

CITIZENS & NORTHERN CORP  
Form 10-Q  
August 07, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended **June 30, 2015**

or

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission file number: 000-16084

**CITIZENS & NORTHERN CORPORATION**

(Exact name of Registrant as specified in its charter)

PENNSYLVANIA                      23-2451943  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)

90-92 MAIN STREET, WELLSBORO, PA 16901

(Address of principal executive offices) (Zip code)

570-724-3411

(Registrant's telephone number including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date.

Common Stock (\$1.00 par value) 12,195,996 Shares Outstanding on August 4, 2015

**CITIZENS & NORTHERN CORPORATION – FORM 10-Q**

**CITIZENS & NORTHERN CORPORATION**

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**CITIZENS & NORTHERN CORPORATION – FORM 10-Q****ITEM 1. FINANCIAL STATEMENTS  
CONSOLIDATED BALANCE SHEETS**

(In Thousands, Except Share and Per Share Data) (Unaudited)

	<b>June 30, 2015</b>	<b>December 31, 2014</b>
<b>ASSETS</b>		
Cash and due from banks:		
Noninterest-bearing	\$15,839	\$14,812
Interest-bearing	19,566	21,235
Total cash and due from banks	35,405	36,047
Available-for-sale securities, at fair value	497,111	516,807
Loans held for sale	192	0
Loans receivable	663,818	630,545
Allowance for loan losses	(7,300)	(7,336)
Loans, net	656,518	623,209
Bank-owned life insurance	20,876	22,119
Accrued interest receivable	3,875	3,908
Bank premises and equipment, net	15,837	16,256
Foreclosed assets held for sale	1,223	1,189
Deferred tax asset, net	1,931	1,668
Intangible asset - Core deposit intangibles	41	52
Intangible asset - Goodwill	11,942	11,942
Other assets	10,771	8,766
<b>TOTAL ASSETS</b>	<b>\$1,255,722</b>	<b>\$1,241,963</b>
<b>LIABILITIES</b>		
Deposits:		
Noninterest-bearing	\$216,910	\$212,439
Interest-bearing	761,539	755,550
Total deposits	978,449	967,989
Short-term borrowings	19,806	5,537
Long-term borrowings	62,916	73,060
Accrued interest and other liabilities	7,578	7,015
<b>TOTAL LIABILITIES</b>	<b>1,068,749</b>	<b>1,053,601</b>
<b>STOCKHOLDERS' EQUITY</b>		
Preferred stock, \$1,000 par value; authorized 30,000 shares; \$1,000 liquidation preference per share; no shares issued at June 30, 2015 and December 31, 2014	0	0
Common stock, par value \$1.00 per share; authorized 20,000,000 shares in 2015 and 2014; issued 12,655,171 at June 30, 2015 and 12,655,171 at December 31, 2014; outstanding 12,196,830 at June 30, 2015 and 12,279,980 at December 31, 2014	12,655	12,655
Paid-in capital	71,258	71,541
Retained earnings	107,422	105,550
	(8,448)	(6,744)

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Treasury stock, at cost; 458,341 shares at June 30, 2015 and 375,191 shares at December 31, 2014		
Sub-total	182,887	183,002
Accumulated other comprehensive income:		
Unrealized gain on available-for-sale securities	4,077	5,281
Defined benefit plans gain	9	79
Total accumulated other comprehensive income	4,086	5,360
TOTAL STOCKHOLDERS' EQUITY	186,973	188,362
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	\$1,255,722	\$1,241,963

The accompanying notes are an integral part of these unaudited consolidated financial statements.

**CITIZENS & NORTHERN CORPORATION – FORM 10-Q**

<b>Consolidated Statements of Income (In Thousands Except Per Share Data) (Unaudited)</b>	<b>3 Months Ended</b>		<b>Fiscal Year To Date</b>	
	<b>June 30,</b>	<b>June 30,</b>	<b>6 Months Ended</b>	<b>June 30,</b>
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
<b>INTEREST INCOME</b>				
Interest and fees on loans	\$7,753	\$8,085	\$15,462	\$16,083
Interest on balances with depository institutions	25	32	51	62
Interest on loans to political subdivisions	391	334	740	707
Interest on mortgages held for sale	3	5	5	8
Income from available-for-sale securities:				
Taxable	1,934	1,961	3,908	3,763
Tax-exempt	1,013	1,080	2,029	2,191
Dividends	67	66	154	155
Total interest and dividend income	11,186	11,563	22,349	22,969
<b>INTEREST EXPENSE</b>				
Interest on deposits	479	553	965	1,107
Interest on short-term borrowings	5	1	6	6
Interest on long-term borrowings	692	736	1,418	1,465
Total interest expense	1,176	1,290	2,389	2,578
Net interest income	10,010	10,273	19,960	20,391
Provision for loan losses	221	446	224	135
Net interest income after provision for loan losses	9,789	9,827	19,736	20,256
<b>OTHER INCOME</b>				
Service charges on deposit accounts	1,305	1,314	2,327	2,537
Service charges and fees	123	134	236	261
Trust and financial management revenue	1,241	1,138	2,355	2,185
Brokerage revenue	206	242	425	469
Insurance commissions, fees and premiums	23	27	63	59
Interchange revenue from debit card transactions	500	517	974	970
Net gains from sale of loans	183	265	330	416
(Decrease) increase in fair value of servicing rights	(33)	(53)	(150)	52
Increase in cash surrender value of life insurance	102	91	199	179
Net loss from premises and equipment	0	(1)	0	(1)
Other operating income	312	306	690	604
Sub-total	3,962	3,980	7,449	7,731
Realized gains on available-for-sale securities, net	932	103	1,006	134
Total other income	4,894	4,083	8,455	7,865
<b>OTHER EXPENSES</b>				
Salaries and wages	3,603	3,646	7,090	7,211
Pensions and other employee benefits	935	1,153	2,320	2,472
Occupancy expense, net	640	641	1,362	1,356
Furniture and equipment expense	467	466	921	938
FDIC Assessments	148	146	299	293
Pennsylvania shares tax	317	337	566	678
Professional fees	113	144	235	292
Automated teller machine and interchange expense	255	218	501	429

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Software subscriptions	211	201	408	391
Loss on prepayment of debt	910	0	910	0
Other operating expense	1,275	1,395	2,726	2,811
Total other expenses	8,874	8,347	17,338	16,871
Income before income tax provision	5,809	5,563	10,853	11,250
Income tax provision	1,452	1,400	2,681	2,799
NET INCOME	\$4,357	\$4,163	\$8,172	\$8,451
NET INCOME PER SHARE - BASIC	\$0.36	\$0.33	\$0.67	\$0.68
NET INCOME PER SHARE - DILUTED	\$0.36	\$0.33	\$0.67	\$0.68

The accompanying notes are an integral part of these unaudited consolidated financial statements.

**CITIZENS & NORTHERN CORPORATION – FORM 10-Q****Consolidated Statements of Comprehensive Income****(In Thousands) (Unaudited)**

	3 Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Net income	\$4,357	\$4,163	\$8,172	\$8,451
Unrealized (losses) gains on available-for-sale securities:				
Unrealized holding (losses) gains on available-for-sale securities	(4,572)	4,523	(847)	9,857
Reclassification adjustment for gains realized in income	(932)	(103)	(1,006)	(134)
Other comprehensive (loss) gain on available-for-sale securities	(5,504)	4,420	(1,853)	9,723
Unfunded pension and postretirement obligations:				
Changes from plan amendments and actuarial gains and losses included in accumulated other comprehensive (loss) gain	0	3	(100)	144
Amortization of net transition obligation, prior service cost and net actuarial loss included in net periodic benefit cost	(5)	(4)	(8)	(8)
Other comprehensive (loss) gain on unfunded retirement obligations	(5)	(1)	(108)	136
Other comprehensive (loss) income before income tax	(5,509)	4,419	(1,961)	9,859
Income tax related to other comprehensive loss (income)	1,929	(1,545)	687	(3,450)
Net other comprehensive (loss) income	(3,580)	2,874	(1,274)	6,409
Comprehensive income	\$777	\$7,037	\$6,898	\$14,860

The accompanying notes are an integral part of these unaudited consolidated financial statements.



**CITIZENS & NORTHERN CORPORATION – FORM 10-Q**

CONSOLIDATED STATEMENTS OF CASH FLOWS (In Thousands) (Unaudited)	<b>6 Months Ended</b>	
	<b>June 30,</b>	<b>June 30,</b>
	<b>2015</b>	<b>2014</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$8,172	\$8,451
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	224	135
Realized gains on available-for-sale securities, net	(1,006)	(134)
Loss on prepayment of debt	910	0
Realized (gain) loss on foreclosed assets	(61)	19
Loss on disposition of premises and equipment	0	1
Depreciation expense	958	988
Accretion and amortization on securities, net	791	674
Accretion and amortization on loans and deposits, net	(10)	(14)
Decrease (increase) in fair value of servicing rights	150	(52)
Increase in cash surrender value of life insurance	(199)	(179)
Stock-based compensation	307	384
Amortization of core deposit intangibles	11	17
Deferred income taxes	424	1,057
Gains on sales of loans, net	(330)	(416)
Origination of loans for sale	(10,029)	(12,443)
Proceeds from sales of loans	10,089	12,807
(Increase) decrease in accrued interest receivable and other assets	(1,225)	179
Increase in accrued interest payable and other liabilities	681	1,795
Net Cash Provided by Operating Activities	9,857	13,269
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from maturities of certificates of deposit	0	480
Proceeds from sales of available-for-sale securities	11,255	28,831
Proceeds from calls and maturities of available-for-sale securities	41,777	35,340
Purchase of available-for-sale securities	(35,200)	(83,766)
Redemption of Federal Home Loan Bank of Pittsburgh stock	2,042	976
Purchase of Federal Home Loan Bank of Pittsburgh stock	(2,960)	(123)
Net (increase) decrease in loans	(34,153)	20,248
Proceeds from bank-owned life insurance	1,442	0
Purchase of premises and equipment	(539)	(206)
Return of principal on limited liability entity investments	99	87
Proceeds from sale of foreclosed assets	657	378
Net Cash (Used in) Provided by Investing Activities	(15,580)	2,245
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Net increase in deposits	10,460	24,723
Net increase (decrease) in short-term borrowings	14,269	(18,748)
Repayments of long-term borrowings	(11,054)	(137)
Purchase of treasury stock	(3,415)	0
Sale of treasury stock	378	86

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Tax benefit from compensation plans	78	74
Common dividends paid	(5,635)	(5,703)
Net Cash Provided by Financing Activities	5,081	295
<b>(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(642)</b>	<b>15,809</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<b>31,619</b>	<b>38,591</b>
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<b>\$30,977</b>	<b>\$54,400</b>

**SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:**

Assets acquired through foreclosure of real estate loans	\$630	\$924
Accrued purchase of available-for-sale securities	\$0	\$1,312
Interest paid	\$2,404	\$2,587
Income taxes paid	\$1,645	\$1,834

The accompanying notes are an integral part of these unaudited consolidated financial statements.

## CITIZENS &amp; NORTHERN CORPORATION – FORM 10-Q

**Consolidated Statements of Changes in  
Stockholders' Equity  
(In Thousands Except Share and  
Per Share Data)  
(Unaudited)**

	Common Shares	Treasury Shares	Common Stock	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Treasury Stock	Total
<b><u>Six Months Ended</u></b>								
<b><u>June 30, 2015:</u></b>								
<b>Balance, December 31, 2014</b>	12,655,171	375,191	\$12,655	\$71,541	\$105,550	\$5,360	(\$6,744)	\$188,362
Net income					8,172			8,172
Other comprehensive loss, net						(1,274)		(1,274)
Cash dividends declared on common stock, \$.52 per share					(6,373)			(6,373)
Shares issued for dividend reinvestment plan		(37,758)		25			713	738
Treasury stock purchased		176,000					(3,415)	(3,415)
Shares issued from treasury related to exercise of stock options		(22,235)		(26)			404	378
Restricted stock granted		(34,800)		(627)			627	0
Forfeiture of restricted stock		1,943		33			(33)	0
Stock-based compensation expense				307				307
Tax effect of stock option exercises				(6)				(6)
Tax benefit from dividends on restricted stock				11				11
Tax benefit from employee benefit plan					73			73
<b>Balance, June 30, 2015</b>	<b>12,655,171</b>	<b>458,341</b>	<b>\$12,655</b>	<b>\$71,258</b>	<b>\$107,422</b>	<b>\$4,086</b>	<b>(\$8,448)</b>	<b>\$186,973</b>

**Six Months Ended****June 30, 2014:**

<b>Balance, December 31, 2013</b>	<b>12,596,540</b>	<b>206,477</b>	<b>\$12,596</b>	<b>\$70,105</b>	<b>\$101,216</b>	<b>(\$993)</b>	<b>(\$3,452)</b>	<b>\$179,472</b>
Net income					8,451			8,451
Other comprehensive income, net						6,409		6,409
Cash dividends declared on common stock, \$0.52 per share					(6,459)			(6,459)
Shares issued for dividend reinvestment plan	40,009		40	716				756
Shares issued from treasury related to exercise of stock options		(5,577)		(7)			93	86
Restricted stock granted		(16,711)		(279)			279	0
Forfeiture of restricted stock		2,355		39			(39)	0
Stock-based compensation expense				384				384
Tax effect of stock option exercises				1				1
Tax benefit from dividends on restricted stock				5				5
Tax benefit from employee benefit plan					68			68
<b>Balance, June 30, 2014</b>	<b>12,636,549</b>	<b>186,544</b>	<b>\$12,636</b>	<b>\$70,964</b>	<b>\$103,276</b>	<b>\$5,416</b>	<b>(\$3,119)</b>	<b>\$189,173</b>

The accompanying notes are an integral part of these unaudited consolidated financial statements.

**CITIZENS & NORTHERN CORPORATION – FORM 10-Q****Notes to Unaudited Consolidated Financial Statements****1. BASIS OF INTERIM PRESENTATION**

The consolidated financial information included herein, with the exception of the consolidated balance sheet dated December 31, 2014, is unaudited. Such information reflects all adjustments (consisting solely of normal recurring adjustments) that are, in the opinion of management, necessary for a fair presentation of the financial position, results of operations, comprehensive income, cash flows and changes in stockholders' equity for the interim periods; however, the information does not include all disclosures required by accounting principles generally accepted in the United States of America ("U.S. GAAP") for a complete set of financial statements.

Operating results reported for the three-month and six-month periods ended June 30, 2015 might not be indicative of the results for the year ending December 31, 2015. The Corporation evaluates subsequent events through the date of filing with the Securities and Exchange Commission.

**2. PER SHARE DATA**

Net income per share is based on the weighted-average number of shares of common stock outstanding. The following data show the amounts used in computing basic and diluted net income per share. As shown in the table that follows, diluted earnings per share is computed using weighted average common shares outstanding, plus weighted-average common shares available from the exercise of all dilutive stock options, less the number of shares that could be repurchased with the proceeds of stock option exercises based on the average share price of the Corporation's common stock during the period.

	Net Income	Weighted- Average Common Shares	Earnings Per Share
Six Months Ended June 30, 2015			
Earnings per share – basic	\$8,172,000	12,233,964	\$0.67
Dilutive effect of potential common stock arising from stock options:			
Exercise of outstanding stock options		218,115	

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Hypothetical share repurchase at \$19.97			(196,407)
Earnings per share – diluted	\$8,172,000	12,255,672	\$0.67
Six Months Ended June 30, 2014			
Earnings per share – basic	\$8,451,000	12,429,717	\$0.68
Dilutive effect of potential common stock arising from stock options:			
Exercise of outstanding stock options			239,291
Hypothetical share repurchase at \$19.25			(217,549)
Earnings per share – diluted	\$8,451,000	12,451,459	\$0.68

**CITIZENS & NORTHERN CORPORATION – FORM 10-Q**

	Net Income	Weighted- Average Common Shares	Earnings Per Share
Three Months Ended June 30, 2015			
Earnings per share – basic	\$4,357,000	12,199,996	\$0.36
Dilutive effect of potential common stock arising from stock options:			
Exercise of outstanding stock options		205,024	
Hypothetical share repurchase at \$20.15		(182,494)	
Earnings per share – diluted	\$4,357,000	12,222,526	\$0.36
Three Months Ended June 30, 2014			
Earnings per share – basic	\$4,163,000	12,441,679	\$0.33
Dilutive effect of potential common stock arising from stock options:			
Exercise of outstanding stock options		174,840	
Hypothetical share repurchase at \$18.81		(157,135)	
Earnings per share – diluted	\$4,163,000	12,459,384	\$0.33

Stock options that were anti-dilutive were excluded from net income per share calculations. Weighted-average common shares available from anti-dilutive instruments totaled 75,539 shares in the six-month period ended June 30, 2015, 169,448 shares in the six-month period ended June 30, 2014, 47,974 shares in the second quarter 2015 and 200,672 shares in the second quarter 2014.

**3. COMPREHENSIVE INCOME**

Comprehensive income is the total of (1) net income, and (2) all other changes in equity from non-stockholder sources, which are referred to as other comprehensive income. The components of other comprehensive income, and the related tax effects, are as follows:

(In Thousands)	Before-Tax Amount	Income Tax Effect	Net-of-Tax Amount
Six Months Ended June 30, 2015:			
Unrealized losses on available-for-sale securities:			
Unrealized holding losses on available-for-sale securities	(\$847)	\$297	(\$550)
Reclassification adjustment for (gains) realized in income	(1,006)	352	(654)
Other comprehensive loss on available-for-sale securities	(1,853)	649	(1,204)

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Unfunded pension and postretirement obligations:

Changes from plan amendments and actuarial gains and losses included in other comprehensive income	(100)	35	(65)
Amortization of net transition obligation, prior service cost and net actuarial loss included in net periodic benefit cost	(8)	3	(5)
Other comprehensive loss on unfunded retirement obligations	(108)	38	(70)
Total other comprehensive loss	(\$1,961)	\$687	(\$1,274)



**CITIZENS & NORTHERN CORPORATION – FORM 10-Q**

(In Thousands)	Before-Tax Amount	Income Tax Effect	Net-of-Tax Amount
Six Months Ended June 30, 2014:			
Unrealized gains on available-for-sale securities:			
Unrealized holding gains on available-for-sale securities	\$9,857	(\$3,450)	\$6,407
Reclassification adjustment for (gains) realized in income	(134)	47	(87)
Other comprehensive income on available-for-sale securities	9,723	(3,403)	6,320
Unfunded pension and postretirement obligations:			
Changes from plan amendments and actuarial gains and losses included in other comprehensive income	144	(50)	94
Amortization of net transition obligation, prior service cost and net actuarial loss included in net periodic benefit cost	(8)	3	(5)
Other comprehensive income on unfunded retirement obligations	136	(47)	89
Total other comprehensive income	\$9,859	(\$3,450)	\$6,409

(In Thousands)	Before-Tax Amount	Income Tax Effect	Net-of-Tax Amount
Three Months Ended June 30, 2015:			
Unrealized losses on available-for-sale securities:			
Unrealized holding losses on available-for-sale securities	(\$4,572)	\$1,601	(\$2,971)
Reclassification adjustment for (gains) realized in income	(932)	326	(606)
Other comprehensive loss on available-for-sale securities	(5,504)	1,927	(3,577)
Unfunded pension and postretirement obligations:			
Changes from plan amendments and actuarial gains and losses included in other comprehensive income	0	0	0
Amortization of net transition obligation, prior service cost and net actuarial loss included in net periodic benefit cost	(5)	2	(3)
Other comprehensive loss on unfunded retirement obligations	(5)	2	(3)
Total other comprehensive loss	(\$5,509)	\$1,929	(\$3,580)

(In Thousands)	Before-Tax Amount	Income Tax Effect	Net-of-Tax Amount
Three Months Ended June 30, 2014:			
Unrealized gains on available-for-sale securities:			
Unrealized holding gains on available-for-sale securities	\$4,523	(\$1,582)	\$2,941
Reclassification adjustment for (gains) realized in income	(103)	36	(67)
Other comprehensive income on available-for-sale securities	4,420	(1,546)	2,874

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Unfunded pension and postretirement obligations:

Changes from plan amendments and actuarial gains and losses included in other comprehensive income	3	(1)	2
Amortization of net transition obligation, prior service cost and net actuarial loss included in net periodic benefit cost	(4)	2	(2)
Other comprehensive loss on unfunded retirement obligations	(1)	1	0
Total other comprehensive income	\$4,419	(\$1,545)	\$2,874

**CITIZENS & NORTHERN CORPORATION – FORM 10-Q**

Changes in the components of accumulated other comprehensive income are as follows and are presented net of tax:

(In Thousands)	Unrealized Holding Gains (Losses) on Securities	Unfunded Pension and Postretirement Obligations	Accumulated Other Comprehensive Income
<b>Six Months Ended June 30, 2015</b>			
Balance, beginning of period	\$5,281	\$79	\$5,360
Other comprehensive loss before reclassifications	(550)	(65)	(615)
Amounts reclassified from accumulated other comprehensive income	(654)	(5)	(659)
Other comprehensive loss	(1,204)	(70)	(1,274)
Balance, end of period	\$4,077	\$9	\$4,086
<b>Six Months Ended June 30, 2014</b>			
Balance, beginning of period	(\$1,004)	\$11	(\$993)
Other comprehensive income before reclassifications	6,407	94	6,501
Amounts reclassified from accumulated other comprehensive income	(87)	(5)	(92)
Other comprehensive income	6,320	89	6,409
Balance, end of period	\$5,316	\$100	\$5,416
<b>Three Months Ended June 30, 2015</b>			
Balance, beginning of period	\$7,654	\$12	\$7,666
Other comprehensive loss before reclassifications	(2,971)	0	(2,971)
Amounts reclassified from accumulated other comprehensive income	(606)	(3)	(609)
Other comprehensive loss	(3,577)	(3)	(3,580)
Balance, end of period	\$4,077	\$9	\$4,086
<b>Three Months Ended June 30, 2014</b>			
Balance, beginning of period	\$2,442	\$100	\$2,542
Other comprehensive income before reclassifications	2,941	2	2,943
Amounts reclassified from accumulated other comprehensive income	(67)	(2)	(69)
Other comprehensive income	2,874	0	2,874
Balance, end of period	\$5,316	\$100	\$5,416

**CITIZENS & NORTHERN CORPORATION – FORM 10-Q**

Items reclassified out of each component of other comprehensive income are as follows:

**For the Six Months Ended June 30, 2015**  
**(In Thousands)**

<b>Details about Accumulated Other Comprehensive Income Components</b>	<b>Reclassified from Accumulated Other Comprehensive Income</b>	<b>Affected Line Item in the Consolidated Statements of Income</b>
Unrealized gains and losses on available-for-sale securities	(\$1,006)	Realized gains on available-for-sale securities, net
	352	Income tax provision
	(654)	Net of tax
Amortization of defined benefit pension and postretirement items:		
Prior service cost	(15)	Pensions and other employee benefits
Actuarial loss	7	Pensions and other employee benefits
	(8)	Total before tax
	3	Income tax provision
	(5)	Net of tax
Total reclassifications for the period	(\$659)	

**For the Six Months Ended June 30, 2014**  
**(In Thousands)**

<b>Details about Accumulated Other Comprehensive Income Components</b>	<b>Reclassified from Accumulated Other Comprehensive Income</b>	<b>Affected Line Item in the Consolidated Statements of Income</b>
Unrealized gains and losses on available-for-sale securities	(\$134)	Realized gains on available-for-sale securities, net
	47	Income tax provision
	(87)	Net of tax
Amortization of defined benefit pension and postretirement items:		
Prior service cost	(16)	Pensions and other employee benefits
Actuarial loss	8	Pensions and other employee benefits
	(8)	Total before tax
	3	Income tax provision
	(5)	Net of tax
Total reclassifications for the period	(\$92)	



**CITIZENS & NORTHERN CORPORATION – FORM 10-Q****For the Three Months Ended June 30, 2015****(In Thousands)**

<b>Details about Accumulated Other Comprehensive Income Components</b>	<b>Reclassified from Accumulated Other Comprehensive Income</b>	<b>Affected Line Item in the Consolidated Statements of Income</b>
Unrealized gains and losses on available-for-sale securities	(\$932)	Realized gains on available-for-sale securities, net
	326	Income tax provision
	(606)	Net of tax
Amortization of defined benefit pension and postretirement items:		
Prior service cost	(8)	Pensions and other employee benefits
Actuarial loss	3	Pensions and other employee benefits
	(5)	Total before tax
	2	Income tax provision
	(3)	Net of tax
Total reclassifications for the period	(\$609)	

**For the Three Months Ended June 30, 2014****(In Thousands)**

<b>Details about Accumulated Other Comprehensive Income Components</b>	<b>Reclassified from Accumulated Other Comprehensive Income</b>	<b>Affected Line Item in the Consolidated Statements of Income</b>
Unrealized gains and losses on available-for-sale securities	(\$103)	Realized gains on available-for-sale securities, net
	36	Income tax provision
	(67)	Net of tax
Amortization of defined benefit pension and postretirement items:		
Prior service cost	(8)	Pensions and other employee benefits
Actuarial loss	4	Pensions and other employee benefits
	(4)	Total before tax
	2	Income tax provision
	(2)	Net of tax
Total reclassifications for the period	(\$69)	

**CITIZENS & NORTHERN CORPORATION – FORM 10-Q****4. CASH AND DUE FROM BANKS**

Cash and due from banks at June 30, 2015 and December 31, 2014 include the following:

(In thousands)	June 30 2015	Dec. 31, 2014
Cash and cash equivalents	\$30,977	\$31,619
Certificates of deposit	4,428	4,428
Total cash and due from banks	\$35,405	\$36,047

Certificates of deposit are issued by U.S. banks with original maturities greater than three months. Each certificate of deposit is fully FDIC-insured. The Corporation maintains cash and cash equivalents with certain financial institutions in excess of the FDIC insurance limit.

The Corporation is required to maintain reserves against deposit liabilities in the form of cash and balances with the Federal Reserve Bank of Philadelphia. The reserves are based on deposit levels, account activity, and other services provided by the Federal Reserve Bank. Required reserves were \$15,821,000 at June 30, 2015 and \$16,853,000 at December 31, 2014.

**5. FAIR VALUE MEASUREMENTS AND FAIR VALUES OF FINANCIAL INSTRUMENTS**

The Corporation measures certain assets at fair value. Fair value is defined as the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. FASB ASC topic 820, “Fair Value Measurements and Disclosures” establishes a framework for measuring fair value that includes a hierarchy used to classify the inputs used in measuring fair value. The hierarchy prioritizes the inputs used in determining valuations into three levels. The level in the fair value hierarchy within which the fair value measurement falls is determined based on the lowest level input that is significant to the fair value measurement. The levels of the fair value hierarchy are as follows:

Level 1 – Fair value is based on unadjusted quoted prices in active markets that are accessible to the Corporation for identical assets. These generally provide the most reliable evidence and are used to measure fair value whenever

available.

Level 2 – Fair value is based on significant inputs, other than Level 1 inputs, that are observable either directly or indirectly for substantially the full term of the asset through corroboration with observable market data. Level 2 inputs include quoted market prices in active markets for similar assets, quoted market prices in markets that are not active for identical or similar assets and other observable inputs.

Level 3 – Fair value is based on significant unobservable inputs. Examples of valuation methodologies that would result in Level 3 classification include option pricing models, discounted cash flows and other similar techniques.

The Corporation monitors and evaluates available data relating to fair value measurements on an ongoing basis and recognizes transfers among the levels of the fair value hierarchy as of the date of an event or change in circumstances that affects the valuation method chosen. Examples of such changes may include the market for a particular asset becoming active or inactive, changes in the availability of quoted prices, or changes in the availability of other market data.



**CITIZENS & NORTHERN CORPORATION – FORM 10-Q**

At June 30, 2015 and December 31, 2014, assets measured at fair value and the valuation methods used are as follows:

(In Thousands)	June 30, 2015			Total Fair Value
	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	
<b>Recurring fair value measurements</b>				
<b>AVAILABLE-FOR-SALE SECURITIES:</b>				
Obligations of U.S. Government agencies	\$0	\$26,871	\$0	\$26,871
Obligations of states and political subdivisions:				
Tax-exempt	0	119,749	0	119,749
Taxable	0	35,135	0	35,135
Mortgage-backed securities	0	76,790	0	76,790
Collateralized mortgage obligations, Issued by U.S. Government agencies	0	230,794	0	230,794
Collateralized debt obligations	0	34	0	34
Total debt securities	0	489,373	0	489,373
Marketable equity securities	7,738	0	0	7,738
Total available-for-sale securities	7,738	489,373	0	497,111
Servicing rights	0	0	1,209	1,209
Total recurring fair value measurements	\$7,738	\$489,373	\$1,209	\$498,320
<b>Nonrecurring fair value measurements</b>				
Impaired loans with a valuation allowance	\$0	\$0	\$3,880	\$3,880
Valuation allowance	0	0	(600)	(600)
Impaired loans, net	0	0	3,280	3,280
Foreclosed assets held for sale	0	0	1,223	1,223
Total nonrecurring fair value measurements	\$0	\$0	\$4,503	\$4,503

## CITIZENS &amp; NORTHERN CORPORATION – FORM 10-Q

(In Thousands)	December 31, 2014			
	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total Fair Value
<b>Recurring fair value measurements</b>				
AVAILABLE-FOR-SALE SECURITIES:				
Obligations of U.S. Government agencies	\$0	\$26,676	\$0	\$26,676
Obligations of states and political subdivisions:				
Tax-exempt	0	124,839	0	124,839
Taxable	0	33,878	0	33,878
Mortgage-backed securities	0	83,903	0	83,903
Collateralized mortgage obligations, Issued by U.S. Government agencies	0	238,823	0	238,823
Collateralized debt obligations	0	34	0	34
Total debt securities	0	508,153	0	508,153
Marketable equity securities	8,654	0	0	8,654
Total available-for-sale securities	8,654	508,153	0	516,807
Servicing rights	0	0	1,281	1,281
Total recurring fair value measurements	\$8,654	\$508,153	\$1,281	\$518,088
<b>Nonrecurring fair value measurements</b>				
Impaired loans with a valuation allowance	\$0	\$0	\$3,241	\$3,241
Valuation allowance	0	0	(769)	(769)
Impaired loans, net	0	0	2,472	2,472
Foreclosed assets held for sale	0	0	1,189	1,189
Total nonrecurring fair value measurements	\$0	\$0	\$3,661	\$3,661

Management's evaluation and selection of valuation techniques and the unobservable inputs used in determining the fair values of assets valued using Level 3 methodologies include sensitive assumptions. Other market participants might use substantially different assumptions, which could result in calculations of fair values that would be substantially different than the amount calculated by management.

At June 30, 2015 and December 31, 2014, quantitative information regarding significant techniques and inputs used for assets measured on a recurring basis using unobservable inputs (Level 3 methodologies) are as follows:

Fair Value at 6/30/15	Valuation	Unobservable	Method or Value As of
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Asset	(In Thousands)	Technique	Input(s)	6/30/15	
Servicing rights	\$1,209	Discounted cash flow	Discount rate	10.00%	Rate used through modeling period
			Loan prepayment speeds	173.00%	Weighted-average PSA
			Servicing fees	0.25%	of loan balances
				4.00%	of payments are late
				5.00%	late fees assessed
			Servicing costs	\$1.94	Miscellaneous fees per account per month
				\$6.00	Monthly servicing cost per account
				\$24.00	Additional monthly servicing cost per loan on loans more than 30 days delinquent
				1.50%	of loans more than 30 days delinquent
				3.00%	annual increase in servicing costs

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Asset	Fair Value at 12/31/14 (In Thousands)	Valuation Technique	Unobservable Input(s)	Method or Value As of 12/31/14	
Servicing rights	\$1,281	Discounted cash flow	Discount rate	12.00%	Rate used through modeling period
			Loan prepayment speeds	156.00%	Weighted-average PSA
			Servicing fees	0.25%	of loan balances
				4.00%	of payments are late
				5.00%	late fees assessed
			Servicing costs	\$1.94	Miscellaneous fees per account per month
				\$6.00	Monthly servicing cost per account
	\$24.00	Additional monthly servicing cost per loan on loans more than 30 days delinquent			
	1.50%	of loans more than 30 days delinquent			
	3.00%	annual increase in servicing costs			

The fair value of servicing rights is affected by expected future interest rates. Increases (decreases) in future expected interest rates tend to increase (decrease) the fair value of the Corporation's servicing rights because of changes in expected prepayment behavior by the borrowers on the underlying loans.

Following is a reconciliation of activity for Level 3 assets measured at fair value on a recurring basis:

(In Thousands)	Three Months Ended		Six Months Ended	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
Servicing rights balance, beginning of period	\$1,195	\$1,268	\$1,281	\$1,123
Issuances of servicing rights	47	66	78	106
Unrealized losses included in earnings	(33)	(53)	(150)	52
Servicing rights balance, end of period	\$1,209	\$1,281	\$1,209	\$1,281

Loans are classified as impaired when, based on current information and events, it is probable that the Corporation will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Foreclosed assets held for sale consist of real estate acquired by foreclosure. For impaired commercial loans secured by real estate and foreclosed assets held for sale, estimated fair values are determined primarily using values from third-party appraisals. Appraised values are discounted to arrive at the estimated selling price of the collateral, which is considered to be the estimated fair value. The discounts also include estimated costs to sell the property.

At June 30, 2015 and December 31, 2014, quantitative information regarding significant techniques and inputs used for nonrecurring fair value measurements using unobservable inputs (Level 3 methodologies) are as follows:

<b>(In Thousands, Except Percentages)</b>	<b>Valuation</b>			<b>Valuation Technique</b>	<b>Unobservable Inputs</b>	<b>Value at 6/30/15 (Weighted Average)</b>
<b>Asset</b>	<b>Balance at 6/30/15</b>	<b>Allowance at 6/30/15</b>	<b>Fair Value at 6/30/15</b>			
Impaired loans:						
Residential mortgage loans -						
first liens	\$1,104	\$136	\$968	Sales comparison	Discount to appraised value	34%
Commercial:						
Commercial loans secured by real estate	322	80	242	Sales comparison	Discount to appraised value	40%
Commercial and industrial	75	75	0	Sales comparison	Discount to appraised value	45%
Commercial construction and land	1,815	211	1,604	Sales comparison	Discount to appraised value	30%
Loans secured by farmland	564	98	466	Sales comparison	Discount to appraised value	40%
Total impaired loans	\$3,880	\$600	\$3,280			
Foreclosed assets held for sale - real estate:						
Residential (1-4 family)	\$487	\$0	\$487	Sales comparison	Discount to appraised value	27%
Land	736	0	736	Sales comparison	Discount to appraised value	26%
Total foreclosed assets held for sale	\$1,223	\$0	\$1,223			

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(In Thousands, Except Percentages)						
Asset	Balance at 12/31/14	Valuation Allowance at 12/31/14	Fair Value at 12/31/14	Valuation Technique	Unobservable Inputs	Value at 12/31/14 (Weighted Average)
Impaired loans:						
Residential mortgage loans - first liens	\$715	\$358	\$357	Sales comparison	Discount to appraised value	36%
Commercial:						
Commercial loans secured by real estate	16	16	0	Sales comparison	Discount to appraised value	42%
Commercial and industrial	150	82	68	Sales comparison	Discount to appraised value	21%
Commercial construction and land	1,815	211	1,604	Sales comparison	Discount to appraised value	30%
Loans secured by farmland	545	102	443	Sales comparison	Discount to appraised value	40%
Total impaired loans	\$3,241	\$769	\$2,472			
Foreclosed assets held for sale - real estate:						
Residential (1-4 family)	\$306	\$0	\$306	Sales comparison	Discount to appraised value	42%
Commercial property	159	0	159	Sales comparison	Discount to appraised value	23%
Land	724	0	724	Sales comparison	Discount to appraised value	29%
Total foreclosed assets held for sale	\$1,189	\$0	\$1,189			

Certain of the Corporation's financial instruments are not measured at fair value in the consolidated financial statements. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument. Certain financial instruments and all nonfinancial instruments are excluded from disclosure requirements. Therefore, the aggregate fair value amounts presented may not represent the underlying fair value of the Corporation.

The Corporation used the following methods and assumptions in estimating fair value disclosures for financial instruments:

**CASH AND CASH EQUIVALENTS** - The carrying amounts of cash and short-term instruments approximate fair values.

**CERTIFICATES OF DEPOSIT** - Fair values for certificates of deposit, included in cash and due from banks in the consolidated balance sheet, are based on quoted market prices for certificates of similar remaining maturities.

**SECURITIES** - Fair values for securities, excluding restricted equity securities, are based on quoted market prices or other methods as described above. The carrying value of restricted equity securities approximates fair value based on applicable redemption provisions.

**LOANS HELD FOR SALE** - Fair values of loans held for sale are determined based on applicable sale prices available under the Federal Home Loan Banks' MPF Xtra and MPF Original programs.

**LOANS** - Fair values are estimated for portfolios of loans with similar financial characteristics. Loans are segregated by type such as commercial, commercial real estate, residential mortgage and other consumer. Each loan category is further segmented into fixed and adjustable rate interest terms and by performing and nonperforming categories. The fair value of performing loans is calculated by discounting contractual cash flows, adjusted for estimated prepayments based on historical experience, using estimated market discount rates that reflect the credit and interest rate risk inherent in the loans. Fair value of nonperforming loans is based on recent appraisals or estimates prepared by the Corporation's lending officers.

**SERVICING RIGHTS** - The fair value of servicing rights, included in other assets in the consolidated balance sheet, is determined through a discounted cash flow valuation. Significant inputs include expected net servicing income, the discount rate and the expected prepayment speeds of the underlying loans.

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**DEPOSITS** - The fair value of deposits with no stated maturity, such as noninterest-bearing demand deposits, savings, money market and interest checking accounts, is (by definition) equal to the amount payable on demand at June 30, 2015 and December 31, 2014. The fair value of time deposits, such as certificates of deposit and Individual Retirement Accounts, is based on the discounted value of contractual cash flows. The discount rate is estimated using the rates currently offered for deposits of similar remaining maturities. The fair value estimates of deposits do not include the benefit that results from the low-cost funding provided by the deposit liabilities compared to the cost of borrowing funds in the market, commonly referred to as the core deposit intangible.

**BORROWED FUNDS** - The fair value of borrowings is estimated using discounted cash flow analyses based on rates currently available to the Corporation for similar types of borrowing arrangements.

**ACCRUED INTEREST** - The carrying amounts of accrued interest receivable and payable approximate fair values.

**OFF-BALANCE SHEET COMMITMENTS** - The Corporation has commitments to extend credit and has issued standby letters of credit. Standby letters of credit are conditional guarantees of performance by a customer to a third party. Estimates of the fair value of these off-balance sheet items were not made because of the short-term nature of these arrangements and the credit standing of the counterparties.

The estimated fair values, and related carrying amounts, of the Corporation's financial instruments are as follows:

(In Thousands)	Valuation Method(s) Used	June 30, 2015		December 31, 2014	
		Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:					
Cash and cash equivalents	Level 1	\$30,977	\$30,977	\$31,619	\$31,619
Certificates of deposit	Level 2	4,428	4,443	4,428	4,443
Available-for-sale securities	See Above	497,111	497,111	516,807	516,807
Restricted equity securities (included in Other Assets)	Level 2	2,502	2,502	1,584	1,584
Loans held for sale	Level 2	192	192	0	0
Loans, net	Level 3	656,518	653,715	623,209	629,267
Accrued interest receivable	Level 2	3,875	3,875	3,908	3,908
Servicing rights	Level 3	1,209	1,209	1,281	1,281

Financial liabilities:



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Deposits with no stated maturity	Level 2	738,317	738,317	729,052	729,052
Time deposits	Level 2	240,132	241,030	238,937	239,712
Short-term borrowings	Level 2	19,806	19,753	5,537	5,473
Long-term borrowings	Level 2	62,916	68,017	73,060	78,866
Accrued interest payable	Level 2	89	89	104	104

## CITIZENS &amp; NORTHERN CORPORATION – FORM 10-Q

## 6. SECURITIES

Amortized cost and fair value of available-for-sale securities at June 30, 2015 and December 31, 2014 are summarized as follows:

(In Thousands)	Amortized Cost	June 30, 2015		Fair Value
		Gross Holding Gains	Gross Holding Losses	
Obligations of U.S. Government agencies	\$27,189	\$39	(\$357)	\$26,871
Obligations of states and political subdivisions:				
Tax-exempt	115,908	4,147	(306)	119,749
Taxable	34,872	394	(131)	35,135
Mortgage-backed securities	76,323	754	(287)	76,790
Collateralized mortgage obligations, Issued by U.S. Government agencies	231,148	1,308	(1,662)	230,794
Collateralized debt obligations	34	0	0	34
Total debt securities	485,474	6,642	(2,743)	489,373
Marketable equity securities	5,365	2,383	(10)	7,738
Total	\$490,839	\$9,025	(\$2,753)	\$497,111

(In Thousands)	Amortized Cost	December 31, 2014		Fair Value
		Gross Holding Gains	Gross Holding Losses	
Obligations of U.S. Government agencies	\$27,221	\$38	(\$583)	\$26,676
Obligations of states and political subdivisions:				
Tax-exempt	120,086	5,134	(381)	124,839
Taxable	33,637	415	(174)	33,878
Mortgage-backed securities	82,479	1,493	(69)	83,903
Collateralized mortgage obligations, Issued by U.S. Government agencies	239,620	1,239	(2,036)	238,823
Collateralized debt obligations:	34	0	0	34
Total debt securities	503,077	8,319	(3,243)	508,153
Marketable equity securities	5,605	3,058	(9)	8,654

Total	\$508,682	\$11,377	(\$3,252)	\$516,807
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The following table presents gross unrealized losses and fair value of available-for-sale securities with unrealized loss positions that are not deemed to be other-than-temporarily impaired, aggregated by length of time that individual securities have been in a continuous unrealized loss position at June 30, 2015 and December 31, 2014:

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<b>June 30, 2015</b> <b>(In Thousands)</b>	<b>Less Than 12 Months</b>		<b>12 Months or More</b>		<b>Total</b>	
	<b>Fair Value</b>	<b>Unrealized Losses</b>	<b>Fair Value</b>	<b>Unrealized Losses</b>	<b>Fair Value</b>	<b>Unrealized Losses</b>
Obligations of U.S. Government agencies	\$10,033	(\$62)	\$14,180	(\$295)	\$24,213	(\$357)
Obligations of states and political subdivisions:						
Tax-exempt	24,310	(283)	744	(23)	25,054	(306)
Taxable	9,581	(61)	4,777	(70)	14,358	(131)
Mortgage-backed securities	20,022	(213)	3,889	(74)	23,911	(287)
Collateralized mortgage obligations, Issued by U.S. Government agencies	62,196	(341)	55,754	(1,321)	117,950	(1,662)
Total debt securities	126,142	(960)	79,344	(1,783)	205,486	(2,743)
Marketable equity securities	59	(10)	0	0	59	(10)
Total temporarily impaired available-for-sale securities	\$126,201	(\$970)	\$79,344	(\$1,783)	\$205,545	(\$2,753)

<b>December 31, 2014</b> <b>(In Thousands)</b>	<b>Less Than 12 Months</b>		<b>12 Months or More</b>		<b>Total</b>	
	<b>Fair Value</b>	<b>Unrealized Losses</b>	<b>Fair Value</b>	<b>Unrealized Losses</b>	<b>Fair Value</b>	<b>Unrealized Losses</b>
Obligations of U.S. Government agencies	\$0	\$0	\$24,020	(\$583)	\$24,020	(\$583)
Obligations of states and political subdivisions:						
Tax-exempt	11,898	(289)	6,991	(92)	18,889	(381)
Taxable	4,240	(22)	9,159	(152)	13,399	(174)
Mortgage-backed securities	0	0	4,160	(69)	4,160	(69)
Collateralized mortgage obligations, Issued by U.S. Government agencies	58,812	(396)	60,897	(1,640)	119,709	(2,036)
Total debt securities	74,950	(707)	105,227	(2,536)	180,177	(3,243)
Marketable equity securities	134	(9)	0	0	134	(9)
Total temporarily impaired available-for-sale securities	\$75,084	(\$716)	\$105,227	(\$2,536)	\$180,311	(\$3,252)

Gross realized gains and losses from available-for-sale securities were as follows:

<b>(In Thousands)</b>	<b>3 Months Ended</b>		<b>6 Months Ended</b>	
	<b>June 30, 2015</b>	<b>June 30, 2014</b>	<b>June 30, 2015</b>	<b>June 30, 2014</b>
Gross realized gains from sales	\$932	\$140	\$1,006	\$342
Gross realized losses from sales	0	(37)	0	(208)
Net realized gains	\$932	\$103	\$1,006	\$134

The amortized cost and fair value of available-for-sale debt securities by contractual maturity are shown in the following table as of June 30, 2015. Actual maturities may differ from contractual maturities because counterparties may have the right to call or prepay obligations with or without call or prepayment penalties.

(In Thousands)	Amortized Cost	Fair Value
Due in one year or less	\$10,599	\$10,741
Due from one year through five years	62,421	63,102
Due from five years through ten years	60,873	61,305
Due after ten years	44,110	46,641
Subtotal	178,003	181,789
Mortgage-backed securities	76,323	76,790
Collateralized mortgage obligations, Issued by U.S. Government agencies	231,148	230,794
Total	\$485,474	\$489,373

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The Corporation's mortgage-backed securities and collateralized mortgage obligations have stated maturities that may differ from actual maturities due to borrowers' ability to prepay obligations. Cash flows from such investments are dependent upon the performance of the underlying mortgage loans and are generally influenced by the level of interest rates. In the table above, mortgage-backed securities and collateralized mortgage obligations are shown in one period.

Investment securities carried at \$363,533,000 at June 30, 2015 and \$369,945,000 at December 31, 2014 were pledged as collateral for public deposits, trusts and certain other deposits as provided by law. See Note 8 for information concerning securities pledged to secure borrowing arrangements.

Management evaluates securities for other-than-temporary impairment (OTTI) at least on a quarterly basis, and more frequently when economic or market conditions warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) whether the Corporation intends to sell the security or more likely than not will be required to sell the security before its anticipated recovery.

A summary of information management considered in evaluating debt and equity securities for OTTI at June 30, 2015 is provided below.

### **Debt Securities**

At June 30, 2015, management performed an assessment for possible OTTI of the Corporation's debt securities on an issue-by-issue basis, relying on information obtained from various sources, including publicly available financial data, ratings by external agencies, brokers and other sources. The extent of individual analysis applied to each security depended on the size of the Corporation's investment, as well as management's perception of the credit risk associated with each security. Based on the results of the assessment, management believes impairment of debt securities at June 30, 2015 to be temporary.

### **Equity Securities**

The Corporation's marketable equity securities at June 30, 2015 and December 31, 2014 consisted exclusively of stocks of banking companies. At June 30, 2015, the Corporation held two stocks with an unrealized loss of \$10,000 for which management determined an OTTI charge was not required.

Realized gains from sales of bank stocks totaled \$476,000 in the three-month and six-month periods ended June 30, 2015. The Corporation realized gains from sales of bank stocks totaling \$74,000 in the three-month and six-month periods ended June 30, 2014.

C&N Bank is a member of the Federal Home Loan Bank of Pittsburgh (FHLB-Pittsburgh), which is one of 12 regional Federal Home Loan Banks. As a member, C&N Bank is required to purchase and maintain stock in FHLB-Pittsburgh. There is no active market for FHLB-Pittsburgh stock, and it must ordinarily be redeemed by FHLB-Pittsburgh in order to be liquidated. C&N Bank's investment in FHLB-Pittsburgh stock, included in Other Assets in the consolidated balance sheet, was \$2,372,000 at June 30, 2015 and \$1,454,000 at December 31, 2014. The Corporation evaluated its holding of FHLB-Pittsburgh stock for impairment and deemed the stock to not be impaired at June 30, 2015 and December 31, 2014. In making this determination, management concluded that recovery of total outstanding par value, which equals the carrying value, is expected. The decision was based on review of financial information that FHLB-Pittsburgh has made publicly available.

**CITIZENS & NORTHERN CORPORATION – FORM 10-Q****7. LOANS**

The loans receivable portfolio is segmented into residential mortgage, commercial and consumer loans. Loans outstanding at June 30, 2015 and December 31, 2014 are summarized by segment, and by classes within each segment, as follows:

Summary of Loans by Type (In Thousands)	June 30, 2015	Dec. 31, 2014
Residential mortgage:		
Residential mortgage loans - first liens	\$294,978	\$291,882
Residential mortgage loans - junior liens	21,502	21,166
Home equity lines of credit	39,140	36,629
1-4 Family residential construction	19,651	16,739
Total residential mortgage	375,271	366,416
Commercial:		
Commercial loans secured by real estate	135,063	145,878
Commercial and industrial	61,427	50,157
Political subdivisions	40,908	17,534
Commercial construction and land	7,826	6,938
Loans secured by farmland	7,565	7,916
Multi-family (5 or more) residential	8,561	8,917
Agricultural loans	4,287	3,221
Other commercial loans	12,809	13,334
Total commercial	278,446	253,895
Consumer	10,101	10,234
Total	663,818	630,545
Less: allowance for loan losses	(7,300)	(7,336)
Loans, net	\$656,518	\$623,209

The Corporation grants loans to individuals as well as commercial and tax-exempt entities. Commercial, residential and personal loans are made to customers geographically concentrated in the Pennsylvania and New York counties that comprise the market serviced by Citizens & Northern Bank. Although the Corporation has a diversified loan portfolio, a significant portion of its debtors' ability to honor their contracts is dependent on the local economic conditions within the region. There is no concentration of loans to borrowers engaged in similar businesses or activities that exceed 10% of total loans at either June 30, 2015 or December 31, 2014.



The Corporation maintains an allowance for loan losses that represents management's estimate of the losses inherent in the loan portfolio as of the balance sheet date and recorded as a reduction of the investment in loans. The allowance for loan losses is maintained at a level considered adequate to provide for losses that can be reasonably anticipated. Management performs a quarterly evaluation of the adequacy of the allowance. The allowance is based on the Corporation's past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, composition of the loan portfolio, current economic conditions and other relevant factors. This evaluation is inherently subjective as it requires material estimates that may be susceptible to significant revision as more information becomes available. In the process of evaluating the loan portfolio, management also considers the Corporation's exposure to losses from unfunded loan commitments. As of June 30, 2015 and December 31, 2014, management determined that no allowance for credit losses related to unfunded loan commitments was required.

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Transactions within the allowance for loan losses, summarized by segment and class, for the three-month and six-month periods ended June 30, 2015 and 2014 were as follows:

Three Months Ended June 30, 2015 (In Thousands)	March 31, 2015 Balance	Charge-offs	Recoveries	Provision (Credit)	June 30, 2015 Balance
Allowance for Loan Losses:					
Residential mortgage:					
Residential mortgage loans - first liens	\$2,774	(\$58)	\$0	\$59	\$2,775
Residential mortgage loans - junior liens	200	0	0	10	210
Home equity lines of credit	322	0	0	22	344
1-4 Family residential construction	207	0	0	50	257
Total residential mortgage	3,503	(58)	0	141	3,586
Commercial:					
Commercial loans secured by real estate	1,736	0	0	(44)	1,692
Commercial and industrial	684	0	3	113	800
Political subdivisions	0	0	0	0	0
Commercial construction and land	286	0	0	10	296
Loans secured by farmland	159	0	0	(4)	155
Multi-family (5 or more) residential	81	0	0	(1)	80
Agricultural loans	29	0	0	11	40
Other commercial loans	123	0	0	(3)	120
Total commercial	3,098	0	3	82	3,183
Consumer	139	(19)	19	(4)	135
Unallocated	394	0	0	2	396
Total Allowance for Loan Losses	\$7,134	(\$77)	\$22	\$221	\$7,300

Three Months Ended June 30, 2014 (In Thousands)	March 31, 2014 Balance	Charge-offs	Recoveries	Provision (Credit)	June 30, 2014 Balance
Allowance for Loan Losses:					
Residential mortgage:					
Residential mortgage loans - first liens	\$2,863	(\$40)	\$1	\$142	\$2,966
Residential mortgage loans - junior liens	280	0	0	0	280
Home equity lines of credit	271	0	0	6	277
1-4 Family residential construction	153	0	0	20	173
Total residential mortgage	3,567	(40)	1	168	3,696
Commercial:					
Commercial loans secured by real estate	3,081	(1,486)	0	301	1,896
Commercial and industrial	555	0	7	64	626

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Political subdivisions	0	0	0	0	0
Commercial construction and land	247	0	5	(89)	163
Loans secured by farmland	98	0	0	(2)	96
Multi-family (5 or more) residential	105	0	0	(2)	103
Agricultural loans	30	0	0	0	30
Other commercial loans	138	0	0	(3)	135
Total commercial	4,254	(1,486)	12	269	3,049
Consumer	128	(20)	11	8	127
Unallocated	394	0	0	1	395
Total Allowance for Loan Losses	\$8,343	(\$1,546)	\$24	\$446	\$7,267

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Six Months Ended June 30, 2015 (In Thousands)	December 31, 2014 Balance	Charge-offs	Recoveries	Provision (Credit)	June 30, 2015 Balance
Allowance for Loan Losses:					
Residential mortgage:					
Residential mortgage loans - first liens	\$2,941	(\$137)	\$1	(\$30)	\$2,775
Residential mortgage loans - junior liens	176	0	0	34	210
Home equity lines of credit	322	0	0	22	344
1-4 Family residential construction	214	0	0	43	257
Total residential mortgage	3,653	(137)	1	69	3,586
Commercial:					
Commercial loans secured by real estate	1,758	(115)	0	49	1,692
Commercial and industrial	688	(10)	4	118	800
Political subdivisions	0	0	0	0	0
Commercial construction and land	283	0	0	13	296
Loans secured by farmland	165	0	0	(10)	155
Multi-family (5 or more) residential	87	0	0	(7)	80
Agricultural loans	31	0	0	9	40
Other commercial loans	131	0	0	(11)	120
Total commercial	3,143	(125)	4	161	3,183
Consumer	145	(37)	34	(7)	135
Unallocated	395	0	0	1	396
Total Allowance for Loan Losses	\$7,336	(\$299)	\$39	\$224	\$7,300

Six Months Ended June 30, 2014 (In Thousands)	December 31, 2013 Balance	Charge-offs	Recoveries	Provision (Credit)	June 30, 2014 Balance
Allowance for Loan Losses:					
Residential mortgage:					
Residential mortgage loans - first liens	\$2,974	(\$59)	\$1	\$50	\$2,966
Residential mortgage loans - junior liens	294	0	0	(14)	\$280
Home equity lines of credit	269	0	0	8	\$277
1-4 Family residential construction	168	0	0	5	\$173
Total residential mortgage	3,705	(59)	1	49	3,696
Commercial:					
Commercial loans secured by real estate	3,123	(1,521)	250	44	1,896
Commercial and industrial	591	(24)	8	51	626
Political subdivisions	0	0	0	0	0
Commercial construction and land	267	(170)	5	61	163
Loans secured by farmland	115	0	0	(19)	96
Multi-family (5 or more) residential	103	0	0	0	103
Agricultural loans	30	0	0	0	30

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Other commercial loans	138	0	0	(3)	135
Total commercial	4,367	(1,715)	263	134	3,049
Consumer	193	(46)	25	(45)	127
Unallocated	398	0	0	(3)	395
Total Allowance for Loan Losses	\$8,663	(\$1,820)	\$289	\$135	\$7,267

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In the evaluation of the loan portfolio, management determines two major components for the allowance for loan losses – (1) a specific component based on an assessment of certain larger relationships, mainly commercial purpose loans, on a loan-by-loan basis; and (2) a general component for the remainder of the portfolio based on a collective evaluation of pools of loans with similar risk characteristics. The general component is assigned to each pool of loans based on both historical net charge-off experience, and an evaluation of certain qualitative factors. An unallocated component is maintained to cover uncertainties that could affect management’s estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the above methodologies for estimating specific and general losses in the portfolio.

In determining the larger loan relationships for detailed assessment under the specific allowance component, the Corporation uses an internal risk rating system. Under the risk rating system, the Corporation classifies problem or potential problem loans as “Special Mention,” “Substandard,” or “Doubtful” on the basis of currently existing facts, conditions and values. Substandard loans include those characterized by the distinct possibility that the Corporation will sustain some loss if the deficiencies are not corrected. Loans classified as Doubtful have all the weaknesses inherent in those classified as Substandard with the added characteristic that the weaknesses present make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable. Loans that do not currently expose the Corporation to sufficient risk to warrant classification as Substandard or Doubtful, but possess weaknesses that deserve management’s close attention, are deemed to be Special Mention. Risk ratings are updated any time that conditions or the situation warrants. Loans not classified are included in the “Pass” column in the table below.

The following tables summarize the aggregate credit quality classification of outstanding loans by risk rating as of June 30, 2015 and December 31, 2014:

June 30, 2015 (In Thousands)	Pass	Special Mention	Substandard	Doubtful	Total
<b>Residential Mortgage:</b>					
Residential mortgage loans - first liens	\$286,168	\$485	\$8,252	\$73	\$294,978
Residential mortgage loans - junior liens	20,931	90	481	0	21,502
Home equity lines of credit	37,328	1,407	405	0	39,140
1-4 Family residential construction	19,632	19	0	0	19,651
Total residential mortgage	364,059	2,001	9,138	73	375,271
<b>Commercial:</b>					
Commercial loans secured by real estate	121,059	5,139	8,865	0	135,063
Commercial and Industrial	54,601	6,291	417	118	61,427
Political subdivisions	40,908	0	0	0	40,908
Commercial construction and land	5,744	164	1,918	0	7,826
Loans secured by farmland	5,668	423	1,451	23	7,565

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Multi-family (5 or more) residential	8,287	274	0	0	8,561
Agricultural loans	4,266	0	21	0	4,287
Other commercial loans	12,727	82	0	0	12,809
Total Commercial	253,260	12,373	12,672	141	278,446
Consumer	9,915	22	164	0	10,101
Totals	\$627,234	\$14,396	\$21,974	\$214	\$663,818

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<b>(In Thousands)</b>	Pass	<b>Special</b>			Total
		<b>Mention</b>	Substandard	Doubtful	
<b>Residential Mortgage:</b>					
Residential mortgage loans - first liens	\$280,094	\$1,246	\$10,464	\$78	\$291,882
Residential mortgage loans - junior liens	20,502	112	552	0	21,166
Home equity lines of credit	35,935	294	400	0	36,629
1-4 Family residential construction	16,719	20	0	0	16,739
Total residential mortgage	353,250	1,672	11,416	78	366,416
<b>Commercial:</b>					
Commercial loans secured by real estate	133,204	2,775	9,899	0	145,878
Commercial and Industrial	41,751	7,246	1,042	118	50,157
Political subdivisions	17,534	0	0	0	17,534
Commercial construction and land	4,650	266	2,022	0	6,938
Loans secured by farmland	5,990	433	1,468	25	7,916
Multi-family (5 or more) residential	8,629	288	0	0	8,917
Agricultural loans	3,196	0	25	0	3,221
Other commercial loans	13,248	86	0	0	13,334
Total commercial	228,202	11,094	14,456	143	253,895
Consumer	10,095	22	117	0	10,234
Totals	\$591,547	\$12,788	\$25,989	\$221	\$630,545

The general component of the allowance for loan losses covers pools of loans including commercial loans not considered individually impaired, as well as smaller balance homogeneous classes of loans, such as residential real estate, home equity lines of credit and other consumer loans. Accordingly, the Corporation generally does not separately identify individual consumer and residential loans for impairment disclosures, unless such loans are subject to a restructuring agreement. The pools of loans are evaluated for loss exposure based upon three-year average historical net charge-off rates for each loan class, adjusted for qualitative factors. Qualitative risk factors (described in the following paragraph) are evaluated for the impact on each of the three segments (residential mortgage, commercial and consumer) within the loan portfolio. Each qualitative factor is assigned a value to reflect improving, stable or declining conditions based on management's judgment using relevant information available at the time of the evaluation. The adjustment for qualitative factors is applied as an increase or decrease to the three-year average net charge-off rate to each loan class within each segment.

The qualitative factors used in the general component calculations are designed to address credit risk characteristics associated with each segment. The Corporation's credit risk associated with all of the segments is significantly impacted by these factors, which include economic conditions within its market area, the Corporation's lending policies, changes or trends in the portfolio, risk profile, competition, regulatory requirements and other factors. Further, the residential mortgage segment is significantly affected by the values of residential real estate that provide collateral for the loans. The majority of the Corporation's commercial segment loans (approximately 57% at June 30, 2015) is secured by real estate, and accordingly, the Corporation's risk for the commercial segment is significantly



affected by commercial real estate values. The consumer segment includes a wide mix of loans for different purposes, primarily secured loans, including loans secured by motor vehicles, manufactured housing and other types of collateral.

Loans are classified as impaired, when, based on current information and events, it is probable that the Corporation will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis for commercial loans, by the fair value of the collateral (if the loan is collateral dependent), by future cash flows discounted at the loan's effective rate or by the loan's observable market price.

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The scope of loans evaluated individually for impairment include all loan relationships greater than \$200,000 for which there is at least one extension of credit graded Special Mention, Substandard or Doubtful. Also, all loans classified as troubled debt restructurings (discussed in more detail below) and all loan relationships less than \$200,000 in the aggregate, but with an estimated loss of \$100,000 or more, are individually evaluated for impairment. Loans that are individually evaluated for impairment, but which are not determined to be impaired, are combined with all remaining loans that are not reviewed on a specific basis, and such loans are included within larger pools of loans based on similar risk and loss characteristics for purposes of determining the general component of the allowance. The loans that have been individually evaluated, but which have not been determined to be impaired, are included in the “Collectively Evaluated” column in the tables summarizing the allowance and associated loan balances as of June 30, 2015 and December 31, 2014.

The following tables present a summary of loan balances and the related allowance for loan losses summarized by portfolio segment and class for each impairment method used as of June 30, 2015 and December 31, 2014:

<b>June 30, 2015 (In Thousands)</b>	<b>Loans:</b>			<b>Allowance for Loan Losses:</b>		
	<b>Individually Evaluated</b>	<b>Collectively Evaluated</b>	<b>Totals</b>	<b>Individually Evaluated</b>	<b>Collectively Evaluated</b>	<b>Totals</b>
<b>Residential mortgage:</b>						
Residential mortgage loans - first liens	\$1,755	\$293,223	\$294,978	\$136	\$2,639	\$2,775
Residential mortgage loans - junior liens	77	21,425	21,502	0	210	210
Home equity lines of credit	0	39,140	39,140	0	344	344
1-4 Family residential construction	0	19,651	19,651	0	257	257
Total residential mortgage	1,832	373,439	375,271	136	3,450	3,586
<b>Commercial:</b>						
Commercial loans secured by real estate	6,145	128,918	135,063	80	1,612	1,692
Commercial and industrial	332	61,095	61,427	75	725	800
Political subdivisions	0	40,908	40,908	0	0	0
Commercial construction and land	1,840	5,986	7,826	211	85	296
Loans secured by farmland	1,474	6,091	7,565	98	57	155
Multi-family (5 or more) residential	0	8,561	8,561	0	80	80
Agricultural loans	21	4,266	4,287	0	40	40
Other commercial loans	0	12,809	12,809	0	120	120
Total commercial	9,812	268,634	278,446	464	2,719	3,183
Consumer	0	10,101	10,101	0	135	135
Unallocated						396
<b>Total</b>	<b>\$11,644</b>	<b>\$652,174</b>	<b>\$663,818</b>	<b>\$600</b>	<b>\$6,304</b>	<b>\$7,300</b>



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<b>December 31, 2014</b> <b>(In Thousands)</b>	<b>Loans:</b>			<b>Allowance for Loan Losses:</b>		
	<b>Individually</b>	<b>Collectively</b>	<b>Totals</b>	<b>Individually</b>	<b>Collectively</b>	<b>Totals</b>
	<b>Evaluated</b>	<b>Evaluated</b>		<b>Evaluated</b>	<b>Evaluated</b>	
<b>Residential mortgage:</b>						
Residential mortgage loans - first liens	\$1,665	\$290,217	\$291,882	\$358	\$2,583	\$2,941
Residential mortgage loans - junior liens	17	21,149	21,166	0	176	176
Home equity lines of credit	0	36,629	36,629	0	322	322
1-4 Family residential construction	0	16,739	16,739	0	214	214
<b>Total residential mortgage</b>	<b>1,682</b>	<b>364,734</b>	<b>366,416</b>	<b>358</b>	<b>3,295</b>	<b>3,653</b>
<b>Commercial:</b>						
Commercial loans secured by real estate	6,537	139,341	145,878	16	1,742	1,758
Commercial and industrial	663	49,494	50,157	82	606	688
Political subdivisions	0	17,534	17,534	0	0	0
Commercial construction	1,939	4,999	6,938	211	72	283
Loans secured by farmland	1,470	6,446	7,916	102	63	165
Multi-family (5 or more) residential	0	8,917	8,917	0	87	87
Agricultural loans	25	3,196	3,221	0	31	31
Other commercial loans	0	13,334	13,334	0	131	131
<b>Total commercial</b>	<b>10,634</b>	<b>243,261</b>	<b>253,895</b>	<b>411</b>	<b>2,732</b>	<b>3,143</b>
Consumer	0	10,234	10,234	0	145	145
Unallocated						395
<b>Total</b>	<b>\$12,316</b>	<b>\$618,229</b>	<b>\$630,545</b>	<b>\$769</b>	<b>\$6,172</b>	<b>\$7,336</b>

Summary information related to impaired loans at June 30, 2015 and December 31, 2014 is as follows:

<b>(In Thousands)</b>	<b>June 30, 2015</b>			<b>December 31, 2014</b>		
	<b>Unpaid</b>			<b>Unpaid</b>		
	<b>Principal</b>	<b>Recorded</b>	<b>Related</b>	<b>Principal</b>	<b>Recorded</b>	<b>Related</b>
	<b>Balance</b>	<b>Investment</b>	<b>Allowance</b>	<b>Balance</b>	<b>Investment</b>	<b>Allowance</b>
<b>With no related allowance recorded:</b>						
Residential mortgage loans - first liens	\$651	\$651	\$0	\$950	\$950	\$0
Residential mortgage loans - junior liens	77	77	0	17	17	0
Commercial loans secured by real estate	7,409	5,823	0	8,062	6,521	0
Commercial and industrial	257	257	0	513	513	0
Commercial construction and land	25	25	0	124	124	0
Loans secured by farmland	910	910	0	925	925	0
Agricultural loans	21	21	0	25	25	0
<b>Total with no related allowance recorded</b>	<b>9,350</b>	<b>7,764</b>	<b>0</b>	<b>10,616</b>	<b>9,075</b>	<b>0</b>

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With a related allowance recorded:

Residential mortgage loans - first liens	1,104	1,104	136	715	715	358
Commercial loans secured by real estate	322	322	80	16	16	16
Commercial and industrial	75	75	75	150	150	82
Commercial construction and land	1,815	1,815	211	1,815	1,815	211
Loans secured by farmland	564	564	98	545	545	102
Agricultural loans	0	0	0	0	0	0
Total with a related allowance recorded	3,880	3,880	600	3,241	3,241	769
Total	\$13,230	\$11,644	\$600	\$13,857	\$12,316	\$769

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The average balance of impaired loans and interest income recognized on impaired loans is as follows:

(In Thousands)	Average Investment in Impaired Loans				Interest Income Recognized on Impaired Loans on a Cash Basis			
	3 Months Ended		6 Months Ended		3 Months Ended		6 Months Ended	
	June 30, 2015	2014	June 30, 2015	2014	June 30, 2015	2014	June 30, 2015	2014
Residential mortgage:								
Residential mortgage loans - first lien	\$3,701	\$4,527	\$3,819	\$4,493	\$20	\$24	\$58	\$46
Residential mortgage loans - junior lien	66	197	57	214	1	0	2	2
Total residential mortgage	3,767	4,724	3,876	4,707	21	24	60	48
Commercial:								
Commercial loans secured by real estate	6,286	7,261	6,437	7,589	90	156	203	267
Commercial and industrial	423	882	513	986	5	9	12	19
Commercial construction and land	41	408	58	519	0	2	0	4
Loans secured by farmland	1,447	1,274	1,468	1,280	26	18	52	33
Agricultural loans	46	45	23	46	2	1	2	2
Total commercial	8,243	9,870	8,499	10,420	123	186	269	325
Consumer	0	1	0	2	0	0	0	0
Total	\$12,010	\$14,595	\$12,375	\$15,129	\$144	\$210	\$329	\$373

Loans are placed on nonaccrual status for all classes of loans when, in the opinion of management, collection of interest is doubtful. Any unpaid interest previously accrued on those loans is reversed from income. Interest income is not recognized on specific impaired loans unless the likelihood of further loss is remote. Interest payments received on loans for which the risk of further loss is greater than remote are applied as a reduction of the loan principal balance. Interest income on other nonaccrual loans, including impaired loans, is recognized only to the extent of interest payments received. Generally, loans are restored to accrual status when the obligation is brought current, has performed in accordance with the contractual terms for a reasonable period of time (generally six months) and the ultimate collectability of the total contractual principal and interest is no longer in doubt. The past due status of all classes of loans receivable is determined based on contractual due dates for loan payments. Also, the amortization of deferred loan fees is discontinued when a loan is placed on nonaccrual status.

The breakdown by portfolio segment and class of nonaccrual loans and loans past due ninety days or more and still accruing is as follows:

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(In Thousands)	June 30, 2015		December 31, 2014	
	Past Due 90+ Days and Accruing	Nonaccrual	Past Due 90+ Days and Accruing	Nonaccrual
Residential mortgage:				
Residential mortgage loans - first liens	\$1,706	\$3,227	\$1,989	\$3,440
Residential mortgage loans - junior liens	14	50	82	50
Home equity lines of credit	58	20	49	22
Total residential mortgage	1,778	3,297	2,120	3,512
Commercial:				
Commercial loans secured by real estate	630	5,714	653	5,804
Commercial and industrial	0	257	5	379
Commercial construction and land	85	1,815	35	1,915
Loans secured by farmland	0	933	0	951
Agricultural loans	0	21	0	25
Total commercial	715	8,740	693	9,074
Consumer	36	23	30	24
Totals	\$2,529	\$12,060	\$2,843	\$12,610

The amounts shown in the table immediately above include loans classified as troubled debt restructurings (described in more detail below), if such loans are past due ninety days or more or nonaccrual.

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The table below presents a summary of the contractual aging of loans as of June 30, 2015 and December 31, 2014:

(In Thousands)	As of June 30, 2015				As of December 31, 2014			
	Current & Past Due Less than 30 Days	Past Due 30-89 Days	Past Due 90+ Days	Total	Current & Past Due Less than 30 Days	Past Due 30-89 Days	Past Due 90+ Days	Total
Residential mortgage:								
Residential mortgage loans - first liens	\$288,923	\$3,085	\$2,970	\$294,978	\$282,766	\$5,443	\$3,673	\$291,882
Residential mortgage loans - junior liens	21,134	312	56	21,502	20,853	190	123	21,166
Home equity lines of credit	38,888	194	58	39,140	36,300	258	71	36,629
1-4 Family residential construction	19,651	0	0	19,651	16,739	0	0	16,739
Total residential mortgage	368,596	3,591	3,084	375,271	356,658	5,891	3,867	366,416
Commercial:								
Commercial loans secured by real estate	133,590	338	1,135	135,063	143,713	883	1,282	145,878
Commercial and industrial	61,253	153	21	61,427	49,994	43	120	50,157
Political subdivisions	40,908	0	0	40,908	17,534	0	0	17,534
Commercial construction and land	5,896	30	1,900	7,826	4,897	91	1,950	6,938
Loans secured by farmland	6,704	23	838	7,565	6,811	254	851	7,916
Multi-family (5 or more) residential	8,561	0	0	8,561	8,720	197	0	8,917
Agricultural loans	3,958	308	21	4,287	3,105	91	25	3,221
Other commercial loans	12,809	0	0	12,809	13,334	0	0	13,334
Total commercial	273,679	852	3,915	278,446	248,108	1,559	4,228	253,895
Consumer	10,036	29	36	10,101	10,164	40	30	10,234
Totals	\$652,311	\$4,472	\$7,035	\$663,818	\$614,930	\$7,490	\$8,125	\$630,545

Nonaccrual loans are included in the contractual aging in the immediately preceding table. A summary of the contractual aging of nonaccrual loans at June 30, 2015 and December 31, 2014 is as follows:

(In Thousands)	Current &		
	Past Due	Past Due	Past Due



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	Less than 30 Days	30-89 Days	90+ Days	Total
June 30, 2015 Nonaccrual Totals	\$6,885	\$669	\$4,506	\$12,060
December 31, 2014 Nonaccrual Totals	\$6,959	\$369	\$5,282	\$12,610

Loans whose terms are modified are classified as Troubled Debt Restructurings (TDRs) if the Corporation grants such borrowers concessions, and it is deemed that those borrowers are experiencing financial difficulty. Loans classified as TDRs are designated as impaired. The outstanding balance of loans subject to TDRs, as well as contractual aging information at June 30, 2015 and December 31, 2014 is as follows:

(In Thousands)	Current & Past Due			Nonaccrual	Total
	Less than 30 Days	30-89 Days	90+ Days		
<b>June 30, 2015 Totals</b>	\$1,013	\$81	\$25	\$5,216	\$6,335
<b>December 31, 2014 Totals</b>	\$1,725	\$82	\$0	\$5,388	\$7,195

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There were no TDRs that occurred during the three-month period ended June 30, 2015. TDRs that occurred during the three-month period ended June 30, 2014 were as follows:

<b>Three Months Ended June 30, 2014</b>		<b>Pre- Modification Outstanding Recorded Investment</b>	<b>Post- Modification Outstanding Recorded Investment</b>
	<b>Number Of Contracts</b>		
Residential mortgage:			
Residential mortgage loans - first liens	2	\$67	\$67
Commercial:			
Commercial loans secured by real estate	5	6,679	5,193
Commercial and industrial	1	80	80

The TDRs related to residential mortgage loans in the three-month period ended June 30, 2014 included a reduction in payment amount on one contract and an interest only period allowed on one contract. The TDRs related to the commercial loans in the three-month period ended June 30, 2014 relate to six contracts associated with one relationship. The Corporation entered into a forbearance agreement with this commercial borrower which includes a reduction in monthly payment amounts over a fifteen-month period. At the end of the fifteen-month period, the monthly payment amounts would revert to the original amounts, unless the forbearance agreement is extended or the payment requirements are otherwise modified. In July 2015, the forbearance agreement was extended for twelve months. The Corporation recorded a charge-off of \$1,486,000 in the second quarter 2014 as a result of these modifications, as the payment amounts based on the forbearance agreement are not sufficient to fully amortize the contractual amount of principal outstanding on the loans. The amount of charge-off was determined based on the excess of the contractual principal due over the present value of the payment amounts provided for in the forbearance agreement, assuming the revised payment amounts would continue until maturity, at the contractual interest rates. After the effect of the charge-off, the total recorded investment in loans to this borrower amounted to \$5,273,000, with no related allowance for loan losses on these loans at June 30, 2014, while the allowance on the loans amounted to \$1,503,000 at March 31, 2014. There were no changes in the allowance for loan losses related to TDRs that occurred in the second quarter 2014.

TDRs that occurred during the six-month periods ended June 30, 2015 and 2014 were as follows:

<b>Six Months Ended June 30, 2015 (Balances in Thousands)</b>		<b>Pre- Modification Outstanding Recorded</b>	<b>Post- Modification Outstanding Recorded</b>
	<b>Number of</b>		

	<b>Contracts</b>	<b>Investment</b>	<b>Investment</b>
Residential mortgage:			
Residential mortgage loans - first liens	1	\$56	\$56
Residential mortgage loans - junior liens	1	32	32
Consumer	1	30	30

**Six Months Ended June 30, 2014**  
**(Balances in Thousands)**

	<b>Number of Contracts</b>	<b>Pre- Modification Outstanding Recorded Investment</b>	<b>Post- Modification Outstanding Recorded Investment</b>
Residential mortgage:			
Residential mortgage loans - first liens	3	\$150	\$150
Commercial:			
Commercial loans secured by real estate	5	6,679	5,193
Commercial and industrial	1	80	80

The TDRs in the six-month period ended June 30, 2015 included an extended maturity date and a reduction in interest rate on a residential mortgage – first lien, a lowered interest rate and reduced payment amount on a residential mortgage – junior lien loan and a lowered interest rate and reduced payment amount on the consumer loan. There was no allowance for loan losses on these loans at June 30, 2015, and no change in the allowance for loan losses resulting from these TDRs.

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In addition to the TDRs that occurred in the second quarter 2014, which are described above, in the first quarter 2014 the Corporation agreed to a reduction in interest rate and payment amount on one residential mortgage loan. After the effect of the \$1,486,000 charge-off related to loans to one commercial borrower described above, there was no allowance for loan losses on loans to that borrower at June 30, 2014, while the allowance on the loans amounted to \$1,552,000 at December 31, 2013. There were no other changes in the allowance for loan losses related to TDRs that occurred during the six-month period ended June 30, 2014.

There were no defaults on loans for which modifications considered to be TDRs were entered into within the previous 12 months in the three-month period ended June 30, 2015. In the three-month period ended June 30, 2014, defaults on loans for which modifications considered to be TDRs were entered into within the previous 12 months were as follows:

	<b>Number of Contracts</b>	<b>Recorded Investment</b>
<b>Three Months Ended June 30, 2014 (Balances in Thousands)</b>		
Residential mortgage,		
Residential mortgage loans - first liens	1	\$83
Residential mortgage loans - junior liens	1	62
Commercial,		
Commercial loans secured by real estate	1	429
Agricultural	1	13

In the second quarter 2014, the events of default in the table listed above included a borrower's failure to make the reduced payments provided for at a reduced interest rate on a first lien residential mortgage. The other events of default listed above in the three-month period resulted from the borrowers' failure to make interest only monthly payments. There were no allowances for loan losses recorded on these loans at June 30, 2014.

In the six-month periods ended June 30, 2015 and 2014, defaults on loans for which modifications considered to be TDRs were entered into within the previous 12 months were as follows:

	<b>Number of Contracts</b>	<b>Recorded Investment</b>
--	------------------------------------	--------------------------------

**Six Months Ended June 30, 2015**

**(Balances in Thousands)**

Residential mortgage,		
Residential mortgage loans - first liens	2	\$115
Commercial:		
Commercial loans secured by real estate	1	407
Commercial construction and land	1	25

**Number  
of Recorded  
Contracts Investment**

**Six Months Ended June 30, 2014**

**(Balances in Thousands)**

Residential mortgage:		
Residential mortgage loans - first liens	2	\$223
Residential mortgage loans - junior liens	1	62
Commercial,		
Commercial loans secured by real estate	1	429
Loans secured by farmland	4	490
Agricultural	1	13

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In the six-month period ended June 30, 2015, the events of default in the table listed above resulted from the borrowers' failure to make timely payments under the following circumstances: (1) for one customer relationship included in the Residential first lien mortgage class, payment was missed after the interest rate and monthly payment amount had been reduced; (2) for the other customer relationship included in the Residential first lien mortgage class, monthly payments were missed after reducing the monthly payments to interest only payments; (3) for the Commercial loan secured by real estate, monthly payments were missed after reducing the monthly payments to interest only; and (4) for the Commercial construction and land loan, monthly payments were missed after extending the term of maturity. There were no allowances for loan losses recorded on these loans at June 30, 2015.

In the six-month period ended June 30, 2014, the events of default in the table listed above included a borrower's failure to make reduced payments provided for at a reduced interest rate on a first lien residential mortgage. The other events of default listed above in the six-month period ended June 30, 2014 resulted from the borrowers' failure to make interest only monthly payments. There were no allowances for loan losses recorded on these loans at June 30, 2014.

At June 30, 2015, the carrying amount of foreclosed residential real estate properties held as a result of obtaining physical possession (included in Foreclosed assets held for sale in the unaudited consolidated balance sheet) was \$487,000.

At June 30, 2015, the recorded investment of consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceedings are in process was \$1,388,000.

**8. BORROWED FUNDS****SHORT-TERM BORROWINGS**

Short-term borrowings include the following:

(In Thousands)	June 30, 2015	Dec. 31, 2014
FHLB-Pittsburgh borrowings	\$15,000	\$0
Customer repurchase agreements	4,806	5,537
Total short-term borrowings	\$19,806	\$5,537

The FHLB-Pittsburgh loan facilities are collateralized by qualifying loans secured by real estate with a book value totaling \$443,861,000 at June 30, 2015 and \$446,780,000 at December 31, 2014. Also, the FHLB-Pittsburgh loan facilities require the Corporation to invest in established amounts of FHLB-Pittsburgh stock. The carrying values of the Corporation's holdings of FHLB-Pittsburgh stock (included in Other Assets) were \$2,372,000 at June 30, 2015 and \$1,454,000 at December 31, 2014.

The short-term borrowing from the FHLB-Pittsburgh is an overnight borrowing and has an interest rate of 0.34%.

The Corporation engages in repurchase agreements with certain commercial customers. These agreements provide that the Corporation sells specified investment securities to the customers on an overnight basis and repurchases them on the following business day. The weighted average rate paid by the Corporation on customer repurchase agreements was 0.10% at June 30, 2015 and December 31, 2014. The carrying value of the underlying securities was \$4,860,000 at June 30, 2015 and \$5,590,000 at December 31, 2014.

#### LONG-TERM BORROWINGS

Long-term borrowings are as follows:

(In Thousands)	June 30, 2015	Dec. 31 2014
FHLB-Pittsburgh borrowings	\$11,916	\$12,060
Repurchase agreements	51,000	61,000
Total long-term borrowings	\$62,916	\$73,060

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Long-term borrowings from FHLB - Pittsburgh are as follows:

(In Thousands)	June 30, Dec. 31	
	2015	2014
Loan maturing in 2016 with a rate of 6.86%	\$83	\$107
Loan maturing in 2017 with a rate of 6.83%	13	16
Loan maturing in 2017 with a rate of 3.81%	10,000	10,000
Loan maturing in 2020 with a rate of 4.79%	905	987
Loan maturing in 2025 with a rate of 4.91%	915	950
Total long-term FHLB-Pittsburgh borrowings	\$11,916	\$12,060

Repurchase agreements included in long-term borrowings are as follows:

(In Thousands)	June 30, Dec. 31	
	2015	2014
Agreement maturing in 2017 with a rate of 3.595%	\$27,000	\$27,000
Agreement maturing in 2017 with a rate of 4.265%	24,000	34,000
Total long-term repurchase agreements	\$51,000	\$61,000

The Corporation incurred a loss of \$910,000 in the second quarter of 2015 on prepayment of \$10,000,000 of the agreement with an interest rate of 4.265%.

“Repurchase Dates,” as defined in the Master Repurchase Agreement between the Corporation and the broker-dealer, occur quarterly on or about the 20<sup>th</sup> of each March, June, September and December until the “Final Repurchase Date” (as defined) on December 20, 2017. The Corporation pays interest, and each of the borrowings is puttable by the issuer, on each Repurchase Date. The Final Repurchase Date is the effective maturity date of the borrowings.

Securities sold under repurchase agreements were delivered to the broker-dealer who is the counter-party to the transactions. The broker-dealer may have sold, loaned or otherwise disposed of such securities to other parties in the normal course of their operations, and has agreed to resell to the Corporation substantially identical securities at the maturities of the agreements. The Master Repurchase Agreement provides that the Agreement constitutes a “netting contract,” as defined; however, the Corporation and the broker-dealer have no other obligations to one another and accordingly, no netting has occurred.

The carrying value of the underlying securities was \$64,212,000 at June 30, 2015 and \$70,982,000 at December 31, 2014, detailed in the following table:



(In Thousands)	June 30, December 31,	
	2015	2014
Mortgage-backed securities	\$21,888	\$24,114
Collateralized mortgage obligations, Issued by U.S. Government agencies	42,324	46,868
Total	\$64,212	\$70,982

Two of the more significant risks associated with the repurchase agreements are as follows:

The borrowings are puttable at quarterly intervals by the issuer. Accordingly, if interest rates were to rise to a sufficient level, the issuer would be expected to require the Corporation to pay off the borrowings. In this circumstance, the Corporation would be required to obtain new borrowings at a higher interest rate than the existing repurchase agreements or utilize cash from other sources to pay off the borrowings. If sales of available-for-sale securities were used to generate cash to pay off the borrowings, the value of such securities would be expected to have fallen, which could result in the Corporation recognizing a loss.

As principal pay-downs of mortgage backed securities and CMOs occur, the Corporation must have available, unencumbered assets or purchase a sufficient amount of assets with credit quality suitable to the broker-dealer to replace the amounts being paid off. Since pre-payments of mortgages typically increase as interest rates fall, the Corporation may be required to purchase additional assets at times when market rates are lower than the rates paid on the borrowings.

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The Corporation manages these risks by maintaining sufficient available assets of acceptable credit quality, as well as maintaining other borrowing facilities, to meet ongoing collateral maintenance requirements or pay off the borrowings if required. In particular, the Corporation had unused borrowing capacity available from the FHLB-Pittsburgh of \$292,963,000 at June 30, 2015.

**9. DEFINED BENEFIT PLANS**

The Corporation sponsors a defined benefit health care plan that provides postretirement medical benefits and life insurance to employees who meet certain age and length of service requirements. Full-time employees no longer accrue service time toward the Corporation-subsidized portion of the medical benefits. This plan contains a cost-sharing feature, which causes participants to pay for all future increases in costs related to benefit coverage. Accordingly, actuarial assumptions related to health care cost trend rates do not significantly affect the liability balance at June 30, 2015 and December 31, 2014, and are not expected to significantly affect the Corporation's future expenses. The Corporation uses a December 31 measurement date for the postretirement plan

In an acquisition in 2007, the Corporation assumed the Citizens Trust Company Retirement Plan, a defined benefit pension plan. This plan covers certain employees who were employed by Citizens Trust Company on December 31, 2002, when the plan was amended to discontinue admittance of any future participant and to freeze benefit accruals. Information related to the Citizens Trust Company Retirement Plan has been included in the tables that follow. The Corporation uses a December 31 measurement date for this plan.

The components of net periodic benefit costs from these defined benefit plans are as follows:

(In Thousands)	Pension		Postretirement	
	Six Months Ended		Six Months Ended	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
Service cost	\$0	\$0	\$19	\$17
Interest cost	18	37	28	29
Expected return on plan assets	(23)	(44)	0	0

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Amortization of prior service cost	0	0	(15)	(16)
Recognized net actuarial loss	7	8	0	0
Net periodic benefit cost	\$2	\$1	\$32	\$30

<b>(In Thousands)</b>	<b>Pension</b>		<b>Postretirement</b>	
	<b>Three Months Ended</b>		<b>Three Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
Service cost	\$0	\$0	\$9	\$8
Interest cost	9	19	15	15
Expected return on plan assets	(12)	(22)	0	0