

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

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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)

	June 30, 2015	December 31, 2014
ASSETS		
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
TOTAL ASSETS	\$1,255,722	\$1,241,963
LIABILITIES		
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
TOTAL LIABILITIES	1,068,749	1,053,601
STOCKHOLDERS' EQUITY		
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

Consolidated Statements of Income (In Thousands Except Per Share Data) (Unaudited)	3 Months Ended		Fiscal Year To Date	
	June 30,	June 30,	6 Months Ended	June 30,
	2015	2014	2015	2014
INTEREST INCOME				
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
INTEREST EXPENSE				
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
OTHER INCOME				
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
OTHER EXPENSES				
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.

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CONSOLIDATED STATEMENTS OF CASH FLOWS (In Thousands) (Unaudited)	6 Months Ended	
	June 30,	June 30,
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
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
CASH FLOWS FROM INVESTING ACTIVITIES:		
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
CASH FLOWS FROM FINANCING ACTIVITIES:		
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
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(642)	15,809
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	31,619	38,591
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$30,977	\$54,400

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.

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**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
Six Months Ended								
June 30, 2015:								
Balance, December 31, 2014	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
Balance, June 30, 2015	12,655,171	458,341	\$12,655	\$71,258	\$107,422	\$4,086	(\$8,448)	\$186,973

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

Balance, December 31, 2013	12,596,540	206,477	\$12,596	\$70,105	\$101,216	(\$993)	(\$3,452)	\$179,472
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
Balance, June 30, 2014	12,636,549	186,544	\$12,636	\$70,964	\$103,276	\$5,416	(\$3,119)	\$189,173

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

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	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)

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(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

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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
Six Months Ended June 30, 2015			
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
Six Months Ended June 30, 2014			
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
Three Months Ended June 30, 2015			
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
Three Months Ended June 30, 2014			
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

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

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

Details about Accumulated Other Comprehensive Income Components	Reclassified from Accumulated Other Comprehensive Income	Affected Line Item in the Consolidated Statements of Income
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)

Details about Accumulated Other Comprehensive Income Components	Reclassified from Accumulated Other Comprehensive Income	Affected Line Item in the Consolidated Statements of Income
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)**

Details about Accumulated Other Comprehensive Income Components	Reclassified from Accumulated Other Comprehensive Income	Affected Line Item in the Consolidated Statements of Income
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)**

Details about Accumulated Other Comprehensive Income Components	Reclassified from Accumulated Other Comprehensive Income	Affected Line Item in the Consolidated Statements of Income
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.

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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)	
Recurring fair value measurements				
AVAILABLE-FOR-SALE SECURITIES:				
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
Nonrecurring fair value measurements				
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

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(In Thousands)	December 31, 2014			
	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total Fair Value
Recurring fair value measurements				
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
Nonrecurring fair value measurements				
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