

 **CITIZENS & NORTHERN CORPORATION**

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Stock Symbol: CZNC

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FEDERAL DEPOSIT INSURANCE CORP

June 30, 2015

QUARTERLY REPORT

Dear Shareholder:

Welcome to *banCNotes*, the new format for our quarterly report. There is much going on at C&N and we are excited to provide you with additional insight into your Company. We will continue to deliver information and perspective on quarterly financial performance, while adding features that highlight issues relating to our customers, community activities, and our Team of employees. Our goal is to strengthen your relationship with this great company as we pursue our Vision of being the foremost source of financial advice, counsel, and solutions for the clients and communities we serve. We hope you find this enlightening.

During the second quarter, management was focused on activities to reverse the trend of declining net interest income primarily caused by a flat yield curve and lack of loan growth. Declining margin revenue is the major reason for recent decreases in earnings and success in this effort will be a key for C&N to deliver future earnings growth to support shareholder value. In addition, our priorities include maintaining strong credit quality, growing noninterest revenue from a variety of business lines, and controlling expense growth while investing in areas we believe will drive future revenue. Second quarter results illustrate progress on all of these priorities.

Earnings per share for the second quarter 2015 were \$0.36, up from \$0.31 in the first quarter 2015 and \$0.33 in the second quarter 2014. For the six months ended June 30, 2015, earnings per share was \$0.67, as compared to \$0.68 for the first six months of 2014. Return on average assets for the first six months of 2015 was 1.31%, and return on average equity was 8.66%.

While the yield curve remains a challenge and the net interest margin contracted slightly during the second quarter of 2015, loans outstanding increased \$35 million during the second quarter. As a result, net interest income increased to \$10.01 million from \$9.95 million in the first quarter 2015. Net interest income was \$263,000 (2.6%) lower than the second quarter 2014 amount of \$10.27 million. For the first six months of 2015, net interest income of \$19.96 million was lower by \$431,000 (2.1%) as compared to the amount for the first six months of 2014. The net interest margin of 3.69% in the second quarter 2015 was down from 3.74% in the first quarter 2015 and 3.84% in the second quarter 2014, and the net interest margin of 3.71% for the first six months of 2015 was down from 3.86% in the first six months of 2014. The decrease in margin in 2015 has resulted from reductions in yields on earning assets, mainly loans and available-for-sale securities, accompanied by a smaller decrease in average rates paid on deposits and borrowed funds.

The provision for loan losses was \$221,000 in the second quarter 2015 down from \$446,000 in the second quarter 2014. For the first six months of 2015, the provision for loan losses totaled \$224,000 as compared to \$135,000 for the first six months of 2014. Overall credit quality remains strong with continued, steady improvement in levels of past due and non-performing loans, as well as net charge-offs.

Noninterest revenue, excluding securities gains, totaled \$3.96 million in the second quarter 2015, up from \$3.49 million in the first quarter 2015 and down slightly from \$3.98 million in the second quarter 2014. Noninterest revenue totaled \$7.45 million for the first six months of 2015, down \$282,000 (3.6%) from the corresponding period in 2014. The increase in

noninterest revenue in the second quarter 2015 as compared to the first quarter was primarily due to increases in service charges on deposit accounts and revenues from Trust and brokerage services, and a more favorable valuation of mortgage servicing rights. In comparing second quarter and first six months of 2015 noninterest revenue to the same periods in 2014, growth in Trust and brokerage revenues were offset by decreases in service charges on deposit accounts, gains on the sale of residential mortgages, and valuation of mortgage servicing rights.

In the second quarter 2015, C&N generated gains from sales of securities totaling \$932,000, and also incurred a loss \$910,000 from prepayment of \$10 million of borrowed funds (repurchase agreements). There were minimal securities gains in the first quarter of 2015, the second quarter of 2014, and the first six months of 2014; there were no losses from prepayment of borrowings in any of these prior periods. Management estimates the effect of selling the securities and using the proceeds to pay down on the borrowing to be an increase in net interest income of approximately \$84,000 (pre-tax) over the next 12 months, while this transaction has reduced the remaining balance of long-term borrowings under repurchase agreements to \$51 million.

Noninterest expenses, excluding loss on prepayment of borrowings, totaled \$7,964,000, down from \$8,464,000 in the first quarter 2015 and \$8,347,000 in the second quarter 2014. For the first six months of 2015, noninterest expenses, excluding loss on prepayment of borrowings, totaled \$16,428,000, down \$443,000 (2.6%) from the first six months of 2014. The decrease in noninterest expenses was the result of a number of factors and reflects management's ongoing focus on controlling overhead expenses.

Total assets and deposits remained relatively stable as of June 30, 2015 compared to the prior quarter, year-end 2014 and June 30, 2014. As stated earlier, total loans increased \$35 million during the second quarter and have grown \$42 million since June 30, 2014. These results reflect the success of ongoing business development activities in all of our markets. We are focused on driving continued loan growth and providing additional value to these relationships that will support future growth in other areas of the business.

C&N's capital position is very strong, by all measures, and remains the cornerstone of a balance sheet that is poised to support growth. We continue to take steps to support shareholder value including maintaining a strong cash dividend and continuation of the common stock repurchase program. The second quarter dividend was \$.26 per share producing a yield of 5.06% based on the June 30, 2015 market price of \$20.55. The Company repurchased 20,200 shares during the second quarter of 2015 at an average price of \$19.46 per share. Cumulatively, 384,300 shares have been repurchased at an average price of \$19.30 since the plan to buy back up to 622,500 shares was announced in July 2014.

I would like to close by thanking our Team for their energy and engagement. We have quickly built on the strong relationships that existed throughout the organization and with our Board of Directors, and have re-energized our market Advisory Boards. Our progress during the second quarter is a preview of the results we can achieve as we work collectively to deliver to our customers and grow our franchise. As shareholders, I encourage you to engage with C&N. We want to be your source of financial advice, counsel, and solutions, and welcome your feedback.

Thank you for your ongoing support.



J. Bradley Scovill
President and CEO

CONDENSED, CONSOLIDATED EARNINGS INFORMATION

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

	2ND QUARTER 2015 (Current)	2ND QUARTER 2014 (Prior Year)	\$ Incr. (Decr.)	% Incr. (Decr.)
Interest and Dividend Income	\$11,186	\$11,563	(\$377)	-3.26%
Interest Expense	1,176	1,290	(114)	-8.84%
Net Interest Income	10,010	10,273	(263)	-2.56%
Provision for Loan Losses	221	446	(225)	-50.45%
Net Interest Income After Provision for Loan Losses	9,789	9,827	(38)	-0.39%
Other Income	3,962	3,980	(18)	-0.45%
Net Gains on Available-for-sale Securities	932	103	829	804.85%
Loss on Prepayment of Borrowings	910	0	910	
Other Noninterest Expenses	7,964	8,347	(383)	-4.59%
Income Before Income Tax Provision	5,809	5,563	246	4.42%
Income Tax Provision	1,452	1,400	52	3.71%
Net Income	\$4,357	\$4,163	\$194	4.66%

PER COMMON SHARE DATA:

Net Income – Basic	\$0.36	\$0.33	\$0.03	9.09%
Net Income – Diluted	\$0.36	\$0.33	\$0.03	9.09%
Dividend Per Share	\$0.26	\$0.26	\$0.00	0.00%
Number Shares Used in Computation - Basic	12,199,996	12,441,679		
Number Shares Used in Computation - Diluted	12,222,526	12,459,384		

6 MONTHS ENDED**JUNE 30,**

	2015 (Current)	2014 (Prior Year)	\$ Incr. (Decr.)	% Incr. (Decr.)
Interest and Dividend Income	\$22,349	\$22,969	(\$620)	-2.70%
Interest Expense	2,389	2,578	(189)	-7.33%
Net Interest Income	19,960	20,391	(431)	-2.11%
Provision for Loan Losses	224	135	89	65.93%
Net Interest Income After Provision for Loan Losses	19,736	20,256	(520)	-2.57%
Other Income	7,449	7,731	(282)	-3.65%
Net Gains on Available-for-sale Securities	1,006	134	872	650.75%
Loss on Prepayment of Borrowings	910	0	910	
Other Noninterest Expenses	16,428	16,871	(443)	-2.63%
Income Before Income Tax Provision	10,853	11,250	(397)	-3.53%
Income Tax Provision	2,681	2,799	(118)	-4.22%
Net Income	\$8,172	\$8,451	(\$279)	-3.30%

PER COMMON SHARE DATA:

Net Income – Basic	\$0.67	\$0.68	(\$0.01)	-1.47%
Net Income – Diluted	\$0.67	\$0.68	(\$0.01)	-1.47%
Dividend Per Share	\$0.52	\$0.52	\$0.00	0.00%
Number Shares Used in Computation - Basic	12,233,964	12,429,717		
Number Shares Used in Computation - Diluted	12,255,672	12,451,459		
Market Value (Last Trade)	\$20.55	\$19.49	\$1.06	5.44%
Price Earnings Multiple (Annualized)	15.34	14.33	1.01	7.05%
Dividend Yield (Annualized)	5.06%	5.34%	-0.28%	-5.24%

CONDENSED, CONSOLIDATED BALANCE SHEET DATA

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

	JUNE 30, 2015	JUNE 30, 2014	JUNE 30, 2015 vs 2014	
			\$ Incr. (Decr.)	% Incr. (Decr.)
ASSETS				
Cash & Due from Banks	\$35,405	\$59,948	(\$24,543)	-40.94%
Available-for-sale Securities	497,111	512,748	(15,637)	-3.05%
Loans Held for Sale	192	0	192	
Loans, Net	656,518	614,347	42,171	6.86%
Intangible Assets	11,983	12,012	(29)	-0.24%
Other Assets	54,513	57,150	(2,637)	-4.61%
TOTAL ASSETS	\$1,255,722	\$1,256,205	(\$483)	-0.04%
LIABILITIES				
Deposits	\$978,449	\$979,239	(\$790)	-0.08%
Repo Sweep Accounts	4,806	4,637	169	3.64%
Total Deposits and Repo Sweeps	983,255	983,876	(621)	-0.06%
Borrowed Funds	77,916	73,201	4,715	6.44%
Other Liabilities	7,578	9,955	(2,377)	-23.88%
TOTAL LIABILITIES	1,068,749	1,067,032	1,717	0.16%
SHAREHOLDERS' EQUITY				
Common Shareholders' Equity, Excluding Accumulated Other Comprehensive Income	182,887	183,757	(870)	-0.47%
Accumulated Other Comprehensive Income:				
Net Unrealized Gains/Losses on Available-for-sale Securities	4,077	5,316	(1,239)	-23.31%
Defined Benefit Plans	9	100	(91)	-91.00%
TOTAL SHAREHOLDERS' EQUITY	186,973	189,173	(2,200)	-1.16%
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY	\$1,255,722	\$1,256,205	(\$483)	-0.04%

**CONDENSED, CONSOLIDATED FINANCIAL HIGHLIGHTS**

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

	6 MONTHS ENDED		%
	JUNE 30,		INCREASE
	<u>2015</u>	<u>2014</u>	<u>(DECREASE)</u>
EARNINGS PERFORMANCE			
Net Income	\$8,172	\$8,451	-3.30%
Return on Average Assets	1.31%	1.38%	-5.07%
Return on Average Equity	8.66%	9.16%	-5.46%
BALANCE SHEET HIGHLIGHTS			
Total Assets	\$1,255,722	\$1,256,205	-0.04%
Available-for-Sale Securities	497,111	512,748	-3.05%
Loans (Net)	656,518	614,347	6.86%
Allowance for Loan Losses	7,300	7,267	0.45%
Deposits and Repo Sweep Accounts	983,255	983,876	-0.06%
OFF-BALANCE SHEET			
Outstanding Balance of Mortgage Loans Sold with Servicing Retained	151,132	150,725	0.27%
Trust Assets Under Management	833,762	824,279	1.15%
SHAREHOLDERS' VALUE (PER COMMON SHARE)			
Net Income - Basic	\$0.67	\$0.68	-1.47%
Net Income - Diluted	\$0.67	\$0.68	-1.47%
Dividends	\$0.52	\$0.52	0.00%
Common Book Value	\$15.33	\$15.19	0.92%
Tangible Common Book Value	\$14.35	\$14.23	0.84%
Market Value (Last Trade)	\$20.55	\$19.49	5.44%
Market Value / Common Book Value	134.05%	128.31%	4.47%
Market Value / Tangible Common Book Value	143.21%	136.96%	4.56%
Price Earnings Multiple (Annualized)	15.34	14.33	7.05%
Dividend Yield (Annualized)	5.06%	5.34%	-5.24%
Common Shares Outstanding, End of Period	12,196,830	12,450,005	-2.03%
SAFETY AND SOUNDNESS			
Tangible Common Equity / Tangible Assets	14.07%	14.24%	-1.19%
Nonperforming Assets / Total Assets	1.26%	1.44%	-12.50%
Allowance for Loan Losses / Total Loans	1.10%	1.17%	-5.98%
Total Risk Based Capital Ratio (a)	24.42%	27.82%	-12.22%
Tier 1 Risk Based Capital Ratio (a)	23.28%	26.48%	-12.08%
Common Equity Tier 1 Risk Based Capital Ratio (a)	23.28%		
Leverage Ratio (a)	13.82%	14.07%	-1.78%
AVERAGE BALANCES			
Average Assets	\$1,248,904	\$1,228,111	1.69%
Average Equity	\$188,621	\$184,470	2.25%

(a) Capital ratios for the most recent period are estimated. The Common Equity Tier 1 Risk Based Capital Ratio became applicable to the Corporation in the first quarter 2015.

QUARTERLY CONDENSED, CONSOLIDATED INCOME STATEMENT INFORMATION

(In Thousands) (Unaudited)

For the Three Months Ended:

	June 30, 2015	Mar. 31, 2015	Dec. 31, 2014	Sept. 30, 2014	June 30, 2014	Mar. 31, 2014
Interest income	\$11,186	\$11,163	\$11,468	\$11,572	\$11,563	\$11,406
Interest expense	1,176	1,213	1,257	1,287	1,290	1,288
Net interest income	10,010	9,950	10,211	10,285	10,273	10,118
Provision (credit) for loan losses	221	3	123	218	446	(311)
Net interest income after provision (credit) for loan losses	9,789	9,947	10,088	10,067	9,827	10,429
Other income	3,962	3,487	3,802	3,887	3,980	3,751
Net gains on available-for-sale securities	932	74	210	760	103	31
Loss on prepayment of borrowings	910	0	0	0	0	0
Other expenses	7,964	8,464	8,250	9,036	8,347	8,524
Income before income tax provision	5,809	5,044	5,850	5,678	5,563	5,687
Income tax provision	1,452	1,229	1,482	1,411	1,400	1,399
Net income	\$4,357	\$3,815	\$4,368	\$4,267	\$4,163	\$4,288
Net income per share – basic	\$0.36	\$0.31	\$0.35	\$0.34	\$0.33	\$0.35
Net income per share – diluted	\$0.36	\$0.31	\$0.35	\$0.34	\$0.33	\$0.34

CONDENSED, CONSOLIDATED BALANCE SHEET INFORMATION

(In Thousands) (Unaudited)

As of:

	June 30, 2015	Mar. 31, 2015	Dec. 31, 2014	June 30, 2014
ASSETS				
Cash & Due from Banks	\$35,405	\$36,430	\$36,047	\$59,948
Available-for-Sale Securities	497,111	527,814	516,807	512,748
Loans Held for Sale	192	214	0	0
Loans, Net	656,518	621,211	623,209	614,347
Intangible Assets	11,983	11,989	11,994	12,012
Other Assets	54,513	54,300	53,906	57,150
TOTAL ASSETS	\$1,255,722	\$1,251,958	\$1,241,963	\$1,256,205
LIABILITIES				
Deposits	\$978,449	\$976,634	\$967,989	\$979,239
Repo Sweep Accounts	4,806	5,840	5,537	4,637
Total Deposits and Repo Sweeps	983,255	982,474	973,526	983,876
Borrowed Funds	77,916	72,988	73,060	73,201
Other Liabilities	7,578	7,393	7,015	9,955
TOTAL LIABILITIES	1,068,749	1,062,855	1,053,601	1,067,032
SHAREHOLDERS' EQUITY				
Common Shareholders' Equity, Excluding Accumulated Other Comprehensive Income/ Loss	182,887	181,437	183,002	183,757
Accumulated Other Comprehensive Income/ Loss: Net Unrealized Gains/Losses on Available-for-sale Securities	4,077	7,654	5,281	5,316
Defined Benefit Plans Adjustment, Net	9	12	79	100
TOTAL SHAREHOLDERS' EQUITY	186,973	189,103	188,362	189,173
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY	\$1,255,722	\$1,251,958	\$1,241,963	\$1,256,205

AVAILABLE-FOR-SALE SECURITIES (In Thousands)	June 30, 2015		March 31, 2015		December 31, 2014	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Obligations of U.S. Government agencies	\$27,189	\$26,871	\$27,205	\$27,025	\$27,221	\$26,676
Obligations of states and political subdivisions:						
Tax-exempt	115,908	119,749	117,378	122,502	120,086	124,839
Taxable	34,872	35,135	36,861	37,417	33,637	33,878
Mortgage-backed securities	76,323	76,790	90,130	92,088	82,479	83,903
Collateralized mortgage obligations,						
Issued by U.S. Government agencies	231,148	230,794	238,794	240,077	239,620	238,823
Other collateralized debt obligations	34	34	34	34	34	34
Total debt securities	485,474	489,373	510,402	519,143	503,077	508,153
Marketable equity securities	5,365	7,738	5,636	8,671	5,605	8,654
Total	\$490,839	\$497,111	\$516,038	\$527,814	\$508,682	\$516,807

**Summary of Loans by Type
(Excludes Loans Held for Sale)
(In Thousands)**

	June 30, 2015	March 31, 2015	Dec. 31, 2014	June 30, 2014
Residential mortgage:				
Residential mortgage loans - first liens	\$294,978	\$291,612	\$291,882	\$291,690
Residential mortgage loans - junior liens	21,502	20,896	21,166	22,401
Home equity lines of credit	39,140	37,049	36,629	34,633
1-4 Family residential construction	19,651	16,217	16,739	13,948
Total residential mortgage	375,271	365,774	366,416	362,672
Commercial:				
Commercial loans secured by real estate	135,063	140,851	145,878	145,934
Commercial and industrial	61,427	51,563	50,157	46,778
Political subdivisions	40,908	19,479	17,534	11,617
Commercial construction and land	7,826	7,249	6,938	8,550
Loans secured by farmland	7,565	7,789	7,916	8,380
Multi-family (5 or more) residential	8,561	8,673	8,917	10,548
Agricultural loans	4,287	3,158	3,221	3,116
Other commercial loans	12,809	13,187	13,334	13,816
Total commercial	278,446	251,949	253,895	248,739
Consumer	10,101	10,622	10,234	10,203
Total	663,818	628,345	630,545	621,614
Less: allowance for loan losses	(7,300)	(7,134)	(7,336)	(7,267)
Loans, net	\$656,518	\$621,211	\$623,209	\$614,347

**Loans Held for Sale
(In Thousands)**

	June 30, 2015	March 31, 2015	Dec. 31, 2014	June 30, 2014
Residential mortgage loans originated and serviced - outstanding balance	\$151,324	\$151,486	\$152,505	\$150,725
Less: outstanding balance of loans sold	(151,132)	(151,272)	(152,505)	(150,725)
Loans held for sale, net	\$192	\$214	\$0	\$0

ANALYSIS OF THE ALLOWANCE FOR LOAN LOSSES
(In Thousands)

	3 Months Ended June 30, 2015	3 Months Ended Mar. 31, 2015	6 Months Ended June 30, 2015	6 Months Ended June 30, 2014
Balance, beginning of period	\$7,134	\$7,336	\$7,336	\$8,663
Charge-offs	(77)	(222)	(299)	(1,820)
Recoveries	22	17	39	289
Net charge-offs	(55)	(205)	(260)	(1,531)
Provision for loan losses	221	3	224	135
Balance, end of period	<u>\$7,300</u>	<u>\$7,134</u>	<u>\$7,300</u>	<u>\$7,267</u>

**PAST DUE AND IMPAIRED LOANS, NONPERFORMING ASSETS
AND TROUBLED DEBT RESTRUCTURINGS (TDRs)**
(In Thousands)

	June 30, 2015	Mar. 31, 2015	Dec 31, 2014	June 30, 2014
Impaired loans with a valuation allowance	\$3,880	\$4,312	\$3,241	\$3,804
Impaired loans without a valuation allowance	7,764	8,851	9,075	10,258
Total impaired loans	<u>\$11,644</u>	<u>\$13,163</u>	<u>\$12,316</u>	<u>\$14,062</u>
Total loans past due 30-89 days and still accruing	<u>\$3,803</u>	<u>\$5,722</u>	<u>\$7,121</u>	<u>\$4,837</u>
Nonperforming assets:				
Total nonaccrual loans	\$12,060	\$11,944	\$12,610	\$13,598
Total loans past due 90 days or more and still accruing	2,529	3,086	2,843	3,050
Total nonperforming loans	14,589	15,030	15,453	16,648
Foreclosed assets held for sale (real estate)	1,223	1,583	1,189	1,419
Total nonperforming assets	<u>\$15,812</u>	<u>\$16,613</u>	<u>\$16,642</u>	<u>\$18,067</u>
Loans subject to troubled debt restructurings (TDRs):				
Performing	\$1,119	\$1,872	\$1,807	\$2,069
Nonperforming	5,216	5,252	5,388	6,038
Total TDRs	<u>\$6,335</u>	<u>\$7,124</u>	<u>\$7,195</u>	<u>\$8,107</u>
Total nonperforming loans as a % of loans	2.20%	2.39%	2.45%	2.68%
Total nonperforming assets as a % of assets	1.26%	1.33%	1.34%	1.44%
Allowance for loan losses as a % of total loans	1.10%	1.14%	1.16%	1.17%
Allowance for loan losses as a % of nonperforming loans	50.04%	47.47%	47.47%	43.65%

Analysis of Average Daily Balances and Rates
(Dollars in Thousands)

	3 Months Ended 6/30/2015 Average Balance	Rate of Return/ Cost of Funds %	3 Months Ended 3/31/2015 Average Balance	Rate of Return/ Cost of Funds %	3 Months Ended 6/30/2014 Average Balance	Rate of Return/ Cost of Funds %
EARNING ASSETS						
Available-for-sale securities, at amortized cost:						
Taxable	\$389,705	2.06%	\$388,104	2.15%	\$372,666	2.18%
Tax-exempt	116,421	5.33%	117,674	5.35%	123,568	5.35%
Total available-for-sale securities	506,126	2.81%	505,778	2.90%	496,234	2.97%
Interest-bearing due from banks	21,970	0.46%	26,994	0.39%	33,106	0.39%
Loans held for sale	145	8.30%	89	9.11%	282	7.11%
Loans receivable:						
Taxable	592,188	5.25%	582,498	5.37%	585,593	5.54%
Tax-exempt	49,026	4.88%	41,925	5.15%	36,422	5.62%
Total loans receivable	641,214	5.22%	624,423	5.35%	622,015	5.54%
Total Earning Assets	1,169,455	4.09%	1,157,284	4.16%	1,151,637	4.29%
Cash	17,072		16,127		17,484	
Unrealized gain/loss on securities	10,260		10,626		6,539	
Allowance for loan losses	(7,226)		(7,391)		(8,402)	
Bank premises and equipment	16,095		16,252		16,889	
Intangible Asset - Core Deposit Intangible	44		50		75	
Intangible Asset - Goodwill	11,942		11,942		11,942	
Other assets	38,065		37,135		40,965	
Total Assets	\$1,255,707		\$1,242,025		\$1,237,129	
INTEREST-BEARING LIABILITIES						
Interest-bearing deposits:						
Interest checking	\$199,373	0.11%	\$191,705	0.12%	\$179,018	0.12%
Money market	196,537	0.15%	194,834	0.15%	198,753	0.15%
Savings	128,879	0.10%	127,853	0.10%	121,741	0.10%
Certificates of deposit	122,634	0.67%	122,007	0.71%	138,250	0.81%
Individual Retirement Accounts	111,765	0.41%	113,806	0.40%	120,987	0.39%
Other time deposits	1,125	0.00%	803	0.00%	1,138	0.00%
Total interest-bearing deposits	760,313	0.25%	751,008	0.26%	759,887	0.29%
Borrowed funds:						
Short-term	9,185	0.22%	6,017	0.07%	4,766	0.08%
Long-term	69,211	4.01%	73,020	4.03%	73,232	4.03%
Total borrowed funds	78,396	3.57%	79,037	3.73%	77,998	3.79%
Total Interest-bearing Liabilities	838,709	0.56%	830,045	0.59%	837,885	0.62%
Demand deposits	220,839		215,019		204,664	
Other liabilities	7,756		8,120		7,971	
Total Liabilities	1,067,304		1,053,184		1,050,520	
Stockholders' equity, excluding						
other comprehensive income/loss	181,683		181,944		182,258	
Other comprehensive income/loss	6,720		6,897		4,351	
Total Stockholders' Equity	188,403		188,841		186,609	
Total Liabilities and Stockholders' Equity	\$1,255,707		\$1,242,025		\$1,237,129	
Interest Rate Spread		3.53%		3.57%		3.67%
Net Interest Income/Earning Assets		3.69%		3.74%		3.84%
Total Deposits (Interest-bearing and Demand)						
	\$981,152		\$966,027		\$964,551	

(1) Rates of return on tax-exempt securities and loans are presented on a fully taxable-equivalent basis, using the Corporation's marginal federal income tax rate of 35%.

(2) Nonaccrual loans have been included with loans for the purpose of analyzing net interest earnings.

Analysis of Average Daily Balances and Rates
(Dollars in Thousands)

	6 Months Ended 6/30/2015 Average Balance	Rate of Return/ Cost of Funds %	6 Months Ended 6/30/2014 Average Balance	Rate of Return/ Cost of Funds %
EARNING ASSETS				
Available-for-sale securities, at amortized cost:				
Taxable	\$388,909	2.11%	\$359,239	2.20%
Tax-exempt	117,044	5.34%	124,792	5.40%
Total available-for-sale securities	505,953	2.85%	484,031	3.03%
Interest-bearing due from banks	24,468	0.42%	31,611	0.40%
Loans held for sale	117	8.62%	201	8.03%
Loans receivable:				
Taxable	587,370	5.31%	590,526	5.49%
Tax-exempt	45,495	5.00%	38,033	5.72%
Total loans receivable	632,865	5.29%	628,559	5.51%
Total Earning Assets	1,163,403	4.13%	1,144,402	4.32%
Cash	16,602		16,895	
Unrealized gain/loss on securities	10,442		4,656	
Allowance for loan losses	(7,308)		(8,590)	
Bank premises and equipment	16,173		17,085	
Intangible Asset - Core Deposit Intangible	47		79	
Intangible Asset - Goodwill	11,942		11,942	
Other assets	37,603		41,642	
Total Assets	\$1,248,904		\$1,228,111	
INTEREST-BEARING LIABILITIES				
Interest-bearing deposits:				
Interest checking	\$195,560	0.11%	\$179,316	0.12%
Money market	195,690	0.15%	197,183	0.14%
Savings	128,369	0.10%	120,144	0.10%
Certificates of deposit	122,322	0.69%	136,551	0.84%
Individual Retirement Accounts	112,780	0.41%	121,684	0.38%
Other time deposits	965	0.00%	976	0.00%
Total interest-bearing deposits	755,686	0.26%	755,854	0.30%
Borrowed funds:				
Short-term	7,610	0.16%	7,393	0.16%
Long-term	71,105	4.02%	73,266	4.03%
Total borrowed funds	78,715	3.65%	80,659	3.68%
Total Interest-bearing Liabilities	834,401	0.58%	836,513	0.62%
Demand deposits	217,945		199,064	
Other liabilities	7,937		8,064	
Total Liabilities	1,060,283		1,043,641	
Stockholders' equity, excluding other comprehensive income/loss				
	181,813		181,354	
Other comprehensive income/loss	6,808		3,116	
Total Stockholders' Equity	188,621		184,470	
Total Liabilities and Stockholders' Equity	\$1,248,904		\$1,228,111	
Interest Rate Spread		3.55%		3.70%
Net Interest Income/Earning Assets		3.71%		3.86%
Total Deposits (Interest-bearing and Demand)	\$973,631		\$954,918	

(1) Rates of return on tax-exempt securities and loans are presented on a fully taxable-equivalent basis, using the Corporation's marginal federal income tax rate of 35%.

(2) Nonaccrual loans have been included with loans for the purpose of analyzing net interest earnings.

COMPARISON OF NONINTEREST INCOME
(In Thousands)

	Three Months Ended			Six Months Ended	
	June 30, 2015	Mar. 31, 2015	June 30, 2014	June 30, 2015	June 30, 2014
Service charges on deposit accounts	\$1,305	\$1,022	\$1,314	\$2,327	\$2,537
Service charges and fees	123	113	134	236	261
Trust and financial management revenue	1,241	1,114	1,138	2,355	2,185
Brokerage revenue	206	219	242	425	469
Insurance commissions, fees and premiums	23	40	27	63	59
Interchange revenue from debit card transactions	500	474	517	974	970
Net gains from sales of loans	183	147	265	330	416
(Decrease) increase in fair value of servicing rights	(33)	(117)	(53)	(150)	52
Increase in cash surrender value of life insurance	102	97	91	199	179
Net loss from premises and equipment	0	0	(1)	0	(1)
Other operating income	312	378	306	690	604
Total other operating income, before realized gains on available-for-sale securities, net	\$3,962	\$3,487	\$3,980	\$7,449	\$7,731

COMPARISON OF NONINTEREST EXPENSE
(In Thousands)

	Three Months Ended			Six Months Ended	
	June 30, 2015	Mar. 31, 2015	June 30, 2014	June 30, 2015	June 30, 2014
Salaries and wages	\$3,603	\$3,487	\$3,646	\$7,090	\$7,211
Pensions and other employee benefits	935	1,385	1,153	2,320	2,472
Occupancy expense, net	640	722	641	1,362	1,356
Furniture and equipment expense	467	454	466	921	938
FDIC Assessments	148	151	146	299	293
Pennsylvania shares tax	317	249	337	566	678
Professional fees	113	122	144	235	292
Automated teller machine and interchange expense	255	246	218	501	429
Software subscriptions	211	197	201	408	391
Other operating expense	1,275	1,451	1,395	2,726	2,811
Total noninterest expense, before loss on prepayment of borrowings	7,964	8,464	8,347	16,428	16,871
Loss on prepayment of borrowings	910	0	0	910	0
Total noninterest expense	\$8,874	\$8,464	\$8,347	\$17,338	\$16,871