

SECURITIES AND EXCHANGE COMMISSION

FORM 8-K

Current report filing

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FILER

CITIZENS & NORTHERN CORP

CIK:[810958](#) | IRS No.: [232451943](#) | State of Incorporation: **PA** | Fiscal Year End: **1231**
Type: **8-K** | Act: **34** | File No.: [000-16084](#) | Film No.: **13527123**
SIC: **6022** State commercial banks

Mailing Address
90-92 MAIN ST
WELLSBORO PA 16901

Business Address
90-92 MAIN ST
WELLSBORO PA 16901
7172656171

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported) January 14, 2013

CITIZENS & NORTHERN CORPORATION
(Exact name of registrant as specified in its charter)

<u>Pennsylvania</u> (State or other jurisdiction of incorporation)	<u>0-16084</u> (Commission File Number)	<u>23-2451943</u> (I.R.S. Employer Identification No.)
<u>90-92 Main Street, Wellsboro, PA</u> (Address of Principal Executive Office)		<u>16901</u> (Zip Code)

Registrant's telephone number, including area code (570) 724-3411

N/A
(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
-

ITEM 2.02. Results of Operations and Financial Condition

Citizens & Northern Corporation announced unaudited, consolidated financial results for the three-month and annual periods ended December 31, 2012. On January 14, 2013, Citizens & Northern Corporation issued a press release titled "C&N Announces Fourth Quarter 2012 Unaudited Financial Results," a copy of which is furnished as Exhibit 99.1 to this Current Report on Form 8-K and is incorporated herein by reference. Citizens & Northern Corporation's "Quarterly Report," a report that includes unaudited financial information, will be mailed to shareholders on or about January 21, 2013. A copy of the Quarterly Report is furnished as Exhibit 99.2 to this Current Report on Form 8-K and is incorporated herein by reference. Also, supplemental, unaudited financial information is furnished as Exhibit 99.3 to this Current Report on Form 8-K and is incorporated herein by reference.

ITEM 9.01. Financial Statements and Exhibits

- (a) Not applicable.
- (b) Not applicable.
- (c) Not applicable.
- (d) Exhibits.

Exhibit 99.1: Press Release issued by Citizens & Northern Corporation dated January 14, 2013, titled "C&N Announces Fourth Quarter 2012 Unaudited Financial Results."

Exhibit 99.2: Quarterly Report, which includes unaudited financial information.

Exhibit 99.3: Supplemental, unaudited financial information.

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this Current Report on Form 8-K to be signed on its behalf by the undersigned, thereunto duly authorized.

CITIZENS & NORTHERN CORPORATION

Date: 1/14/13

By: /s/ Mark A. Hughes

Treasurer and Chief Financial Officer



January 14, 2013

Contact: Yvonne Gill
570-724-0247
yvonneg@cncbankpa.com

C&N ANNOUNCES FOURTH QUARTER 2012 UNAUDITED FINANCIAL RESULTS

FOR IMMEDIATE RELEASE:

Wellsboro, PA – Citizens & Northern Corporation (C&N) announced its unaudited, consolidated financial results for the three-month and annual periods ended December 31, 2012.

Fourth quarter 2012 net income was \$5,939,000, or \$0.48 per basic and diluted share, as compared to \$0.45 per share in the third quarter 2012 and \$0.51 per share for the fourth quarter 2011. Annual net income for 2012 was \$22,705,000, or \$1.86 per basic share and \$1.85 per diluted share, as compared to \$1.92 per basic and diluted share in 2011. Annualized return on average assets was 1.74% for the year ended December 31, 2012, and annualized return on average equity for 2012 was 12.91%.

Quarterly Results:

Fourth quarter 2012 net income was \$445,000 higher than the third quarter 2012 amount. Net interest income of \$11,591,000 was down slightly (\$17,000) from the previous quarter. C&N recorded a credit for loan losses (reduction in expense) of \$133,000 in the fourth quarter 2012, as compared to a provision of \$236,000 in the third quarter 2012. The credit for loan losses in the most recent quarter resulted mainly from a reduction in the general portion of the allowance for loan losses, as total loans outstanding decreased during the quarter. Net charge-offs totaled \$802,000 in the fourth quarter, including \$760,000 related to a commercial relationship for which a specific allowance for loan losses had been established in prior periods. Noninterest revenue of \$4,360,000 was \$257,000 higher than the third quarter total, including revenue from Trust services of \$1,085,000 which was \$212,000 higher than the third quarter 2012 amount. Realized gains from available-for-sale securities totaled \$51,000 in the fourth quarter 2012, down from \$2,430,000 in the third quarter, while third quarter results included a loss of \$2,190,000 from pre-payment of borrowings for which there was no corresponding amount in the fourth quarter. Noninterest expenses totaled \$7,987,000 in the fourth quarter 2012, down \$220,000 from the third quarter. The income tax provision of \$2,209,000 (27.1% of pre-tax income) was \$195,000 higher in the fourth quarter as compared to the previous quarter, reflecting higher pre-tax income.

Fourth quarter 2012 net income was \$202,000 lower than the fourth quarter 2011 total, including a reduction in net interest income of \$803,000 (6.5%). The lower level of net interest income in the fourth quarter 2012 includes the effects of margin compression due to reductions in long-term interest rates, as C&N's fully taxable equivalent net interest margin of 4.19% was 0.14% lower than the corresponding fourth quarter 2011 margin. Also, fourth quarter 2011 net interest income included accretion income of \$325,000 related to the recovery of a previously written down security that matured (with payment in full received) in the second quarter 2012. Noninterest revenue was \$649,000 higher in the fourth quarter 2012 as compared to the fourth quarter 2011, including significant increases in gains from sales of loans, Trust revenue and service charges on deposit accounts.

Annual Results:

Net income for 2012 of \$22,705,000 was \$663,000 (2.8%) lower than 2011 net income. Some of the more significant highlights related to annual earnings are as follows:

- Net interest income totaled \$47,601,000 in 2012, down slightly (\$99,000) from 2011. The fully taxable equivalent net interest margin of 4.26% in 2012 was 0.04% higher than the 2011 margin, while total average earning assets were 0.7% lower in 2012. In 2012 and 2011, net interest income included the benefit of accretion from the recovery of a previous write-down on a security, including a benefit of \$855,000 in 2012 and \$825,000 in 2011.



- The provision for loan losses was \$288,000 in 2012 as compared to a credit (reduction in expense) of \$285,000 in 2011. The provision for loan losses in 2012 included charges related to a few larger commercial loans, while both 2012 and 2011 included reductions in the general components of the allowance for loan losses attributable to reductions in total loans outstanding.

- Total noninterest revenue of \$16,317,000 in 2012 was \$2,379,000 higher than the corresponding 2011 amount. In 2011, noninterest revenue included an impairment loss of \$948,000 related to an investment in a real estate limited partnership. Excluding the 2011 impairment loss, noninterest revenue for 2012 was \$1,431,000 (9.6%) higher than the total in 2011. The increase in noninterest revenue for 2012 included significant increases in gains from sales of residential mortgage loans, which totaled \$1,925,000 in 2012, up \$818,000 over 2011. Trust revenues totaled \$3,847,000 in 2012, an increase of \$375,000 (10.8%) over 2011, while brokerage revenues of \$801,000 increased \$161,000 (25.2%) over 2011. Service charges on deposit accounts of \$5,036,000 in 2012 were up \$263,000 (5.5%) over 2011. Included in noninterest revenue were net losses related to real estate properties acquired in foreclosures of \$66,000 in 2012 as compared to net gains of \$41,000 in 2011.

- In 2012, pre-tax net realized gains from securities totaled \$2,682,000, while losses were incurred from prepayment of borrowings totaling \$2,333,000. In comparison, security gains totaled \$2,216,000 in 2011 and there were no losses from prepayments of borrowings. In both years, securities gains included significant amounts from sales of pooled trust-preferred securities that had previously been written off. The loss from pre-payment of borrowings occurred in the third quarter 2012 when C&N prepaid principal of \$12 million on long-term borrowings (repurchase agreements) with an average interest rate of 3.93%.

- Noninterest expense, excluding the loss from prepayment of borrowings, was \$32,848,000 in 2012, up \$791,000 (2.5%) from 2011. The increase in noninterest expense in 2012 includes an increase in other operating expense of \$597,000. Within other operating expense, the largest increases in 2012 included increases in software subscriptions and updates, ATM and debit card processing costs, legal fees related to lending and collection matters and expenses related to other real estate properties. Salaries and wages were \$504,000, or 3.6%, higher for 2012 as compared to 2011, including an increase in stock-based compensation of \$98,000. FDIC assessments were \$199,000 lower in 2012 than in 2011, reflecting the benefit of a change in the FDIC's method for determining assessments that became effective in the second quarter 2011. Occupancy expense was \$162,000 lower in 2012 as compared to 2011, in part due to reduced costs associated with the Court Street, Williamsport location.

Other Information:

Changes in other unaudited financial information are as follows:

- Total assets amounted to \$1,286,907,000 at December 31, 2012, as compared to \$1,310,009,000 at September 30, 2012 and \$1,323,735,000 at December 31, 2011.

- Net loans outstanding (excluding mortgage loans held for sale) were \$677,053,000 at December 31, 2012 as compared to \$690,357,000 at September 30, 2012 and down 3.4% from \$700,610,000 at December 31, 2011. The reduction in loans outstanding in the fourth quarter 2012 included the effect of a repayment of approximately \$8.6 million received on a large commercial loan, as well as a reduction in outstanding residential mortgage loans held on the balance sheet. Total nonperforming assets as a percentage of assets was 0.82% at December 31, 2012 as compared to 0.79% at September 30, 2012 and 0.73% at December 31, 2011.

- The outstanding balance of residential mortgages originated by C&N and sold to third parties, with servicing retained, totaled \$100,631,000 at December 31, 2012, an increase of \$43,994,000 from one year earlier.

- Deposits and repo sweep accounts totaled \$1,011,673,000 at December 31, 2012 as compared to \$1,017,667,000 at September 30, 2012 and \$1,023,156,000 at December 31, 2011.

- Total shareholders' equity was \$182,786,000 at December 31, 2012, up from \$180,146,000 at September 30, 2012 and \$167,385,000 at December 31, 2011. Tangible common equity as a percentage of tangible assets was 13.39% at December 31, 2012, up from 11.84% a year earlier.
- Assets under management by C&N's Trust and Financial Management Group amounted to \$707,912,000 at December 31, 2012, an increase of 11.5% from a year earlier, reflecting the effect of new accounts as well as net appreciation in asset values.

Citizens & Northern Corporation is the parent company of Citizens & Northern Bank, a local, independent community bank providing complete financial, investment and insurance services through 26 full service offices throughout Tioga, Bradford, Sullivan, Lycoming, Potter, Cameron and McKean counties in Pennsylvania and in Canisteo and South Hornell, NY. C&N can be found on the worldwide web at www.cnbankpa.com. The Company's stock is listed on NASDAQ Capital Market Securities under the symbol CZNC.

Safe Harbor Statement: Except for historical information contained herein, the matters discussed in this release are forward-looking statements. Investors are cautioned that all forward-looking statements involve risks and uncertainty, including without limitation, the following: changes in monetary and fiscal policies of the Federal Reserve Board and the U.S. Government, particularly related to changes in interest rates; changes in general economic conditions; legislative or regulatory changes; downturn in demand for loan, deposit and other financial services in the Corporation's market area; increased competition from other banks and non-bank providers of financial services; technological changes and increased technology-related costs; changes in management's assessment of realization of securities and other assets; and changes in accounting principles, or the application of generally accepted accounting principles. Citizens & Northern disclaims any intention or obligation to publicly update or revise any forward-looking statements, whether as a result of events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.



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Phone: (570) 724-3411 Fax: (570) 723-8097
E-Mail: cnemail@cnbankpa.com Web Page: <http://www.cnbankpa.com>
Stock Symbol: CZNC

Chartered 1864

FEDERAL DEPOSIT INSURANCE CORP

December 31, 2012

QUARTERLY REPORT

Dear Shareholder:

Citizens & Northern finished 2012 on a strong note with fourth quarter net income of \$5,939,000 resulting in net income of \$22,705,000 for the year. While the quarterly and annual results are slightly less than the prior year the annual Return on Average Assets (ROAA) remains a robust 1.74% with a strong Return on Average Equity (ROAE) of 12.91%. The keys to our superior earnings performance are the maintenance of a strong net interest margin in a very difficult rate environment, strong non-interest income and an acute focus on overhead expenses.

Total assets remained relatively flat as we continue to de-leverage the balance sheet as the current interest rate environment provides few appropriate opportunities without incurring undue interest rate and/or credit risk. Other highlights for the year are non-performing assets remain manageable at .82% and residential mortgage origination remains brisk with the bank servicing \$100,631,000 of mortgages generated which is an increase of \$43,994,000 over the prior year. While bank assets were flat, Trust Assets Under Management rose 11.5% finishing the year at \$707,912,000.

Our stock (CZNC) closed the year at \$18.90, up 2.33% over the prior year. Dividends were increased to \$.84 per share which represents an increase of 44.83% over the prior year.

We realize that 2013 will be a very challenging year for the industry as the Federal Reserve Bank continues to keep interest rates low causing margin compression and as more of the rules are finalized to implement Dodd-Frank.

I will more fully report on the past year with my correspondence to the shareholders contained in our Annual Highlights. As shareholders, we solicit your continued support.

Charles H. Updegraff, Jr.
Chairman, President & CEO

**CITIZENS & NORTHERN CORPORATION
BOARD OF DIRECTORS**

Charles H. Updegraff, Jr. - Chairman

Dennis F. Beardslee
Jan E. Fisher
R. Bruce Haner
Susan E. Hartley
Leo F. Lamber

Raymond R. Mattie
Edward H. Owlett, III
Leonard Simpson
James E. Towner
Ann M. Tyler

CITIZENS & NORTHERN BANK

1-877-838-2517

OFFICES

428 S. Main Street, **ATHENS**, PA 18810
3 Main Street, **CANISTEO**, NY 14823
10 N Main Street, **COUDERSPORT**, PA 16915
111 Main Street, **DUSHORE**, PA 18614
563 Main Street, **EAST SMITHFIELD**, PA 18817
104 Main Street, **ELKLAND**, PA 16920
135 East Fourth Street, **EMPORIUM**, PA 15834
6250 County Route 64, **HORNELL**, NY 14843
230-232 Railroad Street, **JERSEY SHORE**, PA 17740
102 E. Main Street, **KNOXVILLE**, PA 16928
514 Main Street, **LAPORTE**, PA 18626
4534 Williamson Trail **LIBERTY**, PA 16930
1085 S. Main Street, **MANSFIELD**, PA 16933
612 James Monroe Avenue, **MONROETON**, PA 18832
3461 Rte.405 Highway, **MUNCY**, PA 17756
100 Maple Street, **PORT ALLEGANY**, PA 16743
24 Thompson Street, **RALSTON**, PA 17763
1827 Elmira Street, **SAYRE**, PA 18840
2 E. Mountain Ave., **SO. WILLIAMSPORT**, PA 17702
41 Main Street, **TIOGA**, PA 16946
428 Main Street, **TOWANDA**, PA18848
Court House Square, **TROY**, PA 16947
90-92 Main Street, **WELLSBORO**, PA 16901
130 Court Street, **WILLIAMSPORT**, PA 17701
1510 Dewey Ave., **WILLIAMSPORT**, PA 17702
Route 6, **WYSOX**, PA 18854

TRUST & FINANCIAL MANAGEMENT GROUP

3 Main Street, Canisteeo , NY 14823	607-698-4295
10 N Main Street, Coudersport , PA 16915	800-921-9150
1827 Elmira Street, Sayre , PA 18840	888-760-8192
428 Main Street, Towanda , PA 18848	888-987-8784
90-92 Main Street, Wellsboro , PA 16901	888-487-8784
130 Court Street, Williamsport , PA 17701	866-732-7213

ACCOUNT SERVICES - 90-92 Main St., Wellsboro, PA 16901

BANKCARD SERVICES - 90-92 Main St., Wellsboro PA 16901

ELECTRONIC BANKING – 10 Nichols St., Wellsboro, PA 16901

www.cnbankpa.com

800-577-8001

877-838-2517

C&N FINANCIAL SERVICES CORPORATION – 90-92 Main Street,
Wellsboro, PA

www.cnfinancialservices.com

866-ASK-CNFS

CONDENSED, CONSOLIDATED EARNINGS INFORMATION

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

	4TH QUARTER 2012 (Current)	3RD QUARTER 2012 (Prior Qtr)	4TH QUARTER 2011 (Prior Yr)	YEARS ENDED DECEMBER 31, 2012 2011 (Current) (Prior Yr)	
Interest and Dividend Income	\$13,491	\$13,836	\$15,198	\$56,632	\$61,256
Interest Expense	1,900	2,228	2,804	9,031	13,556
Net Interest Income	11,591	11,608	12,394	47,601	47,700
(Credit) Provision for Loan Losses	(133)	236	(87)	288	(285)
Net Interest Income After (Credit) Provision for Loan Losses	11,724	11,372	12,481	47,313	47,985
Other Income	4,360	4,103	3,711	16,317	13,938
Net Gains on Available-for-sale Securities	51	2,430	188	2,682	2,216
Loss on Prepayment of Borrowings	0	2,190	0	2,333	0
Other Noninterest Expenses	7,987	8,207	7,948	32,848	32,057
Income Before Income Tax Provision	8,148	7,508	8,432	31,131	32,082
Income Tax Provision	2,209	2,014	2,291	8,426	8,714
Net Income	\$5,939	\$5,494	\$6,141	\$22,705	\$23,368

PER COMMON SHARE DATA:

Net Income - Basic	\$0.48	\$0.45	\$0.51	\$1.86	\$1.92
Net Income - Diluted	\$0.48	\$0.45	\$0.51	\$1.85	\$1.92
Dividend Per Share	\$0.24	\$0.22	\$0.16	\$0.84	\$0.58
Number Shares Used in Computation - Basic	12,265,100	12,244,797	12,145,666	12,235,748	12,162,045
Number Shares Used in Computation - Diluted	12,283,702	12,270,685	12,154,971	12,260,208	12,166,768

CONDENSED, CONSOLIDATED BALANCE SHEET DATA

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

	DEC. 31, 2012	SEPT. 30, 2012	DEC. 31, 2011
ASSETS			
Cash & Due from Banks	\$59,836	\$42,496	\$60,575
Available-for-sale Securities	472,577	487,314	481,685
Loans Held for Sale	2,545	3,846	939
Loans, Net	677,053	690,357	700,610
Intangible Assets	12,080	12,098	12,154
Other Assets	62,816	73,898	67,772
TOTAL ASSETS	\$1,286,907	\$1,310,009	\$1,323,735
LIABILITIES			
Deposits	1,006,106	1,013,010	1,018,206
Repo Sweep Accounts	5,567	4,657	4,950
Total Deposits and Repo Sweeps	1,011,673	1,017,667	1,023,156
Borrowed Funds	83,812	104,954	125,363
Other Liabilities	8,636	7,242	7,831
TOTAL LIABILITIES	1,104,121	1,129,863	1,156,350
SHAREHOLDERS' EQUITY			
Common Shareholders' Equity, Excluding Accumulated Other Comprehensive Income (Loss)	171,783	168,320	157,225
Accumulated Other Comprehensive Income (Loss):			
Net Unrealized Gains/Losses on Available-for-sale Securities	11,568	12,278	10,791
Defined Benefit Plans	(565)	(452)	(631)
TOTAL SHAREHOLDERS' EQUITY	182,786	180,146	167,385

TOTAL LIABILITIES & SHAREHOLDERS' EQUITY	\$1,286,907	\$1,310,009	\$1,323,735
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CONDENSED, CONSOLIDATED FINANCIAL HIGHLIGHTS

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

	YEARS ENDED DECEMBER 31,		% INCREASE (DECREASE)
	<u>2012</u>	<u>2011</u>	
EARNINGS PERFORMANCE			
Net Income	\$22,705	\$23,368	-2.84%
Return on Average Assets	1.74%	1.78%	-2.25%
Return on Average Equity	12.91%	15.30%	-15.62%
BALANCE SHEET HIGHLIGHTS			
Total Assets	\$1,286,907	\$1,323,735	-2.78%
Available-for-Sale Securities	472,577	481,685	-1.89%
Loans (Net)	677,053	700,610	-3.36%
Allowance for Loan Losses	6,857	7,705	-11.01%
Deposits and Repo Sweep Accounts	1,011,673	1,023,156	-1.12%
OFF-BALANCE SHEET			
Outstanding Balance of Mortgage Loans Sold with Servicing Retained	100,631	56,637	77.68%
Trust Assets Under Management	707,912	634,782	11.52%
SHAREHOLDERS' VALUE (PER COMMON SHARE)			
Net Income - Basic	\$1.86	\$1.92	-3.12%
Net Income - Diluted	\$1.85	\$1.92	-3.65%
Dividends	\$0.84	\$0.58	44.83%
Common Book Value	\$14.89	\$13.77	8.13%
Tangible Common Book Value	\$13.91	\$12.77	8.93%
Market Value (Last Trade)	\$18.90	\$18.47	2.33%
Market Value / Common Book Value	126.93%	134.13%	-5.37%
Market Value / Tangible Common Book Value	135.87%	144.64%	-6.06%
Price Earnings Multiple	10.16	9.62	5.61%
Dividend Yield	4.44%	3.14%	41.40%
SAFETY AND SOUNDNESS			
Tangible Common Equity / Tangible Assets	13.39%	11.84%	13.09%
Nonperforming Assets / Total Assets	0.82%	0.73%	12.33%
Allowance for Loan Losses / Total Loans	1.00%	1.09%	-8.26%
Total Risk Based Capital Ratio (a)	23.97%	21.17%	13.23%
Tier 1 Risk Based Capital Ratio (a)	22.82%	19.95%	14.39%
Leverage Ratio (a)	12.53%	10.93%	14.64%
AVERAGE BALANCES			
Average Assets	\$1,305,163	\$1,313,445	-0.63%
Average Equity	\$175,822	\$152,718	15.13%

(a) Capital ratios for the most recent period are estimated.

EXHIBIT 99.3 – Supplemental, Unaudited Financial Information



AVAILABLE-FOR-SALE SECURITIES (In Thousands)	December 31, 2012		September 30, 2012		December 31, 2011	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Obligations of U.S. Government agencies	\$30,695	\$31,217	\$23,181	\$23,844	\$24,877	\$25,587
Obligations of states and political subdivisions:						
Tax-exempt	130,168	137,020	134,651	141,519	129,401	132,962
Taxable	24,426	24,817	21,766	22,244	14,004	14,334
Mortgage-backed securities	76,368	80,196	85,750	90,357	116,602	121,769
Collateralized mortgage obligations,						
Issued by U.S. Government agencies	179,770	183,510	188,169	191,945	161,818	165,131
Trust preferred securities issued by individual institutions	5,167	5,171	6,173	6,221	7,334	8,146
Collateralized debt obligations:						
Pooled trust preferred securities - senior tranches	1,615	1,613	2,515	2,496	4,996	4,638
Pooled trust preferred securities - mezzanine tranches	0	0	0	0	0	730
Other collateralized debt obligations	660	660	660	660	660	660
Total debt securities	448,869	464,204	462,865	479,286	459,692	473,957
Marketable equity securities	5,912	8,373	5,562	8,028	5,643	7,728
Total	\$454,781	\$472,577	\$468,427	\$487,314	\$465,335	\$481,685

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

	Dec. 31, 2012	Sept. 30, 2012	Dec. 31, 2011
Residential mortgage:			
Residential mortgage loans - first liens	\$311,627	\$317,734	\$331,015
Residential mortgage loans - junior liens	26,748	27,084	28,851
Home equity lines of credit	33,017	32,550	30,037
1-4 Family residential construction	12,842	13,038	9,959
Total residential mortgage	384,234	390,406	399,862
Commercial:			
Commercial loans secured by real estate	158,413	163,773	156,388
Commercial and industrial	48,442	49,405	57,191
Political subdivisions	31,789	35,549	37,620
Commercial construction and land	28,200	27,307	23,518
Loans secured by farmland	11,403	10,328	10,949
Multi-family (5 or more) residential	6,745	6,109	6,583
Agricultural loans	3,053	3,181	2,987
Other commercial loans	362	329	552
Total commercial	288,407	295,981	295,788
Consumer	11,269	11,762	12,665
Total	683,910	698,149	708,315
Less: allowance for loan losses	(6,857)	(7,792)	(7,705)
Loans, net	\$677,053	\$690,357	\$700,610

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

	Dec 31, 2012	Sept. 30, 2012	Dec. 31, 2011
Residential mortgage loans originated and serviced - outstanding balance	\$103,176	\$87,051	\$57,577
Less: outstanding balance of loans sold	(100,631)	(83,205)	(56,638)
Loans held for sale, net	\$2,545	\$3,846	\$939

ANALYSIS OF THE ALLOWANCE FOR LOAN LOSSES
(In Thousands)

	3 Months Ended Dec. 31, 2012	3 Months Ended Sept. 30, 2012	Year Ended Dec. 31 2012	Year Ended Dec. 31 2011
Balance, beginning of period	\$7,792	\$7,657	\$7,705	\$9,107
Charge-offs	(817)	(113)	(1,221)	(1,446)
Recoveries	15	12	85	329
Net charge-offs	(802)	(101)	(1,136)	(1,117)
(Credit) provision for loan losses	(133)	236	288	(285)
Balance, end of period	\$6,857	\$7,792	\$6,857	\$7,705

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

	Dec. 31, 2012	Sept. 30, 2012	Dec. 31, 2011
Impaired loans with a valuation allowance	\$2,710	\$4,119	\$3,433
Impaired loans without a valuation allowance	4,719	3,718	4,431
Total impaired loans	\$7,429	\$7,837	\$7,864
Total loans past due 30-89 days and still accruing	\$7,756	\$6,001	\$7,898
Nonperforming assets:			
Total nonaccrual loans	\$7,353	\$7,269	\$7,197
Total loans past due 90 days or more and still accruing	2,311	2,260	1,267
Total nonperforming loans	9,664	9,529	8,464
Foreclosed assets held for sale (real estate)	879	839	1,235
Total nonperforming assets	\$10,543	\$10,368	\$9,699
Loans subject to troubled debt restructurings (TDRs):			
Performing	\$906	\$916	\$1,064
Nonperforming	1,155	1,753	2,413
Total TDRs	\$2,061	\$2,669	\$3,477
Total nonperforming loans as a % of loans	1.41%	1.36%	1.19%
Total nonperforming assets as a % of assets	0.82%	0.79%	0.73%
Allowance for loan losses as a % of total loans	1.00%	1.12%	1.09%
Allowance for loan losses as a % of nonperforming loans	70.95%	81.77%	91.03%

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

	3 Months Ended 12/31/2012 Average Balance	Rate of Return/ Cost of Funds %	3 Months Ended 9/30/2012 Average Balance	Rate of Return/ Cost of Funds %	3 Months Ended 12/31/2011 Average Balance	Rate of Return/ Cost of Funds %
EARNING ASSETS						
Available-for-sale securities, at amortized cost:						
Taxable	\$327,726	2.32%	\$339,639	2.46%	\$337,405	3.27%
Tax-exempt	132,495	5.86%	135,362	5.69%	130,819	5.87%
Total available-for-sale securities	460,221	3.34%	475,001	3.38%	468,224	4.00%
Interest-bearing due from banks	23,861	0.40%	33,929	0.36%	36,404	0.31%
Loans held for sale	3,204	4.10%	4,293	3.89%	953	7.08%
Loans receivable:						
Taxable	656,020	5.97%	662,374	6.00%	669,755	6.33%
Tax-exempt	39,676	5.99%	37,696	6.32%	35,744	6.29%
Total loans receivable	695,696	5.97%	700,070	6.02%	705,499	6.33%
Total Earning Assets	1,182,982	4.83%	1,213,293	4.82%	1,211,080	5.25%
Cash	17,482		17,466		17,812	
Unrealized gain/loss on securities	18,983		19,310		12,710	
Allowance for loan losses	(7,849)		(7,727)		(8,255)	
Bank premises and equipment	18,911		19,106		19,286	
Intangible Asset - Core Deposit Intangible	149		165		230	
Intangible Asset - Goodwill	11,942		11,942		11,942	
Other assets	44,146		46,102		50,743	
Total Assets	\$1,286,746		\$1,319,657		\$1,315,548	
INTEREST-BEARING LIABILITIES						
Interest-bearing deposits:						
Interest checking	\$169,782	0.12%	\$166,961	0.12%	\$161,274	0.15%
Money market	208,463	0.15%	210,269	0.16%	208,855	0.18%
Savings	110,645	0.10%	110,133	0.10%	101,405	0.10%
Certificates of deposit	186,238	1.43%	199,250	1.47%	195,774	1.81%
Individual Retirement Accounts	137,565	0.58%	141,421	0.73%	149,219	1.12%
Other time deposits	738	0.00%	1,768	0.00%	801	0.50%
Total interest-bearing deposits	813,431	0.50%	829,802	0.56%	817,328	0.73%
Borrowed funds:						
Short-term	8,877	0.18%	5,369	0.15%	12,673	0.09%
Long-term	86,362	4.00%	105,811	4.02%	127,692	4.04%
Total borrowed funds	95,239	3.64%	111,180	3.83%	140,365	3.68%
Total Interest-bearing Liabilities	908,670	0.83%	940,982	0.94%	957,693	1.16%
Demand deposits	187,748		191,301		186,562	
Other liabilities	9,086		8,967		8,721	
Total Liabilities	1,105,504		1,141,250		1,152,976	
Stockholders' equity, excluding other comprehensive income/loss	169,346		166,318		154,484	
Other comprehensive income/loss	11,896		12,089		8,088	
Total Stockholders' Equity	181,242		178,407		162,572	
Total Liabilities and Stockholders' Equity	\$1,286,746		\$1,319,657		\$1,315,548	
Interest Rate Spread		4.00%		3.88%		4.09%
Net Interest Income/Earning Assets		4.19%		4.09%		4.33%

Total Deposits (Interest-bearing)

and Demand)	\$1,001,179	\$1,021,103	\$1,003,890
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(1) Changes in income on tax-exempt securities and loans are presented on a fully tax-equivalent basis, using the Corporation's marginal federal income tax rate of 35% in 2012 and 34% in 2011.

(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)**

	Year Ended 12/31/2012 Average Balance	Rate of Return/ Cost of Funds %	Year Ended 12/31/2011 Average Balance	Rate of Return/ Cost of Funds %
EARNING ASSETS				
Available-for-sale securities, at amortized cost:				
Taxable	\$332,911	2.80%	\$333,441	3.39%
Tax-exempt	131,438	5.88%	128,463	5.98%
Total available-for-sale securities	464,349	3.67%	461,904	4.11%
Interest-bearing due from banks	32,337	0.35%	31,359	0.23%
Loans held for sale	2,611	4.10%	900	5.89%
Loans receivable:				
Taxable	662,751	6.10%	679,357	6.36%
Tax-exempt	37,490	6.24%	35,064	6.37%
Total loans receivable	700,241	6.11%	714,421	6.36%
Total Earning Assets	1,199,538	5.01%	1,208,584	5.34%
Cash	17,408		17,762	
Unrealized gain/loss on securities	18,444		7,105	
Allowance for loan losses	(7,688)		(8,688)	
Bank premises and equipment	18,956		21,381	
Intangible Asset - Core Deposit Intangible	176		272	
Intangible Asset - Goodwill	11,942		11,942	
Other assets	46,387		55,087	
Total Assets	\$1,305,163		\$1,313,445	
INTEREST-BEARING LIABILITIES				
Interest-bearing deposits:				
Interest checking	\$163,840	0.13%	\$162,583	0.25%
Money market	208,814	0.17%	206,612	0.24%
Savings	108,218	0.10%	97,099	0.17%
Certificates of deposit	194,175	1.55%	205,231	1.90%
Individual Retirement Accounts	142,315	0.80%	154,688	2.04%
Other time deposits	1,191	0.08%	1,231	0.24%
Total interest-bearing deposits	818,553	0.59%	827,444	0.98%
Borrowed funds:				
Short-term	6,831	0.15%	17,216	0.13%
Long-term	105,220	4.00%	134,894	4.02%
Total borrowed funds	112,051	3.77%	152,110	3.58%
Total Interest-bearing Liabilities	930,604	0.97%	979,554	1.38%
Demand deposits	189,916		173,681	
Other liabilities	8,821		7,492	
Total Liabilities	1,129,341		1,160,727	
Stockholders' equity, excluding other comprehensive income/loss	164,316		148,324	
Other comprehensive income/loss	11,506		4,394	
Total Stockholders' Equity	175,822		152,718	
Total Liabilities and Stockholders' Equity	\$1,305,163		\$1,313,445	
Interest Rate Spread		4.04%		3.96%
Net Interest Income/Earning Assets		4.26%		4.22%
Total Deposits (Interest-bearing)				

and Demand)

\$1,008,469

\$1,001,125

(1) Changes in income on tax-exempt securities and loans are presented on a fully tax-equivalent basis, using the Corporation's marginal federal income tax rate of 35% in 2012 and 34% in 2011.

(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			Years Ended	
	Dec. 31, 2012	Sept. 30, 2012	Dec. 31, 2011	Dec. 31, 2012	Dec. 31, 2011
Service charges on deposit accounts	\$1,329	\$1,290	\$1,187	\$5,036	\$4,773
Service charges and fees	235	239	206	929	849
Trust and financial management revenue	1,085	873	864	3,847	3,472
Brokerage revenue	148	197	89	801	640
Insurance commissions, fees and premiums	52	62	65	221	257
Interchange revenue from debit card transactions	478	477	495	1,938	1,922
Net gains from sales of loans	662	625	430	1,925	1,107
Increase in cash surrender value of life insurance	108	111	128	455	509
Net gain (loss) from other real estate	33	(19)	33	(66)	41
Net gain from premises and equipment	(1)	1	0	270	324
Impairment loss on limited partnership investment	0	0	0	0	(948)
Other operating income	231	247	214	961	992
Total other operating income, before realized gains on available-for-sale securities, net	\$4,360	\$4,103	\$3,711	\$16,317	\$13,938

COMPARISON OF NONINTEREST EXPENSE
(In Thousands)

	Three Months Ended			Years Ended	
	Dec. 31, 2012	Sept. 30, 2012	Dec. 31, 2011	Dec. 31, 2012	Dec. 31, 2011
Salaries and wages	\$3,615	\$3,594	\$3,545	\$14,370	\$13,866
Pensions and other employee benefits	1,059	982	1,063	4,497	4,407
Occupancy expense, net	602	610	600	2,476	2,638
Furniture and equipment expense	469	475	497	1,887	1,932
FDIC Assessments	165	165	144	633	832
Pennsylvania shares tax	301	339	322	1,312	1,306
Other operating expense	1,776	2,042	1,777	7,673	7,076
Total noninterest expense, before loss on prepayment of borrowings	7,987	8,207	7,948	32,848	32,057
Loss on prepayment of borrowings	0	2,190	0	2,333	0
Total Noninterest Expense	\$7,987	\$10,397	\$7,948	\$35,181	\$32,057