

**Report of Organizational Actions
 Affecting Basis of Securities**

▶ See separate instructions.

Part I Reporting Issuer

1 Issuer's name NORWOOD FINANCIAL CORP.		2 Issuer's employer identification number (EIN) 23-2828306	
3 Name of contact for additional information WILLIAM S. LANCE	4 Telephone No. of contact 570-253-8505	5 Email address of contact william.lance@waynebank.com	
6 Number and street (or P.O. box if mail is not delivered to street address) of contact 717 MAIN STREET		7 City, town, or post office, state, and Zip code of contact HONESDALE, PA 18431	
8 Date of action MAY 31, 2011		9 Classification and description MERGER-NORTH PENN BANCORP, INC. (SEE ATTACHMENT)	
10 CUSIP number 669549107	11 Serial number(s)	12 Ticker symbol NWFL	13 Account number(s)

Part II Organizational Action Attach additional statements if needed. See back of form for additional questions.

14 Describe the organizational action and, if applicable, the date of the action or the date against which shareholders' ownership is measured for the action ▶ **SEE ATTACHMENT**

15 Describe the quantitative effect of the organizational action on the basis of the security in the hands of a U.S. taxpayer as an adjustment per share or as a percentage of old basis ▶

SEE ATTACHMENT

16 Describe the calculation of the change in basis and the data that supports the calculation, such as the market values of securities and the valuation dates ▶ **REFER TO THE ATTACHED DESCRIPTION OF THE BASIS CALCULATION IN PART II, BOX 15 ABOVE.**

THE CLOSING PRICE OF ONE SHARE OF NORWOOD FINANCIAL CORPORATION COMMON STOCK WAS \$27.76 ON NASDAQ.

Part II Organizational Action (continued)

17 List the applicable Internal Revenue Code section(s) and subsection(s) upon which the tax treatment is based ▶

INTERNAL REVENUE CODE SECTIONS 354, 356, 358, AND 1001

18 Can any resulting loss be recognized? ▶ **LOSS CAN BE RECOGNIZED BY THOSE HOLDERS RECEIVING SOLELY CASH FOR NORTH PENN COMMON STOCK 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 LOSS CAN BE RECOGNIZED BY THOSE HOLDERS WHO RECEIVE SHARES OF NORWOOD FINANCIAL CORP. COMMON STOCK AND CASH IN EXCHANGE FOR SHARES OF NORTH PENN COMMON STOCK.

IF A TAXABLE LOSS IS CALCULATED ON THE EXCHANGE OF A FRACTIONAL SHARE OF NORTH PENN COMMON STOCK IN THE EXCHANGE, THIS LOSS CAN BE RECOGNIZED.


19 Provide any other information necessary to implement the adjustment, such as the reportable tax year ▶

THE TRANSACTION WAS CONSUMMATED ON MAY 31, 2011. THE REPORTABLE TAX YEAR OF THE NORTH PENN SHAREHOLDERS FOR REPORTING THE TAX EFFECT OF THE SHARE EXCHANGE IS THE TAX YEAR THAT INCLUDES THE MAY 31, 2011 DATE.

2011 CALENDAR YEAR FOR SHAREHOLDERS WHO REPORT TAXABLE INCOME ON THE CALENDAR YEAR BASIS.

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than officer) is based on all information of which preparer has any knowledge.

Sign Here

Signature ▶ 

Date ▶ 11/16/12

Print your name ▶ **WILLIAM S. LANCE**

Title ▶ **EXECUTIVE VP & CFO**

Paid Preparer Use Only

Print/Type preparer's name

RICHARD P. PACELLA

Preparer's signature



Date

1/16/12

Check if self-employed

PTIN

P00535558

Firm's name ▶ **S.R.SNODGRASS, A.C.**

Firm's EIN ▶ **25-1616561**

Firm's address ▶ **2100 CORPORATE DRIVE, SUITE 400, WEXFORD, PA 15090**

Phone no. **724-934-0344**

Norwood Financial Corp.

23-2828306

Attachment to Form 8937

REPORT OF ORGANIZATIONAL ACTIONS AFFECTING BASIS OF SECURITIES

Form 8937 Part I, Box 9:

The securities subject to reporting include all shares of Norwood Financial Corp. ("Norwood") common stock issued in exchange for the outstanding common stock of North Penn Bancorp, Inc. ("North Penn") as a result of the merger of North Penn with and into Norwood on May 31, 2011.

Form 8937 Part II, Box 14:

The reportable organizational action involves the merger of North Penn with and into Norwood on May 31, 2011. As a result of this merger, each share of North Penn common stock was exchanged for .6829 shares of Norwood common stock, \$19.12 in cash, or a combination of the two. To the extent that the exchange would have resulted in the issuance of a fractional share of Norwood common stock to a North Penn shareholder, a cash payment equal to the market value equivalent of the fractional share was paid in lieu of issuing a fractional share of Norwood common stock.

Form 8937 Part II, Box 15:

The merger of North Penn with and into Norwood qualifies as a tax-free reorganization within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended. As a result, each North Penn shareholder's 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 no 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 interest's in Norwood common stock);
- 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);
- 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, 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.

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. The 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.