for the Merger (page 40)

The North Penn board of directors has unanimously determined that the merger agreement and the merger are fair to and in the best interests of North Penn and its shareholders and accordingly unanimously approved the merger agreement and recommends that North Penn shareholders vote “FOR” the adoption of the merger agreement.

In determining whether to approve the merger agreement and recommend adoption of the merger agreement to the North Penn shareholders, North Penn’s board considered the factors described under “The Merger and the Merger Agreement — Reasons for the Merger and Recommendation of the North Penn Board of Directors.”

Opinion of North Penn's Financial Advisor (page 44 and Annex B)

On December 14, 2010, TKG rendered its oral opinion to the board of directors of North Penn, subsequently confirmed in writing, that, as of such date and based upon and subject to the factors and assumptions described to the North Penn board during its presentation and set forth in its written opinion, the consideration in the proposed merger was fair, from a financial point of view, to holders of North Penn common stock. The full text of TKG's written opinion, which sets forth the assumptions made, matters considered and limits on the review undertaken in connection with the opinion, is attached as Annex B to this proxy statement/prospectus and is incorporated by reference herein. North Penn shareholders are urged to read the opinion in its entirety. TKG's written opinion is addressed to the board of directors of North Penn, is directed only to the consideration in the merger and does not constitute a recommendation as to how any holder of North Penn common stock should vote with respect to the merger or any other matter.

Interests of North Penn Directors and Executive Officers in the Merger (page 60)

In considering the recommendation of the board of directors of North Penn to adopt the merger agreement, you should be aware that officers and directors of North Penn have employment and other compensation agreements or plans that give them interests in the merger that may be different from, or in addition to, their interests as North Penn shareholders. These interests and agreements include:

- employment agreements that provide for severance payments and other benefits following a change in control and a termination of employment by the employer for reasons other than cause, disability, retirement or death;
- addendums to the employment agreements entered into between Norwood and each of Mr. Frederick L. Hickman, Mr. Thomas J. Dziak and Mr. Thomas A. Byrne. In the addendum to his employment agreement, Mr. Hickman agreed, among other things, that the maximum change in control severance benefit under his employment agreement will be \$597,344. Mr. Dziak agreed, among other things, that he would not compete with Norwood or any of its subsidiaries for a period beginning on the effective date of the merger and ending on the later of four months following the date of the merger or three months following his termination of employment with Norwood. Mr. Byrne agreed that if he is an employee in good standing with Norwood as of the date that is one month following the effective date of the merger he would receive \$50,000 and if he is an employee in good standing with Norwood as of the date that is 12 months following the effective date of the merger he would receive \$30,000, that he would not compete with Norwood or any of its subsidiaries for a period beginning on the effective date of the merger and ending on the later of one year following the date of the merger or three months following his termination of employment with Norwood and certain other matters;
- reimbursement to Mr. Hickman if payments under the employment agreements or any other payments trigger liability under Sections 280G and 4999 of the Internal Revenue Code for an excise tax on "excess parachute payments;"
- the accelerated vesting of all outstanding unvested stock options held by North Penn directors and executive officers and the exchange of each of these stock options for the excess of the cash consideration over the per share exercise price of the respective option;
- the accelerated vesting of all outstanding unvested restricted shares of common stock held by North Penn directors and executive officers;

- the fact that one current director of North Penn will be appointed as a director of Norwood when the merger is completed;
- the fact that the current North Penn directors who are not otherwise eligible for a severance or change in control payment (other than the one appointed to the Norwood board) will be entitled to receive a retainer in the amount of \$1,000 per month for an 18 month period in exchange for their efforts in promoting the combined entity after the effective time of the merger; and
- rights of North Penn officers and directors to indemnification and directors' and officers' liability insurance.

These additional interests of North Penn's executive officers and directors may create potential conflicts of interest and cause these persons to view the proposed transaction differently than you may view it as a shareholder.

North Penn's board of directors was aware of these interests and took them into account, among other matters, in its decision to approve the merger agreement and the transactions contemplated thereby, including the merger. For information concerning these interests, please see the discussion under the caption "The Merger and the Merger Agreement — Interests of Certain Persons in the Merger," beginning on page 60.

Regulatory Approvals Required for the Merger (page 59)

Completion of the merger is subject to various regulatory approvals or waivers, including, in connection with the planned merger of our subsidiary banks following completion of the merger, the Federal Deposit Insurance Corporation (the "FDIC") and the Pennsylvania Department of Banking (the "Department"). We have also requested a waiver from the Federal Reserve Board (the "FRB") of its application requirement. We have completed, or will complete, filing all the required applications and notices with regulatory authorities. We also have made or will make filings with various other federal and state regulatory agencies and self-regulatory organizations, notifying, or requesting approval from, those agencies and organizations for or in connection with the merger and the bank merger. Although we currently believe we should be able to obtain all required regulatory approvals in a timely manner, we cannot be certain when or if we will obtain them or, if obtained, whether they will contain terms, conditions or restrictions not currently contemplated that will be detrimental to or have a material adverse effect on Norwood after the completion of the merger.

Conditions to Completing the Merger (page 65)

Completion of the merger depends on a number of conditions being satisfied or waived, including the following:

- approval of the merger agreement by North Penn's shareholders;
- receipt of all required regulatory approvals and the expiration of all statutory waiting periods;
- there shall be no actual or threatened causes of action, investigations or proceedings (1) challenging the validity or legality of the merger agreement or the consummation of the merger, or (2) seeking damages in connection with the merger, or (3) seeking to restrain or invalidate the merger; unless actual or threatened causes of action, investigations or proceedings would not have a material adverse effect with respect to the interests of Norwood or North Penn, as the case may be;

- Norwood's registration statement of which this proxy statement/prospectus is a part being effective;
- the shares of Norwood common stock having been approved for listing on the NASDAQ, subject to official notice of issuance; and
- the other party having performed in all material respects its obligations under the merger agreement, the other party's representations and warranties being true and correct as of the effective date of the merger and receipt of a certificate signed by the other party's chief executive officer to that effect.

Norwood's obligations to consummate the merger are also conditioned on the following:

- there shall have been no determination by Norwood that any fact, event, or condition exists or has occurred that would have a material adverse effect on North Penn or the consummation of the transactions contemplated by the merger agreement;
- receipt by North Penn of all consents and approvals from third parties (other than those required from regulatory authorities) required to complete the merger, unless failure to obtain those consents or approvals would not have a material adverse effect on the merger or Norwood after completion of the merger;
- there shall be no action taken by an regulatory authority, which, in connection with approval of the merger, imposes, in the judgment of Norwood, any material adverse requirement upon Norwood or any Norwood subsidiary, including, without limitation, any requirement that Norwood sell or dispose of any significant amount of assets of North Penn, or any other Norwood subsidiary;

Although we anticipate that the closing will occur during the second calendar quarter of 2011, because the satisfaction of certain of these conditions is beyond our control, we cannot be certain when, or if, the conditions to the merger will be satisfied or waived or whether or not the merger will be completed.

No Solicitation; Board Recommendation (page 69)

North Penn has agreed not to initiate, solicit, encourage or knowingly facilitate any inquiries or proposals from any third party relating to an acquisition of North Penn, or engage in any negotiations concerning, or provide any confidential or nonpublic information or data to, or have any discussions with, any person relating to, any acquisition proposal. Notwithstanding these restrictions, the merger agreement provides that, under specified circumstances prior to shareholder approval of the merger agreement, in response to an unsolicited bona fide acquisition proposal from a third party if, in the good faith judgment of the North Penn board of directors (after consultation with its legal counsel and financial advisor) (i) it is legally necessary for the proper discharge of its fiduciary duties to respond to such proposal and (ii) such proposal constitutes a "superior proposal" as compared to the terms of the merger with Norwood, North Penn may furnish information regarding North Penn and participate in discussions and negotiations with such third party. North Penn has agreed to submit the merger agreement for adoption by its shareholders. The North Penn board has recommended that its shareholders vote in favor of adopting the merger agreement and has agreed that it will not withdraw, qualify or adversely modify its recommendation to its shareholders to vote in favor of adoption of the merger agreement, except as permitted under the merger agreement in connection with an unsolicited superior acquisition proposal after giving effect to any adjustments that may be offered by Norwood.

Termination; Termination Fee (pages 72 and 73)

Norwood and North Penn may mutually agree at any time to terminate the merger agreement without completing the merger, even if the North Penn shareholders have adopted the merger agreement in connection with the merger. The merger agreement may also be terminated and the merger abandoned at any time prior to the effective time of the merger, as follows:

- by the mutual written consent of Norwood and North Penn;
- by either party, if the shareholders of North Penn fail to approve the merger agreement;
- by either party, if a required regulatory approval, consent or waiver is denied;
- by either party, if the merger is not consummated by October 31, 2011 or other mutually agreed upon later date, unless failure to complete the merger by that time is due to a breach of a representation, warranty or covenant by the party seeking to terminate the merger agreement;
- by either party, if the other party materially breaches any representation, warranty, covenant or agreement contained in the merger agreement, or in the event of an inaccuracy of any representation or warranty by the other party, in either case that has not been cured within 30 days following written notice to such party;
- by Norwood, if North Penn fails to hold its shareholder meeting to vote on the merger within the time frame set in the merger agreement;
- by Norwood, if the board of directors of North Penn does not recommend approval of the merger to the North Penn shareholders or withdraws or revises its recommendation in a manner adverse to Norwood;
- by North Penn, if prior the approval of the merger agreement by the shareholders of North Penn, it receives a superior proposal from a third party that, in the good faith determination of North Penn's board of directors, the board is required to accept in order to comply with its fiduciary duties and Norwood does not make an offer at least as favorable to North Penn within 5 days after notice; or
- by North Penn, at any time during a 5 day period beginning on the date that all required regulatory approvals have been received (the "Determination Date") if both of the following conditions are satisfied:
 - o The average of the daily closing sales prices for the Norwood common stock for the 20 consecutive trading days immediately preceding the Determination Date (the "Norwood Market Value") is less than \$22.40;
 - o The number obtained by dividing the Norwood Market Value by \$28.00 is less than the number obtained by dividing the average closing prices of the NASDAQ Bank Index for the 20 consecutive trading days immediately preceding the Determination Date divided by the NASDAQ Index Price on December 14, 2010 minus 0.20;

unless within five business days of notice of such termination, Norwood notifies North Penn that it will increase the exchange ratio for the stock consideration so that the

Norwood Market Value is equal to a dollar amount that is the lesser of \$22.40 or the amount obtained by reducing the Initial Norwood Market Value (\$28.00) by the percentage change in the NASDAQ Bank Index less 20 percentage points.

North Penn may be required to pay to Norwood a termination fee of \$1.125 million in certain circumstances described under “The Merger and the Merger Agreement — Termination Fee” beginning on page 73.

Material United States Federal Income Tax Consequences of the Merger (page 55)

Norwood and North Penn will not be required to complete the merger unless they receive legal opinions from their respective counsel to the effect that the merger will qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code.

Provided that the merger qualifies as a reorganization for United States federal income tax purposes, the specific tax consequences of the merger to a North Penn shareholder will depend upon the form of consideration such North Penn shareholder receives in the merger.

- If you receive solely shares of Norwood common stock and cash instead of a fractional share of Norwood common stock in exchange for your North Penn common stock, then you generally will not recognize any gain or loss, except with respect to the cash received instead of a fractional share of Norwood common stock.
- If you receive solely cash, then you generally will recognize gain or loss equal to the difference between the amount of cash you receive and your cost basis in your North Penn common stock. Generally, any gain recognized upon the exchange will be capital gain, and any such capital gain will be long-term capital gain if you have established a holding period of more than one year for your shares of North Penn common stock.
- If you receive a combination of Norwood common stock and cash, other than cash instead of a fractional share of Norwood common stock, in exchange for your North Penn common stock, then you may recognize gain, but you will not recognize loss, upon the exchange of your shares of North Penn common stock for shares of Norwood common stock and cash. If the sum of the fair market value of the Norwood common stock and the amount of cash you receive in exchange for your shares of North Penn common stock exceeds the cost basis of your shares of North Penn common stock, you will recognize taxable gain equal to the lesser of the amount of such excess or the amount of cash you receive in the exchange. Generally, any gain recognized upon the exchange will be capital gain, and any such capital gain will be long-term capital gain if you have established a holding period of more than one year for your shares of North Penn common stock. Depending on certain facts specific to you, any gain could instead be characterized as ordinary dividend income.

For a more detailed discussion of the material United States federal income tax consequences of the transaction, see “The Merger and the Merger Agreement — Tax Consequences of the Merger” beginning on page 55.

The consequences of the merger to any particular shareholder will depend on that shareholder’s particular facts and circumstances. Accordingly, you are urged to consult your tax advisor to determine your tax consequences from the merger.

Stock Market Listing (page 65)

Application will be made by Norwood to have the shares of Norwood common stock to be issued in the merger approved for listing on the NASDAQ Global Market, which is the principal trading market for existing shares of Norwood common stock. It is a condition to both parties' obligation to complete the merger that such approval be obtained, subject to official notice of issuance.

Comparison of Shareholder Rights (page 80)

The rights of North Penn shareholders who continue as Norwood shareholders after the merger will be governed by the articles of incorporation and bylaws of Norwood rather than by the articles of incorporation and bylaws of North Penn.

Appraisal Rights (page 73 and Annex C)

North Penn is organized under Pennsylvania law. Under applicable Pennsylvania law, North Penn shareholders are entitled to dissent from the merger and obtain payment of the judicially determined "fair value" of their shares of North Penn common stock. The judicially determined "fair value" could be more or less than the merger consideration. If you wish to dissent from the merger:

- you must submit a written demand to North Penn before the vote upon the merger agreement at the special meeting; and
- you may not vote in favor of the merger agreement.

In submitting your written demand, you must follow the procedures set forth in Subchapter D of Chapter 15 of the Pennsylvania Business Corporation Law of 1988, a copy of which is attached as Annex C to this proxy statement/prospectus.

Comparative Market Prices and Share Information (page 31)

Norwood common stock is traded on the NASDAQ Global Market under the symbol "NWFL." North Penn common stock is quoted on the OTC Bulletin Board the symbol "NPBP." The following table shows the last closing sale prices of Norwood common stock as reported on the NASDAQ Global Market and the last closing sales prices of the North Penn common stock as reported on the OTC Bulletin Board respectively, as of December 14, 2010, the last trading day before we announced the merger, and on February 18, 2011, the latest practicable date prior to mailing this proxy statement/prospectus. The table also presents the equivalent value of the merger consideration per share of North Penn common stock on December 14, 2010 and February 18, 2011. The equivalent value per share of North Penn common stock on such dates is calculated by multiplying the closing price of Norwood common stock on those dates by 0.6829, which represents the number of shares of Norwood common stock that North Penn shareholders electing to receive Norwood common stock would receive in the merger for each share of North Penn common stock.

	Norwood Common Stock	North Penn Common Stock	North Penn Equivalent Per Share Value
At December 14, 2010	\$ 28.73	\$ 10.90	\$ 19.62
At February 18, 2011	\$ 27.05	\$ 17.90	\$ 18.47

The market price of Norwood common stock and North Penn common stock will fluctuate prior to the merger. You should obtain current stock price quotations for the shares.

RISK FACTORS

In addition to the other information contained in this proxy statement/prospectus, including the matters addressed under the caption “Cautionary Statement Regarding Forward-Looking Statements,” North Penn shareholders should carefully consider the following risk factors in deciding whether to vote for adoption of the merger agreement. You should also consider the other information in this proxy statement/prospectus. See “Where You Can Find More Information” in the forepart of this proxy statement/prospectus.

Risks Related to the Merger

North Penn Shareholders May Not Receive the Form of Merger Consideration They Elect.

The merger agreement contains provisions relating to adjustment, election and allocation of the merger consideration under certain circumstances. The allocation procedures are intended to provide that the aggregate amount of cash paid by Norwood in the merger will equal \$12,194,000. Cash paid in settlement of outstanding stock options, in exchange for unallocated shares held by the ESOP and for any dissenting shares counts towards this cash limitation.

Norwood common stock may be issued to North Penn shareholders who make cash elections if the cash consideration pool is oversubscribed, so that aggregate cash consideration payable to North Penn shareholders in the merger will equal \$12,194,000. Similarly, cash may be paid to North Penn shareholders who make stock elections if the cash consideration pool is undersubscribed so that the aggregate cash paid in the merger will equal \$12,194,000. In addition, the aggregate cash consideration pool may be decreased, and the aggregate stock consideration pool may be increased, in order for the merger to qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code.

Since the cash consideration will be paid for only approximately 45% of the North Penn shares outstanding at the effective time of the merger, it is possible that the cash consideration pool will be oversubscribed and North Penn shareholders who elect to receive the cash consideration will receive a mix of cash and stock consideration in the merger. It is also possible that the cash consideration pool could be undersubscribed and that North Penn shareholders who elect to receive the stock consideration will receive a mix of cash and stock in exchange for their shares. The allocation of the mix of consideration payable to North Penn shareholders in the merger will not be known until Norwood tallies the results of the cash/stock elections made by North Penn shareholders. North Penn shareholders may not receive the amounts of cash or stock they elected. Accordingly, if there is an oversubscription of cash or an oversubscription of stock, it is likely that North Penn shareholders will not receive a portion of the merger consideration in the form that they elect, which could result in, among other things, tax consequences that differ from those that would have resulted had such shareholders received the form of consideration they elected.

Because the Market Price of Norwood Common Stock May Fluctuate, North Penn Shareholders Cannot be Sure of the Value of the Stock Consideration They May Receive.

North Penn shareholders may elect to receive cash, stock or mixed consideration in the merger. The exchange ratio of 0.6829 of a share of Norwood common stock per share of North Penn common stock at which Norwood is issuing its shares as part of the merger consideration is fixed (subject to customary anti-dilution adjustments and potential adjustment in certain circumstances involving a decline in Norwood’s stock price that exceeds a specified index).

Consequently, changes in the price of Norwood common stock prior to completion of the merger will affect the value of any shares of Norwood common stock North Penn shareholders may receive upon completion of the merger. The value of the Norwood stock consideration will vary from the date of the announcement of the merger agreement, the date that this proxy statement/prospectus was mailed, the date of the special meeting and the date the merger is completed and thereafter. At the time that the merger is completed, the value of the stock consideration could be more or less than the value of the cash consideration. Accordingly, at the time of the special meeting, you will not know or be able to determine the value of the Norwood common stock you may receive upon completion of the merger. Stock price changes may result from a variety of factors, including general market and economic conditions, changes in the respective businesses, operations and prospects, and regulatory considerations of Norwood and North Penn. Many of these factors are beyond Norwood's and North Penn's control.

North Penn Shareholders Who Make Elections May Be Unable to Sell Their Shares in the Market Pending the Merger.

North Penn shareholders may elect to receive cash, stock or mixed consideration in the merger by completing an election form that will be sent under separate cover. Elections will require that shareholders making the election turn in their North Penn stock certificates. This means that during the time between when the election is made and the date the merger is completed, North Penn shareholders will be unable to sell their North Penn common stock. If the merger is unexpectedly delayed, this period could extend for a significant period of time. North Penn shareholders can shorten the period during which they cannot sell their shares by delivering their election shortly before the election deadline. However, elections received after the election deadline will not be accepted or honored.

North Penn Shareholders Will Have a Reduced Ownership and Voting Interest After the Merger and Will Exercise Less Influence Over Management.

North Penn shareholders currently have the right to vote in the election of the board of directors of North Penn and on other matters affecting North Penn. Upon the completion of the merger, each North Penn shareholder who receives shares of Norwood common stock will become a shareholder of Norwood with a percentage ownership of Norwood that is smaller than the shareholder's percentage ownership of North Penn. It is currently expected that the former shareholders of North Penn as a group will receive shares in the merger constituting approximately 16.2% of the outstanding shares of Norwood common stock immediately after the merger. Because of this, North Penn shareholders may have less influence on the management and policies of Norwood than they now have on the management and policies of North Penn.

Norwood May Fail to Realize the Anticipated Benefits of the Merger.

The success of the merger will depend on, among other things, Norwood's ability to realize anticipated cost savings and to combine the businesses of Wayne Bank and North Penn Bank in a manner that permits growth opportunities and does not materially disrupt the existing customer relationships of North Penn Bank or result in decreased revenues due to any loss of customers. If Norwood is not able to successfully achieve these objectives, the anticipated benefits of the merger may not be realized fully or at all or may take longer to realize than expected.

Norwood and North Penn have operated and, until the completion of the merger, will continue to operate, independently. Certain employees of North Penn may not be employed after the merger. In addition, employees of North Penn that Norwood wishes to retain may elect to terminate their employment as a result of the merger, which could delay or disrupt the integration process. It is possible that the integration process could result in the disruption of Norwood's or North Penn's ongoing

businesses or cause inconsistencies in standards, controls, procedures and policies that adversely affect the ability of Norwood or North Penn to maintain relationships with customers and employees or to achieve the anticipated benefits of the merger.

Regulatory Approvals May Not Be Received, May Take Longer than Expected or May Impose Conditions that Are Not Presently Anticipated or Cannot Be Met.

Before the transactions contemplated in the merger agreement, including the merger, may be completed, various approvals must be obtained from the bank regulatory and other governmental authorities. These governmental entities may impose conditions on the completion of the merger or require changes to the terms of the merger agreement. Although the parties do not currently expect that any such conditions or changes would be imposed, such conditions or changes may be imposed, and such conditions or changes could have the effect of delaying completion of the transactions contemplated in the merger agreement or imposing additional costs on or limiting Norwood's revenues, any of which might have a material adverse effect on Norwood following the merger. In addition, the regulatory approvals may not be received at any time, may not be received in a timely fashion, and may contain conditions on the completion of the merger.

The Merger Agreement May Be Terminated in Accordance with Its Terms and the Merger May Not Be Completed.

The merger agreement is subject to a number of conditions which must be fulfilled in order to complete the merger. Those conditions include: approval of the merger agreement by North Penn shareholders, regulatory approvals, absence of orders prohibiting the completion of the merger, effectiveness of the registration statement of which this proxy statement/prospectus is a part, approval of the shares of Norwood common stock to be issued to North Penn shareholders for listing on the NASDAQ Global Market, the continued accuracy of the representations and warranties by both parties and the performance by both parties of their covenants and agreements, and the receipt by both parties of legal opinions from their respective tax counsels.

In addition, certain circumstances exist whereby North Penn may choose to terminate the merger agreement, including if Norwood's share price declines to below \$22.40 (subject to customary anti-dilution adjustments) as of the first date when all regulatory approvals for the merger have been received, combined with such decline being at least 20% greater than a corresponding decline in the value of the NASDAQ Bank Index, and no adjustment pursuant to a specified formula is made to the exchange ratio by Norwood. See "The Merger and the Merger Agreement — Terminating the Merger Agreement" beginning on page 72 for a more complete discussion of the circumstances under which the merger agreement could be terminated. Therefore, the conditions to closing of the merger may not be fulfilled and the merger may not be completed.

Termination of the Merger Agreement Could Negatively Impact North Penn.

If the merger agreement is terminated, there may be various consequences, including:

• North Penn's businesses may have been adversely impacted by the failure to pursue other beneficial opportunities due to the focus of management on the merger, without realizing any of the anticipated benefits of completing the merger; and

- the market price of North Penn common stock might decline to the extent that the current market price reflects a market assumption that the merger will be completed.

If the merger agreement is terminated and North Penn's board of directors seeks another merger or business combination, North Penn shareholders cannot be certain that North Penn will be able to find a party willing to offer equivalent or more attractive consideration than the consideration Norwood has agreed to provide in the merger.

If the merger agreement is terminated under certain circumstances, North Penn may be required to pay a termination fee of \$1.125 million to Norwood. See "The Merger and the Merger Agreement — Termination Fee" beginning on page 73.

Norwood Will Be Subject to Business Uncertainties and Contractual Restrictions While the Merger is Pending.

Uncertainty about the effect of the merger on employees and customers may have an adverse effect on North Penn and consequently on Norwood. These uncertainties may impair North Penn's ability to attract, retain and motivate key personnel until the merger is completed, and could cause customers and others that deal with North Penn to seek to change existing business relationships with North Penn. Retention of certain employees may be challenging during the pendency of the merger, as certain employees may experience uncertainty about their future roles. If key employees depart because of issues relating to the uncertainty and difficulty of integration or a desire not to remain with the business, Norwood's business following the merger could be negatively impacted. In addition, the merger agreement restricts North Penn from making certain acquisitions and taking other specified actions until the merger occurs without the consent of Norwood. These restrictions may prevent North Penn from pursuing attractive business opportunities that may arise prior to the completion of the merger. See "The Merger and the Merger Agreement — Conduct of Business Before the Merger" beginning on page 66 for a description of the restrictive covenants to which North Penn is subject.

The Merger Agreement Limits North Penn's Ability to Pursue Alternatives to the Merger.

The merger agreement contains "no-shop" provisions that, subject to limited exceptions, limit North Penn's ability to initiate, solicit, encourage or knowingly facilitate any inquiries or competing third-party proposals, or engage in any negotiations, or provide any confidential information, or have any discussions with any person relating to a proposal to acquire all or a significant part of North Penn. In addition, North Penn has agreed to pay Norwood a termination fee in the amount of \$1.125 million in the event that Norwood or North Penn terminates the merger agreement for certain reasons. These provisions might discourage a potential competing acquiror that might have an interest in acquiring all or a significant part of North Penn from considering or proposing that acquisition even if it were prepared to pay consideration with a higher per share market price than that proposed in the merger, or might result in a potential competing acquiror proposing to pay a lower per share price to acquire North Penn than it might otherwise have proposed to pay. Until the merger agreement is approved by North Penn shareholders, North Penn can consider and participate in discussions and negotiations with respect to an alternative unsolicited bona fide acquisition proposal (subject to its obligation to pay a termination fee under certain circumstances) so long as the North Penn board of directors determines in good faith (after consultation with legal counsel and its financial advisor) that it is legally necessary to do so to comply with its fiduciary duties to North Penn shareholders under Pennsylvania law and that such alternative acquisition proposal constitutes a superior proposal. North Penn has agreed to keep Norwood apprised of developments, discussions and negotiations relating to any such acquisition proposal.

North Penn Directors and Officers May Have Interests in the Merger Different from the Interests of North Penn Shareholders.

The interests of some of the directors and executive officers of North Penn may be different from those of North Penn shareholders, and directors and officers of North Penn may be participants in arrangements that are different from, or are in addition to, those of North Penn shareholders. These interests are described in more detail in the section of this proxy statement/prospectus entitled “The Merger and the Merger Agreement — Interests of Certain Persons in the Merger” beginning on page 60.

The Shares of Norwood Common Stock to Be Received by North Penn Shareholders as a Result of the Merger Will Have Rights Different from the Shares of North Penn Common Stock.

Upon completion of the merger, the rights of former North Penn shareholders who become Norwood shareholders will be governed by the articles of incorporation and bylaws of Norwood. The rights associated with North Penn common stock are different from the rights associated with Norwood common stock. See “Comparison of Shareholder Rights” beginning on page 88 for a discussion of the different rights associated with Norwood common stock.

The Unaudited Pro Forma Combined Financial Information Included in this Proxy Statement/Prospectus Is Preliminary and the Actual Financial Condition and Results of Operations After the Merger May Differ Materially.

The unaudited pro forma combined financial information in this proxy statement/prospectus is presented for illustrative purposes only and is not necessarily indicative of what Norwood’s actual financial condition or results of operations would have been had the merger been completed on the dates indicated. The pro forma combined financial information reflects adjustments, which are based upon preliminary estimates, to record the North Penn identifiable assets acquired and liabilities assumed at fair value and the resulting goodwill recognized. The purchase price allocation reflected in this proxy statement/prospectus is preliminary, and final allocation of the purchase price will be based upon the actual purchase price and the fair value of the assets and liabilities of North Penn as of the date of the completion of the merger. Accordingly, the final acquisition accounting adjustments may differ materially from the pro forma adjustments reflected in this proxy statement/prospectus. For more information, see “Pro Forma Data” beginning on page 80.

The fairness opinion obtained by North Penn from its financial advisor will not reflect changes in circumstances subsequent to the date of the fairness opinion.

TKG, North Penn’s financial advisor in connection with the merger, has delivered to the board of directors of North Penn its opinion dated as of December 14, 2010. The opinion of TKG stated that as of such date, and based upon and subject to the factors and assumptions set forth therein, the merger consideration to be paid to the holders of the outstanding shares of North Penn common stock pursuant to the merger agreement was fair from a financial point of view to such holders. The opinion does not reflect changes that may occur or may have occurred after the date of the opinion, including changes to the operations and prospects of Norwood or North Penn, changes in general market and economic conditions or regulatory or other factors. Any such changes, or changes in other factors on which the opinion is based, may materially alter or affect the relative values of Norwood and North Penn.

Risks Related to Norwood's Business

Norwood's success will depend upon its ability to effectively manage its future growth.

Norwood believes that it has in place the management and systems, including data processing systems, internal controls and a strong credit culture, to support continued growth. However, its continued growth and profitability depend on the ability of its officers and key employees to manage such growth effectively, to attract and retain skilled employees and to maintain adequate internal controls and a strong credit culture. Accordingly, there can be no assurance that Norwood will be successful in managing its expansion, and the failure to do so would adversely affect its financial condition and results of operations.

If Norwood experiences loan losses in excess of its allowance, its earnings will be adversely affected.

The risk of credit losses on loans varies with, among other things, general economic conditions, the type of loan being made, the creditworthiness of the borrower over the term of the loan and, in the case of a collateralized loan, the value and marketability of the collateral for the loan. Management of Norwood maintains an allowance for loan losses based upon, among other things, historical experience, an evaluation of economic conditions and regular reviews of delinquencies and loan portfolio quality. Based upon such factors, Norwood makes various assumptions and judgments about the ultimate collectibility of the loan portfolio and provides an allowance for loan losses based upon a percentage of the outstanding balances and for specific loans when their ultimate collectibility is considered questionable. If Norwood's management's assumptions and judgments prove to be incorrect and the allowance for loan losses is inadequate to absorb future losses, or if the bank regulatory authorities require it to increase the allowance for loan losses as a part of their examination process, Norwood's earnings and capital could be significantly and adversely affected.

As of September 30, 2010, Norwood's allowance for loan losses was \$5.5 million which represented 1.54% of outstanding loans. At such date, Norwood had 15 nonperforming loans totaling \$3.7 million and eight impaired loans totaling \$13.3 million. Norwood actively manages its nonperforming loans in an effort to minimize credit losses. Although management of Norwood believes that its allowance for loan losses is adequate, there can be no assurance that the allowance will prove sufficient to cover future loan losses. Further, although management of Norwood uses the best information available to make determinations with respect to the allowance for loan losses, future adjustments may be necessary if economic conditions differ substantially from the assumptions used or adverse developments arise with respect to its non-performing or performing loans. Material additions to its allowance for loan losses would result in a decrease in its net income and capital, and could have a material adverse effect on its financial condition and results of operations and the value of its common stock.

Most of Norwood's loans are to commercial borrowers, which have a higher degree of risk than other types of loans.

Commercial loans are often larger and may involve greater risks than other types of lending. Because payments on such loans are often dependent on the successful operation of the property or business involved, repayment of such loans may be more sensitive than other types of loans due to adverse conditions in the real estate market or the economy. Unlike residential mortgage loans, which generally are made on the basis of the borrower's ability to make repayment from his or her employment and other income and which are secured by real property whose value tends to be more easily ascertainable, commercial loans typically are made on the basis of the borrower's ability to make repayment from the cash flow of the borrower's business. As a result, the availability of funds for the

repayment of commercial loans may be substantially dependent on the success of the business itself and the general economic environment. If the cash flow from business operations is reduced, the borrower's ability to repay the loan may be impaired.

Most of Norwood's loans are secured, in whole or in part, with real estate collateral which is subject to declines in value.

In addition to the financial strength and cash flow characteristics of the borrower in each case, Norwood often secures its loans with real estate collateral. As of September 30, 2010, approximately 89.1% of its loans, had real estate as a primary or secondary component of collateral. In addition, approximately 39.3% of its securities portfolio consisted of mortgage-backed securities issued by either Fannie Mae (FNMA), Freddie Mac (FHLMC) or Government National Mortgage Association (GNMA). Real estate values and real estate markets are generally affected by, among other things, changes in national, regional or local economic conditions, fluctuations in interest rates and the availability of loans to potential purchasers, changes in tax laws and other governmental statutes, regulations and policies, and acts of nature. The real estate collateral in each case provides an alternate source of repayment in the event of default by the borrower. If real estate prices in Norwood's markets decline, the value of the real estate collateral securing the loans could be reduced. If Norwood is required to liquidate the collateral securing a loan during a period of reduced real estate values to satisfy the debt, its earnings and capital could be adversely affected.

Norwood may be required to record other-than-temporary impairment charges with respect to its investment securities portfolio and restricted stock.

As of September 30, 2010, Norwood had approximately \$11.8 million in investments, including mortgage-backed securities on which it had unrealized losses of \$78,000. In addition, Norwood had \$3.5 million of restricted stock in the FHLB of Pittsburgh, which has suspended the payment of dividends and has limited its repurchases of excess capital stock. Norwood may be required to record impairment charges on its investments and FHLB stock if they suffer a decline in value that is considered other-than-temporary. Numerous factors, including lack of liquidity for resales of certain investment securities, absence of reliable pricing information for investment securities, adverse changes in the business climate, or adverse actions by regulators could have a negative effect on the value of the investments and mortgage backed securities. If an impairment charge is significant enough to result in a loss for the period, it could affect the ability of Wayne Bank to upstream dividends to Norwood, which could have a material adverse effect on its liquidity and ability to pay dividends to shareholders and could also negatively impact its regulatory capital ratios and result in it not being classified as "well capitalized" for regulatory purposes.

Higher FDIC deposit insurance premiums and assessments could adversely affect Norwood's earnings and financial condition.

FDIC insurance premiums increased substantially in 2009 and banks may be required to pay higher FDIC premiums in the future. The large number of bank failures has significantly depleted the Deposit Insurance Fund (the "DIF") and reduced the ratio of reserves to insured deposits below the designated reserve ratio. To restore the DIF, the FDIC adopted a revised risk-based deposit insurance assessment schedule, which significantly raised deposit insurance premiums on all insured banks. The FDIC also imposed a five basis point special assessment payable September 30, 2009 on each insured depository institution's assets minus Tier 1 capital as of June 30, 2009. In order to increase the funds available to the DIF, the FDIC required all insured depository institutions to prepay their federal deposit insurance assessments through 2012. The prepayment was based on the institution's assessment base and assessment rate as of September 30, 2009 assuming 5% annual growth in deposits and a three basis point

increase in the assessment rate during years 2011 and 2012. The prepayment was recorded on the balance sheet as a non-earning prepaid expense asset against which future quarterly assessments will be charged.

Norwood participated in the FDIC's Temporary Liquidity Guarantee Program which provided federal deposit insurance coverage for noninterest-bearing transaction deposit accounts in excess of \$250,000. For this additional coverage, Norwood paid the FDIC an annual assessment of 10 basis points on the amounts in excess of \$250,000 during 2009 and which was increased to between 15 and 25 basis points, depending on the institution's risk category in 2010. To the extent that these assessments are insufficient to cover any loss or expenses arising from the program, the FDIC is authorized to impose an emergency special assessment on all FDIC-insured depository institutions. These changes will cause Norwood's deposit insurance expense to increase and could significantly increase its noninterest expense in and for the foreseeable future.

The soundness of other financial institutions could adversely affect Norwood.

Norwood's ability to engage in routine funding transactions could be adversely affected by the actions and commercial soundness of other financial institutions. Defaults by, or even rumors or questions about, one or more financial services institutions, or the financial services industry generally, have led to market-wide liquidity problems and could lead to losses or defaults by Norwood or by other institutions. There is no assurance that any such losses would not materially and adversely affect its results of operations.

Recently enacted financial reform legislation could substantially increase Norwood's compliance burden and costs and necessitate changes in the conduct of its business.

On July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") was signed into law. The Dodd-Frank Act will have a broad impact on the financial services industry, including significant regulatory and compliance changes. Many of the requirements called for in the Dodd-Frank Act will be implemented over time and most will be subject to implementing regulations over the course of several years. Given the uncertainty associated with the manner in which the provisions of the Dodd-Frank Act will be implemented by the various regulatory agencies and through regulations, the full extent of the impact such requirements will have on Norwood's operations is unclear. The changes resulting from the Dodd-Frank Act may impact the profitability of its business activities, require changes to certain of its business practices, impose upon it more stringent capital, liquidity and leverage requirements or otherwise adversely affect its business. In particular, the following provisions of the Dodd-Frank Act, among others, are expected to impact Norwood's operations and activities, both currently and prospectively:

- The imposition of capital requirements on Norwood that are no less stringent than those applicable to Wayne Bank, which may reduce its flexibility in raising capital;
- Changes in methodologies for calculating deposit insurance premiums and increases in required deposit insurance fund reserve levels, which could increase its deposit insurance expense;
- Elimination of restrictions on interstate branching, which could allow more competitors to enter Norwood's market area; and
- Imposition of comprehensive, new consumer protection requirements, which could substantially increase its compliance burden and potentially expose it to new liabilities.

Further, Norwood may be required to invest significant management attention and resources to evaluate and make any changes necessary to comply with new statutory and regulatory requirements under the Dodd-Frank Act. Failure to comply with the new requirements may negatively impact its results of operations and financial condition. While Norwood cannot predict what effect any presently contemplated or future changes in the laws or regulations or their interpretations would have on it, these changes could be materially adverse to its investors.

Recent legislative and regulatory initiatives to address difficult market and economic conditions may not stabilize the U.S. banking system.

In response to this financial crisis affecting the banking system and financial markets, the United States Congress enacted the Emergency Economic Stabilization Act of 2008 and the American Recovery and Reinvestment Act of 2009. Under these and other laws and government actions:

- the U.S. Department of the Treasury, or “Treasury,” has provided capital to financial institutions and adopted programs to facilitate and finance the purchase of problem assets and finance asset-backed securities via the Troubled Assets Relief Program, or “TARP”;
- the FDIC provided temporary liquidity guarantee, or “TLG”, of all FDIC-insured institutions and their affiliates’ debt, as well as deposits in noninterest-bearing transaction deposit accounts; and
- the federal government has undertaken various forms of economic stimulus, including assistance to homeowners in restructuring mortgage payments on qualifying loans.

TARP and the TLG are winding down, and the effects of this wind-down cannot be predicted. In addition, the federal government is considering various proposals for a comprehensive overhauling reform of the financial services industry and markets and coordinating reforms with other countries. There can be no assurance that these various initiatives or any other future legislative or regulatory initiatives will be successful at improving economic conditions globally, nationally or in Norwood’s markets, or that the measures adopted will not have adverse consequences.

Recent levels of market volatility are unprecedented.

The capital and credit markets have recently experienced volatility and disruption which reached unprecedented levels. In some cases, the markets produced downward pressure on stock prices and credit availability for certain issuers without regard to those issuers’ underlying financial strength. If these levels of market disruption and volatility return, there can be no assurance that Norwood will not experience an adverse effect, which may be material, on our ability to access capital and on our business, financial condition and results of operations.

Liquidity risk could impair Norwood’s ability to fund operations and jeopardize its financial condition.

Liquidity is essential to Norwood’s business. An inability to raise funds through deposits, borrowings, the sale of loans and investments and other sources could have a substantial negative effect on its liquidity. Norwood’s access to funding sources in amounts adequate to finance its activities or on terms which are acceptable to it could be impaired by factors that affect it specifically or the financial services industry or economy in general. Factors that could detrimentally impact Norwood’s access to liquidity sources include a decrease in the level of its business activity as a result of a downturn in the markets in which its loans are concentrated or adverse regulatory action against it. Norwood’s ability to

borrow could also be impaired by factors that are not specific to it, such as a disruption in the financial markets or negative views and expectations about the prospects for the financial services industry in light of the recent turmoil faced by banking organizations and the deterioration in credit markets.

Norwood may elect or be compelled to seek additional capital in the future, but that capital may not be available when it is needed.

Norwood is required by federal and state regulatory authorities to maintain adequate levels of capital to support its operations. In addition, Norwood may elect to raise additional capital to support its business or to finance acquisitions, or may otherwise elect or be required to raise additional capital. In that regard, a number of financial institutions have recently raised considerable amounts of capital in response to a deterioration in their results of operations and financial condition arising from the turmoil in the mortgage loan market, deteriorating economic conditions, declines in real estate values and other factors. Should Norwood be required by regulatory authorities to raise additional capital, it may seek to do so through the issuance of, among other things, its common stock or preferred stock.

Norwood's ability to raise additional capital, if needed, will depend on conditions in the capital markets, economic conditions and a number of other factors, many of which are outside its control, and on its financial performance. Accordingly, there can be no assurance of its ability to raise additional capital if needed or on terms acceptable to it. If Norwood is unable to raise additional capital when needed, it may have a material adverse effect on its financial condition, results of operations and prospects.

Norwood's business is geographically concentrated and is subject to regional economic factors that could have an adverse impact on its business.

Substantially all of Norwood's business is with customers in its market area of Northeastern Pennsylvania. Most of its customers are consumers and small and medium-sized businesses which are dependent upon the regional economy. Adverse changes in economic and business conditions in its markets could adversely affect its borrowers, their ability to repay their loans and to borrow additional funds, and consequently Norwood's financial condition and performance.

Additionally, Norwood often secures its loans with real estate collateral, most of which is located in Northeastern Pennsylvania. A decline in local economic conditions could adversely affect the values of such real estate. Consequently, a decline in local economic conditions may have a greater effect on its earnings and capital than on the earnings and capital of larger financial institutions whose real estate loan portfolios are geographically diverse.

The loss of senior executive officers and certain other key personnel could hurt Norwood's business.

Norwood's success depends, to a great extent, upon the services of Lewis J. Critelli, its President and Chief Executive Officer. Although Norwood has an employment agreement with non-compete provisions with Mr. Critelli, the existence of such agreement does not assure that it will retain his services. The unexpected loss of Mr. Critelli could have a material adverse effect on its operations. From time to time, Norwood may also need to recruit personnel to fill vacant positions for experienced lending officers and branch managers. Competition for qualified personnel in the banking industry is intense, and there can be no assurance that Norwood will continue to be successful in attracting, recruiting and retaining the necessary skilled managerial, marketing and technical personnel for the successful operation of our existing lending, operations, accounting and administrative functions or to support the expansion of

the functions necessary for our future growth. The inability to hire or retain key personnel could have a material adverse effect on Norwood's results of operations.

Norwood's legal lending limits are relatively low and restrict its ability to compete for larger customers.

At September 30, 2010, Norwood's lending limit per borrower was approximately \$10.2 million, or 15% of its capital plus allowance for loan losses. Accordingly, the size of loans that it can offer to potential borrowers is less than the size of loans that many of its competitors with larger capitalization are able to offer. Norwood may engage in loan participations with other banks for loans in excess of its legal lending limits. However, there can be no assurance that such participations will be available at all or on terms which are favorable to it and its customers.

Risks Related to Norwood's Common Stock

There is a limited trading market for the Norwood common stock, which may adversely impact your ability to sell your shares and the price you receive for your shares.

Although the Norwood common stock is quoted on the NASDAQ Global Market, there has been limited trading activity in the stock and an active trading market is not expected to develop. This means that there may be limited liquidity for the shares of Norwood common stock you may receive in the merger, which may make it difficult to buy or sell the Norwood common stock, may negatively affect the price at which it sells and may cause volatility in the price of the Norwood common stock.

There are restrictions on Norwood's ability to pay cash dividends.

Although Norwood has paid cash dividends on a quarterly basis since 1996, and Wayne Bank paid dividends for many previous years, there is no assurance that Norwood will continue to pay cash dividends. Future payment of cash dividends, if any, will be at the discretion of the board of directors and will be dependent upon Norwood's financial condition, results of operations, capital requirements and such other factors as the Board may deem relevant and will be subject to applicable federal and state laws that impose restrictions on its ability to pay dividends.

Norwood common stock is not insured and you could lose the value of your entire investment.

An investment in shares of Norwood common stock is not a deposit and is not insured against loss by the government.

Norwood's management and significant shareholders control a substantial percentage of its stock and therefore have the ability to exercise substantial control over its affairs.

As of September 30, 2010, Norwood's directors and executive officers beneficially owned approximately 212,000 shares, or approximately 7.3% of its common stock, including options to purchase 140,885 shares, in the aggregate, of the Norwood common stock at exercise prices ranging from \$10.36 to \$31.50 per share. Following the merger, the percentage beneficial ownership, including options, of Norwood's directors and executive officers is expected to be approximately 6.4%. Because of the large percentage of stock held by its directors and executive officers and other significant shareholders, these persons could influence the outcome of any matter submitted to a vote of its shareholders.

We may issue additional shares of common or preferred stock, which may dilute the ownership and voting power of our shareholders and the book value of our common stock.

Norwood is currently authorized to issue up to 10,000,000 shares of common stock of which 2,760,895 shares are currently outstanding and an additional 532,402 shares are estimated to be issued in the merger, and up to 5,000,000 shares of preferred stock of which no shares are outstanding. The board of directors has authority, without action or vote of the shareholders, to issue all or part of the authorized but unissued shares and to establish the terms of any series of preferred stock. These authorized but unissued shares could be issued on terms or in circumstances that could dilute the interests of other shareholders. In addition, a total of 250,000 shares of common stock have been reserved for issuance under the Norwood Financial Corp. 2006 Stock Option Plan, of which 121,700 were issued as of September 30, 2010. As of September 30, 2010, options to purchase a total of 140,885 shares were exercisable and had exercise prices ranging from \$10.36 to \$31.50. Any such issuance will dilute the percentage ownership interest of shareholders and may further dilute the book value of our common stock.

Provisions of Norwood's Articles of Incorporation and the Pennsylvania Business Corporation Law could deter takeovers which are opposed by the Board of Directors.

Norwood's articles of incorporation require the approval of 80% of the outstanding shares for any merger or consolidation unless the transaction meets certain fair price criteria or the business combination has been approved or authorized by the board of directors. In addition, its articles of incorporation may require the disgorgement of profits realized by any person who attempts to acquire control of Norwood. As a Pennsylvania corporation with a class of securities registered with the Securities and Exchange Commission, Norwood is governed by certain provisions of the Pennsylvania Business Corporation Law that, among other things, permit the disparate treatment of certain shareholders; prohibit calls of special meetings of shareholders; require unanimous written consent for shareholder action in lieu of a meeting; require shareholder approval for certain transactions in which a shareholder has an interest; and impose additional requirements on business combinations with persons who are the beneficial owners of more than 20% of Norwood's stock.

Risks Related to Norwood's Industry

Norwood operates in a competitive market which could constrain its future growth and profitability.

Norwood operates in a competitive environment, competing for deposits and loans with commercial banks, savings associations and other financial entities. Competition for deposits comes primarily from other commercial banks, savings associations, credit unions, money market and mutual funds and other investment alternatives. Competition for loans comes primarily from other commercial banks, savings associations, mortgage banking firms, credit unions and other financial intermediaries. Many of the financial intermediaries operating in its market area offer certain services, such as international banking services, which it does not offer. Moreover, banks with a larger capitalization and financial intermediaries not subject to bank regulatory restrictions have larger lending limits and are thereby able to serve the needs of larger customers.

Norwood is required to comply with extensive and complex governmental regulation which can adversely affect its business.

Norwood's operations are and will be affected by current and future legislation and by the policies established from time to time by various federal and state regulatory authorities. It is subject to supervision and periodic examination by the FRB, the FDIC and the Department. Banking regulations, designed primarily for the safety of depositors, may limit a financial institution's growth and the return to its investors by restricting such activities as the payment of dividends, mergers with or acquisitions by other institutions, investments, loans and interest rates, interest rates paid on deposits, expansion of branch offices, and the offering of securities or trust services. Norwood is also subject to capitalization guidelines established by federal law and could be subject to enforcement actions to the extent that it is found by regulatory examiners to be undercapitalized. It is not possible to predict what changes, if any, will be made to existing federal and state legislation and regulations or the effect that any such changes may have on its future business and earnings prospects. Further, the cost of compliance with regulatory requirements may adversely affect Norwood's ability to operate profitably.

In addition, the monetary policies of the FRB have had a significant effect on the operating results of banks in the past and are expected to continue to do so in the future. Among the instruments of monetary policy used by the FRB to implement its objectives are changes in the discount rate charged on bank borrowings and changes in the reserve requirements on bank deposits. It is not possible to predict what changes, if any, will be made to the monetary policies of the FRB or to existing federal and state legislation or the effect that such change may have on Norwood's future business and earnings prospects.

Norwood realizes income primarily from the difference between interest earned on loans and investments and interest paid on deposits and borrowings, and changes in interest rates may adversely affect its profitability and assets.

Changes in prevailing interest rates may hurt Norwood's business. Norwood derives its income mainly from the difference or "spread" between the interest earned on loans, securities and other interest-earning assets, and interest paid on deposits, borrowings and other interest-bearing liabilities. In general, the larger the spread, the more it earns. When market rates of interest change, the interest it receives on its assets and the interest it pays on its liabilities will fluctuate. This can cause decreases in its spread and can adversely affect its income.

Interest rates affect how much money Norwood can lend. For example, when interest rates rise, the cost of borrowing increases and loan originations tend to decrease. In addition, changes in interest rates can affect the average life of loans and investment securities. A reduction in interest rates generally results in increased prepayments of loans and mortgage-backed securities, as borrowers refinance their debt in order to reduce their borrowing cost. This causes reinvestment risk, because Norwood generally is not able to reinvest prepayments at rates that are comparable to the rates it earned on the prepaid loans or securities. Changes in market interest rates could also reduce the value of its financial assets. If Norwood is unsuccessful in managing the effects of changes in interest rates, its financial condition and results of operations could suffer.

As a public company, Norwood is subject to numerous reporting requirements that are currently evolving and could substantially increase its operating expenses and divert management's attention from the operation of its business.

The Sarbanes-Oxley Act of 2002, which became law in July 2002, has required changes in some of Norwood's corporate governance, securities disclosure and compliance practices. In response to the requirements of that Act, the SEC has promulgated new rules covering a variety of subjects. Compliance

with these new rules has significantly increased Norwood's legal and financial and accounting costs, and it expects these increased costs to continue. In addition, compliance with the requirements has taken a significant amount of management's and the board of directors' time and resources. Likewise, these developments may make it more difficult for it to attract and retain qualified members of our board of directors, particularly independent directors, or qualified executive officers.

As directed by Section 404 of the Sarbanes-Oxley Act, the SEC adopted rules requiring public companies to include a report of management on Norwood's internal control over financial reporting in their annual reports on Form 10-K that contains an assessment by management of the effectiveness of Norwood's internal control over financial reporting. In addition, the independent registered public accounting firm auditing Norwood's financial statements must report on the effectiveness of Norwood's internal control over financial reporting. If Norwood is ever unable to conclude that it has effective internal control over financial reporting or, if its independent auditors are unable to provide it with an unqualified report as to the effectiveness of its internal control over financial reporting for any future year-ends as required by Section 404, investors could lose confidence in the reliability of its financial statements, which could result in a decrease in the value of its securities.

CAUTIONARY STATEMENT REGARDING
FORWARD-LOOKING STATEMENTS

The Private Securities Litigation Reform Act of 1995 contains safe harbor provisions regarding forward-looking statements. These forward-looking statements include, but are not limited to, (i) the financial condition, results of operations and business of Norwood and North Penn; (ii) statements about the benefits of the merger, including future financial and operating results, cost savings, enhancements to revenue and accretion to reported earnings that may be realized from the merger; (iii) statements about our respective plans, objectives, expectations and intentions and other statements that are not historical facts; and (iv) other statements identified by words such as “expects,” “anticipates,” “intends,” “plans,” “believes,” “seeks,” “estimates,” or words of similar meaning. When used in this document, the words “believes,” “anticipates,” “contemplates,” “expects,” and similar expressions are intended to identify forward-looking statements. These forward-looking statements are based on current beliefs and expectations of our management and are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control. In addition, these forward-looking statements are subject to assumptions with respect to future business strategies and decisions that are subject to change.

In addition to the factors discussed under “Risk Factors,” the following factors, among others, could cause actual results to differ materially from the anticipated results or other expectations expressed in the forward-looking statements:

- Norwood’s and North Penn’s businesses may not be combined successfully, or such combination may take longer to accomplish than expected;
- the growth opportunities and cost savings from the merger may not be fully realized or may take longer to realize than expected;
- operating costs, customer losses and business disruption following the merger, including adverse effects of relationships with employees, may be greater than expected; and
- governmental approvals of the merger may not be obtained, or adverse regulatory conditions may be imposed in connection with governmental approvals of the merger.

Neither Norwood nor North Penn undertakes any obligation to publicly release the results of any revisions to those forward-looking statements which may be made to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

MARKET VALUE OF SECURITIES

Norwood. Norwood's common stock is traded on the NASDAQ Global Market under the symbol "NWFL". As of February 18, 2011, there were approximately 1,500 shareholders based on transfer agent mailings.

The following table sets forth the price range and cash dividends declared per share regarding common stock for the period indicated:

Year 2011	Closing Price Range		Cash dividends declared per share
	High	Low	
Year 2011 First Quarter (through February 18, 2011)	\$ 27.96	\$ 26.25	\$ —
Year 2010			
First Quarter	\$ 29.49	\$ 25.22	\$ 0.28
Second Quarter	28.76	23.94	0.28
Third Quarter	29.10	24.42	0.28
Fourth Quarter	29.99	25.75	0.29
Year 2009			
First Quarter	\$ 29.45	\$ 22.95	\$ 0.27
Second Quarter	32.00	24.10	0.27
Third Quarter	33.25	30.57	0.27
Fourth Quarter	31.10	25.50	0.28

North Penn. North Penn's common stock is quoted on the OTC Bulletin Board under the symbol "NPBP.OB". An active trading market does not currently exist for the North Penn common stock. The over-the-counter market quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not represent actual transactions. As of February 18, 2011, there were approximately 387 holders of record of North Penn common stock.

The following table shows the high and low closing sales prices of the North Penn common stock as reported on the OTC Bulletin Board the periods shown and the quarterly cash dividends declared per share for the periods indicated. Market quotations reflect inter-dealer prices, without retail mark-up, markdown, or commission, and may not necessarily reflect actual transactions.

Year 2011	Closing Price Range		Cash dividends declared per share
	High	Low	
Year 2011 First Quarter (through February 18, 2011)	\$ 17.90	\$ 16.90	\$ 0.04
Year 2010			
First Quarter	\$ 10.00	\$ 9.10	\$ 0.09
Second Quarter	11.00	9.35	0.04
Third Quarter	10.95	9.05	0.04
Fourth Quarter	17.50	10.55	0.04
Year 2009			
First Quarter	\$ 8.00	\$ 6.00	\$ 0.03
Second Quarter	8.80	6.00	0.03

Third Quarter	9.25	8.55	0.03
Fourth Quarter	9.25	8.75	0.03

COMPARATIVE PER SHARE DATA

The following table sets forth historical per share information for Norwood and North Penn and additional information as if the companies had been combined for the periods shown, which we refer to as “pro forma” information. The pro forma information is based upon the assumption that the total number of shares of North Penn common stock outstanding immediately prior to the completion of the merger will be 1,336,130 (including unvested shares of restricted stock) and utilizes the exchange ratio of 0.6829. It is further assumed that a total of \$3.32 million is paid in settlement of outstanding stock options and unallocated ESOP shares and that there are no dissenting shareholders. Based on these assumptions, 779,492 of the 1,336,130 shares of North Penn common stock would be exchanged for Norwood common stock, with the balance of the North Penn shares being exchanged for cash.

The North Penn pro forma equivalent per share amounts are calculated by multiplying the Norwood pro forma combined book value per share, cash dividends per share and basic and diluted net income per share by the exchange ratio of 0.6829 so that the per share amounts equate to the respective values for one share of North Penn common stock. The unaudited pro forma Norwood per share equivalents are calculated by combining the Norwood historical share amounts with pro forma amounts from North Penn, assuming the exchange ratio of 0.6829.

We present below for Norwood and North Penn historical, unaudited pro forma combined and pro forma equivalent per share financial data for the year ended December 31, 2009 and the interim period ended September 30, 2010. This data should be read together with the selected historical financial data of Norwood and North Penn and the unaudited pro forma combined condensed financial statements included in this document. This data should also be read together with Norwood’s consolidated financial statements and related notes beginning on page F-1 and North Penn’s consolidated financial statements and related notes beginning on page F-50 of this proxy statement/prospectus. The per share data is not necessarily indicative of the operating results that Norwood would have achieved had it completed the merger as of the beginning of the periods presented and should not be considered as representative of future operations.

	Norwood Historical	North Penn Historical	Pro Forma Norwood	Equivalent Pro Forma North Penn(1)
Book value per share				
September 30, 2010	\$ 24.79	\$ 16.01	\$ 25.31	\$ 17.28
December 31, 2009	23.25	14.49	23.66	16.16
Cash dividends declared per share				
Nine months ended September 30, 2010	0.84	0.17	0.84	0.57
Year ended December 31, 2009	1.09	0.12	1.09	0.74
Basic net income per share				
Nine months ended September 30, 2010	1.99	0.63	1.89	1.29
Year ended December 31, 2009	2.57	0.57	2.35	1.60
Diluted net income per share				
Nine months ended September 30, 2010	1.99	0.62	1.87	1.28
Year ended December 31, 2009	2.55	0.57	2.33	1.59

(1) The North Penn equivalent pro forma information shows the effect of the merger from the perspective of an owner of North Penn common stock. We calculated the North Penn equivalent information by multiplying the Norwood and North Penn combined pro forma per share amounts by the exchange ratio of 0.6829 and after giving effect to the pro forma adjustments. The calculations do not reflect the cash component of the merger consideration.

THE SPECIAL MEETING OF SHAREHOLDERS

North Penn is mailing this proxy statement/prospectus to you as a North Penn shareholder on or about March 4, 2011. With this proxy statement/prospectus, North Penn is sending you a notice of the North Penn special meeting of shareholders and a form of proxy that is solicited by the North Penn board of directors. The special meeting will be held on April 8, 2011 at 9:00 a.m., Eastern Time, at The Radisson Lackawanna Station Hotel Scranton, located at 700 Lackawanna Avenue, Scranton, Pennsylvania.

Matters to be Considered

The purpose of the special meeting of shareholders is to vote on the adoption of the merger agreement, pursuant to which North Penn will be merged with and into Norwood.

You are also being asked to vote upon a proposal to adjourn, postpone or continue the special meeting of shareholders, if necessary, to permit further solicitation of proxies in favor of adopting the merger agreement. North Penn could use any adjournment or postponement for the purpose, among others, of allowing additional time to solicit proxies.

Who Can Vote at the Meeting

You are entitled to vote the shares of North Penn common stock that you owned as of the close of business on February 18, 2011. As of the close of business on February 18, 2011, a total of 1,336,136 shares of North Penn common stock were outstanding. Each share of common stock has one vote.

North Penn's articles of incorporation provide that record holders of North Penn common stock who beneficially own, either directly or indirectly, in excess of 10% of the outstanding shares of North Penn common stock are not entitled to any vote with respect to the shares held in excess of the 10% limit.

Ownership of Shares; Attending the Meeting

You may own shares of North Penn in one of the following ways:

- directly in your name as the shareholder of record;
- indirectly through a broker, bank or other holder of record in "street name"; or
- indirectly in the North Penn Bancorp, Inc. Stock Fund of the North Penn Bank Employees' Savings and Profit Sharing Plan and Trust (the "401(k) Plan") or in the North Penn Bank Employee Stock Ownership Plan (the "ESOP").

If your shares are registered directly in your name, you are the holder of record of these shares and we are sending these proxy materials directly to you. As the holder of record, you have the right to give your proxy directly to us or to vote in person at the meeting. If you hold your shares in street name, your broker, bank or other holder of record is sending these proxy materials to you. As the beneficial owner, you have the right to direct your broker, bank or other holder of record how to vote by filling out a voting instruction form that accompanies your proxy materials. Your broker, bank or other holder of record may allow you to provide voting instructions by telephone or by the Internet. Please see the instruction form provided by your broker, bank or other holder of record that accompanies this proxy statement. If you hold your shares in street name, you will need proof of ownership to be admitted to the

meeting. A recent brokerage statement or letter from a bank or broker are examples of proof of ownership. If you want to vote your shares of North Penn common stock held in street name in person at the meeting, you must obtain a written proxy in your name from the broker, bank or other nominee who is the record holder of your shares.

Quorum and Vote Required

Quorum. We will have a quorum and will be able to conduct the business of the special meeting if the holders of a majority of the outstanding shares of common stock entitled to vote are present at the meeting, either in person or by proxy.

Votes Required for Proposals. Under Pennsylvania law, approval of at least a majority of the votes cast at the special meeting is required to approve the merger agreement. As of the record date, directors and executive officers of North Penn and their affiliates, had the right to vote approximately 236,366 shares of North Penn common stock, or 17.7% of the outstanding shares of North Penn common stock at that date. Each of the directors and executive officers of North Penn has entered into a voting agreement with Norwood to vote all of his shares of North Penn common stock in favor of the merger.

Approval of the proposal to adjourn, postpone or continue the special meeting, if necessary, for the purpose of soliciting additional proxies requires the affirmative vote of the holders of a majority of the votes cast in person or represented by proxy at the special meeting, whether or not a quorum is present.

How We Count Votes. If you return valid proxy instructions or attend the meeting in person, we will count your shares for purposes of determining whether there is a quorum, even if you abstain from voting. Broker non-votes also will be counted for purposes of determining the existence of a quorum.

Voting by Proxy

The board of directors of North Penn is sending you this proxy statement/prospectus for the purpose of requesting that you allow your shares of North Penn common stock to be represented at the special meeting by the persons named in the enclosed proxy card. All shares of North Penn common stock represented at the special meeting by properly executed and dated proxy cards will be voted according to the instructions indicated on the proxy card. If you sign, date and return a proxy card without giving voting instructions, your shares will be voted as recommended by North Penn's board of directors. The board of directors recommends a vote "FOR" each of the proposals.

If any matters not described in this proxy statement/prospects are properly presented at the special meeting, the persons named in the proxy card will use their own best judgment to determine how to vote your shares. If the special meeting is postponed or adjourned, your North Penn common stock may be voted by the persons named in the proxy card on the new special meeting date as well, unless you have revoked your proxy. We do not know of any other matters to be presented at the special meeting.

You may revoke your proxy at any time before the vote is taken at the meeting. To revoke your proxy, you must either advise the Corporate Secretary of North Penn in writing before your shares of North Penn common stock have been voted at the special meeting, deliver a later dated proxy or attend the meeting and vote your shares in person. Attendance at the special meeting will not in itself constitute revocation of your proxy.

Participants in the ESOP and 401(k) Plan

If you participate in the ESOP or if you hold shares through the 401(k) Plan, you will receive a voting instruction form for each plan that reflects all shares you may direct the trustees to vote on your behalf under the plans. Under the terms of the ESOP, the ESOP trustee votes all shares held by the ESOP, but each ESOP participant may direct the trustee how to vote the shares of common stock allocated to his or her account. The ESOP trustee, subject to the exercise of its fiduciary duties, will vote all unallocated shares of North Penn common stock held by the ESOP and allocated shares for which no voting instructions are received in the same proportion as shares for which it has received timely voting instructions. Under the terms of the 401(k) Plan, a participant is entitled to direct the trustee as to the shares in the North Penn Bancorp, Inc. Stock Fund credited to his or her account. The trustee, subject to its fiduciary duties, will vote all shares for which no directions are given or for which instructions were not timely received in the same proportion as shares for which the trustee received voting instructions. The deadline for returning your voting instructions to each plan's trustee is April 1, 2011.

Solicitation of Proxies

The costs and expenses of printing and mailing this proxy statement/prospectus will be borne by Norwood, and North Penn will bear all other costs incurred by it in the solicitation of proxies from its shareholders on behalf of its board of directors. In addition to solicitation of proxies by mail, North Penn will request that banks, brokers and other record holders send proxies and proxy materials to the beneficial owners of North Penn common stock and secure their voting instructions. North Penn will reimburse the record holders for their reasonable expenses in taking those actions. North Penn has also made arrangements with Regan & Associates, Inc., a proxy solicitation firm, to assist it in soliciting proxies and has agreed to pay them approximately \$5,000 plus reasonable expenses for these services. North Penn may use its directors, officers and employees, who will not be specially compensated, to solicit proxies from North Penn shareholders, either personally or by telephone, facsimile, letter or other electronic means.

THE MERGER AND THE MERGER AGREEMENT

The following summary of the merger and merger agreement is qualified by reference to the complete text of the merger agreement. A copy of the merger agreement is annexed hereto as Annex A and is incorporated by reference into this proxy statement/prospectus. You should read the merger agreement completely and carefully as it, rather than this description, is the legal document that governs the merger. Factual disclosures about Norwood and North Penn contained in this proxy statement/prospectus or in the companies' public reports filed with the SEC may supplement, update or modify the factual disclosures about the companies contained in the merger agreement. The representations, warranties and covenants made in the merger agreement by North Penn and Norwood were qualified and subject to important limitations agreed to by the parties in connection with negotiating the terms of the merger agreement. In particular, in your review of the representations and warranties contained in the merger agreement and described in this summary, it is important to bear in mind that the representations and warranties were negotiated with the principal purposes of establishing the circumstances in which a party to the merger agreement may have the right not to close the merger if the representations and warranties of the other party prove to be untrue due to a change in circumstance or otherwise, and allocating risk between the parties to the merger agreement, rather than establishing matters as facts. The representations and warranties may also be subject to a contractual standard of materiality different from those generally applicable to shareholders and reports and documents filed with the SEC and in some cases were qualified by disclosures that were made by each party to the other, which disclosures were not reflected in the merger agreement. Moreover, information concerning the

subject matter of the representations and warranties, which do not purport to be accurate as of the date of this proxy statement/prospectus, may have changed since the date of the merger agreement.

General

The merger agreement provides for the merger of North Penn with and into Norwood, with Norwood as the surviving entity. Immediately following the merger, North Penn Bank will merge with and into Wayne Bank, with Wayne Bank as the surviving entity.

Background of the Merger

North Penn's board of directors has regularly reviewed and evaluated strategic options available to us with the goals of strengthening North Penn's capital and financial position, identifying opportunities for growth consistent with safe and sound banking operations, and enhancing long-term shareholder value. This strategic evaluation process led to converting North Penn Bank to the mutual holding company structure and undertaking a public stock offering in 2005 and subsequently conducting a "second step" conversion into the stock holding company structure and undertaking a second public offering in 2007. After completing the second step conversion in October 2007, North Penn was restricted for a period of three years from entering into a business combination in which it was not the surviving entity.

Although North Penn was restricted from engaging in a business combination, from time to time representatives of various area financial institutions (but not including Norwood) expressed their interest to Frederick L. Hickman, North Penn's President and CEO, regarding the possibility of North Penn engaging in a business combination with their institutions once the three year moratorium had expired. No deal terms were ever proposed or discussed in connection with any of these communications, nor did North Penn actively evaluate or pursue any of these expressions of interest.

In late January 2010, Mr. Hickman met with a representative of TKG a consulting firm with significant experience providing financial advisory services to banks and thrifts, to discuss the current state of the Northeast Pennsylvania banking market, North Penn's prospects as an independent institution, and the mergers and acquisition landscape. TKG was subsequently invited to prepare a formal presentation to North Penn's board of directors regarding these subjects.

At the board of directors' regular meeting on March 23, 2010, TKG delivered a presentation to the directors that provided a financial industry overview, market analysis, peer group analysis, and review of the current mergers and acquisitions landscape, including recent transactions. As part of this presentation, TKG presented illustrations of the financial effects of a business combination with several area financial institutions, including those that had previously expressed an interest in North Penn. It was discussed that, although North Penn had performed well during a time when many other banks were struggling, increasing regulatory burdens would soon require North Penn to make major investments in technology and compliance that would increase North Penn's cost structure and negatively impact its profitability. It was the consensus of the directors that growing regulatory burdens would increasingly make it very difficult for a small financial institution to effectively compete while creating long-term value for shareholders and that, when the regulatory limitations on engaging in a business combination expired, North Penn should explore the possibility of combining with a larger institution.

Over the subsequent months, two area financial institutions expressed to Mr. Hickman their interest in a business combination with North Penn. No deal terms were proposed or discussed. Mr. Hickman reported on these discussions to North Penn's board of directors.

On September 7, 2010, representatives of TKG met with Mr. Hickman and Kevin M. Lamont to update the analysis prepared in March and further discuss the Northeast Pennsylvania banking market and the mergers and acquisition landscape. At that meeting, they discussed the process for soliciting indications of interest to acquire North Penn and determined that North Penn would have a preference for a transaction that offered North Penn shareholders the opportunity to receive either cash or common stock of the acquirer, or some combination thereof.

At a meeting on September 28, 2010, North Penn's board of directors met with representatives of TKG. Also present at the meeting was a representative of Kilpatrick Townsend & Stockton LLP, which we refer to as Kilpatrick Townsend, a law firm with significant experience advising financial institutions. The representative of Kilpatrick Townsend made a presentation regarding the fiduciary duties and responsibilities of North Penn's board of directors in the context of a business combination transaction and discussed the timing, process and regulatory and shareholder approval requirements for a merger transaction.

TKG presented to the directors a draft of a confidential information memorandum that would be distributed to interested parties, which contained non-public information regarding North Penn's business and recent operating performance. TKG discussed the goals of the process, with the primary objective being to obtain the highest per share consideration for North Penn's shareholders, and the terms that interested parties would be asked to address as part of their proposals. In addition to price per share, these included, among other things, the structure of the proposed transaction, treatment of stock options, personnel issues, treatment of North Penn benefit plans, due diligence procedures, and the existence of financing or other contingencies.

TKG presented a list of 18 financial institutions that could potentially be interested in a merger with North Penn and provided some background information on the likelihood of their interest in a business combination with North Penn. The list of potential transaction partners was developed by TKG based on consultation with North Penn's management, analysis of publicly available information about other financial institutions, and their knowledge and expertise concerning North Penn's market area and the current market for transactions involving financial institutions. The proposed list included the two institutions that had expressed an interest in North Penn. The directors discussed whether there were any other reasonably likely potential merger partners who had been omitted from the list and concluded that there were not. It was the consensus of the Board that the list presented by TKG was appropriate and that all of the institutions on the list should be contacted to determine their interest in a potential business combination with North Penn. At this meeting, the board of directors also approved retaining TKG and Kilpatrick Townsend as North Penn's financial advisor and legal advisor, respectively.

In early October 2010, TKG, with the assistance of management of North Penn, finalized the confidential information memorandum and contacted the financial institutions on the list presented to the directors to ascertain their interest in a possible business combination. Twelve of the institutions contacted executed confidentiality agreements and thereafter TKG identified North Penn as the acquisition target and provided the interested parties with a copy of the confidential information memorandum. The interested parties were given until October 29, 2010 to submit a proposal.

By October 29, 2010, five of the institutions, including Norwood and the two institutions that earlier in the year had expressed an interest in North Penn, had submitted a proposal for a possible business combination. Four of the proposals, including the proposal from Norwood, contemplated that North Penn stock would be exchanged for a combination of cash and common stock of the acquirer, and one of the proposals contemplated a stock-for-stock merger. Each proposal was subject to further due diligence and other customary conditions. One of the proposals was also subject to a financing condition.

North Penn's board of directors met on November 5, 2010. TKG presented information on the current market for mergers and acquisitions, transaction pricing multiples for comparable transactions and a discounted cash flow analysis. TKG then reviewed the process undertaken to that point and discussed the proposals received by North Penn. TKG informed the board of directors that North Penn had received five proposals for a business combination transaction. TKG reviewed the key characteristics of each proposal, including the amount and type of consideration offered. Of the five proposals, Norwood's proposal offered the highest value to shareholders. In addition, TKG reported that a private equity group had expressed interest in a possible transaction, although it had not yet made a formal proposal. Because a transaction with an entity that was not already approved to own a bank or thrift presented greater execution risk, the board of directors determined to focus on a transaction with an existing financial institution, but would not rule out a transaction with the private equity group if it was significantly more favorable to North Penn shareholders.

TKG also reviewed the next steps in transaction process. The board of directors discussed the need for Norwood to conduct a due diligence investigation of North Penn, the possibility that having multiple parties conduct due diligence could result in a breach of confidentiality that could disrupt the sale process, and the unlikelihood that one of the other financial institutions would be willing or able to increase its offer to an amount greater than Norwood's proposal. Based upon these considerations, the board of directors determined to deal exclusively with Norwood, with the understanding that if Norwood substantially modified its proposal following due diligence that it could resume discussions with the next highest bidder. The board of directors then authorized management to commence negotiations of the terms of a merger between North Penn and Norwood. The board of directors discussed the use of a fixed exchange ratio for the stock portion of the merger consideration, as opposed to a floating exchange ratio, and concluded that there was a preference for a floating exchange ratio.

On November 11 and 12, 2010, representatives of Norwood conducted a due diligence investigation of North Penn. The due diligence investigation included, among other things, discussions with North Penn's senior management and review of North Penn's loan portfolio, securities portfolio and other assets, legal documents and obligations.

Over the following days, representatives of TKG and Boenning & Scattergood, Inc., Norwood's financial advisor, discussed the results of Norwood's due diligence investigation. After further discussions regarding North Penn's loan portfolio, capital structure and expenses related to obligations under North Penn's compensation arrangements, Norwood proposed to acquire North Penn in a merger in which the holders of North Penn common stock would receive \$19.12 in either cash or shares of Norwood common stock.

On November 23, 2010, members of management of North Penn, together with representatives of TKG and Kilpatrick Townsend, conducted a due diligence investigation of Norwood. The due diligence investigation included, among other things, discussions with Norwood's senior management and review of Norwood's loan portfolio, securities portfolio and other assets, legal documents and obligations.

On November 30, 2010, North Penn's board of directors held a regular meeting. At that meeting, representatives of TKG and Kilpatrick Townsend updated the directors on the status of the parties' due diligence investigations and discussed Norwood's updated proposal. The board of directors was also informed that the private equity group that had previously expressed an interest in North Penn had proposed a value that was below Norwood's proposal. The board of directors again discussed the use of fixed exchange ratio versus a floating exchange ratio and was informed that Norwood had expressed a strong preference for a fixed exchange ratio. The board of directors concluded that Norwood's proposal continued to represent the highest value to shareholders.

On December 1, 2010, legal counsel for Norwood provided a form of merger agreement. Over the ensuing two weeks, representatives of North Penn and Norwood management and outside legal advisors and financial advisors worked to finalize the merger agreement and related documents. Among other things, the parties continued to work to finalize provisions of the merger agreement regarding the determination of the exchange ratio, certain covenants of the parties, the conditions to the parties' obligations to complete the transaction, certain employee compensation arrangements, and the contents of North Penn's disclosure schedules. Norwood agreed to fix the exchange ratio at 0.6829, which resulted in a value of \$19.12 based on a value of Norwood Financial common stock equal to \$28.00 per share, which approximated the average trading price of Norwood Financial common stock over recent weeks.

During this period, the North Penn board recommended to Norwood that Mr. Lamont be considered for the Norwood board. Norwood indicated it was agreeable to the recommendation.

North Penn's board of directors met on December 14, 2010. Kilpatrick Townsend presented a summary of the legal terms of the merger agreement that had been negotiated with Norwood and the shareholder and regulatory approvals that would be required to complete the transaction, including the possible timeframe for obtaining such approvals. North Penn's board of directors also considered the Norwood proposal in the light of the constituency provisions of North Penn's articles of incorporation, including the impact a merger would have on North Penn's employees and the communities in which North Penn or its subsidiaries operate or are located, and Norwood's offer to have a member of North Penn's board of directors become a director of Norwood.

TKG then presented an analysis of the financial terms of the Norwood proposal, including the transaction value, form of consideration, and dividend impact for North Penn's shareholders as well as the historical performance of Norwood's stock, potential effects of the proposed merger on Norwood, Norwood's business and financial information, Norwood's asset and deposit mixes and retail profile, Norwood's branch footprint and overlap with North Penn's branches. TKG's presentation included discussion of the matters described under "— Opinion of North Penn's Financial Advisor" beginning on Page 44 of this proxy statement/prospectus. TKG noted that Norwood's proposal of \$19.12 per share of North Penn common stock represented a 75% premium over North Penn's stock price as of December 13, 2010. TKG further noted that Norwood's proposal would be accretive to North Penn's dividends per share.

TKG then delivered to North Penn's board of directors its oral opinion, subsequently confirmed in writing, that based upon and subject to the factors and assumptions stated in that opinion, as of such date, the merger consideration to be received in respect of each share of North Penn common stock in the transaction was fair to North Penn's common shareholders from a financial point of view.

Following these discussions, and extensive review and discussion among North Penn's directors, including consideration of the factors described below under "— Reasons for the Merger and the Recommendation of the North Penn Board of Directors" and consideration of TKG's presentation, including TKG's analyses of transaction ratios, the trading history of North Penn common stock and Norwood common stock, financial results of comparable companies, selected merger transactions, discounted cash flow valuation on both a combined company and stand-alone basis, and the pro forma impact of the proposed merger, North Penn's board of directors unanimously approved the Norwood Financial merger agreement and the transactions contemplated thereby. See "— Opinion of North Penn's Financial Advisor", beginning on Page 44 of this proxy statement/prospectus.

Later in the afternoon on December 14, 2010, after Norwood's board of directors approved the transaction, the parties executed the merger agreement. The transaction was announced in the morning on December 15, 2010.

Reasons for the Merger and the Recommendation of the North Penn Board of Directors

After careful consideration, North Penn's board of directors determined that the merger is in the best interests of North Penn and its shareholders. North Penn's board of directors therefore unanimously recommends that the North Penn shareholders vote "FOR" the approval of the merger agreement and the merger.

In reaching the determination to approve the merger, North Penn's board of directors consulted with North Penn's senior management, financial advisor and legal advisor, and drew on its knowledge of the business, operations, properties, assets, financial condition, operating results, historical market prices and prospects of North Penn and Norwood, as well as current economic and market conditions. In connection with its review and approval of the merger, and in the course of its deliberations, North Penn's board of directors considered numerous factors that weighed in favor of the merger, including the following:

- **Merger Consideration.** North Penn's board of directors considered the value of the consideration offered by Norwood. The consideration, at the time of their decision, represented an approximate 75% premium over the market price of North Penn's common stock on December 13, 2010. North Penn's board of directors also considered the adequacy of the merger consideration, not only in relation to the market price of North Penn's common stock, but also in relation to the historical, present and anticipated future operating results and financial position of North Penn as an independent entity.

North Penn's board of directors considered the price level of Norwood's common stock in relation to the price level in recent years and in relation to its peers and the possibility that North Penn shareholders who receive Norwood common stock in the merger would have the opportunity to participate in future stock price growth of Norwood.

North Penn's board of directors also considered the risks and uncertainties in evaluating the merger consideration in view of the potential fluctuation of Norwood's common stock price given the fixed exchange ratio, and the period of time between the execution of the merger agreement and the closing.

- **Strategic Alternatives.** North Penn's board of directors carefully considered the strategic alternatives available to North Penn, including pursuing a business combination with a third party and maintaining the status quo. In this context, North Penn's board of directors considered the economic and competitive pressures facing smaller financial institutions, increasing regulatory burdens, and the need to make major investments in technology and compliance. North Penn's board of directors discussed these alternatives in its deliberations and received advice from senior management, TKG as its financial advisor and Kilpatrick Townsend as its special legal counsel. North Penn's board of directors concluded that the execution of North Penn's business plan under the best case scenarios was not likely to create greater present value for North Penn shareholders compared to the value to be paid by Norwood.
- **The Sale Process.** North Penn's board of directors considered the extent and breadth of the sale process conducted by North Penn, with the assistance of TKG and its legal advisors, in soliciting, evaluating and responding to potential bidders likely to be interested in acquiring North Penn.

- **TKG's Fairness Opinion and Analysis.** North Penn's board of directors considered the opinion, analyses and presentations of TKG described under the heading "— Opinion of North Penn's Financial Advisor." TKG's opinion concluded that the merger consideration offered to North Penn's common shareholders in the merger was fair from a financial point of view to the holders of such stock.
- **Future Prospects.** North Penn's board of directors evaluated the business, operations, financial conditions, earnings, management and future prospects of Norwood and North Penn and believed that a business combination with Norwood would enable North Penn's shareholders to participate in a combined company that would have enhanced future prospects compared to those that North Penn is likely to achieve on a stand-alone basis. In reaching its conclusion, North Penn's board of directors took into consideration, among other things, the following benefits of a merger with Norwood: enhanced revenue, increased market capitalization, a lower cost of capital, stronger capital position, funding capabilities and liquidity position, cost savings through integration and synergies and, as a result, improved capabilities to cope with potential challenges and risks.
- **Likelihood of Prompt Regulatory Approval.** North Penn's board of directors considered the likelihood that Norwood and North Penn would receive the necessary regulatory approvals to complete the transactions contemplated in the merger agreement, including the merger and the bank merger, in a timely fashion.
- **Terms and Conditions of the Merger Agreement Relating to Closing.** North Penn's board of directors believed the terms and conditions of the merger agreement, including the parties' respective representations and warranties, the conditions to closing and termination provisions, provided adequate assurances as to Norwood's obligation and ability to consummate the merger in a timely manner, without any extraordinary conditions.
- **Norwood's Desire to Appoint a North Penn Director to Norwood's Board of Directors.** North Penn's board of directors considered the ability of North Penn shareholders to retain a voice in management oversight by appointing one of North Penn's directors to Norwood's board of directors.
- **Cash and Stock Election.** North Penn's board of directors considered that shareholders of North Penn would have the opportunity to elect to receive cash or common stock of Norwood in exchange for their shares of North Penn common stock, subject to the proration and allocation provisions of the merger agreement.
- **Tax.** North Penn's board of directors expected that the merger will constitute a reorganization under Section 368(a) of the Internal Revenue Code and North Penn shareholders generally will not recognize any gain or loss for federal income tax purposes on the exchange of shares of North Penn common stock for shares of Norwood common stock in the merger, except with respect to any cash received instead of fractional shares of Norwood common stock.
- **Impact on Constituencies.** As permitted by North Penn's articles of incorporation, North Penn's board of directors considered the effect of the merger on the employees, depositors and customers of North Penn and on the communities in which North Penn operates or is located. North Penn's board of directors believed that Norwood and North Penn share a commitment to their customers, employees, shareholders, and the

communities both companies serve. North Penn's board of directors considered that the branch networks of the two banks overlapped in only one location, which was expected to help minimize the job loss resulting from the merger, and that as part of a larger organization North Penn's employees would have greater career opportunities. North Penn's board of directors also considered Norwood's ability to provide a wider array of products, including trust services, as well as larger lending limits as being beneficial to North Penn's customers.

In the course of its deliberation regarding the merger, North Penn's board of directors also considered the following factors, which it determined did not outweigh the expected benefits to North Penn and its shareholders:

- **Provisions and Covenants Contained in the Merger Agreement.** North Penn's board of directors considered the restrictions on the operation of North Penn's business during the period between signing of the merger agreement and completion of the merger, as well as other covenants and agreements of North Penn contained in the merger agreement. North Penn's board of directors also considered the provisions of the merger agreement relating to payment of the termination fee upon certain events, and the limitations on North Penn's ability to discuss alternative transactions during the pendency of the merger. North Penn's board of directors further considered the requirement that North Penn must convene a special meeting of common shareholders to vote on the transaction with Norwood regardless of whether it changes its recommendation unless the merger agreement is terminated.
- **Completion Risks.** North Penn's board of directors considered the risks and costs associated with the merger not being completed in a timely manner or at all, including as a result of any failure to obtain requisite regulatory approvals. North Penn's board of directors considered that these risks and costs included the diversion of management and employee attention, potential employee attrition, the potential effect on business and customer relationships and potential litigation brought by shareholders of North Penn arising from the merger agreement or the transactions contemplated thereby.
- **Integration Risks.** North Penn's board of directors considered the challenges of combining the businesses, assets and workforces of North Penn and Norwood, which could affect the post-merger success and the ability to achieve anticipated cost savings and other potential synergies. North Penn's board of directors considered that Norwood had no recent experience in integrating an acquisition.
- **Insider Interests.** North Penn's board of directors considered the fact that the interests of North Penn directors and executive officers with respect to the merger may be different from those of other North Penn shareholders in certain limited circumstances. See "— Interests of Certain Persons in the Merger" on Page 60.

The reasons set forth above are not intended to be exhaustive, but include the material considerations of North Penn's board of directors in approving the merger agreement. In reaching its determination to approve and recommend the transaction, North Penn's board of directors looked at the totality of the information presented to it and did not assign any relative or specific weights to the factors considered, and individual directors may have given different weights to different factors. After considering, among other things, the matters discussed above and the opinion of TKG referred to above, North Penn's board of directors believed that the merger was in the best interests of North Penn and its shareholders, and therefore, unanimously approved and recommended the merger.

It should be noted that this explanation of the reasoning of North Penn's board of directors (and some other information presented in this section) is forward-looking in nature and, therefore, should be read in light of the factors discussed under the section of this proxy statement/prospectus entitled "Cautionary Statement Regarding Forward-Looking Statements" commencing on Page 30.

Norwood's Reasons for the Merger

In reaching its determination to approve and adopt the merger agreement, the board of directors of Norwood considered a number of factors, including:

- the complementary geographical locations of North Penn's branch network, which will augment Norwood's operations;
- the board's understanding of, and the presentations of Norwood's management and financial advisor regarding, North Penn's business, operations, management, financial condition, asset quality, earnings and prospects;
- the board's view that the merger is consistent with Norwood's expansion strategy and will allow for enhanced opportunities for Norwood's new and existing clients and customers;
- the results of management's due diligence investigation of North Penn and the reputation, business practices and experience of North Penn and its management, including their impression that North Penn is a financially healthy, well-run bank holding company that is deeply committed to its customers, employees, and the communities that it serves;
- the fact that the merger is expected to be accretive to earnings per share of Norwood in 2012;
- the anticipated operating efficiencies, cost savings and opportunities for revenue enhancements of the combined company following the completion of the merger, and the likelihood that they would be achieved after the merger;
- the fact that the merger consideration consists of a mixture of cash and stock in which shareholders would have an election, subject to limitations;
- the fact that the per share stock consideration is fixed;
- the deal protection provided by the termination fee of \$1,125,000 payable under certain circumstances in the event of the termination of the merger agreement due to a competing offer or certain other reasons;
- the intended tax treatment of the merger as a tax-free reorganization; and
- the likelihood of receiving all of the regulatory approvals required for the merger.

Based on these reasons, Norwood's board of directors unanimously approved the merger agreement and the merger. This discussion of the factors considered by Norwood's board of directors does not list every factor considered by the board but includes all material factors considered by the board. In reaching its determination to approve and adopt the merger agreement, the board did not give

relative or specific importance to each of the factors listed above, and individual directors may have given differing importance to different factors. Please note that this explanation of the board's reasoning and all other information presented in this section is forward-looking in nature and, therefore, should be read in light of the factors discussed under the heading "Cautionary Statement Regarding Forward-Looking Statements" beginning on page 30.

Opinion of North Penn's Financial Advisor

Pursuant to an engagement letter dated as of October 1, 2010, North Penn engaged TKG to act as its financial advisor in connection with the sale of North Penn based on its qualifications, industry experience, reputation and past assistance to North Penn. TKG, as part of its financial advisory business, is regularly engaged in the valuation of businesses and their securities in connection with mergers and acquisitions, and valuations for corporate and other purposes. In the ordinary course of business TKG provides consulting services to financial institutions, including performance measurement, profitability outsourcing, strategic planning, regulatory assistance, profit improvement, and various other financial advisory services. In connection with its engagement, TKG was asked to render an opinion to the North Penn board of directors as to the fairness to North Penn, from a financial point of view, of the merger consideration offered by Norwood.

At the request of North Penn's board of directors, representatives of TKG participated in the special meeting held on December 14, 2010, at which the board of directors considered the proposed merger. At that meeting, representatives of TKG made a presentation to the board of directors of their analyses relating to the proposed transaction and, in particular, of their determination regarding the fairness, from a financial point of view, of the proposed merger consideration to North Penn shareholders. At that meeting, TKG issued its oral opinion, subsequently confirmed in writing, that the consideration to be paid to North Penn by Norwood pursuant to the terms of the merger agreement, dated December 14, 2010, was fair from a financial point of view. Except as discussed herein, no limitations were imposed by North Penn's board of directors upon TKG with respect to investigations made or procedures followed in rendering this opinion.

The full text of TKG's written opinion is attached to this proxy statement/prospectus as Annex B and is incorporated herein by reference. North Penn shareholders are urged to read the opinion in its entirety for a description of the procedures followed, assumptions made, matters considered, and qualifications and limitations of TKG's analyses. TKG's opinion is addressed to the board of directors of North Penn, is directed only to the consideration in the merger and does not constitute a recommendation as to how any holder of North Penn common stock should vote with respect to the merger or any other matter. TKG's opinion speaks only as of the date of the opinion. TKG participated in certain negotiations leading to the merger agreement, but the decision as to whether to enter into the merger agreement was made by North Penn's board of directors.

In rendering its opinion, TKG, among other things:

- Reviewed the Agreement;
- Analyzed regulatory filings and other financial information concerning North Penn;
- Analyzed regulatory filings and other financial information concerning Norwood;
- Discussed past, present, and future financial performance and operating philosophies with North Penn and Norwood senior managements;
- Reviewed certain internal financial data and projections of North Penn and the proposed combined company;
- Reviewed certain internal financial data of Norwood and the proposed combined company;

- Compared the financial condition, financial performance, and market trading multiples of North Penn and Norwood to similar financial institutions;
- Compared the consideration to be paid to North Penn pursuant to the Agreement with the consideration paid in comparable merger transactions of other financial institutions;
- Reviewed the pro forma impact of the merger on the earnings and book value of Norwood and compared the contributions of each institution in a number of key financial categories to the combined company; and
- Considered other financial studies, analyses, and investigations and reviewed other information deemed appropriate to render this opinion.

TKG spoke with certain members of senior management and other representatives of North Penn and Norwood to discuss the foregoing as well as matters TKG deemed relevant. As part of its analyses, TKG took into account its assessment of general economic, market and financial conditions, its experience in similar transactions, as well as its experience in and knowledge of the banking industry. TKG's opinion is based upon conditions as they existed and could be evaluated on the respective dates thereof and the information made available to TKG through the respective dates thereof.

TKG has assumed and relied upon the accuracy and completeness of all of the financial and other information reviewed and/or discussed for the purposes of its opinion, without independent investigation. TKG assumed that financial forecasts were deemed reasonable and reflected the best currently available estimates and judgments of senior management and are based on reasonable assumptions, estimates and judgments. Any estimates contained in the analyses performed by TKG are not necessarily indicative of actual values or future results, which may be significantly more or less favorable than suggested by these analyses. Additionally, estimates of the values of businesses or securities do not purport to be appraisals or to reflect the prices at which such businesses or securities might actually be sold.

TKG did not make any independent evaluation or appraisals of either North Penn or Norwood or their respective assets or liabilities, nor was it furnished with any such appraisals. TKG has not made a review of the loans or loan loss reserves or reviewed any individual loan files of North Penn or Norwood. TKG did not conduct a physical inspection of any properties or facilities of North Penn or Norwood. TKG also assumed, without independent verification, that the aggregate allowances for loan losses for North Penn and Norwood were adequate.

On December 14, 2010, TKG rendered its oral fairness opinion, subsequently confirmed in writing, to North Penn's board of directors. The summary set forth below does not purport to be a complete description of the analyses performed by TKG in connection with the merger. The preparation of a fairness opinion involves various determinations as to the most appropriate and relevant methods of financial analysis and the application of these methods to the particular circumstances. Therefore, the opinion is not readily susceptible to summary description. TKG believes that its analyses must be considered as a whole. Only selecting portions of its analyses and of the factors considered by it could create an incomplete view of the evaluation process underlying the opinion. No one component of the analyses performed by TKG was assigned a greater significance than another component. Taken as a whole, TKG believes these analyses support the conclusion that the consideration to be paid by Norwood to North Penn shareholders is fair, from a financial point of view, to the holders of North Penn common stock.

Proposal Summary – The terms of the merger agreement call for each share of North Penn common stock to be converted into either 0.6829 shares of Norwood common stock or \$19.12 in cash, subject to proration so that 45% of the aggregate consideration is to be paid in cash. The exchange ratio represents a value of \$19.12 per North Penn common share, based on the closing price of Norwood common stock of \$28.00 on December 9, 2010.

Contribution Analysis – TKG reviewed the contribution made by each of Norwood and North Penn to various balance sheet and income statement categories of the combined company based on financial data at or for the quarter ended September 30, 2010. The analysis showed that North Penn would contribute the following percentages of the combined company:

- North Penn shareholders would own 15.4% of the combined company after receiving 55% of the aggregate consideration in Norwood common stock;
- North Penn would contribute 25.3% of net loans of the combined company;
- North Penn would contribute 23.5% of total assets of the combined company;
- North Penn would contribute 25.5% of total deposits of the combined company;
- North Penn would contribute 22.5% of total stockholders' equity of the combined company; and
- North Penn would contribute 11.7% of net income of the combined entity.

Discounted Cash Flow Analysis – TKG performed four discounted cash flow analyses. The first and second were “trading” models which valued North Penn as if it remained independent utilizing market price to earnings and price to tangible book values, respectively, to determine terminal values. The third and fourth analyses were “acquisition” models which valued North Penn as if it were to be acquired, utilizing acquisition price to earnings and price to tangible book values, respectively, to determine terminal values. In each analyses, TKG used management projections and estimates, market trading multiples from comparable institutions, specifically price to earnings multiples between 11 and 15 times earnings on a trading basis and 20 and 25 times earnings on an acquisition basis, and price to tangible book multiples between 70% and 90% of tangible book on a trading basis and between 120% and 140% on an acquisition basis, and discount rates of between 8% and 12%. Management estimates of North Penn's total assets, net income, tangible book value per share, and diluted earnings per share were as follows:

	Year 1	Year 2	Year 3	Year 4	Year 5
Total Assets (\$000's)	180,956	199,051	209,004	215,274	221,732
Net Income (\$000's)	1,080	1,422	1,755	1,896	1,958
Tangible Book Value Per Share (\$)	15.51	16.36	17.46	18.64	19.87
Diluted Earnings Per Share (\$)	0.78	1.02	1.26	1.36	1.41

TKG calculated a range of net present values of North Penn common stock per share in each scenario. These calculations resulted in a range of implied values of \$7.89 to \$14.37 per share of North Penn common stock, on a trading basis, and \$13.53 to \$23.95, on an acquisition basis, as illustrated by the following tables:

Estimated Present Value Per Share		Price / Earnings Multiple (x)		
		Discount Rate	11.0	13.0
Trading Basis	8.00%	\$10.54	\$12.45	\$14.37
	10.00%	\$9.61	\$11.36	\$13.11
	12.00%	\$8.78	\$10.38	\$11.98
Acquisition Basis		20.0	22.5	25.0
	8.00%	\$19.16	\$21.55	\$23.95
	10.00%	\$17.48	\$19.66	\$21.85
	12.00%	\$15.97	\$17.97	\$19.96

Estimated Present Value Per Share		Price / Tangible Book Multiple (%)		
		Discount Rate	70.0	80.0
Trading Basis	8.00%	\$9.47	\$10.82	\$12.17
	10.00%	\$8.64	\$9.87	\$11.10
	12.00%	\$7.89	\$9.02	\$10.15
Acquisition Basis		120.0	130.0	140.0
	8.00%	\$16.23	\$17.58	\$18.93
	10.00%	\$14.80	\$16.04	\$17.27
	12.00%	\$13.53	\$14.66	\$15.78

Although the discounted cash flow analysis is a widely used valuation methodology, it relies on numerous assumptions, including balance sheet and earnings growth rates, discount rates, and market trading multiples that may ultimately be materially different than those used in the analysis. Therefore, this analysis does not purport to be indicative of the actual values or expected values of North Penn common stock.

Peer Group Analysis: Norwood – TKG compared selected balance sheet, asset quality, capitalization, profitability, and market trading ratios to Norwood using financial data for two groups of financial institutions. The data was effective at or for the latest twelve months ended September 30, 2010 and market data on December 10, 2010.

The first group, or “National” peers, compares institutions similar to Norwood. Accordingly, TKG chose 10 publicly traded commercial banks with between \$400 million and \$600 million in total assets, commercial real estate loans to total loans greater than 20%, and a return on average assets greater than 1%.

The second group, or “Regional” peers, compares institutions similar to Norwood. Accordingly, TKG chose 14 publicly traded commercial banks with between \$400 million and \$750 million in total assets located in Pennsylvania, New Jersey, and New York, commercial real estate loans to total loans greater than 20%, non-performing assets to total assets less than 3%, and a return on average assets greater than 0.75%.

Companies included in the Norwood peer groups were:

National Peers	Regional Peers
Baker Boyer Bancorp	1st Summit Bancorp of Johnstown, Inc.
Benchmark Bankshares, Inc.	Allegheny Valley Bancorp, Inc.
Calvin B. Taylor Bankshares, Inc.	CB Financial Services, Inc.
Honat Bancorp, Inc.	CCFNB Bancorp, Inc.
Jeff Davis Bancshares, Inc.	Dimeco, Inc.
Orange County Bancorp, Inc.	Embassy Bancorp, Inc.
Peoples Financial Services Corp.	Evans Bancorp, Inc.
Stonegate Bank	FNB Bancorp, Inc.
Union Bankshares, Inc.	Honat Bancorp, Inc.
Virginia Heritage Bank	Lyons Bancorp, Inc.
	Orange County Bancorp, Inc.
	Penns Woods Bancorp, Inc.
	Peoples Financial Services Corp.
	Somerset Trust Holding Company

(financial data at or for the latest twelve months ended September 30, 2010)	Norwood	National Peers (Median)	Regional Peers (Median)
Loans/Deposits (%)	89.89	84.31	77.26
Tangible Equity/Assets (%)	12.80	10.48	8.82
NPAs/Assets (%)	2.04	1.24	1.14
Reserves/NPAs (%)	50.58	61.88	72.67
Net Interest Margin (%)	4.02	4.17	3.95
Non-interest Income/Total Income (%)	16.05	19.39	20.40
Non-interest Expense/Avg. Assets (%)	2.48	3.00	2.67
Efficiency Ratio (%)	52.72	59.04	61.29
Return on Avg. Assets (%)	1.38	1.29	0.96
Return on Avg. Equity (%)	11.13	11.53	11.36
Price to Earnings (x)	10.3	13.1	11.1
Price to Book Value (%)	113.0	118.4	112.9
Price to Tangible Book Value (%)	113.0	118.4	117.8
Current Dividend Yield (%)	3.96	3.28	3.45

Peer Group Analysis: North Penn – TKG compared selected balance sheet, asset quality, capitalization, profitability, and market trading ratios to North Penn using financial data for two groups of financial institutions. The data was effective at or for the latest twelve months ended September 30, 2010 and market data on December 10, 2010.

The first group, or “National” peers, compares institutions similar to North Penn. Accordingly, TKG chose 15 publicly traded thrifts with less than \$300 million in total assets, non-performing assets to total assets less than 3.25%, and a return on average equity greater than 5%.

The second group, or “Regional” peers, compares institutions similar to North Penn. Accordingly, TKG chose 10 publicly traded thrifts with less than \$500 million in total assets located in the Mid-Atlantic region, commercial and non-performing assets to total assets less than 3%.

Companies included in the North Penn peer groups were:

National Peers	Regional Peers
ASB Financial Corp.	CMS Bancorp, Inc.
BankAffiliated, Inc.	Fairmount Bancorp, Inc.
Century Next Financial Corporation	FedFirst Financial Corporation
Fairmount Bancorp, Inc.	Madison Bancorp, Inc.
FFD Financial Corporation	OBA Financial Services, Inc.
FFB Financial Corp.	Patriot Federal Bank
Great American Bancorp, Inc.	Roebing Financial Corp., Inc.
Home Loan Financial Corporation	Standard Financial Corp.
Logansport Financial Corp.	United-American Savings Bank
Mayflower Bancorp, Inc.	WVS Financial Corp.
Osage Bancshares, Inc.	
Patriot Federal Bank	
Redwood Financial Inc.	
United-American Savings Bank	
Washington Federal Bank for Savings	

(financial data at or for the latest twelve months ended September 30, 2010)	North Penn	National Peers (Median)	Regional Peers (Median)
	Loans/Deposits (%)	88.88	88.26
Tangible Equity/Assets (%)	12.10	9.49	9.14
NPAs/Assets (%)	1.36	0.86	0.93
Reserves/NPAs (%)	74.29	57.09	42.33
Net Interest Margin (%)	3.61	4.08	3.31
Non-interest Income/Total Income (%)	8.95	13.06	7.97
Non-interest Expense/Avg. Assets (%)	2.64	2.71	2.62
Efficiency Ratio (%)	70.20	63.19	80.42
Return on Avg. Assets (%)	0.79	0.76	0.19
Return on Avg. Equity (%)	6.41	8.68	1.69
Price to Earnings (x)	16.6	9.0	27.5
Price to Book Value (%)	80.2	80.2	69.9
Price to Tangible Book Value (%)	80.2	80.2	69.9
Current Dividend Yield (%)	1.6	1.7	0.0

Comparable Transaction Analysis – TKG reviewed the pricing of two comparable groups of merger and acquisition transactions. Group 1 were nationwide transactions announced after January 1, 2008 where the target institution had

total assets between \$100 million and \$2 billion, and non-performing assets to total assets were less than 3%. The criteria resulted in a list of 11 merger and

acquisition transactions (the “National Transactions”). Group 2 were transactions announced after November 1, 2009 where the target institution was a bank or thrift in the Mid-Atlantic region with non-performing assets to total assets less than 4%. The criteria resulted in a list of 10 merger and acquisition transactions (the “Regional Transactions”). For purposes of this analysis, TKG assumed the vesting of unvested North Penn common stock grants. TKG calculated the premium as a percent of core deposits as the amount paid over tangible book value, or the premium, divided by the target’s core deposits, or all deposits less time deposits greater than \$100,000. Transaction multiples are calculated at the time the transactions were announced.

	Norwood – North Penn	National Transactions	Regional Transactions
Price to Book Value (%)	136.12	117.88	119.14
Price to Tangible Book Value (%)	136.12	131.09	123.44
Price to Latest Twelve Months EPS (x)	21.77	23.75	19.31
Price to Deposits (%)	19.84	18.89	3.43
Franchise Premium to Core Deposits (%)	6.10	5.79	3.54

No company or transaction in the preceding Peer Groups and Comparable Transaction analyses is identical to North Penn, Norwood, or the contemplated transaction. Accordingly, an analysis of the results of the foregoing is not mathematically precise; rather, it involves complex considerations and judgments concerning differences in financial and operating characteristics of the companies and other factors that could affect the public trading value of the companies to which they are being compared. The ranges of valuation resulting from any particular analysis described above should not be taken to be TKG’s view of the actual value of North Penn or Norwood.

Compensation of TKG and Other Relationships – North Penn paid TKG a retainer fee of \$20,000 at the signing of the engagement letter between North Penn and TKG on October 1, 2010. North Penn paid TKG a fee of \$30,000 upon the rendering of its fairness opinion. North Penn will pay a transaction fee of 1% of the total consideration paid to North Penn shareholders by Norwood at the consummation of the contemplated transaction. TKG also will be reimbursed for reasonable out of pocket expenses incurred in connection with its engagement and North Penn has agreed to indemnify TKG against certain liabilities. During the two years preceding the date of its opinion, TKG performed profitability outsourcing services for Norwood, for which it also received fees of \$58,000.

Consideration to be Received in the Merger

Norwood will pay cash for a number of shares equal to approximately 45% of the North Penn common stock outstanding immediately prior to the effective time of the merger and will issue shares of Norwood common stock for the remaining 55% of such shares. Under the terms of the merger agreement, North Penn shareholders (other than dissenting shareholders) will be given the opportunity to elect for each outstanding share of North Penn common stock they own to receive:

- \$19.12 in cash, without interest, which we refer to as “cash consideration”;
- 0.6829 of a share of Norwood common stock, which we refer to as “stock consideration”; or
- with respect to certain North Penn shares owned by such shareholder, the cash consideration, and with respect to all other North Penn shares so owned, the stock consideration,

in each case, subject to the adjustment, election and allocation procedures specified in the merger agreement.

No fractional shares of Norwood common stock will be issued in connection with the merger. Instead, Norwood will make a cash payment to each North Penn shareholder who would otherwise receive a fractional share.

The per share cash consideration of \$19.12 is fixed. The 0.6829 exchange ratio for the stock consideration is fixed, subject to certain customary anti-dilution adjustments and a potential adjustment at Norwood's option in certain circumstances involving a decline in Norwood's stock price as described under "— Terminating the Merger Agreement" beginning on page 72. The per share value of the stock consideration, based upon Norwood's closing stock price on February 18, 2011, the most recent practicable trading day before this proxy statement/prospectus was finalized, was \$18.47 per share. The market value of the stock consideration will fluctuate with the price of Norwood common stock. At the time of completion of the merger, the market value of the stock consideration could be greater or less than the value of the cash consideration due to fluctuations in the market price of Norwood common stock.

Under the terms of the merger agreement, the aggregate consideration payable to North Penn shareholders in the merger as of December 14, 2010 (based on an assumed price of \$28.00 per share of Norwood common stock) was allocated approximately 45% in cash and 55% in Norwood common stock. The amount of cash to be paid in the merger is \$12,194,000. Amounts paid in settlement of outstanding stock options, for unallocated shares held by the ESOP and for any dissenting shares count towards this amount. Based on the number of outstanding options and unallocated shares held by the ESOP as of the record date and assuming there are no dissenting shares, the remaining cash available to pay shareholders who elect the cash consideration is approximately \$8.86 million. We call this number the cash consideration pool.

The allocation procedures in the merger agreement are intended to provide for an approximate 55% stock and 45% cash allocation among all outstanding North Penn shares and options. Norwood common stock will be issued to North Penn shareholders who make cash elections if the cash consideration pool is oversubscribed, so that total aggregate cash consideration payable to North Penn shareholders in the merger shall not exceed the cash consideration pool, and cash will be paid to North Penn shareholders who make stock elections if the cash consideration pool is undersubscribed, so that total aggregate cash consideration payable to North Penn shareholders in the merger equals \$12,194,000. See "— Allocation Procedures" below. The allocation of the mix of consideration payable to North Penn shareholders in the merger will not be known until Norwood tallies the results of the cash/stock elections made by North Penn shareholders, which will not occur until near or after the closing of the merger.

No guarantee can be made that North Penn shareholders will receive the amounts of cash or stock they elect. As a result of the allocation procedures and other limitations outlined in this proxy statement/prospectus and in the merger agreement, North Penn shareholders may receive Norwood common stock or cash in amounts that vary from the amounts they elect to receive.

North Penn is not making any recommendation as to whether North Penn shareholders should elect to receive cash, Norwood common stock or cash for some shares and stock for the remainder in the merger. Each North Penn shareholder must make his or her own decision with respect to such election.

Election Procedures; Surrender of Stock Certificates

An election form and other customary transmittal materials, with instructions for their completion, are being mailed separately to all holders of record of North Penn common stock as of the record date for the special meeting. The election form and transmittal materials will allow record holders to elect to receive cash, Norwood common stock, or cash for some shares and Norwood common stock for the remainder, or make no election with respect to the merger consideration such shareholders wish to receive. We refer to the shares with respect to which a valid cash consideration election is made as “cash election shares,” the shares with respect to which a valid stock consideration election is made as “stock election shares,” and the shares with respect to which no election is made as “non-election shares.”

To make an effective election, a record shareholder must submit a properly completed election form and transmittal materials along with stock certificates for which an election is made to the exchange agent by the election deadline, which shall be on or before 5:00 p.m., Eastern time, on the date specified in the election form. An election is properly made only if the exchange agent actually receives a properly completed election form by the election deadline. An election form shall be deemed properly completed only if accompanied by one or more stock certificates (or customary affidavits and indemnification regarding the loss or destruction of such certificates or the guaranteed delivery of such certificates) representing all shares of North Penn common stock covered by such election form, together with the duly executed transmittal materials included with the election form.

If you own shares of North Penn common stock in “street name” through a broker or other financial institution, you should receive or seek instructions from the institution holding your shares concerning how to make your election. Any instructions must be given to your broker or other financial institution sufficiently in advance of the election deadline for record holders in order to allow your broker or other financial institution sufficient time to cause the record holder of your shares to make an election as described above. “Street name” holders may be subject to an election deadline earlier than the deadline applicable to holders of shares in registered form. Therefore, you should carefully read any materials you receive from your broker. If you instruct a broker to submit an election for your shares, you must follow such broker’s directions for revoking or changing those instructions.

If a North Penn shareholder either (i) does not submit a properly completed election form on or before the election deadline or (ii) revokes its election form prior to the election deadline (without later submitting a properly completed election form prior to the election deadline), the shares of North Penn common stock held by such shareholder shall be designated as non-election shares and will be converted into the right to receive the stock consideration or the cash consideration according to the allocation procedures specified in the merger agreement and summarized below. Any election form may be revoked or changed by the person submitting such election form to the exchange agent by written notice to the exchange agent only if such notice of revocation or change is actually received by the exchange agent at or prior to the election deadline. Stock certificates relating to any revoked election form will be promptly returned without charge. The exchange agent will have discretion to determine when any election, modification or revocation is received and whether any such election, modification or revocation has been properly made. All elections (whether cash, stock or mixed) will be revoked automatically if the merger agreement is terminated. North Penn shareholders are urged to carefully read and follow the instructions for completion of the election form and to submit the form along with the stock certificate(s) in advance of the election deadline.

Allocation Procedures

The aggregate amount of cash and Norwood common stock that will be paid is subject to the allocation procedures described in detail below. Pursuant to such allocation procedures, if the number of cash election shares multiplied by the cash consideration (together with amounts paid in settlement of stock options, for unallocated ESOP shares and any dissenting shares) would exceed \$12,194,000, a pro rata portion of those shares will be converted into the right to receive Norwood common stock in order to provide for an aggregate cash/stock allocation among all outstanding North Penn shares. Similarly, if the number of cash election shares multiplied by the cash consideration (together with amounts paid in settlement of options, unallocated ESOP shares and dissenting shares) is less than \$12,194,000, all or a pro rata portion of the non-election shares and, if necessary, a pro rata portion of the stock election shares will be converted into the right to receive the cash consideration.

If the number of cash election shares times the cash consideration (together with amounts paid in settlement of options, unallocated ESOP shares and dissenting shares) is less than \$12,194,000, then:

- All cash election shares will be converted into the right to receive the cash consideration.
- Non-election shares will be deemed to be cash election shares to the extent necessary to have the total number of cash election shares times the cash consideration (together with amounts paid in settlement of options, unallocated ESOP shares and dissenting shares) equal \$12,194,000. If less than all of the non-election shares need to be treated as cash election shares, the exchange agent will select the non-election shares to be treated as cash election shares and the remaining non-election shares will be treated as stock election shares.
- If all of the non-election shares are treated as cash election shares and the total number of cash election shares times the cash consideration (together with amounts paid in settlement of options, unallocated ESOP shares and dissenting shares) is still less than \$12,194,000, a pro rata portion of each shareholder's stock election shares will be converted into cash election shares so that the total number of cash election shares times the cash consideration (together with amounts paid in settlement of options, unallocated ESOP shares and dissenting shares) equals \$12,194,000 and the remaining stock election shares will be converted into the right to receive the stock consideration.

If the number of cash election shares times the cash consideration (together with amounts paid in settlement of options, unallocated ESOP shares and dissenting shares) is greater than \$12,194,000, then:

- All stock election shares and all non-election shares will be converted into the right to receive the stock consideration.
- A pro rata portion of each shareholder's cash election shares will be converted into stock election shares so that the remaining number of cash election shares times the cash consideration (together with amounts paid in settlement of options, unallocated ESOP shares and dissenting shares) equals \$12,194,000, the converted stock election shares will be converted into the right to receive the stock consideration, and the remaining cash election shares will be converted in the right to receive the cash consideration.

If the number of cash election shares times the cash consideration equals \$12,194,000, then all cash election shares will be converted into the right to receive the cash consideration and all stock election shares and non-election shares will be converted into the right to the stock consideration.

Exchange Procedures

An election form and transmittal materials will be mailed under separate cover to North Penn shareholders who hold shares of North Penn common stock in registered form. If you wish to make an election with respect to any of your shares, you must submit an election form and transmittal materials and the certificates which represent your election shares to the exchange agent prior to the election deadline. Do not submit your stock certificates with your proxy card. You should only submit your stock certificates which represent your election shares when you have received and properly completed the election form and transmittal materials. See “— Election Procedures; Surrender of Stock Certificates” beginning on page 52 of this proxy statement/prospectus.

Exchange Agent. At the effective time of the merger, Norwood will deposit with the exchange agent (1) cash in an amount sufficient to allow the exchange agent to make cash consideration payments under the terms of the merger agreement and (2) certificates (or evidence of shares in book entry form) representing shares of Norwood common stock, which we refer to as the “new certificates,” each to be given to the holders of North Penn common stock in exchange for old certificates representing shares of North Penn common stock. Any such cash or new certificates remaining in the possession of the exchange agent six months after the effective time will be delivered to Norwood. Any holder of old certificates who has not exchanged his, her or its old certificates by that time will be entitled to look exclusively to Norwood, and only as a general creditor, for the consideration to which he, she or it may be entitled upon exchange of such old certificates.

Exchange Procedures. As promptly as practicable after the effective time of the merger, the exchange agent will mail a form of letter of transmittal to each person who was, immediately prior to the effective time, a holder of record of North Penn common stock and who has either (i) not submitted their properly completed election form on or before the election deadline or (ii) revoked their election form prior to the election deadline (without later submitting a properly completed election form prior to the election deadline). The letter of transmittal will contain instructions for use in effecting the surrender of old certificates (to the extent such old certificates have not been surrendered together with the election forms) in exchange for the consideration to which such person may be entitled pursuant to the merger agreement, and will specify that delivery shall be effected, and risk of loss and title to the old certificates shall pass, only upon proper delivery of such certificates to the exchange agent. As soon as practicable after due surrender to the exchange agent of an old certificate for cancellation (to the extent such old certificates have not been surrendered together with the election forms) together with such letter of transmittal duly executed and completed, the holder of such old certificate will be provided a new certificate and a check in the amount to which such holder is entitled pursuant to the merger agreement, and the old certificate shall be canceled. Any amounts required to be deducted and withheld under state, local or foreign tax laws will be deducted and withheld from the consideration otherwise payable under the merger agreement.

Until you surrender your North Penn stock certificates for exchange, you will accrue, but will not be paid, any dividends or other distributions declared after the effective time of the merger with respect to Norwood common stock into which any of your shares may have been converted. When you surrender your North Penn stock certificates, to the extent you receive shares of Norwood common stock in exchange, Norwood will pay any unpaid dividends or other distributions, without interest. After the completion of the merger, there will be no transfers on the stock transfer books of North Penn of any shares of North Penn common stock.

If a certificate for North Penn common stock has been lost, stolen or destroyed, the exchange agent will issue the consideration properly payable under the merger agreement upon receipt of

appropriate evidence as to that loss, theft or destruction, appropriate evidence as to the ownership of that certificate by the claimant, and appropriate and customary indemnification. The posting of a bond in a reasonable amount may also be required.

North Penn Stock Options

As of and immediately prior to the effective time of the merger, each outstanding stock option granted by North Penn under North Penn's equity incentive plans as of the effective time will be canceled in exchange for a cash payment equal to the positive difference between \$19.12 and the exercise price of such stock option, multiplied by the number of shares that may be purchased pursuant to such stock option.

Accounting Treatment

Norwood will account for the merger under the acquisition method of accounting in accordance with U.S. generally accepted accounting principles. Using the acquisition method of accounting, the assets and liabilities of North Penn will be recorded by Norwood at their respective fair values at the time of the completion of the merger. The excess of Norwood's purchase price over the net fair value of the assets acquired and liabilities assumed will then be allocated to identified intangible assets, with any remaining unallocated cost recorded as goodwill. The value of the shares exchanged will be valued at the acquisition date and all merger related costs will be expensed when incurred.

Tax Consequences of the Merger

This section describes the anticipated material United States federal income tax consequences of the merger to U.S. holders of North Penn common stock who exchange shares of North Penn common stock for shares of Norwood common stock, cash, or a combination of shares of Norwood common stock and cash pursuant to the merger.

For purposes of this discussion, a U.S. holder is a beneficial owner of North Penn common stock who for United States federal income tax purposes is:

- a citizen or resident of the United States;
- a corporation, or an entity treated as a corporation, created or organized in or under the laws of the United States or any state or political subdivision thereof;
- a trust that (1) is subject to (A) the primary supervision of a court within the United States and (B) the authority of one or more United States persons to control all substantial decisions of the trust or (2) has a valid election in effect under applicable Treasury Regulations to be treated as a United States person; or
- an estate that is subject to United States federal income tax on its income regardless of its source.

If a partnership (including for this purpose, any entity treated as a partnership for United States federal income tax purposes) holds North Penn common stock, the tax treatment of a partner generally will depend on the status of the partner and the activities of the partnership. If you are a partner of a partnership holding North Penn common stock, you should consult your tax advisor.

This discussion addresses only those North Penn shareholders that hold their North Penn common stock as a capital asset within the meaning of Section 1221 of the Internal Revenue Code, and does not address all the United States federal income tax consequences that may be relevant to particular North Penn shareholders in light of their individual circumstances or to North Penn shareholders that are subject to special rules, such as:

- financial institutions;
- investors in pass-through entities;
- insurance companies;
- tax-exempt organizations;
- dealers in securities;
- traders in securities that elect to use a mark to market method of accounting;
- persons who exercise dissenters' rights;
- persons that hold North Penn common stock as part of a straddle, hedge, constructive sale or conversion transaction;
- certain expatriates or persons that have a functional currency other than the U.S. dollar;
- persons who are not U.S. holders; and
- shareholders who acquired their shares of North Penn common stock through the exercise of an employee stock option or otherwise as compensation or through a tax-qualified retirement plan.

In addition, the discussion does not address any alternative minimum tax or any state, local or foreign tax consequences of the merger.

The following discussion is based on the Internal Revenue Code, its legislative history, existing and proposed regulations thereunder and published rulings and decisions, all as currently in effect as of the date hereof, and all of which are subject to change, possibly with retroactive effect. Any such change could affect the continuing validity of this discussion.

Norwood and North Penn have structured the merger to qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code. The obligation of Norwood to complete the merger is conditioned upon the receipt of an opinion from Malizia Spidi & Fisch, PC, counsel to Norwood, to the effect that the merger will for federal income tax purposes qualify as a reorganization based upon customary representations made by Norwood and North Penn. The obligation of North Penn to complete the merger is conditioned upon the receipt of an opinion from Kilpatrick Townsend & Stockton LLP, counsel to North Penn, to the effect that the merger will for federal income tax purposes qualify as a reorganization based upon customary representations made by Norwood and North Penn. Neither of these opinions is binding on the Internal Revenue Service or the courts. Norwood and North Penn have not requested and do not intend to request any ruling from the Internal Revenue Service as to the United States federal income tax consequences of the merger. Accordingly, each shareholder of North Penn common stock should consult its tax advisor with respect to the particular tax consequences

of the merger to such holder. In addition, because a North Penn shareholder may receive a mix of cash and stock despite having made a cash election or stock election, it will not be possible for holders of North Penn common stock to determine the specific tax consequences of the merger to them at the time of making the election.

Tax Consequences of the Merger Generally to Holders of North Penn Common Stock. If the merger is treated as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code, the tax consequences are as follows:

- gain or loss will be recognized by those holders receiving solely cash for North Penn common stock pursuant to the merger equal to the difference between the amount of cash received by a holder of North Penn common stock and such holder's cost basis in such holder's shares of North Penn common stock;
- no gain or loss will be recognized by those holders receiving solely shares of Norwood common stock in exchange for shares of North Penn common stock pursuant to the merger (except with respect to any cash received instead of fractional share interests in Norwood common stock, as discussed in the section entitled "— Cash Received Instead of a Fractional Share of Norwood Common Stock" on page 58);
- gain (but not loss) will be recognized by those holders who receive shares of Norwood common stock and cash in exchange for shares of North Penn common stock pursuant to the merger, in an amount equal to the lesser of (1) the amount by which the sum of the fair market value of the Norwood common stock and cash received by a holder of North Penn common stock exceeds such holder's cost basis in its North Penn common stock, and (2) the amount of cash received by such holder of North Penn common stock (except with respect to any cash received instead of fractional share interests in Norwood common stock, as discussed in the section entitled "— Cash Received Instead of a Fractional Share of Norwood Common Stock" on page 58);
- the aggregate basis of the Norwood common stock received in the merger will be the same as the aggregate basis of the North Penn common stock for which it is exchanged, decreased by the amount of cash received in the merger (except with respect to any cash received instead of fractional share interests in Norwood common stock), decreased by any basis attributable to fractional share interests in Norwood common stock for which cash is received, and increased by the amount of gain recognized on the exchange (regardless of whether such gain is classified as capital gain, or as ordinary dividend income, as discussed in the section entitled "— Recharacterization as a Dividend" on page 58, but excluding any gain or loss recognized with respect to fractional share interests in Norwood common stock for which cash is received); and
- the holding period of Norwood common stock received in exchange for shares of North Penn common stock will include the holding period of the North Penn common stock for which it is exchanged.

If holders of North Penn common stock acquired different blocks of North Penn common stock at different times or at different prices, any gain or loss will be determined separately with respect to each block of North Penn common stock and such holders' basis and holding period in their shares of Norwood common stock may be determined with reference to each block of North Penn common stock. Any such holders should consult their tax advisors regarding the manner in which cash and Norwood common stock received in the exchange should be allocated among different blocks of North Penn

common stock and with respect to identifying the bases or holding periods of the particular shares of Norwood common stock received in the merger.

Taxation of Capital Gain. Except as described in the section entitled “— Recharacterization as a Dividend” below, gain that holders of North Penn common stock recognize in connection with the merger generally will constitute capital gain and will constitute long-term capital gain if such holders have held (or are treated as having held) their North Penn common stock for more than one year as of the date of the merger. Long-term capital gain of non-corporate holders of North Penn common stock is generally taxed at preferential rates.

Recharacterization as a Dividend. All or part of the gain that a particular holder of North Penn common stock recognizes (or all or part of the cash received by a holder of North Penn common stock, if such holder receives only cash pursuant to the merger) could be treated as dividend income rather than capital gain if (1) such holder is a significant shareholder of Norwood or (2) such holder’s percentage ownership, taking into account constructive ownership rules, in Norwood after the merger is not meaningfully reduced from what its percentage ownership would have been if it had received solely shares of Norwood stock rather than cash or a combination of cash and shares of Norwood stock in the merger. This recharacterization as dividend income could happen, for example, because of ownership of additional shares of Norwood stock by such holder of North Penn common stock, ownership of shares of Norwood stock by a person related to such holder or a share repurchase by Norwood from other holders of Norwood stock. The Internal Revenue Service has indicated in rulings that any reduction in the interest of a minority shareholder that owns a small number of shares in a publicly and widely held corporation and that exercises no control over corporate affairs would not result in dividend treatment. Under the constructive ownership rules, a shareholder may be deemed to own stock that is owned by others, such as a family member, trust, corporation or other entity. For an individual who receives dividend income in taxable years beginning before January 1, 2013 that constitutes qualified dividend income, the dividend income may be subject to reduced rates of taxation if such individual meets certain holding period requirements. Because the possibility of dividend treatment depends primarily upon each holder’s particular circumstances, including the application of the constructive ownership rules, holders of North Penn common stock should consult their tax advisors regarding the application of the foregoing rules to their particular circumstances.

Cash Received Instead of a Fractional Share of Norwood Common Stock. A holder of North Penn common stock who receives cash instead of a fractional share of Norwood common stock will generally be treated as having received the fractional share pursuant to the merger and then as having exchanged the fractional share for cash in a redemption by Norwood. As a result, a holder of North Penn common stock will generally recognize gain or loss equal to the difference between the amount of cash received and the basis in his or her fractional share interest as set forth above. Except as described in the section entitled “— Recharacterization as a Dividend” above, this gain or loss will generally be a capital gain or loss, and will be a long-term capital gain or loss if, as of the effective date of the merger, the holding period for such shares is greater than one year. The deductibility of capital losses is subject to limitations.

Backup Withholding and Information Reporting. Payments of cash to a holder of North Penn common stock may, under certain circumstances, be subject to information reporting and backup withholding, unless the holder provides proof of an applicable exemption satisfactory to Norwood and the exchange agent, or furnishes its taxpayer identification number and otherwise complies with all applicable requirements of the backup withholding rules. Any amounts withheld from payments to a holder under the backup withholding rules are not additional tax and will be allowed as a refund or credit against the holder’s United States federal income tax liability, provided the required information is furnished to the Internal Revenue Service.

The preceding discussion is intended only as a summary of material United States federal income tax consequences of the merger. It is not a complete analysis or discussion of all potential tax effects that may be important to you. Thus, you are strongly encouraged to consult your tax advisor as to the specific tax consequences resulting from the merger, including tax return reporting requirements, the applicability and effect of federal, state, local, and other tax laws and the effect of any proposed changes in the tax laws.

Regulatory Matters Relating to the Merger

Consummation of the merger and the bank merger are subject to receipt of certain regulatory approvals.

FDIC. Norwood intends to acquire North Penn by way of a merger, whereby North Penn will merge with and into Norwood, with Norwood as the surviving company, and by merging North Penn Bank with Wayne Bank. The merger of North Penn Bank with and into Wayne Bank is subject to the prior approval of the FDIC under the Bank Merger Act. Wayne Bank and North Penn Bank have filed an application with the FDIC to obtain prior approval of the merger of North Penn Bank with and into Wayne Bank. In reviewing applications, the FDIC considers:

- the effect of the transaction upon competition;
- the financial and managerial resources and future prospects of the merging and resulting institutions;
- the capital levels of the surviving institution;
- the performance of the applicants in helping to meet the credit needs of the relevant communities, including low- and moderate-income neighborhoods; and
- the convenience and needs of the community to be served.

The FDIC will not approve a transaction:

- that would result in a monopoly or would be in furtherance of any combination, conspiracy or attempt to monopolize the business of banking in any part of the United States; or
- whose effect in any section of the United States may be to substantially lessen competition, or tend to create a monopoly, or which in any other manner would be in restraint of trade, unless the probable effects of the transaction in meeting the convenience and needs of the community clearly outweigh the anti-competitive effects of the transaction.

Any transaction approved by the FDIC may not be completed until 30 days after the FDIC approval, during which time the U.S. Department of Justice may challenge such transaction on antitrust grounds. With the approval of the FDIC and the U.S. Department of Justice, the waiting period may be reduced to 15 days.

Federal Reserve Bank of Philadelphia. Norwood is a bank holding company whose primary federal regulator is the FRB. Because the merger involves an acquisition by a bank holding company, the transaction is also subject to the non-objection of the Federal Reserve Bank of Philadelphia.

Pennsylvania Department of Banking. The merger of North Penn Bank with and into Wayne Bank is also subject to the prior approval of the Department under the Pennsylvania Banking Code of 1965. Wayne Bank has filed an application for approval of the bank merger with the Department and the application is currently pending. In determining whether to approve the application for the merger of North Penn Bank with and into Wayne Bank, the Department will consider, among other factors, whether the bank merger would be consistent with adequate or sound banking and would not result in concentration of assets beyond limits consistent with effective competition. The Department will also consider the public interest and the needs and convenience of the area primarily to be served by Wayne Bank after the bank merger. Further, it is the policy of the Department to ensure the safe and sound conduct of banking organizations and to maintain public confidence in the business of banking and protect the public interest and the interests of depositors, creditors, and stockholders. These factors will be considered by the Department in connection with Wayne Bank's application.

Status of Applications and Notices. Norwood and North Penn have filed all required applications with applicable regulatory authorities in connection with the merger of North Penn with Norwood and the bank merger. There can be no assurance that all requisite approvals will be obtained, that such approvals will be received on a timely basis or that such approvals will not impose any term, condition or restriction which either party reasonably determines in good faith would materially or adversely affect the economic or business benefits of the merger to such party, as to render inadvisable in its reasonable good faith judgment the consummation of the merger. If any such term, condition or restriction is imposed, either Norwood or North Penn may elect not to consummate the merger. See “— Conditions to Completing the Merger” on page 65.

The approval of any application merely implies the satisfaction of regulatory criteria for approval, which does not include review of the acquisition from the standpoint of the adequacy of the merger consideration to be received by North Penn shareholders. Furthermore, regulatory approvals do not constitute an endorsement or recommendation of the acquisition.

Interests of Certain Persons in the Merger

Share Ownership. On the record date for the special meeting, all persons who served as a director or executive officer of North Penn beneficially owned, in the aggregate, 236,366 shares of North Penn common stock (excluding shares that may be acquired upon the exercise of stock options), representing approximately 17.7% of the outstanding shares of North Penn common stock.

As described below, certain of North Penn's officers and directors have interests in the merger that are in addition to, or different from, the interests of North Penn's shareholders generally. North Penn's board of directors was aware of these conflicts of interest and took them into account when approving the merger.

Employment Agreements. North Penn has existing employment agreements with Frederick L. Hickman, Thomas J. Dziak and Thomas A. Byrne. These employment agreements require North Penn to make payments and/or provide benefits to its executive officers upon a termination of their employment and, in certain circumstances, upon a termination of employment in connection with, or following, a change in control of North Penn. The completion of the merger will constitute a change in control for purposes of North Penn's employment agreements. The employment agreements provide that an executive is entitled to change in control compensation if a change in control has occurred and the

executive's employment is terminated within two years following the change in control due to (i) the executive's dismissal or (ii) the executive's voluntary resignation following any material demotion; loss of title, office or significant authority or responsibility; material reduction in annual compensation or benefits; or relocation of his principal place of employment by more than 25 miles from its location immediately prior to the change in control. The executive would not be entitled to change in control compensation if his termination is because of his death, disability, retirement or for cause.

Under the employment agreements, if an executive's employment is terminated following the merger under the terms described above, the executive will be entitled to receive a cash payment equal to 2.99 times (in the case of Mr. Hickman and Mr. Dziak) or two times (in the case of Mr. Byrne) the executive's average annual taxable compensation for the five most recent taxable years that the executive has been employed by North Penn. In addition, North Penn would also be obligated to continue and/or pay for the former executive's life, medical and dental coverage for three years (in the case of Mr. Hickman and Mr. Dziak) or two years (in the case of Mr. Byrne).

Addendums to Employment Agreements. In connection with the execution of the merger agreement, Mr. Hickman, Mr. Dziak and Mr. Byrne each entered into an addendum to his employment agreement. In the event that the merger agreement is terminated prior to completion of the merger, each of the addendums would terminate and be of no further force and effect. In the addendum to his employment agreement, Mr. Hickman agreed that the maximum change in control severance benefit under his employment agreement will be \$597,344, that additional income generated by the exercise of stock options or the disposition of shares acquired upon the exercise of stock options would not be taken into account in calculating any change in control severance compensation, and that he would execute a full release of claims shortly before completion of the merger.

In the addendum to his employment agreement, Mr. Dziak agreed that he would not compete with Norwood or any of its subsidiaries for a period beginning on the effective date of the merger and ending on the later of four months following the date of the merger or three months following his termination of employment with Norwood, that additional income generated by the exercise of stock options or the disposition of shares acquired upon the exercise of stock options would not be taken into account in calculating any change in control severance compensation, and that he would execute a full release of claims shortly before completion of the merger.

In the addendum to his employment agreement, Mr. Byrne agreed that if he is an employee in good standing with Norwood as of the date that is one month following the effective date of the merger he would receive \$50,000 and if he is an employee in good standing with Norwood as of the date that is 12 months following the effective date of the merger he would receive an additional \$30,000, that he would not compete with Norwood or any of its subsidiaries for a period beginning on the effective date of the merger and ending on the later of one year following the date of the merger or three months following his termination of employment with Norwood, that Norwood would continue to provide certain country club and automobile perquisites following the merger, and that additional income generated by the exercise of stock options or the disposition of shares acquired upon the exercise of stock options would not be taken into account in calculating any change in control severance compensation.

Reimbursement for Excise Taxes. Mr. Hickman is also entitled to receive an additional tax indemnification payment (a "gross-up" payment) if payments under his employment agreement or any other payments trigger liability under Sections 280G and 4999 of the Internal Revenue Code for an excise tax on "excess parachute payments." Under applicable law, the excise tax is triggered by change in control-related payments that equal or exceed three times the executive's average annual taxable compensation over the five taxable years preceding the change in control. The excise tax equals 20% of the amount of the payment in excess of the executive's average taxable compensation over the preceding

five taxable year periods. North Penn (or its successor, here Norwood) is not able to take a federal tax deduction for excess parachute payments.

It is currently anticipated that Mr. Hickman will receive excess parachute payments, and North Penn estimates the amount of the gross-up payment to Mr. Hickman (based on current state and federal tax rates) would be approximately \$328,000. Such gross-up payments would be in addition to his change in control severance payments noted above.

With respect to the agreements with Mr. Dziak and Mr. Byrne, in the event payments and benefits under their respective employment agreement, together with other payments and benefits the executive may receive, would constitute an excess parachute payment under Section 280G of the Internal Revenue Code, these payments to the executive will be reduced by the minimum amount necessary to avoid the payments constituting excess parachute payments. As a result of these limitations, after taking into consideration the other change in control benefits described below, the change in control severance benefits payable to Mr. Dziak and Mr. Byrne under the change in control agreements if they are terminated at the time of the merger would be \$101,551 and \$237,421, respectively.

Supplemental Executive Retirement Agreements. North Penn Bank has entered into supplemental executive retirement agreements with Mr. Hickman, Mr. Dziak and Mr. Byrne. Under these agreements, upon their separation from service on or after the normal retirement age of 65, Mr. Hickman, Mr. Dziak and Mr. Byrne will receive benefits of \$83,000, \$46,000 and \$43,000 per year, respectively, for 10 years. No benefits are payable under the supplemental executive retirement agreements following termination for cause. If the executive voluntarily terminates employment before his normal retirement age, he will receive an annual retirement benefit based on the liability for the normal retirement benefit accrued by North Penn through the most recent plan year and as is reflected in a schedule to the supplemental executive retirement agreement. In the event the executive is terminated involuntarily before his normal retirement age or terminates employment following a change in control before his normal retirement age, North Penn (or its successor, here Norwood) will pay the executive an annual benefit determined by vesting the executive in the present value of the normal retirement benefit, discounted using a 4.0% discount rate. The completion of the merger will constitute a change in control for purposes of North Penn's supplemental executive retirement agreements.

In connection with the execution of the merger agreement, Mr. Hickman entered into an addendum to his supplemental executive retirement agreement that eliminated the change in control benefit and provided that if he remains employed until the closing of the merger and receives a change in control severance payment under his employment agreement, he will remain entitled to receive the voluntary early termination benefit under the supplemental executive retirement agreement and not the involuntary early termination benefit.

Assuming that each executive is terminated at the effective time of the merger and that the merger is completed in 2011, the retirement benefit for Mr. Hickman, Mr. Dziak and Mr. Byrne will be \$24,286, \$30,975, and \$23,798 per year, respectively, for 10 years beginning 90 days following termination of employment (unless certain Internal Revenue Code provisions regarding deferred compensation apply, in which case any payments due in the first six months following termination would be accumulated and paid on the first day of the seventh month following termination).

Non-Solicitation and Non-Competition Agreement. In connection with the execution of the merger agreement, Mr. Hickman entered into a Non-Solicitation and Non-Competition Agreement with Norwood pursuant to which he agreed, for a period of 24 months following the merger, he will not serve as an employee, an officer, a director, a consultant, an agent, partner, an advisory director, a founder or a shareholder or other equity holder in a corporation or other entity or in any other capacity with any

business organization that is doing business or intends to do business in the Commonwealth of Pennsylvania in the counties of Lackawanna, Wayne, Pike and Monroe and that is engaged or intends to engage in the provision of financial services to the public, including, but not limited to, accepting retail or commercial deposit accounts, making loans or offering trust services, commercial banking, mortgage banking, or lease financing, by business entities, including but not necessarily limited to commercial banks, savings associations, trust companies, credit unions and parent companies and subsidiary companies of such business entities, and he also agrees that he will not recruit any Norwood employees or solicit any customers of Norwood. Norwood will pay Mr. Hickman \$15,000 per month for the period of the agreement.

Equity-Based Awards. Pursuant to North Penn's existing equity plans, all unvested options to purchase shares of North Penn common stock will become vested and exercisable upon consummation of the merger. At the closing of the merger, all unexercised options will be cancelled and North Penn will pay each holder an amount equal to the difference between the \$19.12 per share cash consideration and the exercise price per share of each option, net of any cash that must be withheld under federal and state income and employment tax requirements. The following table sets forth the number of unvested options that were held by the executive officers of North Penn and all non-employee directors of North Penn as a group as of January 31, 2011.

Name	Number of Unvested Stock Options	Weighted Average Exercise Price
Frederick L. Hickman	45,174	\$9.12
Thomas J. Dziak	5,151	\$8.84
Thomas A. Byrne	11,620	\$9.21
All non-employee directors as a group	33,858	\$9.22

Pursuant to North Penn's existing equity plans, any vesting conditions applicable to any shares of restricted stock of North Penn will lapse, and such shares of restricted stock will be treated the same as all other shares of North Penn common stock in accordance with the terms of the merger agreement. As of January 31, 2011, the number of unvested shares of restricted North Penn common stock held by each of Mr. Hickman, Mr. Dziak and Mr. Byrne that would vest and become free of restrictions is 19,737, 2,508, and 4,218, respectively. The number of unvested shares of restricted North Penn common stock held by North Penn's six non-employee directors as a group that would vest and become free of restrictions is 15,308.

Termination of North Penn Bank ESOP. North Penn Bank will terminate its employee stock ownership plan upon completion of the merger. All shares remaining after repayment of the outstanding ESOP loan balance ("surplus shares") will be allocated to participants who were employed by North Penn Bank immediately preceding the completion of the merger. The surplus shares will be allocated to the eligible participants, including Mr. Hickman, Mr. Dziak and Mr. Byrne, in proportion to their account balances as of the first day of the ESOP valuation period, to the extent allowed under applicable law and the governing documents of the plan.

Appointment of North Penn Director to the Norwood Financial Board of Directors. Norwood has invited Kevin M. Lamont, Chairman of North Penn, to serve on the boards of directors of Norwood and Wayne Bank following completion of the merger. See "Management Following the Merger" on Page 163. Mr. Lamont will be entitled to compensation received by other members of the Norwood board of directors. See "Management Following the Merger — Director Compensation."

Continued Director and Officer Liability Coverage. For a period of six years following the effective time of the merger, Norwood has agreed to indemnify and hold harmless the directors and officers of North Penn against all liability arising out of actions or omissions occurring at or before the effective time of the merger to the same extent as North Penn currently provides for indemnification of its officers and directors. For a period of six years following the effective time of the merger, Norwood has also agreed to maintain in effect North Penn's directors' and officers' liability insurance coverage or provide a policy with comparable coverage; provided, however, if the cost that is necessary to maintain or procure such insurance coverage exceeds 150% of the amount of annual premiums paid by North Penn as of the date of the merger agreement, Norwood will obtain the most advantageous coverage obtainable for a premium equal to such amount.

Payments to North Penn Directors for On-going Cooperation. All other individuals serving on the board of directors of North Penn who are not otherwise eligible for a severance or change in control payments as of the date of the merger agreement shall be entitled to receive, after the effective time of the merger, a retainer in the amount of \$1,000 per month for an 18 month period in exchange for their efforts in promoting the combined entity after the effective time of the merger. Such cooperation includes their agreement not to serve as an employee, an officer, a director, a consultant, an agent, partner, an advisory director, a founder or a shareholder or other equity holder in a corporation or other entity or in any other capacity with any business organization that is doing business or intends to do business in the Commonwealth of Pennsylvania in the counties of Lackawanna, Wayne, Pike and Monroe and that is engaged or intends to engage in the provision of financial services to the public, including, but not limited to, accepting retail or commercial deposit accounts, making loans or offering trust services, commercial banking, mortgage banking, or lease financing, by business entities, including but not necessarily limited to commercial banks, savings associations, trust companies, credit unions and parent companies and subsidiary companies of such business entities, and not to recruit any Norwood employees or solicit any customers of Norwood.

Employee Matters

Nothing in the merger agreement shall be construed as constituting an employment agreement between Norwood, Wayne Bank or any of their affiliates and any officer or employee of North Penn or any of its subsidiaries or an obligation on the part of Norwood, Wayne Bank or any of their affiliates to employ any such officers or employees.

In the event that Norwood terminates any of North Penn's health and welfare benefit plans, programs, insurance and other policies, all employees of North Penn or any of its subsidiaries who continue employment with Norwood or any subsidiary of Norwood following the effective time of the merger will become eligible to participate in Norwood's or Wayne Bank's medical, dental, health and disability plans without any gap or interruption in coverage. With respect to each Norwood health plan, Norwood and Wayne Bank shall cause each such plan to (1) waive any waiting period limitation or evidence of insurability requirement under said plans, (2) waive any pre-existing condition limitations under such plans to the extent such conditions for such participant are covered under the applicable North Penn health plan, and (3) credit under such plans any current plan year deductible, co-payment and out-of-pocket expenses incurred by the employees and their covered dependents during the portion of the plan year prior to such participation.

Any employee of North Penn (other than those employees who are a party to an employment, a change of control or other type of agreement with North Penn which provides for severance) whose employment is terminated by North Penn, Norwood or Wayne Bank, absent termination for cause, within 12 months of the effective date of the merger, shall receive severance benefits in accordance with the policy and years of service information set forth in the merger agreement.

Time of Completion

Unless the parties agree otherwise and unless the merger agreement has otherwise been terminated, the closing of the merger will take place on the 10th business day following the later of (1) the effective date (including the expiration of any applicable waiting period) of the last required regulatory approval, and (2) the date on which the shareholders of North Penn approve the merger agreement.

Norwood and North Penn are working to complete the merger quickly. It is currently expected that the merger will be completed in the second quarter of 2011. However, because completion of the merger is subject to regulatory approvals and other conditions, the parties cannot be certain of the actual timing.

Conditions to Completing the Merger

Norwood's and North Penn's obligations to consummate the merger are conditioned on the following:

- approval of the merger agreement by North Penn's shareholders;
- receipt of all required regulatory approvals and the expiration of all statutory waiting periods;
- there shall be no actual or threatened causes of action, investigations or proceedings (1) challenging the validity or legality of the merger agreement or the consummation of the merger, or (2) seeking damages in connection with the merger, or (3) seeking to restrain or invalidate the merger; unless actual or threatened causes of action, investigations or proceedings would not have a material adverse effect with respect to the interests of Norwood or North Penn, as the case may be;
- Norwood's registration statement of which this proxy statement/prospectus is a part being effective;
- the shares of Norwood common stock having been approved for listing on NASDAQ, subject to official notice of issuance; and
- the other party having performed in all material respects its obligations under the merger agreement, the other party's representations and warranties being true and correct as of the effective date of the merger and receipt of a certificate signed by the other party's chief executive officer to that effect.

Norwood's obligations to consummate the merger are also conditioned on the following:

- there shall have been no determination by Norwood that any fact, event, or condition exists or has occurred that would have a material adverse effect on North Penn or the consummation of the transactions contemplated by the merger agreement;
- receipt by North Penn of all consents and approvals from third parties (other than those required from regulatory authorities) required to complete the merger, unless failure to obtain those consents or approvals would not have a material adverse effect on the merger or Norwood after completion of the merger;

- there shall be no action taken by a regulatory authority, which, in connection with approval of the merger, imposes, in the judgment of Norwood, any material adverse requirement upon Norwood or any Norwood subsidiary, including, without limitation, any requirement that Norwood sell or dispose of any significant amount of assets of North Penn, or any other Norwood subsidiary.

North Penn cannot guarantee whether all of the conditions to the merger will be satisfied or waived by the party permitted to do so.

Conduct of Business Before the Merger

North Penn has agreed that, until completion of the merger, it and its subsidiaries will:

General Business

- conduct its business in the usual, regular and ordinary course consistent with past practice and prudent banking principles;
- use its best efforts to maintain and preserve intact its business organization, employees, goodwill with customers and advantageous business relationships and retain the services of its officers and key employees; and
- except as required by law or regulation, take no action which would adversely affect or delay the ability of the Norwood and North Penn to obtain any consent from any regulatory authority or other approvals required for the consummation of the transactions contemplated by the merger agreement or to perform its covenants and agreements under the merger agreement.

North Penn has agreed that, until completion of the merger, unless required by law or permitted by Norwood, neither it nor its subsidiaries will:

Indebtedness

- incur any material liabilities or material obligations (other than deposit liabilities and short-term borrowings in the ordinary course of business), whether directly or by way of guaranty, including any obligation for borrowed money, or whether evidenced by any note, bond, debenture, or similar instrument;

Capital Stock

- change the number of shares of its authorized, issued or outstanding capital stock (except for the issuance of North Penn common stock issued upon the exercise of outstanding stock options), including any issuance, purchase, redemption, split, combination or reclassification thereof;
- issue or grant any option, warrant, call, commitment, subscription, right or agreement to purchase relating to its authorized or issued capital stock;
- declare, set aside or pay any dividend or other distribution with respect to the outstanding capital stock of North Penn other than the regular quarterly cash dividend of not more than \$0.04 per share;

Acquisitions and Dispositions

- sell, transfer, convey or otherwise dispose of any real property (including “other real estate owned”) or interest therein;
- purchase or otherwise acquire or sell or otherwise dispose of, any assets or incur any liabilities otherwise than in the ordinary course of business;

Investments

- acquire or agree to acquire 5% or more of the assets or equity securities of any person or business or acquire direct or indirect control of any person or business (except for foreclosures in the ordinary course of business and after consultation with Norwood);
- enter into any futures contract, option, interest rate caps, interest rate floors, interest rate exchange agreement or other agreement, or take any other action for purposes of hedging the exposure of its interest-earning assets and interest-bearing liabilities to changes in market rates of interest;
- purchase or sell or otherwise acquire any investment securities other than those issued by the U.S. Treasury with a maximum remaining maturity of two years or less;

Contracts

- enter into or extend any agreement, lease or license relating to real property (other than capital expenditures permitted under the merger agreement), personal property, data processing or bankcard functions that involves an aggregate of \$25,000 or more;
- waive, release, grant or transfer any material rights of value or modify or change in any material respect any existing agreement or indebtedness to which it is a party, other than in the ordinary course of business consistent with past practice;

Loans

- originate, purchase, extend or grant any loan in the principal amount in excess of \$100,000 if such loan is not fully secured or \$400,000 if such loan is fully secured, except for binding obligations as of the date of the merger agreement;

Employee Matters

- unless previously disclosed by North Penn, pay any bonuses to any employee, officer, director or other person;
- grant any general increase in compensation or pay any bonuses to its employees as a class or to its officers;
- enter into any new, or amend in any respect any existing, employment, consulting, non-competition or independent contractor agreement with any person;
- alter the terms of any incentive bonus or commission plan;
- adopt any new or materially amend any existing employee benefit plan except as required by law;
- except for the execution of the merger agreement and the consummation of the merger, take any action that would give rise to a right of payment to any individual under an employment agreement or an acceleration of the right to payment to any individual under any employee benefit plan;
- terminate any individual that is a party to an employment contract or change of control agreement prior to the effective time of the merger, other than for “cause” as defined in the applicable agreement;
- make any written communication to employees of North Penn pertaining to compensation or benefit matters affected by the merger or the transactions contemplated by the merger agreement without first providing Norwood with a copy or description of the intended communication;

Litigation

- commence any cause of action or proceeding other than in accordance with past practice or settle any action, claim, arbitration, complaint, criminal prosecution, demand letter, governmental or other examination or investigation, hearing, inquiry or other proceeding against it for material money damages or material restrictions upon any of its operations;

Governing Documents

- amend its articles of incorporation or bylaws;

Deposits

- increase or decrease the rate of interest paid on time deposits or on certificates of deposit, except in a manner and pursuant to policies consistent with North Penn’s past practices;

Capital Expenditures

- make any capital expenditures in excess of \$25,000 other than expenditures, necessary to maintain existing assets in good repair;

Branches

- file any applications or make any contract with respect to branching by North Penn or acquire or construct, or enter into any agreement to acquire or construct, any interest in real property;

Other Agreements

- form any new subsidiary;
- enter into, renew, extend or modify any transaction (other than a deposit transaction) with any affiliate other than pursuant to existing policies;
- make any changes to its existing policies regarding credit, loan loss reserves, loan charge-offs, investments, asset/liability management or other banking policies except as required by changes in applicable law or U.S. generally accepted accounting principles;
- take any action that is intended or may reasonably be expected to result in any of the conditions to the merger not being satisfied; and
- foreclose upon or take a deed or title to any commercial real estate without first conducting a Phase I environmental assessment of the property or if such assessment indicates the presence of an underground storage tank or hazardous material.

Covenants of North Penn and Norwood in the Merger Agreement

Agreement Not to Solicit Other Proposals. North Penn has agreed that neither it nor its officers, directors, employees and representatives will: (1) solicit, initiate, encourage or otherwise facilitate any inquiries or the making of any acquisition proposal or offer by a third party; (2) enter into, continue or otherwise participate in discussions or negotiations regarding, an acquisition proposal; or (3) furnish any non-public information or negotiate or enter into any agreement with respect to an acquisition transaction. An acquisition transaction includes a proposal for any of the following:

- a merger or consolidation, or any similar transaction of any company with North Penn (other than the merger with Norwood);
- a purchase, lease or other acquisition of all or substantially all of the assets of North Penn;
- a purchase or other acquisition of beneficial ownership by any person or group of securities representing 25% or more of the voting power of North Penn; or
- a tender or exchange offer to acquire securities representing 25% or more of the voting power of North Penn.

Despite the agreement of North Penn not to solicit other proposals for an acquisition transaction, prior to obtaining shareholder approval of the merger agreement with Norwood, North Penn may negotiate or have discussions with, or provide information to, a third party who makes an unsolicited, written, bona fide proposal for an acquisition transaction not solicited in violation of the merger agreement, provided that North Penn's board of directors:

- after consultation with its legal counsel and financial advisor, in good faith deems such action to be legally necessary for the proper discharge of its fiduciary duties to North Penn's shareholders under applicable law; and
- after consultation with its outside legal counsel and its financial advisor, in good faith reasonably determines that the transaction presented by such unsolicited acquisition proposal, taking into account all legal, financial and regulatory aspects of the proposal and the person making the proposal, (1) is more favorable from a financial point of view to the North Penn shareholders than the merger with Norwood (taking into account any changes to the financial terms of the merger agreement proposed by Norwood in response to the other proposal) and (2) is reasonably capable of being completed, taking into account all financial, legal, regulatory and other aspects of such proposal (referred to in this document as a "superior proposal").

If North Penn receives a proposal or information request from a third party or enters into negotiations with a third party regarding a superior proposal, North Penn must immediately notify Norwood and provide Norwood with information about the third party and its superior proposal and keep Norwood fully informed in all material respects of the status and details of such proposal.

Certain Other Covenants. The merger agreement also contains other agreements relating to the conduct of Norwood and North Penn before consummation of the merger, including the following:

- each party will give the other party reasonable access during normal business hours to its properties, and shall disclose or make available to the other party and its representatives all books, papers and records relating to the assets, stock, properties, operations, obligations and liabilities of such party;
- each party shall cause to be prepared and filed all required applications and filings with the regulatory authorities which are necessary or contemplated for obtaining the consents of the regulatory authorities or consummation of the merger;
- Norwood was required to prepare the registration statement of which this proxy statement/prospectus forms a part and North Penn agreed to cooperate in its preparation;
- each party will use its best efforts to take all actions and do all things necessary, proper or advisable under applicable laws and regulations, or otherwise, to consummate the merger and the other transactions contemplated by the merger agreement;
- North Penn will make all reasonable efforts to cause its data processing service providers to cooperate with Norwood in connection with the data processing conversion to occur after the effective time of the merger and will permit its employees to be trained on the new system during normal business hours;

- North Penn will invite a representative of Norwood to attend all regular and special meetings of North Penn's board of directors and committees thereof. North Penn may request that the representative of Norwood recuse himself or herself from any meeting (1) if the merger or any other acquisition transaction is the subject of discussion or (2) to preserve attorney-client privilege with respect to any specific matter;
- North Penn will take all actions necessary to convene a meeting of its shareholders to vote on the merger agreement to be held no later than 70 days after the registration statement is declared effective;
- each party shall have the right to review any filing made with, or written material submitted to, any government agencies in connection with the transactions contemplated by the merger agreement;
- each party will furnish the other with all information concerning itself, its subsidiaries, directors, trustees, officers, shareholders and depositors, and such other matters as may be necessary or advisable in connection with any statement or application made by or on behalf of either party to any governmental body in connection with the transactions, applications or filings contemplated by the merger agreement;
- each party will promptly furnish the other party with copies of written communications received by them or their respective subsidiaries from any government body in respect of the merger;
- North Penn and Norwood will consult with one another prior to issuing any press release or other public disclosure related to the merger;
- North Penn's board of directors will recommend at the meeting of North Penn's shareholders that the shareholders vote to approve the merger agreement and will use its reasonable best efforts to solicit shareholder approval; and
- North Penn and Norwood will cooperate in establishing a retention bonus plan of up to \$50,000 for certain employees of North Penn and North Penn Bank who remain employed at North Penn, Norwood or Wayne Bank for a period of up to six months after the effective time of the merger.

Representations and Warranties Made by North Penn and Norwood in the Merger Agreement

North Penn and Norwood have made certain customary representations and warranties to each other in the merger agreement relating to their respective businesses. For information on these representations and warranties, please refer to the merger agreement attached as Annex A. The representations and warranties must be true in all material respects through the completion of the merger unless any inaccuracies would not result in a material adverse effect. See “— Conditions to Completing the Merger” on page 65.

The representations and warranties contained in the merger agreement were made only for purposes of the merger agreement and are made as of specific dates, were solely for the benefit of the parties to the merger agreement, and may be subject to limitations agreed to by the contracting parties, including being qualified by disclosures between the parties. These representations and warranties may have been made for the purpose of allocating risk between the parties to the merger agreement instead of

establishing these matters as facts, and may be subject to standards of materiality applicable to the contracting parties that differ from those applicable to investors as statements of factual information.

Terminating the Merger Agreement

The merger agreement may be terminated at any time before the effective time of the merger, as follows:

- by the mutual written consent of Norwood and North Penn;
- by either party, if the shareholders of North Penn fail to approve the merger agreement;
- by either party, if a required regulatory approval, consent or waiver is denied;
- by either party, if the merger is not consummated by October 31, 2011 or other mutually agreed upon later date, unless failure to complete the merger by that time is due to a breach of a representation, warranty or covenant by the party seeking to terminate the merger agreement;
- by either party, if the other party materially breaches any representation, warranty, covenant or agreement contained in the merger agreement, or in the event of an inaccuracy of any representation or warranty by the other party, in either case that has not been cured within 30 days following written notice to such party;
- by Norwood, if North Penn fails to hold its shareholder meeting to vote on the merger within the time frame set in the merger agreement;
- by Norwood, if the board of directors of North Penn does not recommend approval of the merger to the North Penn shareholders or withdraws or revises its recommendation in a manner adverse to Norwood;
- by North Penn, if prior to the approval of the merger agreement by the shareholders of North Penn, it receives a superior proposal from a third party that, in the good faith determination of North Penn's board of directors, the board is required to accept in order to comply with its fiduciary duties and Norwood does not make an offer at least as favorable to North Penn within 5 days after notice; or
- by North Penn, at any time during a 5 day period beginning on the date that all required regulatory approvals have been received (the "Determination Date") if both of the following conditions are satisfied:
 - o The average of the daily closing sales prices for the Norwood common stock for the 20 consecutive trading days immediately preceding the Determination Date (the "Norwood Market Value") is less than \$22.40;
 - o The number obtained by dividing the Norwood Market Value by \$28.00 is less than the number obtained by dividing the average closing prices of the NASDAQ Bank Index for the 20 consecutive trading days immediately preceding the Determination Date divided by the NASDAQ Index Price on December 14, 2010 minus 0.20;

unless within five business days of notice of such termination, Norwood notifies North Penn that it will increase the exchange ratio for the stock consideration so that the Norwood Market Value is equal to a dollar amount that is the lesser of \$22.40 or the amount obtained by reducing the Initial Norwood Market Value (\$28.00) by the percentage change in the NASDAQ Bank Index less 20 percentage points.

Termination Fee

The merger agreement requires North Penn to pay Norwood a fee of \$1,125,000 if the merger agreement is terminated in certain circumstances. Specifically, North Penn must pay the termination fee if Norwood terminates the merger agreement as a result of North Penn's failure to hold a shareholder meeting to act upon the merger agreement, or if North Penn's board of directors fails to recommend approval of the merger or upon the withdrawal, qualification or revision of its recommendation to approve the merger. In addition, North Penn is also required to pay the \$1,125,000 termination fee if North Penn terminates the merger agreement after having received a superior proposal that, in the good faith determination of North Penn's board of directors, the board is required to accept in order to comply with its fiduciary duties.

In addition, if, after a public announcement that another party would like to enter into a transaction with North Penn, Norwood terminates the merger agreement due to the shareholders of North Penn failing to approve the merger or due to a material breach by North Penn of any of its covenants or agreements in the merger agreement, North Penn will be required to pay Norwood a fee of \$500,000. If North Penn enters into a merger agreement with any other party within 18 months of the termination of the merger agreement as a result of the failure of North Penn shareholders to approve the merger agreement, North Penn will be required to pay an additional \$625,000 to Norwood.

Expenses

Each of Norwood and North Penn will pay its own costs and expenses incurred in connection with the merger.

Changing the Terms of the Merger Agreement

Before the completion of the merger, Norwood and North Penn may agree to waive, amend or modify any provision of the merger agreement.

Dissenters' Rights of Appraisal

In accordance with the procedures under Subchapter D of Chapter 15 of the Pennsylvania Business Corporation Law (the "PBCL"), North Penn shareholders are entitled to dissent from approval of the merger agreement and demand payment of the fair value of their shares North Penn common stock. A summary of the rights of dissenting shareholders follows. This summary is qualified in its entirety by reference to the full text of Subchapter D of Chapter 15 of the Pennsylvania Business Corporation Law, which is provided as Annex C to this document. Any holder of shares of North Penn common stock who desires to exercise dissenters rights should review carefully Subchapter D of Chapter 15 of the PBCL and is urged to consult a legal advisor before electing or attempting to exercise those dissenters rights.

General. Subject to the exceptions stated below, North Penn's shareholders who comply with the applicable procedures, which are summarized below, will be entitled to dissenters rights under Subchapter D of Chapter 15 of the PBCL. North Penn shareholders who follow the procedures of Subchapter D of Chapter 15 of the PBCL will be entitled to receive from North Penn the fair value of their shares

calculated as of immediately before the effectuation of the merger. Fair value takes into account all relevant factors but excludes any appreciation or depreciation in anticipation of the merger. North Penn shareholders who elect to exercise their dissenters rights must carefully follow with particularity the procedures to preserve those rights under Subchapter D of Chapter 15 of the PBCL or they will lose their dissenters rights.

Shares Eligible for Dissenters Rights. Generally, if an owner of North Penn common stock chooses to assert dissenters rights, the owner must dissent as to all of the shares of North Penn common stock he or she owns. The PBCL distinguishes between record holders and beneficial owners. A holder may assert dissenters rights as to fewer than all the shares of North Penn common stock registered in his or her name only if he or she is not the beneficial owner of the shares of North Penn common stock with respect to which he or she does not exercise dissenters rights.

Record Holder Who is Not the Beneficial Owner. A record holder may assert dissenters rights on behalf of the beneficial owner. If a holder is a record owner and wishes to exercise dissenters rights on behalf of the beneficial owner, the holder must disclose the name and address of the person or persons on whose behalf he or she dissents. In that event, the record holder's rights will be determined as if the shares to which the record holder has dissented and such shareholder's other shares were registered in the names of different owners.

Beneficial Owner Who is Not the Record Holder. A beneficial owner of shares of North Penn common stock who is not also the record holder may assert dissenters rights. A person who is a beneficial owner but who is not the record holder who wishes to assert his or her dissenters rights must submit a written consent of the record holder to the Secretary of North Penn no later than the time of the assertion of dissenters rights by the record holder. To accomplish this step, the beneficial owner must make appropriate arrangements with the record owner. A beneficial owner may not dissent with respect to some but less than all shares of North Penn common stock he or she beneficially owns, whether or not the shares so owned by that person are registered in that person's name.

Dissenters Rights Procedures for North Penn Shareholders. If a person wishes to exercise dissenters rights, with respect to shares of North Penn common stock, he or she must file a written notice with the Secretary of North Penn prior to the vote on the proposal to approve and adopt the merger agreement of his or her intention to demand that he or she be paid the fair value of his or her shares of North Penn common stock. He or she must not make any change in his or her beneficial ownership of shares of North Penn common stock from the date he or she files the notice until the effective time of the merger. He or she must refrain from voting his or her shares "FOR" the merger agreement proposal. A dissenter who fails to follow these procedures in any respect will not acquire any right to payment of the fair value of his or her shares. Neither a proxy nor a vote against the proposed merger will constitute the required notice.

Notice to Dissenters. If the North Penn shareholders approve the merger, North Penn will mail a further notice to all dissenting common stock holders who filed a notice of intention to dissent and demand payment of the fair value of their shares prior to the vote on the merger and who refrained from voting in favor of the merger. North Penn expects to mail the notice promptly after the merger. The notice will state where and when a shareholder's demand for payment must be sent and where certificates representing shares of North Penn common stock must be deposited in order to obtain payment. The notice will also supply a form for demanding payment which includes a request for certification of the date on which the holder, or the person on whose behalf the holder dissents, acquired beneficial ownership of the shares of North Penn common stock. The demand form will be accompanied by a copy of Subchapter D of Chapter 15 of the PBCL.

If a person asserts his or her dissenters rights, he or she must ensure that North Penn receives his or her demand form on or before the demand deadline. All mailings to North Penn are at the dissenters' risk. Accordingly, North Penn recommends that a notice of intention to dissent and demand form be sent by certified mail, by overnight courier or by hand delivery.

Failure to Comply. If a person fails to file a notice of intention to dissent or fails to complete and return the demand form or fails to deposit certificates as required by the notice to dissenters, each within the specified time periods, that person will lose his or her dissenters rights under Subchapter D of Chapter 15 of the PBCL. The dissenter will retain all rights of a common stock holder, or beneficial owner, until those rights are modified by the effectuation of the merger. Within 60 days after the date set for demanding payment and depositing certificates, if the merger has not been effectuated, North Penn will return any certificates that have been deposited. North Penn may thereafter send a new notice setting a new date for demanding payment and depositing certificates.

Payment of Fair Value by North Penn. Upon timely receipt of the completed demand form, the PBCL requires North Penn to either remit to dissenters who complied with the procedures the amount North Penn estimates to be the fair value for the dissenters' shares of North Penn common stock or give written notice that no such remittance will be made. The remittance or notice will be accompanied by:

- the closing balance sheet and statement of income of North Penn for the fiscal year ended not less than 16 months before the date of remittance together with and the latest available interim financial statements;
- a statement of North Penn's estimate of the fair value of the shares of North Penn common stock; and
- notice of the right of the dissenter to demand payment or supplemental payment, as the case may be, accompanied by a copy of Subchapter D of Chapter 15 of the PBCL.

If No Payment is Made. If North Penn does not remit the amount of its estimate of the fair value of the shares, it will return any certificates that have been deposited and release the shares of a dissenter from the restriction on transfer imposed as a result of the dissenter's demand for payment. North Penn may make a notation on any such certificates that such demand has been made. If shares with respect to which notation has been so made are transferred, each new certificate issued for such shares shall bear a similar notation, together with the name of the original dissenting holder or owner of the shares. A transferee of such shares will not acquire by transfer any rights in the corporation other than those that the original dissenter had after making demand for payment of their fair value.

Dissenting Shareholder's Estimate of Fair Value. If North Penn gives notice of its estimate of the fair value of the shares of North Penn common stock, without remitting this amount, or remits payment of its estimate of the fair value of the shares of North Penn common stock, and the dissenter believes that the amount remitted or stated is less than the fair value of such shares, the dissenter may send to North Penn his or her own estimate of the fair value of the shares. Such estimate shall be deemed a demand for payment of the amount of the deficiency. If the dissenter does not file his or her estimate within 30 days after the mailing by North Penn of its remittance or notice, the dissenter will only be entitled to the amount stated in the notice or remitted to him or her by North Penn.

Resort to Court for Relief. If, within 60 days after the latest of (i) the closing of the merger, (ii) timely receipt of any demands for payment by a dissenter or (iii) the timely receipt of any dissenter's estimate of fair value, any demands for payment remain unsettled, North Penn may file in court an application for relief, requesting that the court determine the fair value of the shares. There is no

assurance that North Penn will file this application. In the court proceeding, all dissenters, wherever residing, whose demands have not been settled will be made parties to the proceeding as in an action against their shares. A copy of the application will be served on each such dissenter. The jurisdiction of the court will be plenary and exclusive. The court may appoint an appraiser to receive evidence and recommend a decision on the issue of fair value. The appraiser will have such power and authority as may be specified in the order of appointment or in any amendment thereof. Each dissenter made a party will be entitled to recover an amount equal to the fair value of the dissenter's shares, or if North Penn previously remitted any amount to the dissenter, any amount by which the fair value of the dissenter's shares is found to exceed the amount previously remitted, in either case plus interest at the rate set forth in Subchapter D of Chapter 15 of the PBCL.

If North Penn fails to file an application for relief, any dissenter who made a demand and who has not already settled his or her claim against North Penn may file an application for relief in the name of North Penn any time within 30 days after the expiration of the 60-day period described above in which North Penn could have done so. If no dissenter files an application within the 30-day period, each dissenter entitled to file an application shall be paid North Penn estimate of the fair value of the shares and no more, and may bring an action to recover any amount not previously remitted.

Costs and Expenses of Court Proceedings. The costs and expenses of the court proceedings, including the reasonable compensation and expenses of the appraiser appointed by the court, will be determined by the court and assessed against North Penn. The court may, however, apportion and assess any part of the costs and expenses of court proceedings as it deems appropriate against all or some of the dissenters who are parties and whose action in demanding supplemental payment the court finds to be in bad faith. If North Penn fails to comply substantially with the requirements of Subchapter D of Chapter 15 of the PBCL, the court may levy fees and expenses of counsel and of experts for the parties as it deems appropriate against North Penn and in favor of any or all dissenters. The court may levy fees and expenses of counsel and experts against either North Penn or a dissenter, if the court finds that a party acted in bad faith. If the court finds that the services of counsel for any dissenter substantially benefited other dissenters similarly situated and should not be assessed against North Penn, it may award counsel reasonable fees to be paid out of the amounts awarded to the dissenters who benefited.

No Right to an Injunction. Under the PBCL, a North Penn shareholder has no right to obtain, in the absence of fraud or fundamental unfairness, an injunction against the transaction proposal, nor any right to valuation and payment of the fair value of the holder's shares because of the merger, except to the extent provided by the dissenters rights provisions of Subchapter D of Chapter 15 of the PBCL. The PBCL also provides that, absent fraud or fundamental unfairness, the rights and remedies provided by Subchapter D of Chapter 15 are exclusive.

SELECTED HISTORICAL FINANCIAL DATA FOR NORWOOD

The following selected financial information for the fiscal years ended December 31, 2009, 2008, 2007, 2006 and 2005 is derived from audited consolidated financial statements of Norwood Financial Corp. The financial information as of and for the nine months ended September 30, 2010 and 2009 is derived from unaudited financial statements. The results of operations for the nine months ended September 30, 2010 are not necessarily indicative of the results of operations for the full year or any other interim period. In the opinion of Norwood's management, this information reflects all adjustments, consisting of only normal recurring adjustments, necessary for a fair presentation of this data for those dates. You should read this information in conjunction with Norwood's consolidated financial statements and related notes for the three years ended December 31, 2009, and for the nine months ended September 30, 2010, beginning on page F-1 of this proxy statement/prospectus.

	At or for nine months ended			At or for the years ended December 31,			
	September 30, 2010	2009	2009	2008	2007	2006	2005
	(dollars in thousands, except per share data)						
Net interest income	\$ 14,748	\$ 14,282	\$ 19,109	\$ 18,401	\$ 17,272	\$ 16,183	\$ 15,263
Provision for loan losses	730	385	1,685	735	315	220	350
Other income	2,845	3,171	4,929	4,105	3,507	3,517	3,506
Net realized gains (losses) on sales of securities	208	296	463	(18)	17	66	42
Other expenses	9,448	9,769	13,471	12,240	11,341	10,957	10,623
Income before income taxes	7,623	7,395	9,345	9,513	9,140	8,589	7,838
Income tax expense	2,118	2,134	2,282	2,836	2,629	2,679	2,341
Net Income	\$ 5,505	\$ 5,261	\$ 7,063	\$ 6,677	\$ 6,511	\$ 5,910	\$ 5,497
Net income per share-Basic	\$ 1.99	\$ 1.92	\$ 2.57	\$ 2.44	\$ 2.34	\$ 2.11	\$ 1.96
Diluted	1.99	1.90	2.55	2.41	2.30	2.07	1.92
Cash dividends declared	0.84	0.81	1.09	1.02	0.94	0.85	0.71
Dividend pay-out ratio	42.2%	42.2%	42.41%	41.80%	40.17%	40.28%	36.41%
Return on average assets	1.38%	1.39%	1.38%	1.36%	1.39%	1.33%	1.31%
Return on average equity	11.04%	11.51%	11.40%	11.79%	12.10%	11.85%	11.72%
Balances at Period-End							
Total assets	\$ 534,557	\$ 514,867	\$ 529,696	\$ 504,296	\$ 480,610	\$ 454,356	\$ 433,556
Loans receivable	358,354	359,482	363,474	349,404	331,296	315,567	290,890
Allowance for loan losses	5,513	4,663	5,453	4,233	4,081	3,828	3,669
Total deposits	398,652	382,863	391,473	359,635	370,000	358,103	340,603
Shareholders' equity	68,443	63,736	64,471	58,690	55,819	52,231	48,108
Trust assets under management	109,253	99,042	99,373	90,069	101,714	96,879	86,972
Book value per share	\$ 24.79	\$ 23.07	\$ 23.25	\$ 21.45	\$ 20.27	\$ 18.67	\$ 17.07
	12.21%	12.05%	12.09%	11.57%	11.48%	11.23%	11.19%

Average equity to average assets							
Tier 1 Capital to risk-adjusted assets	18.14	16.90	16.97	16.22	16.26	15.67	15.29
Total Capital to risk-adjusted assets	19.45	18.20	18.27	17.50	17.60	16.99	16.63
Allowance for loan losses to total loans	1.54	0.88	1.50	1.21	1.23	1.21	1.26
Non-performing assets to total assets	0.82	0.73	1.02	0.54	0.03	0.09	0.08

SELECTED HISTORICAL FINANCIAL DATA FOR NORTH PENN

The following selected financial information for the fiscal years ended December 31, 2009, 2008 and 2007 is derived from audited consolidated financial statements of North Penn Bancorp, Inc. The financial information as of and for the nine months ended September 30, 2010 and 2009 is derived from unaudited financial statements. The results of operations for the nine months ended September 30, 2010 are not necessarily indicative of the results of operations for the full year or any other interim period. In the opinion of North Penn's management, this information reflects all adjustments, consisting of only normal recurring adjustments, necessary for a fair presentation of this data for those dates. You should read this information in conjunction with North Penn's consolidated financial statements and related notes for the year ended December 31, 2009, and for the nine months ended September 30, 2010, beginning on page F-50 of this proxy statement/prospectus.

(In thousands, except per share data)	Nine Months Ended September 30,		Year Ended December 31,		
	2010 (Unaudited)	2009 (Unaudited)	2009	2008	2007
Financial Condition Data:					
Total assets	\$164,505	\$151,478	\$156,327	\$138,990	\$122,532
Investment securities	15,497	19,548	19,398	20,293	13,366
Loans receivable, net	119,696	109,450	114,546	106,106	97,247
Deposits	136,548	119,349	124,055	99,153	83,683
Borrowings	7,000	12,000	12,000	19,648	17,879
Total stockholders' equity	19,908	19,185	19,270	19,298	20,184
Operating Data:					
Interest income	\$6,010	\$5,714	\$7,675	\$7,691	\$7,452
Interest expense	1,910	2,368	3,126	3,311	3,860
Net interest income	4,100	3,346	4,549	4,380	3,592
Provision for loan losses	334	135	475	31	86
Net interest income after provision for loan losses	3,766	3,211	4,074	4,349	3,506
Other income	401	332	412	338	473
Other expenses	3,107	3,016	3,614	4,180	3,586
Income before taxes	1,060	527	872	507	393
Income tax expense	235	160	85	153	92
Net income	\$825	\$367	\$787	\$354	\$301
Per Share Data:					
Earnings per share, basic	\$0.63	\$0.26	\$0.57	\$0.23	\$0.20
Earnings per share, diluted	0.62	0.26	0.57	0.23	0.20
Dividends per share	0.17	0.09	0.12	0.12	0.12

	Nine Months Ended		Year Ended December 31,						
	September 30,		2009		2008		2007		
	2010	2009							
Performance Ratios (1):									
Return on average assets	0.69	% 0.33	%	0.53	%	0.28	%	0.25	%
Return on average equity	5.64	2.54		4.04		2.34		2.49	
Interest rate spread (2)	3.67	3.11		2.95		3.09		2.77	
Net interest margin (3)	3.86	3.42		3.33		3.63		3.34	
Dividend payout ratio	20.73	37.60		19.19		53.95		58.80	
Efficiency ratio (4)	67.03	78.19		70.72		85.87		85.12	
Average interest-earning assets to average interest-bearing liabilities	111.15	113.24		116.97		120.32		116.69	
Average equity to average assets	12.23	13.00		13.01		11.82		10.22	
Asset Quality Ratios:									
Allowance for loan losses as a percent of total loans	1.37	1.12		1.28		1.09		1.19	
Allowance for loan losses as a percent of nonperforming loans	90.28	82.87		83.65		105.69		309.79	
Non-performing loans as a percent of total loans	1.52	1.36		1.53		1.03		0.38	
Non-performing assets as a percent of total assets	1.36	0.99		1.19		0.80		0.39	

(1) Performance ratios for the nine months ended September 30, 2010 and 2009 are annualized.

(2) Represents the difference between the tax-equivalent weighted average yield on average interest-earning assets and the weighted average cost of interest-bearing liabilities.

(3) Represents tax-equivalent net interest income as a percent of average interest-earning assets.

(4) Represents noninterest expense divided by the sum of tax-equivalent net interest income and other income.

PRO FORMA DATA

The unaudited pro forma combined condensed consolidated financial information has been prepared using the acquisition method of accounting, giving effect to Norwood's proposed merger with North Penn. Under this method, North Penn's assets and liabilities as of the date of the acquisition will be recorded at their respective fair values and added to those of Norwood. Any difference between the purchase price for North Penn and the fair value of the identifiable net assets acquired (including core deposit intangibles) will be recorded as goodwill. The goodwill resulting from the acquisition will not be amortized to expense, but instead will be reviewed for impairment at least annually and to the extent goodwill is impaired, its carrying value will be written down to its implied fair value and a charge will be made to earnings. Core deposit and other intangibles with estimated useful lives recorded by Norwood in connection with the acquisition will be amortized to expense over their estimated useful lives. The financial statements of Norwood issued after the acquisition will reflect the results attributable to the acquired operations of North Penn beginning on the date of completion of the acquisition. The unaudited condensed pro forma balance sheet combines the historical financial information of Norwood and North Penn as of September 30, 2010.

The following unaudited condensed pro forma balance sheet as of September 30, 2010 combines the historical financial statements of Norwood and North Penn. The unaudited pro forma financial statements give effect to the proposed acquisition as if the acquisition occurred on September 30, 2010 with respect to the balance sheet, and at the beginning of the period for the nine months ended September 30, 2010 and for the year ended December 31, 2009, with respect to the statement of income for the year. The unaudited pro forma financial statements were prepared with Norwood as the acquirer and North Penn as the acquiree under the acquisition method of accounting. Accordingly, the consideration paid by Norwood to complete the acquisition of North Penn will be allocated to North Penn's assets and liabilities based upon their estimated fair values as of the date of completion of the acquisition. The allocation is dependent upon certain valuations and other studies that have not been finalized at the time of the acquisition announcement; however, preliminary valuations based on the fair value of the acquired assets and liabilities have been estimated and included in the unaudited pro forma financial statements.

The final allocation of the purchase price will be determined after the merger is completed and after completion of thorough analyses to determine the fair value of North Penn's tangible and identifiable intangible assets and liabilities as of the date the merger is completed. Increases or decreases in the estimated fair values of the net assets as compared with the information shown in the unaudited pro forma combined condensed consolidated financial information may change the amount of the purchase price allocated to goodwill and other assets and liabilities and may impact Norwood's statement of income due to adjustments in yield and/or amortization of the adjusted assets or liabilities. Any changes to North Penn shareholders' equity, including results of operations from September 30, 2010 through the date the merger is completed, will also change the purchase price allocation, which may include the recording of a lower or higher amount of goodwill. The final adjustments may be materially different from the unaudited pro forma adjustments presented herein. The pro forma calculations, shown herein, assume a closing price of \$28.00, which represents the closing price of Norwood's common stock on September 30, 2010.

Norwood anticipates that the merger with North Penn will provide the combined company with financial benefits that include reduced operating expenses. The pro forma information, while helpful in illustrating the financial characteristics of the combined company under one set of assumptions, does not reflect the benefits of expected cost savings or opportunities to earn additional revenue and, accordingly, does not attempt to predict or suggest future results. It also does not necessarily reflect what the historical results of the combined company would have been had our companies been combined during these periods.

The unaudited pro forma combined consolidated financial information has been derived from and should be read in conjunction with the historical consolidated financial statements and the related notes of Norwood and North Penn, which are included elsewhere in this proxy statement/prospectus. See “Index to Financial Statements” on page 184.

The unaudited pro forma stockholders’ equity and net income are qualified by the statements set forth under this caption and should not be considered indicative of the market value of Norwood common stock or the actual or future results of operations of Norwood for any period. Actual results may be materially different than the pro forma information presented.

Unaudited Condensed Pro Forma Balance Sheet as of September 30, 2010

	Norwood Financial Corp.	North Penn Bancorp	Pro Forma Adjustments	Pro Forma Combined	
	(In Thousands, Except Per Share Data)				
Assets					
Cash and due from banks	\$ 9,057	\$ 2,825	\$ -	\$ 11,882	
Interest bearing deposits with other banks	7,696	56	-	7,752	
Federal funds sold	3,000	15,888	-	18,888	
Cash and cash equivalents	19,753	18,769	-	38,522	
Investment securities available for sale	139,308	16,640	(12,194)	(4)	143,754
Investment securities held to maturity	169	-	-	-	169
Loans	358,354	121,363	1,670	(5)	481,387
Credit fair value of loans purchased	-	-	(2,667)	(6)	(2,667)
Loans, net of fair value adjustments	358,354	121,363	(997)	-	478,720
Allowance for possible loan losses	(5,513)	(1,667)	1,667	(6)	(5,513)
Loans, net	352,841	119,696	670	-	473,207
Investment in FHLB Stock, at cost	3,538	-	-	-	3,538
Bank Premises, Equipment, Furniture	5,012	3,860	279	(10)	9,151
Bank owned life insurance	8,161	3,124	-	-	11,285
Accrued interest receivable	2,342	754	-	-	3,096
Foreclosed real estate owned	748	-	-	-	748
Goodwill	26	-	8,834	(1)	8,860
Identifiable intangible assets	247	47	1,541	(3)	1,835
Other assets	2,412	1,615	178	(9)	4,205
Total Assets	\$ 534,557	\$ 164,505	\$ (692)	\$	\$ 698,370
Liabilities					
Non-interest bearing demand	\$ 66,331	\$ 7,160	\$ -	\$	\$ 73,491
Interest-bearing	332,321	129,388	921	(7)	462,630
Total Deposits	398,652	136,548	921		536,121
Fed Funds Purchased and Repo's	24,530	-	-	-	24,530
Other Borrowed Money	38,000	7,000	732	(8)	45,732
Accrued interest payable	1,652	232	-	-	1,884
Other Liabilities	3,280	817	2,658	(11)	6,755
Total liabilities	466,114	144,597	4,311		615,022

Equity Capital					
Preferred Stock	-	-	-		-
Common Stock	284	158	(105)	(1)(2)	337
Additional Paid-in Capital	9,815	13,695	1,157	(2)	24,667
Retained Earnings	57,642	9,142	(9,142)	(2)	57,642
Less: cost of treasury stock/ ESOP	(2,437)	(2,616)	2,616	(2)	(2,437)
Less: ESOP	-	(853)	853	(2)	-
A c c u m u l a t e d O t h e r					
Comprehensive Income	3,139	382	(382)	(2)	3,139
Total Stockholders' Equity	68,443	19,908	(5,003)		83,348
Total liabilities and equity	534,557	\$ 164,505	\$ (692)		\$ 698,370
Per Share Data					
Shares Outstanding	2,760,895	1,285,148	(752,833)	(1)	3,293,210
Book Value Per Share	\$ 24.79	\$ 16.01			\$ 25.31

Unaudited Pro Forma Combined Statement of Operations for the Nine Months Ended September 30, 2010

	Norwood Financial Corp.	North Penn Bancorp (In Thousands, Except Per Share Data)	Pro Forma Adjustment	Pro Forma Combined
Interest Income				
Loans receivable, including fees	\$ 15,894	\$ 5,380	\$ (1) (5)(6)	\$ 21,273
Interest on investment securities	3,477	619	(413) (4)	3,684
Other	43	11	-	54
Total interest income	19,414	6,010	(413)	25,011
Interest Expense				
Deposits	3,332	1,502	(345) (7)	4,489
Short-term borrowings	87	-	-	87
Other borrowings	1,247	408	(110) (8)	1,546
Total interest expense	4,666	1,910	(455)	6,121
Net interest income	14,748	4,100	42	18,890
Provision for loan losses	730	334	-	1,064
Net interest income after provision for loan losses	14,018	3,766	42	17,826
Other Income				
Service charges and fees	1,680	120	-	1,800
Income from fiduciary activities	300	-	-	300
Net realized gains on sales of securities	380	8	-	388
Gain on sale of loans and servicing rights	208	123	-	331
Other	485	150	-	635
Total other income	3,053	401	-	3,454
Other Expense				
Salaries and employee benefits	4,844	1,760	-	6,604
Occupancy, furniture & equipment, net	1,190	428	-	1,618
Data processing related	607	78	-	685
Taxes, other than income	374	64	-	438
Professional fees	358	185	-	543
FDIC insurance assessment	357	165	-	522
Other real estate owned	32	10	-	42
Amortization of intangibles	13	7	210 (3)	230
Merger related expenses	-	20	-	20
Other operating expenses	1,673	390	-	2,063
Total other expenses	9,448	3,107	210	12,765

Income before taxes	7,623	1,060	(168)	8,515
Applicable income taxes	2,118	235	(57) (9)	2,296
Net income	\$ 5,505	\$ 825	\$ (111)	\$ 6,219
Per Share Data				
Basic earnings per share	\$ 1.99	\$ 0.63		\$ 1.89
Diluted earnings per share	\$ 1.99	\$ 0.62		\$ 1.87
Basic EPS weighted average shares outstanding	2,762	1,306	(774)	3,294
Diluted EPS weighted average shares outstanding	2,767	1,325	(774)	3,318

Unaudited Pro Forma Combined Statement of Operations for the Year Ended December 31, 2009

	Norwood Financial Corp.	North Penn Bancorp	Pro Forma Adjustments	Pro Forma Combined
			(In Thousands, Except Per Share Data)	
Interest Income				
Loans receivable, including fees	\$ 21,523	\$ 6,878	\$ (1) (5)(6)	\$ 28,400
Interest on investment securities	5,293	797	(550) (4)	5,540
Other	19	-	-	19
Total interest income	26,835	7,675	(551)	33,969
Interest Expense				
Deposits	5,765	2,495	(461) (7)	7,800
Short-term borrowings	292	-	-	292
Other borrowings	1,669	631	(146) (8)	2,154
Total interest expense	7,726	3,126	(607)	10,246
Net interest income	19,109	4,549	56	23,714
Provision for loan losses				