CITIZENS & NORTHERN CORP
Form 10-K
February 18, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 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: 0-16084

CITIZENS & NORTHERN CORPORATION

(Exact name of Registrant as specified in its charter)

PENNSYLVANIA	23-2451943
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer 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)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	**Name of Exchange Where Registered**
Common Stock Par Value $1.00	The NASDAQ Stock Market LLC

Securities registered pursuant to section 12(g) of the Act: None

Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

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 x 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 (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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 definitions 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 x 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 x

The aggregate market value of the registrant's common stock held by non-affiliates at June 30, 2015, the registrant’s most recently completed second fiscal quarter, was $244,570,133.

The number of shares of common stock outstanding at February 12, 2016 was 12,151,108.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant’s proxy statement for the annual meeting of its shareholders to be held April 21, 2016 are incorporated by reference into Parts III and IV of this report.

PART I

ITEM 1. BUSINESS

Citizens & Northern Corporation ("Corporation") is a holding company whose principal activity is community banking. The Corporation's principal office is located in Wellsboro, Pennsylvania. The largest subsidiary is Citizens & Northern Bank ("C&N Bank" or the "Bank"). The Corporation's other wholly-owned subsidiaries are Citizens & Northern Investment Corporation and Bucktail Life Insurance Company ("Bucktail"). Citizens & Northern Investment Corporation was formed in 1999 to engage in investment activities. Bucktail reinsures credit and mortgage life and accident and health insurance on behalf of C&N Bank.

C&N Bank is a Pennsylvania banking institution that was formed by the consolidation of Northern National Bank of Wellsboro and Citizens National Bank of Towanda on October 1, 1971. Subsequent mergers included: First National Bank of Ralston in May 1972; Sullivan County National Bank in October 1977; Farmers National Bank of Athens in January 1984; and First National Bank of East Smithfield in May 1990. In 2005, the Corporation acquired Canisteo Valley Corporation and its subsidiary, First State Bank, a New York State chartered commercial bank with offices in Canisteo and South Hornell, NY. In 2010, the First State Bank operations were merged into C&N Bank and Canisteo Valley Corporation was merged into the Corporation. On May 1, 2007, the Corporation acquired Citizens Bancorp, Inc. ("Citizens"), with banking offices in Coudersport, Emporium and Port Allegany, Pennsylvania. Citizens Trust Company, the banking subsidiary of Citizens, was merged with and into C&N Bank as part of the transaction. C&N Bank has held its current name since May 6, 1975, at which time C&N Bank changed its charter from a national bank to a Pennsylvania bank.

C&N Bank provides an extensive range of banking services, including deposit and loan products for personal and commercial customers. The Bank also maintains a trust division that provides a wide range of financial services, such as 401(k) plans, retirement planning, estate planning, estate settlements and asset management. In January 2000, C&N Bank formed a subsidiary, C&N Financial Services Corporation ("C&NFSC"). C&NFSC is a licensed insurance agency that provides insurance products to individuals and businesses. In 2001, C&NFSC added a broker-dealer division, which offers mutual funds, annuities, educational savings accounts and other investment products through registered agents. C&NFSC's operations are not significant in relation to the total operations of the Corporation.

All phases of the Bank's business are competitive. The Bank primarily competes in Tioga, Bradford, Sullivan, Lycoming, Potter, Cameron and McKean counties in Pennsylvania, and Steuben and Allegany counties in New York. The Bank competes with local commercial banks headquartered in our market area as well as other commercial banks with branches in our market area. Some of the banks that have branches in our market area are larger in overall size. With respect to lending activities and attracting deposits, the Bank also competes with savings banks, savings and loan associations, insurance companies, regulated small loan companies and credit unions. Also, the Bank competes with mutual funds for deposits. C&N Bank competes with insurance companies, investment counseling firms, mutual funds and other business firms and individuals for trust, investment management, brokerage and insurance services. The Bank is generally competitive with all financial institutions in our service area with respect to interest rates paid on time and savings deposits, service charges on deposit accounts and interest rates charged on loans. The Bank serves a diverse customer base, and is not economically dependent on any small group of customers or on any individual industry.

Major initiatives within the last 5 years included the following:

- in 2011, sold the banking facility at 130 Court Street, Williamsport, PA, and entered into a leasing arrangement to continue to offer banking and trust services from the facility, resulting in an estimated $122,000 (pre-tax) reduction in operating expenses in 2012;

- in April 2012, re-opened the Athens, PA, facility, which was damaged by flooding in September 2011;

- in 2013, worked with consultants on projects which resulted in increases in revenues from service charges on deposit accounts, starting primarily in the fourth quarter 2013, and reductions in electronic funds processing expenses and other benefits over approximately the next five years;

- in 2014, approved a new treasury stock repurchase program. Under the new program, the Corporation is authorized to repurchase up to 622,500 shares of the Corporation’s common stock, or approximately 5% of the Corporation’s outstanding shares at July 16, 2014. Cumulatively through December 31, 2015, 435,200 shares had been repurchased; and

- in 2015, began an organization-wide effort to enhance customer relationships, growth and profitability, including working with consultants on enhanced employee engagement and customer service training, and hiring four new lending personnel to provide more access to commercial and mortgage lending opportunities.

Virtually all of the Corporation's banking offices are located in the "Marcellus Shale," an area extending across portions of New York State, Pennsylvania, Ohio, Maryland, West Virginia and Virginia. In recent years, most of the Pennsylvania counties in which the Corporation operates were significantly affected by an upsurge in natural gas exploration, as technological developments made exploration of the Marcellus Shale commercially feasible. After a surge of activity in 2009 through most of 2011, the market price of natural gas declined, causing Marcellus Shale natural gas exploration activity to slow, though some activity has continued to occur throughout the Corporation's market area. Through December 31, 2015, the Corporation has not experienced significant credit issues as a result of the expansion and subsequent reduction in Marcellus Shale-related activity.

At December 31, 2015, C&N Bank had total assets of $1,209,389,000, total deposits of $942,331,000, net loans outstanding of $696,991,000 and 283 full-time equivalent employees.

Most activities of the Corporation and its subsidiaries are regulated by federal or state agencies. The primary regulatory relationships are described as follows:

- The Corporation is a bank holding company formed under the provisions of Section 3 of the Federal Reserve Act. The Corporation is under the direct supervision of the Federal Reserve and must comply with the reporting requirements of the Federal Bank Holding Company Act.

- C&N Bank is a state-chartered, nonmember bank, supervised by the Federal Deposit Insurance Corporation and the Pennsylvania Department of Banking and Securities.

- C&NFSC is a Pennsylvania corporation. The Pennsylvania Department of Insurance regulates C&NFSC's insurance activities. Brokerage products are offered through third party networking agreements.

- Bucktail is incorporated in the state of Arizona and supervised by the Arizona Department of Insurance.

A copy of the Corporation's annual report on Form 10-K, quarterly reports on Form 10-Q, current events reports on Form 8-K, and amendments to these reports, will be furnished without charge upon written request to the Corporation's Treasurer at P.O. Box 58, Wellsboro, PA 16901. Copies of these reports will be furnished as soon as reasonably possible, after they are filed electronically with the Securities and Exchange Commission. The information is also available through the Corporation's web site at www.cnbankpa.com.

ITEM 1A. RISK FACTORS

The Corporation is subject to the many risks and uncertainties applicable to all banking companies, as well as risks specific to the Corporation's geographic locations. Although the Corporation seeks to effectively manage risks, and maintains a level of equity that exceeds the banking regulatory agencies' thresholds for being considered "well capitalized" (see Note 18 to the consolidated financial statements), management cannot predict the future and cannot eliminate the possibility of credit, operational or other losses. Accordingly, actual results may differ materially from management's expectations. Some of the Corporation's significant risks and uncertainties are discussed below.

Credit Risk from Lending Activities - A significant source of risk is the possibility that losses will be sustained because borrowers, guarantors and related parties may fail to perform in accordance with the terms of their loan agreements. Most of the Corporation's loans are secured, but some loans are unsecured. With respect to secured loans, the collateral securing the repayment of these loans may be insufficient to cover the obligations owed under such loans. Collateral values may be adversely affected by changes in economic, environmental and other conditions, including declines in the value of real estate, changes in interest rates, changes in monetary and fiscal policies of the federal government, wide-spread disease, terrorist activity, environmental contamination and other external events. In addition, collateral appraisals that are out of date or that do not meet industry recognized standards may create the impression that a loan is adequately collateralized when it is not. The Corporation has adopted underwriting and credit monitoring procedures and policies, including regular reviews of appraisals and borrower financial statements, that management believes are appropriate to mitigate the risk of loss. Also, as discussed further in the "Provision and Allowance for Loan Losses" section of Management's Discussion and Analysis, the Corporation attempts to estimate the amount of losses that may be inherent in the portfolio through a quarterly evaluation process that includes several members of management and that addresses specifically identified problem loans, as well as other quantitative data and qualitative factors. Such risk management and accounting policies and procedures, however, may not prevent unexpected losses that could have a material adverse effect on the Corporation's financial condition, results of operations or liquidity.

Interest Rate Risk - Business risk arising from changes in interest rates is an inherent factor in operating a banking organization. The Corporation's assets are predominantly long-term, fixed-rate loans and debt securities. Funding for these assets comes principally from shorter-term deposits and borrowed funds. Accordingly, there is an inherent risk of lower future earnings or decline in fair value of the Corporation's financial instruments when interest rates change. Significant fluctuations in interest rates could have a material adverse effect on the Corporation's financial condition, results of operations or liquidity. For additional information regarding interest rate risk, see Part II, Item 7A, "Quantitative and Qualitative Disclosures About Market Risk."

Breach of Information Security and Technology Dependence - The Corporation relies on software, communication, and information exchange on a variety of computing platforms and networks and over the Internet. Despite numerous safeguards, the Corporation cannot be certain that all of its systems are entirely free from vulnerability to attack or other technological difficulties or failures. The Corporation relies on the services of a variety of vendors to meet its data processing and communication needs. If information security is breached or other technology difficulties or failures occur, information may be lost or misappropriated, services and operations may be interrupted and the Corporation could be exposed to claims from customers. Any of these results could have a material adverse effect on the Corporation's financial condition, results of operations or liquidity.

Limited Geographic Diversification - The Corporation grants commercial, residential and personal loans to customers primarily in the Pennsylvania counties of Tioga, Bradford, Sullivan, Lycoming, Potter, Cameron and McKean, and in Steuben and Allegany Counties in New York State. Although the Corporation has a diversified loan portfolio, a significant portion of its debtors' ability to honor their contracts is dependent on the local economic conditions within the region. Deterioration in economic conditions could adversely affect the quality of the Corporation's loan portfolio and the demand for its products and services, and accordingly, could have a material adverse effect on the Corporation's financial condition, results of operations or liquidity.

Competition - All phases of the Corporation's business are competitive. Some competitors are much larger in total assets and capitalization than the Corporation, have greater access to capital markets and can offer a broader array of financial services. There can be no assurance that the Corporation will be able to compete effectively in its markets. Furthermore, developments increasing the nature or level of competition could have a material adverse effect on the Corporation's financial condition, results of operations or liquidity.

Government Regulation and Monetary Policy - The Corporation and the banking industry are subject to extensive regulation and supervision under federal and state laws and regulations. The requirements and limitations imposed by such laws and regulations limit the manner in which the Corporation conducts its business, undertakes new investments and activities and obtains financing. These regulations are designed primarily for the protection of the deposit insurance funds and consumers and not to benefit the Corporation's shareholders. Financial institution regulation has been the subject of significant legislation in recent years and may be the subject of further significant legislation in the future, none of which is in the control of the Corporation. Significant new laws or changes in, or repeals of, existing laws could have a material adverse effect on the Corporation's financial condition, results of operations or liquidity. Further, federal monetary policy, particularly as implemented through the Federal Reserve System, significantly affects short-term interest rates and credit conditions, and any unfavorable change in these conditions could have a material adverse effect on the Corporation's financial condition, results of operations or liquidity.

Mortgage Banking – In September 2009, the Corporation entered into an agreement to originate and sell residential mortgage loans to the secondary market through the MPF Xtra program administered by the Federal Home Loan Banks of Pittsburgh and Chicago. The Corporation’s mortgage sales activity under this program was not significant in 2009, but has subsequently increased. In 2014, the Corporation entered into an agreement and in June 2014 began to originate and sell residential mortgage loans to the secondary market through the MPFX Original program, which is also administered by the Federal Home Loan Banks of Pittsburgh and Chicago. At December 31, 2015, total residential mortgages sold and serviced through the two programs amounted to $152,448,000. The Corporation must strictly adhere to the MPF Xtra and MPFX Original program guidelines for origination, underwriting and servicing loans, and failure to do so may result in the Corporation being forced to repurchase loans or being dropped from the program. As of December 31, 2015, the total outstanding balance of residential mortgage loans the Corporation has repurchased as a result of identified instances of noncompliance amounted to $1,968,000. If the volume of such forced repurchases of loans were to increase significantly, or if the Corporation were to be dropped from the programs, it could have a material adverse effect on the Corporation’s financial condition, results of operations or liquidity.

Debt Securities Risk – In 2009, the Corporation’s earnings were materially impaired by securities losses. Much of the Corporation’s 2009 losses from trust-preferred securities and other securities stem from the much-publicized economic problems affecting the national and international economy, which particularly hurt the banking industry. The Corporation has exposure to the possibility of future losses from investments in obligations of states and political subdivisions (also known as municipal bonds) and other debt securities. For additional information regarding debt securities, see Note 7 to the consolidated financial statements.

The Federal Home Loan Bank of Pittsburgh - Through its subsidiary (C&N Bank), the Corporation is a member of the Federal Home Loan Bank of Pittsburgh (FHLB-Pittsburgh), which is one of 11 regional Federal Home Loan Banks. The Corporation has a line of credit with the FHLB-Pittsburgh that is secured by a blanket lien on its loan portfolio. Access to this line of credit is critical if a funding need arises. However, there can be no assurance that the FHLB-Pittsburgh will be able to provide funding when needed, nor can there be assurance that the FHLB-Pittsburgh will provide funds specifically to the Corporation should its financial condition deteriorate and/or regulators prevent that access. The inability to access this source of funds could have a materially adverse effect on the Corporation’s financial flexibility if alternate financing is not available at acceptable interest rates. The failure of the FHLB-Pittsburgh or the FHLB system in general, may materially impair the Corporation’s ability to meet short- and long-term liquidity needs or to meet growth plans.

The Corporation owns common stock of the FHLB-Pittsburgh in order to qualify for membership in the FHLB system and access services from the FHLB-Pittsburgh. The FHLB-Pittsburgh faces a variety of risks in its operations including interest rate risk, counterparty credit risk, and adverse changes in its regulatory framework. In addition, the 11 Federal Home Loan Banks are jointly liable for the consolidated obligations of the FHLB system. To the extent that one FHLB cannot meet its obligations, other FHLBs can be called upon to make required payments. Such risks affecting the FHLB-Pittsburgh could adversely impact the value of the Corporation’s investment in the common stock of the FHLB-Pittsburgh and/or affect its access to credit.

Soundness of Other Financial Institutions - In addition to the FHLB-Pittsburgh, the Corporation maintains other credit facilities that provide it with additional liquidity. These facilities include secured and unsecured borrowings from the Federal Reserve Bank and third-party commercial banks. The Corporation believes that it maintains a strong liquidity position and that it is well positioned to withstand foreseeable market conditions. However, legal agreements with counterparties typically include provisions allowing them to restrict or terminate the Corporation’s access to these credit facilities with or without advance notice and at their sole discretion.

Financial institutions are interconnected as a result of trading, clearing, counterparty, and other relationships. Financial market conditions have been negatively impacted in the past and such disruptions or adverse changes in the Corporation's results of operations or financial condition could, in the future, have a negative impact on available sources of liquidity. Such a situation may arise due to circumstances that are outside the Corporation’s control, such as general market disruptions or operational problems affecting the Corporation or third parties. The Corporation’s efforts to monitor and manage liquidity risk may not be successful or sufficient to deal with dramatic or unanticipated reductions in available liquidity. In such events, the Corporation’s cost of funds may increase, thereby reducing net interest income, or the Corporation may need to sell a portion of its securities and/or loan portfolio, which, depending upon market conditions, could necessitate realizing a loss.

FDIC Insurance Assessments - In 2008 and 2009, higher levels of bank failures dramatically increased the resolution costs of the Federal Deposit Insurance Corporation, or the FDIC, and depleted the deposit insurance fund. In addition, the FDIC and the U.S. Congress increased federal deposit insurance coverage, placing additional stress on the deposit insurance fund. In order to maintain a strong funding position and restore reserve ratios of the deposit insurance fund, in 2009 the FDIC increased assessment rates. Although our total expenses from FDIC assessments have steadily decreased – to $600,000 in 2014 (up slightly to $603,000 in 2015) from $2,092,000 in 2009, we are generally unable to control the amount of premiums that we are required to pay for FDIC insurance. If a significant number of bank or financial institution failures occur, we may be required to pay higher FDIC premiums. Future increases in FDIC insurance premiums or additional special assessments may materially adversely affect our results of operations.

Bank Secrecy Act and Related Laws and Regulations - These laws and regulations have significant implications for all financial institutions. They increase due diligence requirements and reporting obligations for financial institutions, create new crimes and penalties, and require the federal banking agencies, in reviewing merger and other acquisition transactions, to consider the effectiveness of the parties to such transactions in combating money laundering activities. Even innocent noncompliance and inconsequential failure to follow the regulations could result in significant fines or other penalties, which could have a material adverse impact on the Corporation's financial condition, results of operations or liquidity.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

The Bank owns each of its properties, except for the branch facilities located at 130 Court Street, Williamsport, PA, and at 2 East Mountain Avenue, South Williamsport, PA, which are leased. All of the properties are in good condition. None of the owned properties are subject to encumbrance.

A listing of properties is as follows:

Main administrative offices:

90-92 Main Street Wellsboro, PA 16901	or	10 Nichols Street Wellsboro, PA 16901

Branch offices – Citizens & Northern Bank:

428 S. Main Street Athens, PA 18810	514 Main Street Laporte, PA 18626	2 East Mountain Avenue ** South Williamsport, PA 17702
10 North Main Street Coudersport, PA 16915	4534 Williamson Trail Liberty, PA 16930	41 Main Street Tioga, PA 16946
111 W. Main Street Dushore, PA 18614	1085 S. Main Street Mansfield, PA 16933	428 Main Street Towanda, PA 18848
563 Main Street East Smithfield, PA 18817	612 James Monroe Avenue Monroeton, PA 18832	64 Elmira Street Troy, PA 16947
104 W. Main Street Elkland, PA 16920	3461 Route 405 Highway Muncy, PA 17756	90-92 Main Street Wellsboro, PA 16901
135 East Fourth Street Emporium, PA 15834	100 Maple Street Port Allegany, PA 16743	1510 Dewey Avenue Williamsport, PA 17701

230 Railroad Street Jersey Shore, PA 17740	24 Thompson Street Ralston, PA 17763	130 Court Street ** Williamsport, PA 17701
102 E. Main Street Knoxville, PA 16928	1827 Elmira Street Sayre, PA 18840	1467 Golden Mile Road Wysox, PA 18854
3 Main Street Canisteo, NY 14823	6250 County Rte 64 Hornell, NY 14843	

Facilities management office:

13 Water Street

Wellsboro, PA 16901

** designates leased branch facility

ITEM 3. LEGAL PROCEEDINGS

The Corporation and the Bank are involved in various legal proceedings incidental to their business. Management believes the aggregate liability, if any, resulting from such pending and threatened legal proceedings will not have a material adverse effect on the Corporation's financial condition or results of operations.

ITEM 4. MINE SAFETY DISCLOSURE

Not applicable.

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PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

QUARTERLY SHARE DATA

Trades of the Corporation’s stock are executed through various brokers who maintain a market in the Corporation’s stock. The Corporation’s stock is listed on the NASDAQ Capital Market with the trading symbol CZNC. As of December 31, 2015, there were 2,316 shareholders of record of the Corporation’s common stock.

The following table sets forth the high and low sales prices of the common stock during 2015 and 2014.

	2015			2014		
	High	Low	Dividend Declared per Quarter	High	Low	Dividend Declared per Quarter
First quarter	$21.50	$19.01	$ 0.26	$20.74	$18.19	$ 0.26
Second quarter	21.17	19.16	0.26	20.10	17.94	0.26
Third quarter	20.73	19.25	0.26	20.10	18.50	0.26
Fourth quarter	21.45	19.07	0.26	21.49	18.83	0.26

Future dividend payments will depend upon maintenance of a strong financial condition, future earnings and capital and regulatory requirements. Also, the Corporation and C&N Bank are subject to restrictions on the amount of dividends that may be paid without approval of banking regulatory authorities. These restrictions are described in Note 18 to the consolidated financial statements.

Effective July 17, 2014, the Corporation terminated its existing treasury stock repurchase programs and approved a new treasury stock repurchase program. Under the new program, the Corporation is authorized to repurchase up to 622,500 shares of the Corporation’s common stock, or approximately 5% of the Corporation’s issued and outstanding shares at July 16, 2014. As permitted by securities laws and other legal requirements and subject to market conditions and other factors, purchases under the new program may be made from time to time in the open market at prevailing prices, or through privately negotiated transactions.

Consistent with previous programs, the Board of Directors' July 17, 2014 authorization provides that: (1) the new treasury stock repurchase program shall be effective when publicly announced and shall continue thereafter until suspended or terminated by the Board of Directors, in its sole discretion; and (2) all shares of common stock repurchased pursuant to

the new program shall be held as treasury shares and be available for use and reissuance for purposes as and when determined by the Board of Directors including, without limitation, pursuant to the Corporation's Dividend Reinvestment and Stock Purchase Plan and its equity compensation program. Through December 31, 2015, 435,200 shares had been repurchased at a cost of $8,417,000.

The following table sets forth a summary of purchases by the Corporation, in the open market, of its equity securities during the fourth quarter 2015:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet be Purchased Under the Plans or Programs
October 1 - 31, 2015	8,000	$ 19.41	419,400	203,100
November 1 - 30, 2015	13,700	$ 19.98	433,100	189,400
December 1 - 31, 2015	2,100	$ 20.01	435,200	187,300

PERFORMANCE GRAPH

Set forth below is a chart comparing the Corporation's cumulative return to stockholders against the cumulative return of the Russell 2000 and a Peer Group Index of similar banking organizations selected by the Corporation for the five-year period commencing December 31, 2010 and ended December 31, 2015. The index values are market-weighted dividend-reinvestment numbers, which measure the total return for investing $100.00 five years ago. This meets Securities & Exchange Commission requirements for showing dividend reinvestment share performance over a five-year period and measures the return to an investor for placing $100.00 into a group of bank stocks and reinvesting any and all dividends into the purchase of more of the same stock for which dividends were paid.

	Period Ending					
Index	12/31/10	12/31/11	12/31/12	12/31/13	12/31/14	12/31/15
Citizens & Northern Corporation	100.00	128.69	137.49	157.68	166.63	178.31
Russell 2000	100.00	95.82	111.49	154.78	162.35	155.18
CZNC Peer Group Index*	100.00	93.86	112.37	140.86	154.64	162.21

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The Corporation's peer group consists of banks headquartered in Pennsylvania with total assets of $700 million to $2 billion as of September 30, 2015. This peer group consists of ACNB Corporation, Gettysburg; AmeriServ Financial, Inc., Johnstown; CB Financial Services , Inc., Carmichaels; Citizens Financial Services, Inc., Mansfield; Codorus Valley Bancorp, Inc., York; DNB Financial Corporation, Downingtown; ENB Financial Corp., Ephrata; ESSA Bancorp, Inc., Stroudsburg; Fidelity D&D Bancorp, Inc., Dunmore; First Keystone Corporation, Berwick; First National Community Bancorp, Inc., Dunmore; FNB Bancorp, Inc., Newtown; Fox Chase Bancorp, Inc., Hatboro; Franklin Financial Services Corporation, Chambersburg; Harleysville Savings Financial Corporation, Harleysville; Norwood Financial Corp., Honesdale; Orrstown Financial Services, Inc., Shippensburg; Penns Woods Bancorp, Inc., Williamsport; Peoples Financial Services Corp., Scranton; QNB Corp., Quakertown; Republic First Bancorp, Inc., Philadelphia; Royal Bancshares of Pennsylvania, Inc., Bala Cynwyd; Somerset Trust Holding Company, Somerset;1st Summit Bancorp of Johnstown, Inc., Johnstown; Mid Penn Bancorp, Inc., Millersburg; Embassy Bancorp, Inc., Bethlehem.

The data for this graph was obtained from SNL Financial LC, Charlottesville, VA.

EQUITY COMPENSATION PLAN INFORMATION

The following table sets forth information concerning the Stock Incentive Plan and Independent Directors Stock Incentive Plan, both of which have been approved by the Corporation's shareholders. The figures shown in the table below are as of December 31, 2015.

	Number of Securities to be Issued Upon Exercise of Outstanding Options	Weighted-average Exercise Price of Outstanding Options	Number of Securities Remaining for Future Issuance Under Equity Compen-sation Plans
Equity compensation plans approved by shareholders	248,486	$ 18.59	323,977
Equity compensation plans not approved by shareholders	0	N/A	0

More details related to the Corporation's equity compensation plans are provided in Notes 1 and 13 to the consolidated financial statements.

ITEM 6. SELECTED FINANCIAL DATA

As of or for the Year Ended December 31,

INCOME STATEMENT (In Thousands)	2015	2014	2013	2012	2011
Interest and fee income	$44,519	$46,009	$48,914	$56,632	$61,256
Interest expense	4,602	5,122	5,765	9,031	13,556
Net interest income	39,917	40,887	43,149	47,601	47,700
Provision (credit) for loan losses	845	476	2,047	288	(285)
Net interest income after provision (credit) for loan losses	39,072	40,411	41,102	47,313	47,985
Noninterest income excluding securities gains	15,404	15,420	16,451	16,383	13,897
Net impairment losses recognized in earnings from available-for-sale securities	0	0	(25)	(67)	0
Net realized gains on available-for-sale securities	2,861	1,104	1,743	2,749	2,216
Loss on prepayment of debt	2,573	0	1,023	2,333	0
Noninterest expense excluding loss on prepayment of debt	32,956	34,157	33,471	32,914	32,016
Income before income tax provision	21,808	22,778	24,777	31,131	32,082
Income tax provision	5,337	5,692	6,183	8,426	8,714
Net income	$16,471	$17,086	$18,594	$22,705	$23,368
PER COMMON SHARE:					
Basic earnings per share	$1.35	$1.38	$1.51	$1.86	$1.92
Diluted earnings per share	$1.35	$1.38	$1.50	$1.85	$1.92
Cash dividends declared per share	$1.04	$1.04	$1.00	$0.84	$0.58
Book value per common share at period-end	$15.39	$15.34	$14.49	$14.89	$13.77
Tangible book value per common share at period-end	$14.41	$14.36	$13.51	$13.91	$12.77
Weighted average common shares outstanding - basic	12,211,941	12,390,067	12,352,383	12,235,748	12,162,045
Weighted average common shares outstanding - diluted	12,233,773	12,412,050	12,382,790	12,260,208	12,166,768
END OF PERIOD BALANCES (In Thousands)					
Available-for-sale securities	$420,290	$516,807	$482,658	$472,577	$481,685
Gross loans	704,880	630,545	644,303	683,910	708,315
Allowance for loan losses	7,889	7,336	8,663	6,857	7,705
Total assets	1,223,417	1,241,963	1,237,695	1,286,907	1,323,735
Deposits	935,615	967,989	954,516	1,006,106	1,018,206
Borrowings	92,263	78,597	96,723	89,379	130,313
Stockholders' equity	187,487	188,362	179,472	182,786	167,385

Common shares outstanding	12,180,623	12,279,980	12,390,063	12,274,035	12,155,529
AVERAGE BALANCES (In Thousands)					
Total assets	1,243,209	1,239,897	1,237,096	1,305,163	1,313,445
Earning assets	1,159,298	1,155,401	1,145,340	1,199,538	1,208,584
Gross loans	657,727	627,753	656,495	700,241	714,421
Deposits	968,201	965,418	964,031	1,008,469	1,001,125
Stockholders' equity	188,905	185,469	181,412	175,822	152,718

ITEM 6. SELECTED FINANCIAL DATA (Continued)

As of or for the Year Ended December 31,

	2015	2014	2013	2012	2011
KEY RATIOS					
Return on average assets	1.32 %	1.38 %	1.50 %	1.74 %	1.78 %
Return on average equity	8.72 %	9.21 %	10.25%	12.91%	15.30%
Average equity to average assets	15.19%	14.96%	14.66%	13.47%	11.63%
Net interest margin (1)	3.69 %	3.80 %	4.05 %	4.26 %	4.22 %
Efficiency (2)	56.60%	57.59%	53.27%	48.82%	49.37%
Cash dividends as a % of diluted earnings per share	77.04%	75.36%	66.67%	45.41%	30.21%
Tier 1 leverage	14.31%	13.89%	13.78%	12.53%	10.93%
Tier 1 risk-based capital	23.40%	26.26%	25.15%	22.86%	19.95%
Total risk-based capital	24.45%	27.60%	26.60%	24.01%	21.17%
Tangible common equity/tangible assets	14.49%	14.34%	13.66%	13.39%	11.84%
Nonperforming assets/total assets	1.31 %	1.34 %	1.53 %	0.82 %	0.73 %
Nonperforming loans/total loans	2.09 %	2.45 %	2.80 %	1.41 %	1.19 %
Allowance for loan losses/total loans	1.12 %	1.16 %	1.34 %	1.00 %	1.09 %
Net charge-offs/average loans	0.04 %	0.29 %	0.04 %	0.16 %	0.16 %

(1) Rates of return on tax-exempt securities and loans are calculated on a fully-taxable equivalent basis.

(2) The efficiency ratio is calculated by dividing: (a) total noninterest expense excluding losses from prepayment of debt, by (b) the sum of net interest income (including income from tax-exempt securities and loans on a fully-taxable equivalent basis) and noninterest income excluding securities gains or losses.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Certain statements in this section and elsewhere in this Annual Report on Form 10-K are forward-looking statements. Citizens & Northern Corporation and its wholly-owned subsidiaries (collectively, the Corporation) intend such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Reform Act of 1995. Forward-looking statements, which are not historical facts, are based on certain assumptions and describe future plans, business objectives and expectations, and are generally identifiable by the use of words such as, "should", “likely”, "expect", “plan”, "anticipate", “target”, “forecast”, and “goal”. These forward-looking statements are subject to risks and uncertainties that are difficult to predict, may be beyond management’s control and could cause results to differ materially from those expressed or implied by such forward-looking statements. Factors which could have a material, adverse impact on the operations and future prospects of the Corporation include, but are not limited to, 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 accounting principles, or the application of generally accepted accounting principles.

These risks and uncertainties should be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements.

EARNINGS OVERVIEW

In 2015, net income totaled $16,471,000, or $1.35 per common share - basic and diluted, as compared to $1.38 per share – basic and diluted in 2014 and $1.51 per share basic and $1.50 per share – diluted in 2013. The results for 2015 represented a return on average assets of 1.32% and a return on average equity of 8.72%.

2015 vs. 2014

Net income per share – diluted for 2015 was 2.2% lower than in 2014. Some of the more significant highlights related to annual earnings in 2015 as compared to 2014 are as follows:

- Net interest income totaled $39,917,000 in 2015, down $970,000 (2.4%) from 2014. In 2015, yields earned on securities and loans fell by more than the corresponding drop in interest rates paid on deposits and borrowings. The net interest margin was 3.69% in 2015, down from 3.80% in 2014.

- The provision for loan losses was $845,000 in 2015, up from $476,000 in 2014. The higher 2015 provision for loan losses reflected an increase in outstanding loans in the year which resulted in an increase in the collectively determined portion of the allowance for loan losses. Gross loans at December 31, 2015 were $74.3 million, or 11.8%, higher than the balance a year earlier.

- In 2015, noninterest revenue, excluding net realized gains on available-for-sale securities, totaled $15,404,000, which was down slightly from $15,420,000 in 2014 The most significant changes in components of noninterest revenue for the year ended December 31, 2015 as compared to the corresponding period in 2014 included the following: (1) decrease of $161,000 (3.2%) in service charges on deposit accounts, primarily as a result of lower overdraft fees; (2) reduction of $135,000 as the fair value of servicing rights declined $162,000 in 2015 as compared to $27,000 in 2014; (3) net increase in revenues from Trust and brokerage services of $74,000 (1.4%); and (4) an increase in other operating income of $315,000, including a gain of $212,000 from a life insurance arrangement in which benefits were split between the Corporation and the heirs of a former employee as well as an increase of $36,000 in dividends from Federal Home Loan Bank of Pittsburgh stock and an increase of $28,000 in revenue from merchant services.

- Realized gains from available-for-sale securities totaled $2,861,000 and losses from prepayment of borrowings totaled $2,573,000 in 2015, while in 2014 realized gains from securities totaled $1,104,000 and there were no losses from prepayment of borrowings. In 2015, the Corporation sold a significant portion of its marketable equity securities portfolio, which was made up of bank stocks, generating realized gains of $2,220,000. Losses from prepayment of borrowings stemmed from pay-downs made in May and December 2015 totaling $34,000,000 on a long-term repurchase agreement with an interest rate of 4.265%. After the effects of these pay-downs, there was no balance outstanding on this repurchase agreement as of December 31, 2015. Management expects the combined result of the debt prepayments and reinvestment of proceeds from sales of stocks will make a positive contribution to net interest income in 2016.

- In 2015, noninterest expenses, excluding losses on prepayment of borrowings; totaled $32,956,000, which was $1,201,000 (3.5%) lower than total 2014 noninterest expenses. The reduction in noninterest expenses for the year ended December 31, 2015 as compared to the corresponding period in 2014 included the following: (1) a reduction in salaries and wages expenses of $439,000, mainly due to severance expenses in 2014; (2) a reduction in employee benefit-related expenses of $349,000 due to lower employee health insurance expense as a result of lower claims; (3) a reduction in Pennsylvania shares tax expense of $176,000, reflecting an increase in tax credits; (4) a reduction in professional fees expense of $161,000, as 2014 included expenses associated with an executive search; and (5) a reduction in other expenses of $182,000, including reductions in expenses from loan collections and other real estate properties.

2014 vs. 2013

Net income per share – diluted for 2014 was 8.0% lower than in 2013. Some of the more significant highlights related to annual earnings in 2014 as compared to 2013 are as follows:

- Net interest income totaled $40,887,000 in 2014, down $2,262,000 (5.2%) from 2013. In 2014, yields earned on securities and loans fell by more than the corresponding drop in interest rates paid on deposits and borrowings. Also, average total loans outstanding were 4.3% lower in 2014 as compared to 2013. The net interest margin was 3.80% in 2014, down from 4.05% in 2013.

- The provision for loan losses was $476,000 in 2014, down from $2,047,000 in 2013. The higher levels of expense in 2013 included a provision of $1,552,000 from loans to one commercial customer.

- In 2014, noninterest revenue, excluding net realized gains on available-for-sale securities, totaled $15,420,000, which was lower than the 2013 amount by $1,031,000 (6.3%). Gains from sales of residential mortgage loans totaled $768,000 in 2014, down from $1,969,000 in 2013, reflecting lower volume from refinancing activity. Service charges on deposit accounts fell $221,000 in 2014 as compared to 2013, a decline of 4.2%, primarily as a result of lower net overdraft fees. Total Trust and brokerage revenue of $5,391,000 in 2014 was $520,000 (10.7%) higher than in 2013.

- Realized gains from available-for-sale securities totaled $1,104,000 in 2014, while in 2013 realized gains from securities totaled $1,718,000 and losses from prepayment of borrowings totaled $1,023,000.

- In 2014, noninterest expenses totaled $34,157,000, which was $686,000 (2.0%) higher than total 2013 noninterest expenses, excluding the loss on prepayment of borrowings. Salaries and wages expense increased $915,000 in 2014 as compared to 2013, mainly as a result of severance benefits. Pensions and other employee benefit expenses increased $619,000, mainly due to higher health care costs and a charge related to a distribution from a defined benefit pension plan. Professional fees expense was $835,000 lower in 2014 as compared to 2013, as the total in 2013 included fees associated with projects designed to identify sources of noninterest revenue and reductions in debit card and ATM processing expense.

More detailed information concerning fluctuations in the Corporation's earnings results are provided in other sections of Management's Discussion and Analysis.

CRITICAL ACCOUNTING POLICIES

The presentation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect many of the reported amounts and disclosures. Actual results could differ from these estimates

A material estimate that is particularly susceptible to significant change is the determination of the allowance for loan losses. The Corporation maintains an allowance for loan losses that represents management's estimate of the losses inherent in the loan portfolio as of the balance sheet date and recorded as a reduction of the investment in loans. Management believes the allowance for loan losses is adequate and reasonable. Notes 1 and 8 to the consolidated financial statements provide an overview of the process management uses for evaluating and determining the allowance for loan losses, and additional discussion of the allowance for loan losses is provided in a separate section later in Management's Discussion and Analysis. Given the very subjective nature of identifying and valuing loan losses, it is likely that well-informed individuals could make materially different assumptions, and could, therefore calculate a materially different allowance value. While management uses available information to recognize losses on loans, changes in economic conditions may necessitate revisions in future years. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Corporation's allowance for loan losses. Such agencies may require the Corporation to recognize adjustments to the allowance based on their judgments of information available to them at the time of their examination.

Another material estimate is the calculation of fair values of the Corporation's debt securities. For most of the Corporation's debt securities, the Corporation receives estimated fair values of debt securities from an independent valuation service, or from brokers. In developing fair values, the valuation service and the brokers use estimates of cash flows, based on historical performance of similar instruments in similar interest rate environments. Based on experience, management is aware that estimated fair values of debt securities tend to vary among brokers and other valuation services.

As described in Note 7 to the consolidated financial statements, management evaluates securities for other-than-temporary impairment ("OTTI"). In making that evaluation, consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) whether the Corporation intends to sell the security or more likely than not will be required to sell the security before its anticipated recovery. Management's assessments of the likelihood and potential for recovery in value of securities are subjective and based on sensitive assumptions.

NET INTEREST INCOME

The Corporation's primary source of operating income is net interest income, which is equal to the difference between the amounts of interest income and interest expense. Tables I, II and III include information regarding the Corporation's net interest income in 2015, 2014, and 2013. In each of these tables, the amounts of interest income earned on tax-exempt securities and loans have been adjusted to a fully taxable-equivalent basis. Accordingly, the net interest income amounts reflected in these tables exceed the amounts presented in the consolidated financial statements. The discussion that follows is based on amounts in the tables.

2015 vs. 2014

Fully taxable equivalent net interest income was $42,819,000 in 2015, which was $1,074,000 (2.4%) lower than in 2014. As shown in Table III, in 2015 compared to 2014, interest rate changes had the effect of decreasing net interest income $2,283,000, and net changes in volume had the effect of increasing net interest income $1,209,000. The most significant components of the rate-related change in net interest income in 2015 were a decrease in interest income of $1,957,000 attributable to lower rates earned on loans receivable and a decrease of $468,000 in interest income on available-for-sale securities. The most significant components of the volume-related increase in net interest income in 2015 was an increase in interest income of $1,544,000 attributable to an increase in the balance of loans receivable, a decrease in interest expense of $270,000 attributable to a reduction in the balance of borrowed funds, and a decrease in interest expense of $117,000 attributable to a reduction in the balance of interest-bearing deposits (primarily certificates of deposit), partially offset by a volume-related decrease in interest income on available-for-securities of $681,000. As presented in Table II, the “Interest Rate Spread” (excess of average rate of return on earning assets over average cost of funds on interest-bearing liabilities) was 3.54% in 2015 as compared to 3.63% in 2014.

INTEREST INCOME AND EARNING ASSETS

Interest income totaled $47,421,000 in 2015, a decrease of 3.2% from 2014. Interest and fees on loans receivable decreased $413,000, or 1.2%. As indicated in Table II, average available-for-sale securities (at amortized cost) totaled $479,148,000 in 2015, a decrease of $15,786,000 (3.2%) from 2014. The net decrease in the Corporation’s available-for-sale securities portfolio consisted of decreases in tax-exempt municipal securities, U.S. Government mortgage-backed securities, U.S. Government agency bonds, and equity securities. These decreases were partially offset by increases in the balances of collateralized mortgage obligations and taxable municipal securities. The Corporation’s yield on securities was lower in 2015 than in 2014, primarily because of low market interest rates on new investments combined with higher-yielding securities maturing. The average rate of return on available-for-sale securities was 2.81% for 2015 and 2.95% in 2014.

The average balance of gross loans receivable increased 4.8% to $657,727,000 in 2015 from $627,753,000 in 2014. The Corporation experienced growth in the balances of tax free municipal loans, residential mortgages and participation loans purchased. These increases were partially offset by decreases in balances of commercial real estate loans. The Corporation's average rate of return on loans receivable declined to 5.15% in 2015 from 5.46% in 2014.

The average balance of interest-bearing due from banks decreased to $22,201,000 in 2015 from $32,510,000 in 2014. This has consisted primarily of balances held by the Federal Reserve and also includes other overnight deposits and FDIC-insured certificates of deposit issued by other financial institutions.

INTEREST EXPENSE AND INTEREST-BEARING LIABILITIES

Interest expense fell $520,000, or 10.2%, to $4,602,000 in 2015 from $5,122,000 in 2014. Table II shows that the overall cost of funds on interest-bearing liabilities fell to 0.55% in 2015 from 0.61% in 2014.

Total average deposits (interest-bearing and noninterest-bearing) increased 0.3%, to $968,201,000 in 2015 from $965,418,000 in 2014. Decreases in the average balances of certificates of deposit, Individual Retirement Accounts, and money market accounts were partially offset by increases in average balances of interest checking, savings accounts and non-interest bearing demand deposits. The average rate paid on interest-bearing deposits fell slightly to 0.26% in 2015 from 0.28% in 2014.

Total average borrowed funds decreased $2,298,000 to $77,642,000 in 2015 from $79,940,000 in 2014. The average rate on borrowed funds was 3.45% in 2015 compared to 3.70% in 2014, reflecting a $6,982,000 reduction in the average balance of higher-rate, long-term borrowings resulting from pre-payment of a long-term repurchase agreement borrowing with an interest rate of 4.265%. The Corporation paid off $10 million of principal on this borrowing in May 2015, and $24 million in December 2015, leaving no remaining balance outstanding at December 31, 2015. (The pre-payment of long-term borrowings is described in the Earnings Overview section.) The average balance of short-term borrowings increased $4,684,000 in 2015 over 2014, as average overnight borrowings were higher in 2015 and the Corporation funded the pay-off of the long-term repurchase agreement in December 2015 with funds from a series of short-term advances from the FHLB-Pittsburgh totaling $25,072,000 and an average rate of 0.86%.

2014 vs. 2013

Fully taxable equivalent net interest income was $43,893,000 in 2014, which was $2,491,000 (5.3%) lower than in 2013. As shown in Table III, in 2014 compared to 2013, interest rate changes had the effect of decreasing net interest income $1,622,000, and net changes in volume had the effect of decreasing net interest income $869,000. The most significant component of the rate-related change in net interest income in 2014 was a decrease in interest income of $1,718,000 attributable to lower rates earned on loans receivable. The most significant components of the volume-related decrease in net interest income in 2014 were a decrease in interest income of $1,602,000 attributable to a decline in the balance of loans receivable, partially offset by a volume-related increase in interest income on available-for-securities of $499,000, a decrease in interest expense of $161,000 attributable to a reduction in the balance of interest-bearing deposits (primarily certificates of deposit) and a decrease in interest expense of $109,000 attributable to a reduction in the balance of borrowed funds. As presented in Table II, the “Interest Rate Spread” (excess of average rate of return on earning assets over average cost of funds on interest-bearing liabilities) was 3.63% in 2014 as compared to 3.88% in 2013.

INTEREST INCOME AND EARNING ASSETS

Interest income totaled $49,015,000 in 2014, a decrease of 6.0% from 2013. Interest and fees on loans receivable decreased $3,320,000, or 8.8%. As indicated in Table II, average available-for-sale securities (at amortized cost) totaled $494,934,000 in 2014, an increase of $33,370,000 (7.2%) from 2013. Net increase in the Corporation’s available-for-sale securities portfolio was primarily made up of U.S. Government agency mortgage-backed securities and collateralized mortgage obligations. This increase was partially offset by decreases in the balances of U.S. Government agency bonds. The Corporation’s yield on securities was lower in 2014 than in 2013, primarily because of low market interest rates. The average rate of return on available-for-sale securities was 2.95% for 2014 and 3.12% in 2013.

The average balance of gross loans receivable decreased 4.3% to $627,753,000 in 2014 from $656,495,000 in 2013. The Corporation experienced contraction in the balance of loans receivable due to borrowers prepaying or refinancing existing loans combined with modest demand for new loans. The decline in the balance of the residential mortgage portfolio was also affected by management’s decision to sell a significant portion of newly originated residential mortgages on the secondary market. The Corporation’s average rate of return on loans receivable declined to 5.46% in 2014 from 5.73% in 2013.

The average balance of interest-bearing due from banks increased to $32,510,000 in 2014 from $26,159,000 in 2013. This has consisted primarily of balances held by the Federal Reserve and also includes other overnight deposits and FDIC-insured certificates of deposit issued by other financial institutions.

INTEREST EXPENSE AND INTEREST-BEARING LIABILITIES

Interest expense fell $643,000, or 11.1%, to $5,122,000 in 2014 from $5,765,000 in 2013. Table II shows that the overall cost of funds on interest-bearing liabilities fell to 0.61% in 2014 from 0.67% in 2013.

Total average deposits (interest-bearing and noninterest-bearing) increased 0.1%, to $965,418,000 in 2014 from $964,031,000 in 2013. Decreases in the average balances of certificates of deposit, Individual Retirement Accounts, and money market accounts were partially offset by increases in average balances of interest checking, savings accounts and non-interest bearing demand deposits. Consistent with continuing low short-term market interest rates, the average rates incurred on certificates of deposit and Individual Retirement Accounts have continued to decrease in 2014 as compared to 2013.

Total average borrowed funds decreased $2,388,000 to $79,940,000 in 2014 from $82,328,000 in 2013. The average rate on borrowed funds was 3.70% in 2014, compared to 3.72% in 2013.

TABLE I - ANALYSIS OF INTEREST INCOME AND EXPENSE

(In Thousands)	Years Ended December 31, 2015	2014	2013	Increase/(Decrease) 2015/2014	2014/2013
INTEREST INCOME					
Available-for-sale securities:					
Taxable	$7,587	$8,028	$7,105	$(441)	$923
Tax-exempt	5,869	6,577	7,296	(708)	(719)
Total available-for-sale securities	13,456	14,605	14,401	(1,149)	204
Interest-bearing due from banks	93	125	105	(32)	20
Loans held for sale	16	16	54	0	(38)
Loans receivable:					
Taxable	31,311	32,127	35,484	(816)	(3,357)
Tax-exempt	2,545	2,142	2,105	403	37
Total loans receivable	33,856	34,269	37,589	(413)	(3,320)
Total Interest Income	47,421	49,015	52,149	(1,594)	(3,134)
INTEREST EXPENSE					
Interest-bearing deposits:					
Interest checking	214	216	211	(2)	5
Money market	299	286	290	13	(4)
Savings	128	121	117	7	4
Certificates of deposit	831	1,069	1,522	(238)	(453)
Individual Retirement Accounts	451	470	562	(19)	(92)
Other time deposits	1	1	1	0	0
Total interest-bearing deposits	1,924	2,163	2,703	(239)	(540)
Borrowed funds:					
Short-term	32	9	9	23	0
Long-term	2,646	2,950	3,053	(304)	(103)
Total borrowed funds	2,678	2,959	3,062	(281)	(103)
Total Interest Expense	4,602	5,122	5,765	(520)	(643)
Net Interest Income	$42,819	$43,893	$46,384	$(1,074)	$(2,491)

(1) Interest income from tax-exempt securities and loans has been adjusted to a fully taxable-equivalent basis, using the Corporation's marginal federal income tax rate of 35%.

(2) Fees on loans are included with interest on loans and amounted to $1,004,000 in 2015, $1,013,000 in 2014, and $1,338,000 in 2013.

TABLE II - ANALYSIS OF AVERAGE DAILY BALANCES AND RATES

(Dollars in Thousands)

	Year Ended 12/31/2015 Average Balance	Rate of Return/ Cost of Funds %	Year Ended 12/31/2014 Average Balance	Rate of Return/ Cost of Funds %	Year Ended 12/31/2013 Average Balance	Rate of Return/ Cost of Funds %
EARNING ASSETS						
Available-for-sale securities, at amortized cost:						
Taxable	$366,448	2.07 %	$371,125	2.16 %	$330,980	2.15 %
Tax-exempt	112,700	5.21 %	123,809	5.31 %	130,584	5.59 %
Total available-for-sale securities	479,148	2.81 %	494,934	2.95 %	461,564	3.12 %
Interest-bearing due from banks	22,201	0.42 %	32,510	0.38 %	26,159	0.40 %
Federal funds sold	0	0.00 %	0	0.00 %	4	0.00 %
Loans held for sale	222	7.21 %	204	7.84 %	1,118	4.83 %
Loans receivable:						
Taxable	603,771	5.19 %	589,120	5.45 %	620,412	5.72 %
Tax-exempt	53,956	4.72 %	38,633	5.54 %	36,083	5.83 %
Total loans receivable	657,727	5.15 %	627,753	5.46 %	656,495	5.73 %
Total Earning Assets	1,159,298	4.09 %	1,155,401	4.24 %	1,145,340	4.55 %
Cash	16,639		16,865		16,854	
Unrealized gain/loss on securities	8,871		6,350		8,875	
Allowance for loan losses	(7,380)		(7,992)		(7,204)	
Bank premises and equipment	15,911		16,789		18,154	
Intangible Asset - Core Deposit Intangible	41		70		113	
Intangible Asset – Goodwill	11,942		11,942		11,942	
Other assets	37,887		40,472		43,022	
Total Assets	$1,243,209		$1,239,897		$1,237,096	
INTEREST-BEARING LIABILITIES						
Interest-bearing deposits:						
Interest checking	$195,940	0.11 %	$183,874	0.12 %	$174,790	0.12 %
Money market	196,585	0.15 %	198,990	0.14 %	203,023	0.14 %
Savings	128,355	0.10 %	121,685	0.10 %	117,055	0.10 %
Certificates of deposit	121,803	0.68 %	134,732	0.79 %	148,598	1.02 %
Individual Retirement Accounts	110,659	0.41 %	120,016	0.39 %	129,255	0.43 %
Other time deposits	1,031	0.10 %	1,039	0.10 %	1,062	0.09 %

Total interest-bearing deposits	754,373	0.26	%	760,336	0.28	%	773,783	0.35 %
Borrowed funds:								
Short-term	11,428	0.28	%	6,744	0.13	%	6,422	0.14 %
Long-term	66,214	4.00	%	73,196	4.03	%	75,906	4.02 %
Total borrowed funds	77,642	3.45	%	79,940	3.70	%	82,328	3.72 %
Total Interest-bearing Liabilities	832,015	0.55	%	840,276	0.61	%	856,111	0.67 %
Demand deposits	213,828			205,082			190,248	
Other liabilities	8,461			9,070			9,325	
Total Liabilities	1,054,304			1,054,428			1,055,684	
Stockholders' equity, excluding other comprehensive income/loss	183,125			181,271			175,893	
Other comprehensive income/loss	5,780			4,198			5,519	
Total Stockholders' Equity	188,905			185,469			181,412	
Total Liabilities and Stockholders' Equity	$1,243,209			$1,239,897			$1,237,096	
Interest Rate Spread		3.54	%		3.63	%		3.88 %
Net Interest Income/Earning Assets		3.69	%		3.80	%		4.05 %
Total Deposits (Interest-bearing and Demand)	$968,201			$965,418			$964,031	

(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.

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TABLE III - ANALYSIS OF VOLUME AND RATE CHANGES

(In Thousands)	Year Ended 12/31/15 vs. 12/31/14			Year Ended 12/31/14 vs. 12/31/13		
	Change in Volume	Change in Rate	Total Change	Change in Volume	Change in Rate	Total Change
EARNING ASSETS						
Available-for-sale securities:						
Taxable	$ (100)	$ (341)	$ (441)	$ 868	$ 55	$ 923
Tax-exempt	(581)	(127)	(708)	(369)	(350)	(719)
Total available-for-sale securities	(681)	(468)	(1,149)	499	(295)	204
Interest-bearing due from banks	(42)	10	(32)	24	(4)	20
Loans held for sale	1	(1)	0	(60)	22	(38)
Loans receivable:						
Taxable	786	(1,602)	(816)	(1,746)	(1,611)	(3,357)
Tax-exempt	758	(355)	403	144	(107)	37
Total loans receivable	1,544	(1,957)	(413)	(1,602)	(1,718)	(3,320)
Total Interest Income	822	(2,416)	(1,594)	(1,139)	(1,995)	(3,134)
INTEREST-BEARING LIABILITIES						
Interest-bearing deposits:						
Interest checking	14	(16)	(2)	11	(6)	5
Money market	(3)	16	13	(6)	2	(4)
Savings	7	0	7	5	(1)	4
Certificates of deposit	(97)	(141)	(238)	(133)	(320)	(453)
Individual Retirement Accounts	(38)	19	(19)	(38)	(54)	(92)
Other time deposits	0	0	0	0	0	0
Total interest-bearing deposits	(117)	(122)	(239)	(161)	(379)	(540)
Borrowed funds:						
Short-term	9	14	23	0	0	0
Long-term	(279)	(25)	(304)	(109)	6	(103)
Total borrowed funds	(270)	(11)	(281)	(109)	6	(103)
Total Interest Expense	(387)	(133)	(520)	(270)	(373)	(643)
Net Interest Income	$ 1,209	$ (2,283)	$ (1,074)	$ (869)	$ (1,622)	$ (2,491)

(1) Changes in income 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) The change in interest due to both volume and rates has been allocated to volume and rate changes in proportion to the relationship of the absolute dollar amounts of the change in each.

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NONINTEREST INCOME

Years Ended December 31, 2015, 2014 and 2013

The table below presents a comparison of noninterest income and excludes realized gains on available-for-sale securities, which are discussed in the "Earnings Overview" section of Management's Discussion and Analysis.

TABLE IV - COMPARISON OF NONINTEREST INCOME

(In Thousands)

	Years Ended December 31,		$	%
	2015	2014	Change	Change
Service charges on deposit accounts	$4,864	$5,025	$(161)	(3.2)
Service charges and fees	494	538	(44)	(8.2)
Trust and financial management revenue	4,626	4,490	136	3.0
Brokerage revenue	839	901	(62)	(6.9)
Insurance commissions, fees and premiums	109	118	(9)	(7.6)
Interchange revenue from debit card transactions	1,935	1,959	(24)	(1.2)
Net gains from sales of loans	735	768	(33)	(4.3)
Decrease in fair value of servicing rights	(162)	(27)	(135)	500.0
Increase in cash surrender value of life insurance	386	376	10	2.7
Net (loss) gain from premises and equipment	(1)	8	(9)	(112.5)
Other operating income	1,579	1,264	315	24.9
Total other operating income before realized gains on available-for-sale securities, net	$15,404	$15,420	$(16)	(0.1)

	Years Ended December 31,		$	%
	2014	2013	Change	Change
Service charges on deposit accounts	$5,025	$5,246	$(221)	(4.2)
Service charges and fees	538	597	(59)	(9.9)
Trust and financial management revenue	4,490	4,087	403	9.9
Brokerage revenue	901	784	117	14.9
Insurance commissions, fees and premiums	118	170	(52)	(30.6)
Interchange revenue from debit card transactions	1,959	1,941	18	0.9
Net gains from sales of loans	768	1,969	(1,201)	(61.0)
(Decrease) increase in fair value of servicing rights	(27)	67	(94)	(140.3)
Increase in cash surrender value of life insurance	376	399	(23)	(5.8)

Net gain (loss) from premises and equipment	8	(16)	24	(150.0)
Other operating income	1,264	1,207	57	4.7
Total other operating income before realized gains on available-for-sale securities, net	$ 15,420	$ 16,451	$ (1,031)	(6.3)

Total noninterest income, excluding realized gains on available-for-sale securities, decreased $16,000 in 2015 compared to 2014. In 2014, total noninterest income decreased $1,031,000 (6.3%) from 2013. Changes of significance are discussed in the narrative that follows.

2015 vs. 2014

Service charges on deposit accounts were $161,000 lower in 2015 than 2014. Total consumer and business overdraft and uncollected funds fees decreased $387,000 in 2015 as compared to 2014. These decreases were partially offset by adjustments to the existing fee structure of certain checking products in April 2015.

The fair value of servicing rights decreased $162,000 in 2015 as compared to a decrease of $27,000 in 2014. The greater decline in fair value in 2015 reflected the impact of a reduction in the outstanding balance of mortgage loans sold and serviced in 2015, as compared to an increase in the balance of loans serviced in 2014 over 2013.

Included in the $315,000 increase in other operating revenue in 2015 is the effect of a $212,000 gain recognized from a life insurance arrangement in which the benefits were split between Corporation and the heirs of the former employee.

In 2015, Trust and financial management revenue increased $136,000, or 3.0%. This increase was primarily in retirement services revenue.

2014 vs. 2013

Net gains from sales of loans decreased $1,201,000 in 2014. Since December 2009, the Corporation has sold a significant amount of residential mortgage loans into the secondary market through the MPF Xtra and Original programs administered by the Federal Home Loan Banks of Pittsburgh and Chicago. Volume remained brisk throughout most of 2013, slowing somewhat in the fourth quarter 2013 with a continued slowdown throughout 2014 reflecting a decrease in refinancing activity.

Service charges on deposit accounts were $221,000 lower in 2014 than 2013. Consumer and business overdraft fees decreased $543,000 in 2014 as compared to 2013. Changes made as a result of recommendations made by a consulting firm in 2013 resulted in service charges on deposit accounts of $611,000 in 2014 as compared to $229,000 in 2013, as most of the recommendations were implemented in the fourth quarter 2013.

In 2014, Trust and financial management revenue increased $403,000, or 9.9%. The increase in trust revenue in 2014 reflects the impact of new business obtained as well as higher valuations of U.S. equity securities throughout most of the period. Assets under management by the Corporation’s Trust and financial management group totaled $825,918,000 at December 31, 2014, an increase of 3.7% over the total one year earlier.

As a result of increased annuity sales, brokerage revenue increased $117,000 or 14.9% in 2014 over 2013.

NONINTEREST EXPENSE

Years Ended December 31, 2015, 2014 and 2013

As shown in Table V below, total noninterest expense increased $1,372,000, or 4.0%, in 2015 as compared to 2014; however, excluding losses from prepayment of debt, noninterest expense decreased $1,201,000 (3.5%) in 2015 as compared to 2014. Excluding losses from prepayment of debt, total noninterest expense was $686,000 (2.0%) higher in 2014 as compared to 2013. In 2015, the Corporation incurred losses totaling $2,573,000 and, in 2013, losses totaling $1,023,000 from prepayment of borrowings (repurchase agreements). There were no losses from prepayment of borrowings incurred in 2014. Changes of significance (other than the previously discussed losses on prepayment of debt) are discussed in the narrative that follows.

TABLE V - COMPARISON OF NONINTEREST EXPENSE

(In Thousands)

	2015	2014	$ Change	% Change
Salaries and wages	$14,682	$15,121	$(439)	(2.9)
Pensions and other employee benefits	4,420	4,769	(349)	(7.3)
Occupancy expense, net	2,574	2,628	(54)	(2.1)
Furniture and equipment expense	1,860	1,859	1	0.1
FDIC Assessments	603	600	3	0.5
Pennsylvania shares tax	1,174	1,350	(176)	(13.0)
Professional fees	538	699	(161)	(23.0)
Automated teller machine and interchange expense	988	924	64	6.9
Software subscriptions	876	784	92	11.7
Loss on prepayment of debt	2,573	0	2,573	100.0
Other operating expense	5,241	5,423	(182)	(3.4)
Total Other Expense	$35,529	$34,157	$1,372	4.0

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	2014	2013	$ Change	% Change
Salaries and wages	$15,121	$14,206	$915	6.4
Pensions and other employee benefits	4,769	4,150	619	14.9
Occupancy expense, net	2,628	2,473	155	6.3
Furniture and equipment expense	1,859	1,948	(89)	(4.6)
FDIC Assessments	600	604	(4)	(0.7)
Pennsylvania shares tax	1,350	1,402	(52)	(3.7)
Professional fees	699	1,534	(835)	(54.4)
Automated teller machine and interchange expense	924	1,020	(96)	(9.4)
Software subscriptions	784	836	(52)	(6.2)
Loss on prepayment of debt	0	1,023	(1,023)	(100.0)
Other operating expense	5,423	5,298	125	2.4
Total Other Expense	$34,157	$34,494	$(337)	(1.0)

2015 vs 2014

Salaries and wages decreased $439,000, or 2.9%. As noted in the Earnings Overview section, this decrease is primarily the result of severance benefits incurred and paid in 2014. The decrease from severance benefits was partially offset by annual merit-based pay increases, an increase in incentive and other bonuses of $168,000 and the addition of new lending and other personnel. At December 31, 2015, the Corporation had 283 full-time equivalent employees, up from 278 a year earlier.

Pensions and other employee benefits decreased $349,000, or 7.3%. Health care expense decreased $342,000 as the amount of claims incurred during 2015 was lower than in 2014. The Corporation is self-insured for health insurance, up to a cap for catastrophic levels of losses, which are insured by a third party. In addition, pension expense decreased $111,000 as the result of a charge in 2014 related to a distribution from a defined benefit plan. These decreases were partially offset by annual increases in other benefit and administrative costs.

Pennsylvania shares tax decreased $176,000, including the effects of increased participation in state tax credit programs.

Professional fees decreased $161,000 as a result of nonrecurring executive search expenses that were incurred in 2014.

Included in other operating expense is a $191,000 decrease in loan collection expenses as well as an $86,000 decrease in other real estate expenses.

2014 vs. 2013

Salaries and wages increased $915,000, or 6.4%. As noted in the Earnings Overview section, this increase is primarily the result of severance benefits incurred and paid in 2014.

Pensions and other employee benefits increased $619,000, or 14.9%. Health care expense increased $415,000 as the amount of claims incurred during 2014 was higher than in 2013. The Corporation is self-insured for health insurance, up to a cap for catastrophic levels of losses, which are insured by a third party In addition, the Corporation incurred a $196,000 charge related to a distribution from a defined benefit plan.

Occupancy expense increased $155,000, or 6.3%, primarily due to increased weather related costs such as snow removal, fuel, utilities and maintenance.

Professional fees decreased $835,000, or 54.4%. The Corporation incurred professional fee expense of $1,039,000 in 2013 for two large consulting engagements. Similar size engagements did not occur during 2014.

Automated teller machine and interchange expenses decreased $96,000, or 9.4%, mainly resulting from benefits derived from a consulting project related to electronic funds processing that took place in 2013.

INCOME TAXES

The effective income tax rate was approximately 24.5% of pre-tax income in 2015, and 25% of pre-tax income in 2014 and 2013. The Corporation's effective tax rates differ from the statutory rate of 35% principally because of the effects of tax-exempt interest income.

The Corporation recognizes deferred tax assets and liabilities based on differences between the financial statement carrying amounts and the tax basis of assets and liabilities. At December 31, 2015, the net deferred tax asset was $3,115,000, an increase from the balance at December 31, 2014 of $1,668,000. The largest changes in temporary difference components were as follows:

- Primarily as a result of the realization of $2,861,000 in gains on the sale of available-for-sale securities, the deferred tax liability resulting from net unrealized gains on available-for-sale securities decreased to $1,342,000 at December 31, 2015 from $2,844,000 at December 31, 2014.

- There was no deferred tax asset representing a credit for alternative minimum tax paid at December 31, 2015 as the Corporation's federal taxable income in 2015 exceeded alternative minimum taxable income sufficiently to utilize the available credit. At December 31, 2014 the related deferred tax asset amounted to $537,000.

The Corporation regularly reviews deferred tax assets for recoverability based on history of earnings, expectations for future earnings and expected timing of reversals of temporary differences. Realization of deferred tax assets ultimately depends on the existence of sufficient taxable income, including taxable income in prior carryback years, as well as future taxable income. Management believes the recorded net deferred tax asset at December 31, 2015 is fully realizable; however, if management determines the Corporation will be unable to realize all or part of the net deferred tax asset, the Corporation would adjust the deferred tax asset, which would negatively impact earnings.

Additional information related to income taxes is presented in Note 14 to the consolidated financial statements.

SECURITIES

Table VI shows the composition of the investment portfolio at December 31, 2015, 2014 and 2013. Comparison of the amortized cost totals of available-for-sale securities at each year-end presented reflects an increase of $24,479,000 to $508,682,000 at December 31, 2014 from December 31, 2013. This change was followed by a decrease of

$92,227,000 to $416,455,000 at December 31, 2015. After experiencing an increase in securities in 2014 as a result of a reduction in the balances of loans outstanding, the Corporation saw a reversal of that trend in 2015. The decrease in securities in 2015 reflects, in part, using cash generated from the investment portfolio to fund the increase in loans outstanding. Over the last year, the Corporation saw a decrease in almost all categories of investments, with the largest decrease being a $46,475,000 reduction in collateralized mortgage-backed obligations (CMOs) issued or guaranteed by U.S. Government agencies. As discussed in more detail in Note 7 to the financial statements, the Corporation reported net realized gains from available-for-sale securities of $2,861,000 in 2015, including realized gains from sales of equity securities (bank stocks) of $2,220,000. In comparison, net realized gains from available-for-sale securities totaled $1,104,000 in 2014 and $1,718,000 in 2013.

As reflected in Table VI, the fair value of available-for-sale securities as of December 31, 2015 was $3,835,000, or 0.92%, higher than the total amortized cost basis. The aggregate unrealized gain position at December 31, 2015 was down from $8,125,000 at December 31, 2014, mainly due to sales of a significant portion of the Corporation's equity securities with substantial market appreciation in 2015. The aggregate unrealized gain position at December 31, 2015 included an unrealized gain of $3,129,000 on debt securities as well as an unrealized gain of $706,000 on marketable equity securities. Changes in intermediate-term and long-term interest rates have a significant impact on changes in fair values of debt securities. The aggregate unrealized gain on debt securities at December 31, 2015 was 0.75% of the amortized cost basis, down slightly from 1.01% at December 31, 2014 and up from a net unrealized loss on debt securities of 0.93% of amortized cost at December 31, 2013.

Management has reviewed the Corporation's holdings as of December 31, 2015 and concluded that unrealized losses on all of the securities in an unrealized loss position are considered temporary. Notes 6 and 7 to the consolidated financial statements provide more detail concerning the Corporation's processes for evaluating securities for other-than-temporary impairment. Management will continue to closely monitor the status of impaired securities in 2016.

TABLE VI - INVESTMENT SECURITIES

	As of December 31,					
	2015		2014		2013	
(In Thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
AVAILABLE-FOR-SALE SECURITIES:						
Obligations of U.S. Government agencies	$10,663	$10,483	$27,221	$26,676	$47,382	$45,877
Obligations of states and political subdivisions:						
Tax-exempt	103,414	107,757	120,086	124,839	127,748	128,426
Taxable	34,317	34,597	33,637	33,878	35,154	34,471
Mortgage-backed securities	73,227	73,343	82,479	83,903	84,849	86,208
Collateralized mortgage obligations, Issued by U.S. Government agencies	193,145	191,715	239,620	238,823	182,372	178,092
Other collateralized debt obligations	9	9	34	34	660	660
Total debt securities	414,775	417,904	503,077	508,153	478,165	473,734
Marketable equity securities	1,680	2,386	5,605	8,654	6,038	8,924
Total	$416,455	$420,290	$508,682	$516,807	$484,203	$482,658

The following table presents the contractual maturities and the weighted-average yields (calculated based on amortized cost) of investment securities as of December 31, 2015. Yields on tax-exempt securities are presented on a nominal basis, that is, the yields are not presented on a fully taxable-equivalent basis. Actual maturities may differ from contractual maturities because counterparties may have the right to call or prepay obligations with or without call or prepayment penalties.

(In Thousands, Except for Percentages)	Within One Year	Yield	One- Five Years	Yield	Five- Ten Years	Yield	After Ten Years	Yield	Total	Yield
AVAILABLE-FOR-SALE SECURITIES:										
Obligations of U.S. Government agencies	$1,006	3.32%	$6,650	1.35%	$3,007	1.53%	$0	0.00%	$10,663	1.59%
Obligations of states and political subdivisions:										
Tax-exempt	4,645	2.83%	36,609	2.48%	28,666	2.70%	33,494	4.74%	103,414	3.29%
Taxable	3,436	2.03%	17,381	2.02%	13,500	2.91%	0	0.00%	34,317	2.37%
Other collateralized debt obligations	0	0.00%	0	0.00%	0	0.00%	9	0.00%	9	0.00%
Subtotal	$9,087	2.58%	$60,640	2.23%	$45,173	2.69%	$33,503	4.73%	$148,403	2.95%
Mortgage-backed securities									73,227	2.17%
									193,145	2.01%

Collateralized mortgage obligations, Issued by U.S. Government agencies		
Total	$414,775	2.38%

The Corporation's mortgage-backed securities and collateralized mortgage obligations have stated maturities that may differ from actual maturities due to borrowers' ability to prepay obligations. Cash flows from such investments are dependent upon the performance of the underlying mortgage loans and are generally influenced by the level of interest rates. As rates increase, cash flows generally decrease as prepayments on the underlying mortgage loans decrease. As rates decrease, cash flows generally increase as prepayments increase due to increased refinance activity and other factors. In the table above, the entire balances and weighted-average rates for mortgage-backed securities and collateralized mortgage obligations are shown in one period.

FINANCIAL CONDITION

Gross loans outstanding (excluding mortgage loans held for sale) were $704,880,000 at December 31, 2015, up 11.8% from $630,545,000 at December 31, 2014. The outstanding balance of tax-exempt municipal loans totaled $40,007,000 at December 31, 2015, an increase of $22,473,000 from December 31, 2014, and total participation loans outstanding amounted to $33,059,000 at December 31, 2015, an increase of $28,113,000 from December 31, 2014. The increase in municipal loans in 2015 includes loans to two school districts in the Corporation's market area with outstanding balances totaling $15,947,000 at December 31, 2015. Participation loans represent portions of larger commercial transactions for which other institutions are the "lead banks". Although not the lead bank, the Corporation conducts detailed underwriting and monitoring of participation loan opportunities. Participation loans are included in the "Commercial and industrial" and "Commercial loans secured by real estate" classes in the loan tables presented in this Form 10-K. At December 31, 2015, the balance of participation loans outstanding includes $8,860,000 to a business based in the Corporation's market area, $10,000,000 to an entity located outside of the Corporation's market area and $10,020,000 from participations in loans originated through the Corporation's membership in a network that originates loans throughout the U.S. The Corporation's participation loans originated through the network consist of loans to businesses that are larger than the Corporation's typical commercial customer base. The loans originated through the network are considered "leveraged loans," meaning the businesses typically have minimal tangible book equity and the extent of collateral available is limited, though the businesses have demonstrated strong cash flow performance in their recent histories.

The balance of available-for-sale securities fell $96,517,000 to $420,290,000 at December 31, 2015 from $516,807,000 at December 31, 2014. As discussed in the Earnings Overview section, the reduction included sales of securities for which the proceeds were used to pre-pay long-term debt with a book value of $34 million prior to the pay-down. The reduction also included use of proceeds from calls and maturities of securities to fund the increase in loans receivable and to offset some of the impact of the decrease in deposits in the second half of 2015, as the Pennsylvania state budget impasse led to reduced deposit balances held by municipal entities such as school districts, local governments and human service agencies.

Other significant changes in the average balances of the Corporation's earning assets and interest-bearing liabilities are described in the Net Interest Income section of Management's Discussion and Analysis. The discussion provides useful information regarding changes in the Corporation's balance sheet over the 3-year period ended December 31, 2015, including discussions related to available-for-sale securities, loans, deposits and borrowings. Other significant balance sheet items - the allowance for loan losses and stockholders' equity - are discussed in separate sections of Management's Discussion and Analysis.

Table VIII presents loan maturity data as of December 31, 2015. The interest rate simulation model classifies certain loans under different categories than they appear in Table VII. Fixed-rate loans are shown in Table VIII based on their contractually scheduled principal repayments, and variable-rate loans are shown based on the date of the next change in rate. Table VIII shows that fixed-rate loans are approximately 39% of the loan portfolio. Of the 61% of the portfolio made up of variable-rate loans, a significant portion (42%) will re-price after more than one year. Variable-rate loans re-pricing after more than one year include significant amounts of residential and commercial real estate loans. The Corporation's substantial investment in long-term, fixed-rate loans and variable-rate loans with extended periods until re-pricing is one of the concerns management attempts to address through interest rate risk management practices. See Part II, Item 7A for a more detailed discussion of the Corporation's interest rate risk.

Since 2009, the Corporation has originated and sold residential mortgage loans to the secondary market through the MPF Xtra program administered by the Federal Home Loan Banks of Pittsburgh and Chicago. Residential mortgages originated and sold through the MPF Xtra program consist primarily of conforming, prime loans sold to the Federal National Mortgage Association (Fannie Mae), a government agency. In 2014, the Corporation began to originate and sell residential mortgage loans to the secondary market through the MPF Original program, which is also administered by the Federal Home Loan Banks of Pittsburgh and Chicago. Residential mortgages originated and sold through the MPF Original program consist primarily of conforming, prime loans sold to the Federal Home Loan Bank of Pittsburgh. For loans sold under the Original program, the Corporation provides a credit enhancement whereby the Corporation would assume credit losses in excess of a defined First Loss Account ("FLA") balance, up to specified amounts. The FLA is funded by the Federal Home Loan Bank of Pittsburgh based on a percentage of the outstanding balance of loans sold. The Corporation does not provide a credit enhancement for loans sold through the Xtra program.

For loan sales originated under the MPF Xtra and Original programs, the Corporation provides customary representations and warranties to investors that specify, among other things, that the loans have been underwritten to the standards established by the investor. The Corporation may be required to repurchase a loan and reimburse a portion of fees received, or reimburse the investor for a credit loss incurred on a loan, if it is determined that the representations and warranties have not been met. Such repurchases or reimbursements generally result from an underwriting or documentation deficiency. At December 31, 2015, the total outstanding balance of loans the Corporation has repurchased as a result of identified instances of noncompliance amounted to $1,968,000, and the corresponding total outstanding balance repurchased at December 31, 2014 was $1,802,000.

At December 31, 2015, outstanding balances of loans sold and serviced through the two programs totaled $152,448,000, including loans sold through the MPF Xtra program of $125,571,000 and loans sold through the Original program of $26,877,000. At December 31, 2014, outstanding balances of loans sold and serviced through the two programs totaled $152,505,000, including loans sold through the MPF Xtra program of $144,743,000 and loans sold through the Original program of $7,762,000. Based on the fairly limited volume of required repurchases to date, and of sales through the Original program with credit enhancement, no allowance had been established for representation and warranty exposures, or for credit losses on loan sales through the Original program as of December 31, 2015 and 2014.

Total future capital purchases in 2016 are estimated at approximately $2.8 million. Management does not expect capital expenditures to have a material, detrimental effect on the Corporation's financial condition during 2016.

TABLE VII - Five-year Summary of Loans by Type

(In Thousands)

	2015	%	2014	%	2013	%	2012	%	2011	%
Residential mortgage:										
Residential mortgage loans - first liens	$304,783	43.2	$291,882	46.3	$299,831	46.5	$311,627	45.6	$331,015	46.7
Residential mortgage loans - junior liens	21,146	3.0	21,166	3.4	23,040	3.6	26,748	3.9	28,851	4.1
Home equity lines of credit	39,040	5.5	36,629	5.8	34,530	5.4	33,017	4.8	30,037	4.2
1-4 Family residential construction	21,121	3.0	16,739	2.7	13,909	2.2	12,842	1.9	9,959	1.4
Total residential mortgage	386,090	54.8	366,416	58.1	371,310	57.6	384,234	56.2	399,862	56.5
Commercial:										
Commercial loans secured by real estate	154,779	22.0	145,878	23.1	147,215	22.8	158,413	23.2	156,388	22.1
Commercial and industrial	75,196	10.7	50,157	8.0	42,387	6.6	48,442	7.1	57,191	8.1
Political subdivisions	40,007	5.7	17,534	2.8	16,291	2.5	31,789	4.6	37,620	5.3
	5,122	0.7	6,938	1.1	17,003	2.6	28,200	4.1	23,518	3.3

Commercial construction										
Loans secured by farmland	7,019	1.0	7,916	1.3	10,468	1.6	11,403	1.7	10,949	1.5
Multi-family (5 or more) residential	9,188	1.3	8,917	1.4	10,985	1.7	6,745	1.0	6,583	0.9
Agricultural loans	4,671	0.7	3,221	0.5	3,251	0.5	3,053	0.4	2,987	0.4
Other commercial loans	12,152	1.7	13,334	2.1	14,631	2.3	362	0.1	552	0.1
Total commercial	308,134	43.7	253,895	40.3	262,231	40.7	288,407	42.2	295,788	41.8
Consumer	10,656	1.5	10,234	1.6	10,762	1.7	11,269	1.6	12,665	1.8
Total	704,880	100.0	630,545	100.0	644,303	100.0	683,910	100.0	708,315	100.0
Less: allowance for loan losses	(7,889)		(7,336)		(8,663)		(6,857)		(7,705)	
Loans, net	$696,991		$623,209		$635,640		$677,053		$700,610	

TABLE VIII – LOAN MATURITY DISTRIBUTION

(In Thousands)

	As of December 31, 2015							
	Fixed-Rate Loans				Variable- or Adjustable-Rate Loans			
	1 Year or Less	1-5 Years	>5 Years	Total	1 Year or Less	1-5 Years	>5 Years	Total
Real Estate	$2,915	$17,658	$171,617	$192,190	$87,874	$183,361	$78,665	$349,900
Commercial	8,964	28,121	31,850	68,935	51,460	31,220	602	83,282
Consumer	1,899	5,257	3,340	10,496	41	0	36	77
Total	$13,778	$51,036	$206,807	$271,621	$139,375	$214,581	$79,303	$433,259

PROVISION AND ALLOWANCE FOR LOAN LOSSES

The Corporation maintains an allowance for loan losses that represents management's estimate of the losses inherent in the loan portfolio as of the balance sheet date and recorded as a reduction of the investment in loans. Notes 1 and 8 to the consolidated financial statements provide an overview of the process management uses for evaluating and determining the allowance for loan losses.

While management uses available information to recognize losses on loans, changes in economic conditions may necessitate revisions in future years. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Corporation's allowance for loan losses. Such agencies may require the Corporation to recognize adjustments to the allowance based on their judgments of information available to them at the time of their examination.

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The allowance for loan losses was $7,889,000 at December 31, 2015, up from $7,336,000 at December 31, 2014. As shown in Table X, specific allowances on impaired loans totaled $820,000 at December 31, 2015, which was $51,000 higher than the total of specific allowances on impaired loans at December 31, 2014. Table X also shows the collectively determined component of the allowance for commercial loans was $371,000 higher and for residential mortgages was $122,000 higher at December 31, 2015 than at December 31, 2014. The increase in loans outstanding had the effect of increasing the collectively determined portion of the allowance for loan losses, as the Corporation's net charge-off experience and qualitative data used in the December 31, 2015 allowance calculations were comparable to the December 31, 2014 data.

The provision for loan losses is determined based on the amount required in order to maintain an appropriate allowance for loan losses in light of all factors considered. The provision for loan losses by segment for 2015, 2014 and 2013 is as follows:

(In Thousands)			
	2015	2014	2013
Residential mortgage	$(19)	$250	$559
Commercial	816	227	1,507
Consumer	16	2	24
Unallocated	32	(3)	(43)
Total	$845	$476	$2,047

The provision for loan losses was $845,000 in 2015, in comparison to $476,000 in 2014 and $2,047,000 in 2013. As shown in Table XII, the average provision for loan losses for the five-year period ended December 31, 2015 was $674,000. The total amount of the provision for loan losses for each period is determined based on the amount required to maintain an appropriate allowance.

In 2015, the provision for loan losses related to the commercial segment was $816,000, as compared to $227,000 in 2014 and $1,507,000 in 2013. The increase in the provision for the commercial segment in 2015 as compared to 2014 includes the effects of the increase in the collectively determined allowance due to loan growth, as previously described. The provision for the commercial segment in 2015 also reflects the establishment of an allowance of $595,000 on a multi-family residential loan with a balance of $987,000 at December 31, 2015, partially offset by the effects of a recovery of $208,000 on loans charged-off in prior years. In 2014, the provision for the commercial segment included the effects of increases as compared to 2013 in average net charge-offs (based on historical experience over the previous thirty-six months) and qualitative factors used to estimate a portion of the collectively determined allowance, partially offset by lower loan balances, while the 2013 provision related to the commercial segment included a provision of $1,552,000 from the establishment of an allowance on loans to one borrower.

In 2015, the $19,000 credit for loan losses in the residential mortgage segment relates primarily to an adjustment to a specific allowance related to one loan relationship, partially offset by the effects of the previously described increase in the collectively determined allowance due to loan growth. In 2014, the provision for the residential mortgage segment was $250,000 as compared to $559,000 in 2013, reflecting the effect of lower loans outstanding.

Table XI presents information related to past due and impaired loans, and loans that have been modified under terms that are considered troubled debt restructurings (TDRs). Table XI shows total impaired loans of $9,774,000 at December 31, 2015, down $2,342,000 from the corresponding amount at December 31, 2014 of $12,316,000. Table XI shows that total impaired loans at December 31, 2013 was significantly higher than the corresponding amounts at December 31, 2011 and 2012, and that the amount of impaired loans (as well as nonperforming loans as reflected in the table) decreased in 2014 and again in 2015. The increase in impaired and nonaccrual loans outstanding in 2013, and the subsequent decrease in 2014 and 2015, included the effects of changes in the outstanding balance of large loans to two commercial entities. For one of the credits for which there was a loan balance of $1,815,000 and an allowance of $211,000 at December 31, 2014 and $72,000 at December 31, 2013, the Corporation acquired the commercial property that had collateralized the loan through foreclosure and sold the property, resulting in no remaining loan balance and a charge-off of $115,000 in 2015. For the other large commercial relationship, as described in the following paragraph, during the second quarter 2014, the Corporation recorded a charge-off of $1,486,000 related to a restructuring, which has reduced the outstanding balance of loans to this commercial entity to $4,997,000 at December 31, 2015.

As shown in Table XI, loans classified as TDRs decreased to $6,364,000 at December 31, 2015 from $7,195,000 at December 31, 2014. The reduction in outstanding TDRs in 2015 includes the effect of pay-offs received on loans secured by farmland. The balance of TDRs at December 31, 2014 had increased from $4,175,000 at December 31, 2013, mainly due to a restructuring agreement with one commercial borrower. The Corporation entered into a forbearance agreement with this commercial borrower which includes a reduction in monthly payment amounts over a fifteen-month period. At the end of the fifteen-month period, the monthly payment amounts would revert to the original amounts, unless the forbearance agreement is extended or the payment requirements are otherwise modified. In July 2015, the forbearance agreement was extended for twelve months. The Corporation recorded a charge-off of $1,486,000 in the second quarter 2014 as a result of these modifications, as the payment amounts based on the forbearance agreement are not sufficient to fully amortize the contractual amount of principal outstanding on the loans. The amount of the charge-off was determined based on the excess of the contractual principal due over the present value of the payment amounts provided for in the forbearance agreement, assuming the revised payment amounts would continue until maturity, at the contractual interest rates.

Table XI reflects total loans past due 30-89 days and still accruing interest at December 31, 2015 of $7,057,000, down slightly from the December 31, 2014 total of $7,121,000. Total loans past due 90 days or more and still in accrual status increased to $3,229,000 at December 31, 2015 from $2,843,000 at December 31, 2014 mainly due to increased past due 1-4 family residential mortgages. Interest continues to be accrued on loans 90 days or more past due that management deems to be well secured and in the process of collection, and for which no loss is anticipated. Over the period 2011-2015, each period includes a few large commercial relationships that have required significant monitoring and workout efforts. As a result, a limited number of relationships may significantly impact the total amount of allowance required on impaired loans, and may significantly impact the amount of total charge-offs reported in any one period.

Management believes it has been conservative in its decisions concerning identification of impaired loans, estimates of loss, and nonaccrual status; however, the actual losses realized from these relationships could vary materially from the allowances calculated as of December 31, 2015. Management continues to closely monitor its commercial loan relationships for possible credit losses, and will adjust its estimates of loss and decisions concerning nonaccrual status, if appropriate.

Tables IX through XII present historical data related to the allowance for loan losses.

TABLE IX - ANALYSIS OF THE ALLOWANCE FOR LOAN LOSSES

(In Thousands)	Years Ended December 31,				
	2015	2014	2013	2012	2011
Balance, beginning of year	$7,336	$8,663	$6,857	$7,705	$9,107

Charge-offs:					
Residential mortgage	(217)	(327)	(95)	(552)	(100)
Commercial	(251)	(1,715)	(459)	(498)	(1,189)
Consumer	(94)	(97)	(117)	(171)	(157)
Total charge-offs	(562)	(2,139)	(671)	(1,221)	(1,446)
Recoveries:					
Residential mortgage	1	25	24	18	3
Commercial	214	264	348	8	255
Consumer	55	47	58	59	71
Total recoveries	270	336	430	85	329
Net charge-offs	(292)	(1,803)	(241)	(1,136)	(1,117)
Provision (credit) for loan losses	845	476	2,047	288	(285)
Balance, end of period	$7,889	$7,336	$8,663	$6,857	$7,705
Net charge-offs as a % of average loans	0.04 %	0.29 %	0.04 %	0.16 %	0.16 %

TABLE X - COMPONENTS OF THE ALLOWANCE FOR LOAN LOSSES

(In Thousands)

	As of December 31,				
	2015	2014	2013	2012	2011
ASC 310 - Impaired loans	$820	$769	$2,333	$623	$1,126
ASC 450 - Collective segments:					
Commercial	3,103	2,732	2,583	2,594	2,811
Residential mortgage	3,417	3,295	3,156	3,011	3,130
Consumer	122	145	193	188	204
Unallocated	427	395	398	441	434
Total Allowance	$7,889	$7,336	$8,663	$6,857	$7,705

TABLE XI - PAST DUE AND IMPAIRED LOANS, NONPERFORMING ASSETS

AND TROUBLED DEBT RESTRUCTURINGS (TDRs)

(In Thousands)

	As of December 31,				
	2015	2014	2013	2012	2011
Impaired loans with a valuation allowance	$1,933	$3,241	$9,889	$2,710	$3,433
Impaired loans without a valuation allowance	8,041	9,075	6,432	4,719	4,431
Total impaired loans	$9,974	$12,316	$16,321	$7,429	$7,864
Total loans past due 30-89 days and still accruing	$7,057	$7,121	$8,305	$7,756	$7,898
Nonperforming assets:					
Total nonaccrual loans	$11,517	$12,610	$14,934	$7,353	$7,197
Total loans past due 90 days or more and still accruing	3,229	2,843	3,131	2,311	1,267
Total nonperforming loans	14,746	15,453	18,065	9,664	8,464
Foreclosed assets held for sale (real estate)	1,260	1,189	892	879	1,235
Total nonperforming assets	$16,006	$16,642	$18,957	$10,543	$9,699
Loans subject to troubled debt restructurings (TDRs):					
Performing	$1,186	$1,807	$3,267	$906	$1,064
Nonperforming	5,178	5,388	908	1,155	2,413
Total TDRs	$6,364	$7,195	$4,175	$2,061	$3,477
Total nonperforming loans as a % of loans	2.09 %	2.45 %	2.80 %	1.41 %	1.19 %
Total nonperforming assets as a % of assets	1.31 %	1.34 %	1.53 %	0.82 %	0.73 %
Allowance for loan losses as a % of total loans	1.12 %	1.16 %	1.34 %	1.00 %	1.09 %
Allowance for loan losses as a % of nonperforming loans	53.50 %	47.47 %	47.95 %	70.95 %	91.03 %

TABLE XII - FIVE-YEAR HISTORY OF LOAN LOSSES

(In Thousands)

	2015	2014	2013	2012	2011	Average
Average gross loans	$657,727	$627,753	$656,495	$700,241	$714,421	$671,327
Year-end gross loans	704,880	630,545	644,303	683,910	708,315	674,391
Year-end allowance for loan losses	7,889	7,336	8,663	6,857	7,705	7,690
Year-end nonaccrual loans	11,517	12,610	14,934	7,353	7,197	10,722
Year-end loans 90 days or more past due and still accruing	3,229	2,843	3,131	2,311	1,267	2,556
Net charge-offs	292	1,803	241	1,136	1,117	918
Provision (credit) for loan losses	845	476	2,047	288	(285)	674
Earnings coverage of charge-offs	56	9	77	20	21	21
Allowance coverage of charge-offs	27	4	36	6	7	8
Net charge-offs as a % of provision (credit) for loan losses	34.56 %	378.78 %	11.77 %	394.44 %	-391.93 %	136.20 %
Net charge-offs as a % of average gross loans	0.04 %	0.29 %	0.04 %	0.16 %	0.16 %	0.14 %
Net income	16,471	17,086	18,594	22,705	23,368	19,645

CONTRACTUAL OBLIGATIONS AND OFF-BALANCE SHEET ARRANGEMENTS

Table XIII presents the Corporation’s significant fixed and determinable contractual obligations as of December 31, 2015 by payment date. The payment amounts represent the principal amounts of time deposits and borrowings and do not include interest.

TABLE XIII – CONTRACTUAL OBLIGATIONS

(In Thousands)

	1 Year or Less	1-3 Years	3-5 Years	Over 5 Years	Total
Time deposits	$124,562	$73,596	$23,515	$11	$221,684
Short-term borrowings:					
Federal Home Loan Bank of Pittsburgh	48,581	0	0	0	48,581
Customer repurchase agreements	4,915	0	0	0	4,915
Long-term borrowings:					
Federal Home Loan Bank of Pittsburgh	57	10,010	0	1,700	11,767
Repurchase agreements	0	27,000	0	0	27,000

Total	$178,115	$110,606	$23,515	$1,711	$313,947

In addition to the amounts described in Table XIII, the Corporation has obligations related to deposits without a stated maturity with outstanding principal balances totaling $713,931,000 at December 31, 2015.

The Corporation's operating lease and other commitments at December 31, 2015 are immaterial. The Corporation's significant off-balance sheet arrangements consist of commitments to extend credit and standby letters of credit. Off-balance sheet arrangements are described in Note 16 to the consolidated financial statements.

LIQUIDITY

Liquidity is the ability to quickly raise cash at a reasonable cost. An adequate liquidity position permits the Corporation to pay creditors, compensate for unforeseen deposit fluctuations and fund unexpected loan demand. At December 31, 2015, the Corporation maintained overnight interest-bearing deposits with the Federal Reserve Bank of Philadelphia and other correspondent banks totaling $18,603,000.

The Corporation maintains overnight borrowing facilities with several correspondent banks that provide a source of day-to-day liquidity. Also, the Corporation maintains borrowing facilities with the Federal Home Loan Bank of Pittsburgh, secured by various mortgage loans.

The Corporation has a line of credit with the Federal Reserve Bank of Philadelphia's Discount Window. Management intends to use this line of credit as a contingency funding source. As collateral for the line, the Corporation has pledged available-for-sale securities with a carrying value of $20,039,000 at December 31, 2015.

The Corporation's outstanding, available, and total credit facilities at December 31, 2015 and December 31, 2014 are as follows:

	Outstanding		Available		Total Credit	
(In Thousands)	Dec. 31, 2015	Dec. 31, 2014	Dec. 31, 2015	Dec. 31, 2014	Dec. 31, 2015	Dec. 31, 2014
Federal Home Loan Bank of Pittsburgh	$60,348	$12,060	$262,361	$311,007	$322,709	$323,067
Federal Reserve Bank Discount Window	0	0	19,606	25,367	19,606	25,367
Other correspondent banks	0	0	45,000	45,000	45,000	45,000
Total credit facilities	$60,348	$12,060	$326,967	$381,374	$387,315	$393,434

At December 31, 2015, the Corporation's outstanding credit facilities with the Federal Home Loan Bank of Pittsburgh consisted of overnight borrowings of $23,500,000, short-term borrowings of $25,081,000, and long-term borrowings with a total amount of $11,767,000. At December 31, 2014, the Corporation's outstanding credit facilities with the Federal Home Loan Bank of Pittsburgh consisted of long-term borrowings with a total amount of $12,060,000. Additional information regarding borrowed funds is included in Note 12 to the consolidated financial statements.

Additionally, the Corporation uses repurchase agreements placed with brokers to borrow funds secured by investment assets and "RepoSweep" arrangements to borrow funds from commercial banking customers on an overnight basis. If required to raise cash in an emergency situation, the Corporation could sell available-for-sale securities to meet its obligations. At December 31, 2015, the carrying value of available-for-sale securities in excess of amounts required to meet pledging or repurchase agreement obligations was $255,527,000.

Management believes the Corporation is well-positioned to meet its short-term and long-term obligations.

STOCKHOLDERS' EQUITY AND CAPITAL ADEQUACY

The Corporation and C&N Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Details concerning regulatory capital amounts and ratios are presented in Note 18 to the consolidated financial statements. As reflected in Note 18, at December 31, 2015 and 2014, the Corporation's and

Bank's capital ratios are well in excess of regulatory capital requirements.

In July 2013, the federal regulatory authorities issued a new capital rule based, in part, on revisions developed by the Basel Committee on Banking Supervision to the Basel capital framework (Basel III). The Corporation and C&N Bank are subject to the new rule on January 1, 2015. Generally, the new rule implements higher minimum capital requirements, revises the definition of regulatory capital components and related calculations, adds a new common equity tier 1 capital ratio, implements a new capital conservation buffer, increases the risk weighting for past due loans and provides a transition period for several aspects of the new rule.

A summarized comparison of the existing capital requirements with requirements under the new rule is as follows:

	Current General Risk-Based Capital Rule	New Capital Rule
Minimum regulatory capital ratios:		
Common equity tier 1 capital/ risk-weighted assets (RWA)	N/A	4.5%
Tier 1 capital / RWA	4%	6%
Total capital / RWA	8%	8%
Tier 1 capital / Average assets (Leverage ratio)	4%	4%
Capital buffers:		
Capital conservation buffer	N/A	2.5% of RWA; composed of common equity tier 1 capital
Prompt correction action levels - Common equity tier 1 capital ratio:		
Well capitalized	N/A	³6.5%
Adequately capitalized	N/A	³4.5%
Undercapitalized	N/A	<4.5%
Significantly undercapitalized	N/A	<3%
Prompt correction action levels - Tier 1 capital ratio:		
Well capitalized	³6%	³8%
Adequately capitalized	³4%	³6%
Undercapitalized	<4%	<6%
Significantly undercapitalized	<3%	<4%
Prompt correction action levels - Total capital ratio:		
Well capitalized	³10%	³10%
Adequately capitalized	³8%	³8%
Undercapitalized	<8%	<8%
Significantly undercapitalized	<6%	<6%
Prompt correction action levels - Leverage ratio:		
Well capitalized	³5%	³5%
Adequately capitalized	³4%	³4%
Undercapitalized	<4%	<4%
Significantly undercapitalized	<3%	<3%
Prompt correction action levels - Critically undercapitalized:		
Tangible equity to total assets	≤2%	≤2%

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The new capital rule provides that, in order to avoid limitations on capital distributions, including dividend payments and certain discretionary bonus payments to executive officers, a banking organization must hold a capital conservation buffer composed of common equity tier 1 capital above its minimum risk-based capital requirements. The buffer is measured relative to risk-weighted assets. Phase-in of the capital conservation buffer requirements will begin January 1, 2016. The transition schedule for new ratios, including the capital conservation buffer, is as follows:

	As of January 1:				
	2015	2016	2017	2018	2019
Minimum common equity tier 1 capital ratio	4.5 %	4.5 %	4.5 %	4.5 %	4.5 %
Common equity tier 1 capital conservation buffer	N/A	0.625 %	1.25 %	1.875 %	2.5 %
Minimum common equity tier 1 capital ratio plus capital conservation buffer	4.5 %	5.125 %	5.75 %	6.375 %	7.0 %
Phase-in of most deductions from common equity tier 1 capital	40 %	60 %	80 %	100 %	100 %
Minimum tier 1 capital ratio	6.0 %	6.0 %	6.0 %	6.0 %	6.0 %
Minimum tier 1 capital ratio plus capital conservation buffer	N/A	6.625 %	7.25 %	7.875 %	8.5 %
Minimum total capital ratio	8.0 %	8.0 %	8.0 %	8.0 %	8.0 %
Minimum total capital ratio plus capital conservation buffer	N/A	8.625 %	9.25 %	9.875 %	10.5 %

As fully phased in, a banking organization with a buffer greater than 2.5% would not be subject to additional limits on dividend payments or discretionary bonus payments; however, a banking organization with a buffer less than 2.5% would be subject to increasingly stringent limitations as the buffer approaches zero. The new rule also prohibits a banking organization from making dividend payments or discretionary bonus payments if its eligible retained income is negative in that quarter and its capital conservation buffer ratio was less than 2.5% as of the beginning of that quarter. Eligible net income is defined as net income for the four calendar quarters preceding the current calendar quarter, net of any distributions and associated tax effects not already reflected in net income. A summary of payout restrictions based on the capital conservation buffer is as follows:

Capital Conservation Buffer (as a % of risk-weighted assets)	Maximum Payout (as a % of eligible retained income)
Greater than 2.5%	No payout limitation applies
≤2.5% and >1.875%	60%
≤1.875% and >1.25%	40%
≤1.25% and >0.625%	20%
≤0.625%	0%

Future dividend payments will depend upon maintenance of a strong financial condition, future earnings and capital and regulatory requirements. In addition, the Corporation and C&N Bank are subject to restrictions on the amount of dividends that may be paid without approval of banking regulatory authorities. These restrictions are described in Note 18 to the consolidated financial statements.

Management expects the Corporation and C&N Bank to maintain capital levels that exceed the regulatory standards for well-capitalized institutions for the next 12 months and for the foreseeable future. Planned capital expenditures are not expected to have a significantly detrimental effect on capital ratios.

The Corporation's total stockholders' equity is affected by fluctuations in the fair values of available-for-sale securities. The difference between amortized cost and fair value of available-for-sale securities, net of deferred income tax, is included in Accumulated Other Comprehensive Income (Loss) within stockholders' equity. The balance in Accumulated Other Comprehensive Income (Loss) related to unrealized gains (losses) on available-for-sale securities, net of deferred income tax, amounted to $2,493,000 at December 31, 2015, $5,281,000 at December 31, 2014 and ($1,004,000) at December 31, 2013. Changes in accumulated other comprehensive income (loss) are excluded from earnings and directly increase or decrease stockholders' equity. If available-for-sale securities are deemed to be other-than-temporarily impaired, unrealized losses are recorded as a charge against earnings, and amortized cost for the affected securities is reduced. Note 7 to the consolidated financial statements provides additional information concerning management's evaluation of available-for-sale securities for other-than-temporary impairment at December 31, 2015.

Stockholders' equity is also affected by the underfunded or overfunded status of defined benefit pension and postretirement plans. The balance in Accumulated Other Comprehensive Income related to defined benefit plans, net of deferred income tax, was $35,000 at December 31, 2015, $79,000 at December 31, 2014 and $11,000 at December 31, 2013.

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. Changes in the components of Accumulated Other Comprehensive Income (Loss) are included in Other Comprehensive Income, and for the Corporation, consist of changes in unrealized gains or losses on available-for-sale securities and changes in underfunded or overfunded defined benefit plans.

Comprehensive Income totaled $13,639,000 in 2015 as compared to $23,439,000 in 2014 and $6,598,000 in 2013. In 2015, Comprehensive Income included: (1) Net Income of $16,471,000, which was $615,000 lower than in 2014 and $2,123,000 lower than in 2013; (2) Other Comprehensive Loss from unrealized losses on available-for-sale securities, net of deferred income tax, of ($2,788,000) as compared to Other Comprehensive Income of $6,285,000 in 2014 and Other Comprehensive Loss of $12,572,000 in 2013; and (3) Other Comprehensive Loss from defined benefit plans of $44,000 in 2015 as compared to Other Comprehensive Income of $68,000 in 2014 and Other Comprehensive Income of $576,000 in 2013. Fluctuations in interest rates significantly affected fair values of available-for-sale securities in 2013 through 2015, and accordingly have an effect on Other Comprehensive Income (Loss) in each year.

INFLATION

The Corporation is significantly affected by the Federal Reserve Board's efforts to control inflation through changes in short-term interest rates. Beginning in September 2007, in response to concerns about weakness in the U.S. economy, the Federal Reserve lowered the fed funds target rate numerous times; in December 2008, it established a target range of 0% to 0.25%, which it maintained through mid-December 2015. On December 16, 2015, the Federal Reserve raised their target for the federal funds rate to 0.25% to 0.50%. This decision was based on data available that suggested economic activity had been expanding at a moderate pace. This included an increase in household spending, business fixed investments increasing, and an improvement in labor market conditions. Also, throughout this period, the Federal Reserve has injected massive amounts of liquidity into the nation's monetary system through a variety of programs. The Federal Reserve has purchased large amounts of securities in an effort to keep interest rates low and stimulate economic growth. Beginning in late 2013, the Federal Reserve began reducing the amount of securities purchased under its asset purchase program and then ended the program in October 2014, though still reinvesting principal payments from its holdings of agency debt and agency mortgage-backed securities in agency mortgage-backed securities and continued to roll over maturing Treasury securities at auction. The Federal Reserve maintained their commitment to this policy in their December 16, 2015 statement and anticipates doing so until normalization of the level of the federal funds rate is well under way.

Despite the current low short-term rate environment, inflation statistics indicate that the overall rate of inflation is unlikely to significantly affect the Corporation's operations within the near future. Although management cannot predict future changes in the rates of inflation, management monitors the impact of economic trends, including any indicators of inflationary pressures, in managing interest rate and other financial risks.

RECENT ACCOUNTING PRONOUNCEMENTS

See Note 2 to the consolidated financial statements for a description of recent accounting pronouncements and their recent or potential future effects on the Corporation's financial statements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

MARKET RISK

Market risk is the risk of loss arising from adverse changes in market rates and prices of the Corporation's financial instruments. In addition to the effects of interest rates, the market prices of the Corporation's debt securities within the available-for-sale securities portfolio are affected by fluctuations in the risk premiums (amounts of spread over risk-free rates) demanded by investors. Management attempts to limit the risk that economic conditions would force the Corporation to sell securities for realized losses by maintaining a strong capital position (discussed in the "Stockholders' Equity and Capital Adequacy" section of Management's Discussion and Analysis) and ample sources of liquidity (discussed in the "Liquidity" section of Management's Discussion and Analysis).

The Corporation's two major categories of market risk are interest rate risk and equity securities risk, which are discussed in the following sections.

INTEREST RATE RISK

Business risk arising from changes in interest rates is an inherent factor in operating a bank. The Corporation's assets are predominantly long-term, fixed-rate loans and debt securities. Funding for these assets comes principally from shorter-term deposits and borrowed funds. Accordingly, there is an inherent risk of lower future earnings or decline in fair value of the Corporation's financial instruments when interest rates change.

The Corporation uses a simulation model to calculate the potential effects of interest rate fluctuations on net interest income and the market value of portfolio equity. For purposes of these calculations, the market value of portfolio equity includes the fair values of financial instruments, such as securities, loans, deposits and borrowed funds, and the book values of nonfinancial assets and liabilities, such as premises and equipment and accrued expenses. The model measures and projects potential changes in net interest income, and calculates the discounted present value of anticipated cash flows of financial instruments, assuming an immediate increase or decrease in interest rates. Management ordinarily runs a variety of scenarios within a range of plus or minus 100-400 basis points of current rates.

The model makes estimates, at each level of interest rate change, regarding cash flows from principal repayments on loans and mortgage-backed securities and call activity on other investment securities. Actual results could vary significantly from these estimates, which could result in significant differences in the calculations of projected changes in net interest income and market value of portfolio equity. Also, the model does not make estimates related to changes in the composition of the deposit portfolio that could occur due to rate competition, and the table does not necessarily reflect changes that management would make to realign the portfolio as a result of changes in interest rates.

The Corporation's Board of Directors has established policy guidelines for acceptable levels of interest rate risk, based on an immediate increase or decrease in interest rates. The policy limits acceptable fluctuations in net interest income from the baseline (flat rates) one-year scenario and variances in the market value of portfolio equity from the baseline values based on current rates.

Table XIV, which follows this discussion, is based on the results of calculations performed using the simulation model as of December 31, 2015 and October 31, 2014. The table shows that as of the respective dates, the changes in net interest income and changes in market value were within the policy limits in all scenarios.

TABLE XIV - THE EFFECT OF HYPOTHETICAL CHANGES IN INTEREST RATES

December 31, 2015 Data

(In Thousands)

Period Ending December 31, 2016

Basis Point Change in Rates	Interest Income	Interest Expense	Net Interest Income (NII)	NII % Change		NII Risk Limit	
+400	$52,181	$21,985	$ 30,196	-20.8	%	25.0	%
+300	49,687	17,282	32,405	-15.0	%	20.0	%
+200	47,136	12,659	34,477	-9.6	%	15.0	%
+100	44,546	8,109	36,437	-4.4	%	10.0	%
0	41,835	3,715	38,120	0.0	%	0.0	%
-100	39,116	3,171	35,945	-5.7	%	10.0	%
-200	37,417	3,168	34,249	-10.2	%	15.0	%
-300	36,838	3,168	33,670	-11.7	%	20.0	%
-400	36,689	3,168	33,521	-12.1	%	25.0	%

Market Value of Portfolio Equity at December 31, 2015

Basis Point Change in Rates	Present Value Equity	Present Value % Change		Present Value Risk Limit	
+400	$167,741	-24.4	%	50.0	%
+300	179,772	-18.9	%	45.0	%
+200	193,823	-12.6	%	35.0	%
+100	207,803	-6.3	%	25.0	%
0	221,750	0.0	%	0.0	%
-100	223,517	0.8	%	25.0	%
-200	225,185	1.5	%	35.0	%
-300	250,353	12.9	%	45.0	%
-400	286,210	29.1	%	50.0	%

October 31, 2014 Data

(In Thousands)

Period Ending October 31, 2015

Basis Point Change in Rates	Interest Income	Interest Expense	Net Interest Income (NII)	NII % Change		NII Risk Limit	
+400	$55,351	$23,123	$ 32,228	-20.3	%	25.0	%
+300	52,975	18,223	34,752	-14.1	%	20.0	%
+200	50,546	13,618	36,928	-8.7	%	15.0	%
+100	47,977	9,330	38,647	-4.4	%	10.0	%
0	45,478	5,043	40,435	0.0	%	0.0	%
-100	42,869	4,794	38,075	-5.8	%	10.0	%
-200	41,095	4,729	36,366	-10.1	%	15.0	%
-300	40,123	4,707	35,416	-12.4	%	20.0	%
-400	39,998	4,707	35,291	-12.7	%	25.0	%

Market Value of Portfolio Equity at October 31, 2014

Basis Point Change in Rates	Present Value Equity	Present Value % Change		Present Value Risk Limit	
+400	$176,447	-24.4	%	50.0	%
+300	189,184	-18.9	%	45.0	%
+200	203,838	-12.6	%	35.0	%
+100	218,314	-6.4	%	25.0	%
0	233,255	0.0	%	0.0	%
-100	232,818	-0.2	%	25.0	%
-200	232,294	-0.4	%	35.0	%
-300	251,791	7.9	%	45.0	%
-400	288,059	23.5	%	50.0	%

EQUITY SECURITIES RISK

The Corporation's equity securities portfolio consists of investments in stocks of banks and bank holding companies. Investments in bank stocks are subject to risk factors that affect the banking industry in general, including credit risk, competition from non-bank entities, interest rate risk and other factors, which could result in a decline in market prices. Also, losses could occur in individual stocks held by the Corporation because of specific circumstances related to each bank. As discussed further in Note 7 of the consolidated financial statements, the Corporation had no other-than-temporary impairment losses related to bank stocks in 2015 or 2014.

Equity securities held as of December 31, 2015 and 2014 are presented in Table XV. Table XV presents quantitative data concerning the effects of a decline in fair value of the Corporation's equity securities of 10% or 20%. The data in Table XV does not reflect the effects of any appreciation in value that may occur, nor does it present the Corporation's maximum exposure to loss on equity securities, which would be 100% of their fair value as of December 31, 2015.

TABLE XV - EQUITY SECURITIES RISK

(In Thousands)

	Dec. 31, 2015	Dec. 31, 2014
Cost	$ 1,680	$ 5,605
Fair Value	2,386	8,654
Hypothetical 10% Decline In Market Value	(239)	(865)
Hypothetical 20% Decline In Market Value	(477)	(1,731)

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ITEM 1. FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEETS

(In Thousands, Except Share and Per Share Data)

	December 31, 2015	December 31, 2014
ASSETS		
Cash and due from banks:		
Noninterest-bearing	$ 14,710	$ 14,812
Interest-bearing	21,351	21,235
Total cash and due from banks	36,061	36,047
Available-for-sale securities, at fair value	420,290	516,807
Loans held for sale	280	0
Loans receivable	704,880	630,545
Allowance for loan losses	(7,889)	(7,336)
Loans, net	696,991	623,209
Bank-owned life insurance	20,764	22,119
Accrued interest receivable	3,768	3,908
Bank premises and equipment, net	15,406	16,256
Foreclosed assets held for sale	1,260	1,189
Deferred tax asset, net	3,115	1,668
Intangible asset - Core deposit intangibles	30	52
Intangible asset - Goodwill	11,942	11,942
Other assets	13,510	8,766
TOTAL ASSETS	$ 1,223,417	$ 1,241,963
LIABILITIES		
Deposits:		
Noninterest-bearing	$ 211,041	$ 212,439
Interest-bearing	724,574	755,550
Total deposits	935,615	967,989
Short-term borrowings	53,496	5,537
Long-term borrowings	38,767	73,060
Accrued interest and other liabilities	8,052	7,015
TOTAL LIABILITIES	1,035,930	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 December 31, 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 December 31, 2015 and December 31, 2014; outstanding 12,180,623 at December 31, 2015 and 12,279,980 December 31, 2014	12,655	12,655
Paid-in capital	71,654	71,541
Retained earnings	109,454	105,550

Treasury stock, at cost; 474,548 shares at December 31, 2015 and 375,191 shares at December 31, 2014	(8,804)	(6,744)
Sub-total	184,959	183,002
Accumulated other comprehensive income:		
Unrealized gain on available-for-sale securities	2,493	5,281
Defined benefit plans gain	35	79
Total accumulated other comprehensive income	2,528	5,360
TOTAL STOCKHOLDERS' EQUITY	187,487	188,362
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	$ 1,223,417	$ 1,241,963

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

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Consolidated Statements of Income (In Thousands Except Per Share Data)	Years Ended December 31,		
	2015	2014	2013
INTEREST INCOME			
Interest and fees on loans	$31,311	$32,127	$35,484
Interest on balances with depository institutions	93	125	105
Interest on loans to political subdivisions	1,668	1,403	1,381
Interest on mortgages held for sale	16	16	54
Income from available-for-sale securities:			
Taxable	7,303	7,721	6,810
Tax-exempt	3,844	4,310	4,785
Dividends	284	307	295
Total interest and dividend income	44,519	46,009	48,914
INTEREST EXPENSE			
Interest on deposits	1,924	2,163	2,703
Interest on short-term borrowings	32	9	9
Interest on long-term borrowings	2,646	2,950	3,053
Total interest expense	4,602	5,122	5,765
Net interest income	39,917	40,887	43,149
Provision for loan losses	845	476	2,047
Net interest income after provision for loan losses	39,072	40,411	41,102
OTHER INCOME			
Service charges on deposit accounts	4,864	5,025	5,246
Service charges and fees	494	538	597
Trust and financial management revenue	4,626	4,490	4,087
Brokerage revenue	839	901	784
Insurance commissions, fees and premiums	109	118	170
Interchange revenue from debit card transactions	1,935	1,959	1,941
Net gains from sale of loans	735	768	1,969
(Decrease) increase in fair value of servicing rights	(162)	(27)	67
Increase in cash surrender value of life insurance	386	376	399
Net (loss) gain from premises and equipment	(1)	8	(16)
Other operating income	1,579	1,264	1,207
Sub-total	15,404	15,420	16,451
Total other-than-temporary impairment losses on available-for-sale securities	0	0	(25)
Portion of (gain) recognized in other comprehensive loss (before taxes)	0	0	0
Net impairment losses recognized in earnings	0	0	(25)
Realized gains on available-for-sale securities, net	2,861	1,104	1,743
Total other income	18,265	16,524	18,169
OTHER EXPENSES			
Salaries and wages	14,682	15,121	14,206
Pensions and other employee benefits	4,420	4,769	4,150
Occupancy expense, net	2,574	2,628	2,473
Furniture and equipment expense	1,860	1,859	1,948
FDIC Assessments	603	600	604
Pennsylvania shares tax	1,174	1,350	1,402
Professional fees	538	699	1,534

Automated teller machine and interchange expense	988	924	1,020
Software subscriptions	876	784	836
Loss on prepayment of debt	2,573	0	1,023
Other operating expense	5,241	5,423	5,298
Total other expenses	35,529	34,157	34,494
Income before income tax provision	21,808	22,778	24,777
Income tax provision	5,337	5,692	6,183
NET INCOME	$16,471	$17,086	$18,594
NET INCOME PER SHARE - BASIC	$1.35	$1.38	$1.51
NET INCOME PER SHARE - DILUTED	$1.35	$1.38	$1.50

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

Consolidated Statements of Comprehensive Income

(In Thousands)

	Years Ended December 31,		
	2015	2014	2013
Net income	$16,471	$17,086	$18,594
Unrealized (losses) gains on available-for-sale securities:			
Unrealized holding (losses) gains on available-for-sale securities	(1,429)	10,774	(17,623)
Reclassification adjustment for gains realized in income	(2,861)	(1,104)	(1,718)
Other comprehensive (loss) gain on available-for-sale securities	(4,290)	9,670	(19,341)
Unfunded pension and postretirement obligations:			
Changes from plan amendments and actuarial gains and losses included in accumulated other comprehensive (loss) gain	(135)	(79)	885
Amortization of net transition obligation, prior service cost, net actuarial loss and loss on settlement included in net periodic benefit cost	67	184	2
Other comprehensive (loss) gain on unfunded retirement obligations	(68)	105	887
Other comprehensive (loss) income before income tax	(4,358)	9,775	(18,454)
Income tax related to other comprehensive loss (income)	1,526	(3,422)	6,458
Net other comprehensive (loss) income	(2,832)	6,353	(11,996)
Comprehensive income	$13,639	$23,439	$6,598

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

Consolidated Statements of Changes in Stockholders' Equity

(In Thousands Except Share and Per Share Data)

	Common Shares	Treasury Shares	Common Stock	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Total
Balance, January 1, 2013	12,525,411	251,376	$ 12,525	$ 68,622	$ 94,839	$ 11,003	$ (4,203)	$ 182,786
Net income					18,594			18,594
Other comprehensive loss, net						(11,996)		(11,996)
Cash dividends declared on common stock, $1.00 per share					(12,343)			(12,343)
Shares issued for dividend reinvestment Plan	71,129		71	1,356				1,427
Shares issued from treasury related to exercise of stock options		(10,656)		5			179	184
Restricted stock granted		(37,886)		(633)			633	0
Forfeiture of restricted stock		3,643		61			(61)	0
Stock-based compensation expense				696				696
Tax effect of stock option exercises				(2)				(2)
Tax benefit from employee benefit plan					126			126
Balance, December 31, 2013	12,596,540	206,477	12,596	70,105	101,216	(993)	(3,452)	179,472
Net income					17,086			17,086
Other comprehensive income, net						6,353		6,353
Cash dividends declared on common stock, $1.04 per share					(12,889)			(12,889)
Shares issued for dividend reinvestment Plan	59,498	(18,473)	60	1,069			368	1,497
Treasury stock purchased		208,300					(4,002)	(4,002)

Shares issued from treasury related to exercise of stock options	(867)	(11,860)	(1)	(64)			188	123
Restricted stock granted		(16,711)		(279)			279	0
Forfeiture of restricted stock		7,458		125			(125)	0
Stock-based compensation expense				565				565
Tax benefit from dividends on restricted stock				(1)				(1)
Tax effect of stock option exercises				21				21
Tax benefit from employee benefit plan					137			137
Balance, December 31, 2014	12,655,171	375,191	12,655	71,541	105,550	5,360	(6,744)	188,362
Net income					16,471			16,471
Other comprehensive loss, net						(2,832)		(2,832)
Cash dividends declared on common stock, $1.04 per share					(12,710)			(12,710)
Shares issued for dividend reinvestment Plan		(73,810)		86			1,379	1,465
Treasury stock purchased		226,900					(4,415)	(4,415)
Shares issued from treasury and redeemed related to exercise of stock options		(22,435)		(27)			408	381
Restricted stock granted		(34,800)		(627)			627	0
Forfeiture of restricted stock		3,502		59			(59)	0
Stock-based compensation expense				606				606
Tax effect of stock option exercises				(6)				(6)
Tax benefit from dividends on restricted stock				22				22
Tax benefit from employee benefit plan					143			143
Balance, December 31, 2015	12,655,171	474,548	$12,655	$71,654	$109,454	$ 2,528	$(8,804)	$187,487

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands)

	Years Ended December 31,		
	2015	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$16,471	$17,086	$18,594
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	845	476	2,047
Realized gains on available-for-sale securities, net	(2,861)	(1,104)	(1,718)
Loss on prepayment of debt	2,573	0	1,023
Realized (gain) loss on foreclosed assets	(84)	(136)	71
Loss (gain) on disposition of premises and equipment	1	(8)	16
Depreciation expense	1,888	1,940	2,020
Accretion and amortization on securities, net	1,562	1,375	1,836
Accretion and amortization on loans and deposits, net	(21)	(27)	(32)
Decrease (increase) in fair value of servicing rights	162	27	(67)
Increase in cash surrender value of life insurance	(386)	(376)	(399)
Gain on life insurance benefits	(212)	0	0
Stock-based compensation	606	565	696
Amortization of core deposit intangibles	22	35	51
Deferred income taxes	79	1,254	1,839
Gains on sales of loans, net	(735)	(768)	(1,969)
Origination of loans for sale	(21,823)	(21,680)	(58,427)
Proceeds from sales of loans	22,101	22,317	62,436
(Increase) decrease in accrued interest receivable and other assets	(1,697)	1,395	3,234
Increase (decrease) in accrued interest payable and other liabilities	1,195	(90)	(679)
Net Cash Provided by Operating Activities	19,686	22,281	30,572
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from maturities of certificates of deposit	1,780	2,560	480
Purchase of certificates of deposit	(100)	(960)	(1,688)
Proceeds from sales of available-for-sale securities	44,504	56,269	25,500
Proceeds from calls and maturities of available-for-sale securities	89,159	78,101	97,123
Purchase of available-for-sale securities	(40,363)	(158,894)	(152,163)
Redemption of Federal Home Loan Bank of Pittsburgh stock	5,029	2,804	2,680
Purchase of Federal Home Loan Bank of Pittsburgh stock	(8,102)	(602)	(1,624)
Net (increase) decrease in loans	(77,129)	10,317	39,059
Proceeds from bank-owned life insurance	1,953	0	0
Purchase of premises and equipment	(1,039)	(801)	(801)
Proceeds from disposition of premises and equipment	0	43	42
Purchase of investment in limited liability company	0	0	(147)
Return of principal on limited liability entity investments	181	173	164
Proceeds from sale of foreclosed assets	2,536	1,504	255
Net Cash Provided by (Used in) Investing Activities	18,409	(9,486)	8,880
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net (decrease) increase in deposits	(32,374)	13,473	(51,590)

Net increase (decrease) in short-term borrowings	47,959	(17,848)	17,818
Repayments of long-term borrowings	(36,866)	(278)	(11,497)
Purchase of treasury stock	(4,415)	(4,002)	0
Sale of treasury stock	381	123	184
Tax benefit from compensation plans	159	157	124
Common dividends paid	(11,245)	(11,392)	(10,916)
Net Cash Used in Financing Activities	(36,401)	(19,767)	(55,877)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,694	(6,972)	(16,425)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	31,619	38,591	55,016
CASH AND CASH EQUIVALENTS, END OF YEAR	$33,313	$31,619	$38,591
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Assets acquired through foreclosure of real estate loans	$2,523	$1,665	$339
Accrued purchase of available-for-sale securities	$0	$226	$0
Interest paid	$4,636	$5,138	$5,782
Income taxes paid	$4,827	$4,432	$4,213

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF CONSOLIDATION - The consolidated financial statements include the accounts of Citizens & Northern Corporation and its subsidiaries, Citizens & Northern Bank ("C&N Bank"), Bucktail Life Insurance Company and Citizens & Northern Investment Corporation (collectively, "Corporation"), as well as C&N Bank's wholly-owned subsidiary, C&N Financial Services Corporation. All material intercompany balances and transactions have been eliminated in consolidation.

NATURE OF OPERATIONS - The Corporation is primarily engaged in providing a full range of banking and mortgage services to individual and corporate customers in North Central Pennsylvania and Southern New York State. Lending products include mortgage loans, commercial loans and consumer loans, as well as specialized instruments such as commercial letters-of-credit. Deposit products include various types of checking accounts, passbook and statement savings, money market accounts, interest checking accounts, Individual Retirement Accounts and certificates of deposit. The Corporation also offers non-insured "RepoSweep" accounts.

The Corporation provides Trust and Financial Management services, including administration of trusts and estates, retirement plans, and other employee benefit plans, and investment management services. The Corporation offers a variety of personal and commercial insurance products through C&N Financial Services Corporation. C&N Financial Services Corporation also offers mutual funds, annuities, educational savings accounts and other investment products through registered agents. Management has determined that the Corporation has one reportable segment, "Community Banking." All of the Corporation's activities are interrelated, and each activity is dependent and assessed based on how each of the activities of the Corporation supports the others.

The Corporation is subject to competition from other financial institutions. It is also subject to regulation by certain federal and state agencies and undergoes periodic examination by those regulatory authorities. As a consequence, the Corporation's business is particularly susceptible to being affected by future federal and state legislation and regulations.

USE OF ESTIMATES - The financial information is presented in accordance with generally accepted accounting principles and general practice for financial institutions in the United States of America ("U.S. GAAP"). In preparing financial statements, management is required to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements. In addition, these estimates and assumptions affect revenues and expenses in the financial statements and as such, actual results could differ from those estimates.

Material estimates that are particularly susceptible to change include: (1) the allowance for loan losses, (2) fair values of debt securities based on estimates from independent valuation services or from brokers, (3) assessment of impaired securities to determine whether or not the securities are other-than-temporarily impaired, (4) valuation of deferred tax assets and (5) valuation of obligations from defined benefit plans.

INVESTMENT SECURITIES - Investment securities are accounted for as follows:

Available-for-sale securities - includes debt securities not classified as held-to-maturity or trading, and unrestricted equity securities. Such securities are reported at fair value, with unrealized gains and losses excluded from earnings and reported separately through accumulated other comprehensive income, net of tax. Amortization of premiums and accretion of discounts on available-for-sale securities are recorded using the level yield method over the remaining contractual life of the securities, adjusted for actual prepayments. Realized gains and losses on sales of available-for-sale securities are computed on the basis of specific identification of the adjusted cost of each security. Securities within the available-for-sale portfolio may be used as part of the Corporation's asset and liability management strategy and may be sold in response to changes in interest rate risk, prepayment risk or other factors.

Other-than-temporary impairment - Declines in the fair value of available-for-sale securities that are deemed to be other-than-temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, (3) the intent and ability of the Corporation to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value, and (4) whether the Corporation intends to sell the security or if it is more likely than not that the Corporation will be required to sell the security before the recovery of its amortized cost basis. The credit-related impairment is recognized in earnings and is the difference between a security's amortized cost basis and the present value of expected future cash flows discounted at the security's effective interest rate. For debt securities classified as held-to-maturity, if any, the amount of noncredit-related impairment is recognized in other comprehensive income and accreted over the remaining life of the debt security as an increase in the carrying value of the security. In addition, the risk of future other-than-temporary impairment may be influenced by additional bank failures, prolonged recession in the U.S. economy, changes to real estate values, interest deferrals and whether the federal government provides assistance to financial institutions.

Restricted equity securities - Restricted equity securities consist primarily of Federal Home Loan Bank of Pittsburgh stock, and are carried at cost and evaluated for impairment. Holdings of restricted equity securities are included in Other Assets in the Consolidated Balance Sheet, and dividends received on restricted securities are included in Other Income in the Consolidated Statement of Income.

LOANS HELD FOR SALE - Mortgage loans held for sale are reported at the lower of cost or market, determined in the aggregate.

LOANS RECEIVABLE - Loans receivable which management has the intent and ability to hold for the foreseeable future or until maturity or payoff are stated at unpaid principal balances, less the allowance for loan losses and net deferred loan fees. Interest income is accrued on the unpaid principal balance. Loan origination and commitment fees, as well as certain direct origination costs, are deferred and amortized as a yield adjustment over the lives of the related loans using the interest method.

The loans receivable portfolio is segmented into residential mortgage, commercial and consumer loans. The residential mortgage segment includes the following classes: first and junior lien residential mortgages, home equity lines of credit and residential construction loans. The most significant classes of commercial loans are commercial loans secured by real estate, non-real estate secured commercial and industrial loans, loans to political subdivisions, commercial construction, and loans secured by farmland.

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

ALLOWANCE FOR LOAN LOSSES - The allowance for loan losses represents management’s estimate of losses inherent in the loan portfolio as of the balance sheet date and is recorded as a reduction to loans. The allowance for loan losses is increased by the provision for loan losses, and decreased by charge-offs, net of recoveries. Loans deemed to be uncollectible are charged against the allowance for loan losses, and subsequent recoveries, if any, are credited to the allowance. All, or part, of the principal balance of loans receivable are charged off to the allowance as soon as it is determined that the repayment of all, or part, of the principal balance is highly unlikely. Non-residential consumer loans are generally charged off no later than when they are 120 days past due on a contractual basis, or earlier in the event of bankruptcy or if there is an amount deemed uncollectible.

The allowance for loan losses is maintained at a level considered adequate to provide for losses that can be reasonably anticipated. Management performs a quarterly evaluation of the adequacy of the allowance. The allowance is based on the Corporation’s past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower’s ability to repay, the estimated value of any underlying collateral, composition of the loan portfolio, current economic conditions and other relevant factors. This evaluation is inherently subjective as it requires material estimates that may be susceptible to significant revision as more information becomes available. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Corporation’s allowance for loan losses. Such agencies may require the Corporation to recognize adjustments to the allowance based on their judgments of information available to them at the time of their examination. In the process of evaluating the loan portfolio, management also considers the Corporation’s exposure to losses from unfunded loan commitments. As of December 31, 2015 and 2014, management determined that no allowance for credit losses related to unfunded loan commitments was required.

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

The specific component relates to loans that are classified as impaired based on a detailed assessment of certain larger loan relationships evaluated by a management committee referred to as the Watch List Committee. Specific loan relationships are identified for evaluation based on the related credit risk rating. For individual loans classified as impaired, an allowance is established when the collateral value less estimated selling costs, present value of discounted cash flows or observable market price of the impaired loan is lower than the carrying value of that loan.

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

The qualitative factors used in the general component calculations are designed to address credit risk characteristics associated with each segment. The Corporation's credit risk associated with all of the segments is significantly impacted by these factors, which include economic conditions within its market area, the Corporation's lending policies, changes or trends in the portfolio, risk profile, competition, regulatory requirements and other factors. Further, the residential mortgage segment is significantly affected by the values of residential real estate that provide collateral for the loans. The majority of the Corporation's commercial segment loans (approximately 57% at December 31, 2015) are secured by real estate, and accordingly, the Corporation's risk for the commercial segment is significantly affected by commercial real estate values. The consumer segment includes a wide mix of loans for different purposes, primarily secured loans, including loans secured by motor vehicles, manufactured housing and other types of collateral.

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

For commercial loans secured by real estate, estimated fair values are determined primarily through third-party appraisals. When a real estate secured loan becomes impaired, a decision is made regarding whether an updated certified appraisal of the real estate is necessary. This decision is based on various considerations, including the age of the most recent appraisal, the loan-to-value ratio based on the original appraisal and the condition of the property. Appraised values are discounted to arrive at the estimated selling price of the collateral, which is considered to be the estimated fair value. The discounts also include estimated costs to sell the property.

For commercial and industrial loans secured by non-real estate collateral, such as accounts receivable, inventory and equipment, estimated fair values are determined based on the borrower's financial statements, inventory reports, accounts receivable agings or equipment appraisals or invoices. Indications of value from these sources are generally discounted based on the age of the financial information or the quality of the assets.

Loans whose terms are modified are classified as troubled debt restructurings if the Corporation grants such borrowers concessions and it is deemed that those borrowers are experiencing financial difficulty. Concessions granted under a troubled debt restructuring generally involve reductions in required payments, an extension of a loan's stated maturity date or a temporary reduction in interest rate. Non-accrual troubled debt restructurings may be restored to accrual status if principal and interest payments, under the modified terms, are current for six consecutive months after modification. Loans classified as troubled debt restructurings are designated as impaired.

BANK PREMISES AND EQUIPMENT - Bank premises and equipment are stated at cost less accumulated depreciation. Repair and maintenance expenditures which extend the useful lives of assets are capitalized, and other repair and maintenance expenditures are expensed as incurred. Depreciation expense is computed using the straight-line method.

IMPAIRMENT OF LONG-LIVED ASSETS - The Corporation reviews long-lived assets, such as premises and equipment and intangibles, for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. These changes in circumstances may include a significant decrease in the market value of an asset or the manner in which an asset is used. If there is an indication the carrying value of an asset may not be recoverable, future undiscounted cash flows expected to result from use of the asset are estimated. If the sum of the expected cash flows is less than the carrying value of the asset, a loss is recognized for the difference between the carrying value and fair market value of the asset.

INTEREST COSTS - The Corporation capitalizes interest as a component of the cost of premises and equipment constructed or acquired for its own use. The amount of capitalized interest in 2015, 2014, and 2013 was not significant.

FORECLOSED ASSETS HELD FOR SALE - Foreclosed assets held for sale consist of real estate acquired by foreclosure and are initially recorded at fair value, less estimated selling costs.

GOODWILL AND CORE DEPOSIT INTANGIBLE ASSETS - Goodwill represents the excess of the cost of acquisitions over the fair value of the net assets acquired. Goodwill is tested at least annually for impairment, or more often if events or circumstances indicate there may be impairment. Core deposit intangibles are being amortized over periods of time that represent the expected lives using a method of amortization that reflects the pattern of economic benefit. Core deposit intangibles are subject to impairment testing whenever events or changes in circumstances indicate their carrying amounts may not be recoverable.

SERVICING RIGHTS - The estimated fair value of servicing rights related to mortgage loans sold and serviced by the Corporation is recorded as an asset upon the sale of such loans. The valuation of servicing rights is adjusted quarterly, with changes in fair value included in Other Operating Income in the consolidated statements of operations. Significant inputs to the valuation include expected net servicing income to be received, the expected life of the underlying loans and the discount rate. The servicing rights asset is included in Other Assets in the consolidated balance sheet, with a balance equal to fair value of $1,296,000 at December 31, 2015 and $1,281,000 at December 31, 2014.

INCOME TAXES - Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amount of existing assets and liabilities and their respective tax bases given the provisions of the enacted tax laws. Deferred tax assets are reduced, if necessary, by the amount of such benefits that are not expected to be realized based upon available evidence. Tax benefits from investments in limited partnerships that have qualified for federal low-income tax credits are recognized as a reduction in the provision for income tax over the term of the investment using the effective yield method. The Corporation includes income tax penalties in the provision for income tax. The Corporation has no accrued interest related to unrecognized tax benefits.

STOCK COMPENSATION PLANS - The Corporation’s stock-based compensation policy applies to all forms of stock-based compensation including stock options and restricted stock units. All stock-based compensation is accounted for under the fair value method as required by generally accepted accounting principles in the United States. The expense associated with stock-based compensation is recognized over the vesting period of each individual arrangement.

The fair value of each stock option is estimated on the date of grant using the Black-Scholes-Merton option valuation model. The fair value of restricted stock is based on the current market price on the date of grant.

OFF-BALANCE SHEET FINANCIAL INSTRUMENTS - In the ordinary course of business, the Corporation has entered into off-balance sheet financial instruments consisting of commitments to extend credit and standby letters of credit. Such financial instruments are recorded in the financial statements when they become payable.

CASH FLOWS - The Corporation utilizes the net reporting of cash receipts and cash payments for certain deposit and lending activities. Cash equivalents include federal funds sold and all cash and amounts due from depository institutions and interest-bearing deposits in other banks with original maturities of three months or less.

TRUST ASSETS AND INCOME - Assets held by the Corporation in a fiduciary or agency capacity for its customers are not included in the financial statements since such items are not assets of the Corporation. Trust income is recorded on a cash basis, which is not materially different from the accrual basis.

2. RECENT ACCOUNTING PRONOUNCEMENTS:

The FASB issues Accounting Standards Updates (ASUs) to the FASB Accounting Standards Codification (ASC). This section provides a summary description of recent ASUs that have significant implications (elected or required) within the consolidated financial statements, or that management expects may have a significant impact on financial statements issued in the near future.

In January 2014, the FASB issued ASU 2014-01, Accounting for Investments in Qualified Affordable Housing Projects. This Update provides guidance on accounting for investments in flow-through limited liability entities that qualify for the federal low-income housing tax credit. Prior to ASU 2014-01, under U.S. GAAP, a reporting entity that invests in a qualified affordable housing project could elect to account for that investment using the effective yield method if certain conditions are met, or alternatively, the investment would be accounted for under either the equity method or the cost method. Generally, investors in qualified affordable housing project investments expect to receive all of their return through the receipt of tax credits and tax deductions from operating losses, and use of the effective yield method results in recognition of the return as a reduction of income tax expense over the period of the investment. The amendments in this Update modify the conditions that a reporting entity must meet to be eligible to use a method other than the equity or cost methods to account for investments in qualified affordable housing projects. Additionally, the amendments introduce new recurring disclosure requirements about investments in qualified affordable housing projects. The amendments in this Update became effective for the Corporation for annual and interim periods beginning in the first quarter 2015, and are to be applied retrospectively. Information concerning the Corporation’s investments in qualified affordable housing projects is provided in Note 14 to these consolidated financial statements.

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In January 2014, the FASB issued ASU 2014-04, Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure. The objective of the amendments in this Update is to reduce diversity among reporting entities by clarifying when an in substance foreclosure occurs. The amendments in this Update clarify that an in substance foreclosure occurs, and a creditor is considered to have received physical possession of residential real property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, the amendments require interim and annual disclosure of both (1) the amount of foreclosed residential real estate property held by the creditor and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to the requirements of the applicable jurisdiction. An entity can elect to adopt the amendments in this Update using either a modified retrospective transition method or a prospective transition method. Under the modified retrospective transition method, an entity would record a cumulative-effect adjustment to residential consumer mortgage loans and foreclosed residential real estate properties existing as of the beginning of the annual period for which the amendments are effective. For prospective transition, an entity would apply the amendments to all instances of an entity receiving physical possession of residential real estate property collateralizing consumer mortgage loans that occur after the date of adoption. Early adoption is permitted. The amendments in this Update became effective for the Corporation for annual and interim periods beginning in the first quarter 2015. The Corporation has applied the amendments to its accounting and reporting practices prospectively in the first quarter 2015. Disclosures required by this Update are provided in Note 8 to these consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers, which provides a principles-based framework for revenue recognition that supersedes virtually all previously issued revenue recognition guidance under U.S. GAAP. Additionally, the ASU requires improved disclosures to help users of financial statements better understand the nature, amount, timing, and uncertainty of revenue that is recognized. The core principle of the five-step revenue recognition framework is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In August 2015 the FASB issued ASU 2015-14, which deferred the effective date of the revenue recognition standard by a year, making it applicable for the Corporation in the first quarter 2018 and for the annual period ending December 31, 2018. The amendments should be applied either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying the amendments recognized at the date of initial application. The Corporation is in the process of evaluating the potential impact of adopting the amendments, including determining which transition method to apply.

In June 2014, the FASB issued ASU 2014-11, Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures. In addition to various other amendments that will affect accounting and disclosures for transactions in which the Corporation has not engaged to date, this Update requires expanded disclosures for repurchase agreements that are accounted for as secured borrowings, including: (1) a disaggregation of the gross obligation by the class of collateral pledged, (2) the remaining contractual tenor of the agreements and (3) a discussion of the potential risks associated with the agreements and the related collateral pledged, including obligations arising from a decline in the fair value of the collateral pledged and how those risks are managed. The expanded disclosure requirements associated with repurchase agreements are effective for the Corporation for annual and interim periods beginning in the second quarter 2015. Information concerning the Corporation’s repurchase agreements is provided in Note 12 to these consolidated financial statements.

In August 2014, the FASB issued ASU 2014-14, Receivables – Troubled Debt Restructuring by Creditors, which requires that a mortgage loan be derecognized and that a separate other receivable be recognized upon foreclosure if the following conditions are met: (1) the loan has a government guarantee that is not separable from the loan before foreclosure, (2) at the time of foreclosure, the creditor has the intent to convey the real estate property to the guarantor and make a claim on the guarantee, and the creditor has the ability to recover under the claim and (3) at the time of foreclosure, any amount of the claim that is determined on the basis of the fair value of the real estate is fixed. The amendments in this Update became effective for the Corporation for annual and interim periods beginning in the first quarter 2015, and the impact of the amendment was not significant to the Corporation.

In January 2016, the FASB issued ASU 2016-01, Recognition and Measurement of Financial Assets and Liabilities. This makes significant changes in U.S. GAAP related to certain aspects of recognition, measurement, presentation and disclosure of financial instruments. The changes provided for in this Update that are applicable to the Corporation are as follows: (1) require equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income; however, an entity may choose to measure equity investments that do not have readily determinable fair values at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer; (2) for equity investments without readily determinable fair values, require a qualitative assessment to identify impairment, and if a qualitative assessment indicates that impairment exists, requiring an entity to measure the investment at fair value; (3) eliminate the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet; (4) require public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; (5) require an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments (at December 31, 2015 and 2014, the Corporation has no liabilities for which the fair value measurement option has been elected); (6) require separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (that is, securities or loans and receivables) on the balance sheet or the accompanying notes to the financial statements; and (7) clarify that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity’s other deferred tax assets. The amendments in this Update will become effective for the Corporation for annual and interim periods beginning in the first quarter 2018. With limited exceptions, early adoption of the amendments in this Update is not permitted. Amendments are to be applied by means of a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption. The amendments related to equity securities without readily determinable fair values should be applied prospectively.

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 (loss) income. The components of other comprehensive (loss) income, and the related tax effects, are as follows:

(In Thousands)	Before-Tax Amount	Income Tax Effect	Net-of-Tax Amount
2015			
Unrealized losses on available-for-sale securities:			
Unrealized holding losses on available-for-sale securities	$ (1,429)	$ 500	$ (929)
Reclassification adjustment for (gains) realized in income	(2,861)	1,002	(1,859)
Other comprehensive loss on available-for-sale securities	(4,290)	1,502	(2,788)

Unfunded pension and postretirement obligations:			
Changes from plan amendments and actuarial gains and losses included in other comprehensive income	(135)	47	(88)
Amortization of net transition obligation, prior service cost, net actuarial loss and loss on settlement included in net periodic benefit cost	67	(23)	44
Other comprehensive loss on unfunded retirement obligations	(68)	24	(44)
Total other comprehensive loss	$ (4,358)	$ 1,526	$ (2,832)

(In Thousands)	Before-Tax Amount	Income Tax Effect	Net-of-Tax Amount
2014			
Unrealized gains on available-for-sale securities:			
Unrealized holding gains on available-for-sale securities	$ 10,774	$ (3,771)	$ 7,003
Reclassification adjustment for (gains) realized in income	(1,104)	386	(718)
Other comprehensive income on available-for-sale securities	9,670	(3,385)	6,285
Unfunded pension and postretirement obligations:			
Changes from plan amendments and actuarial gains and losses included in other comprehensive income	(79)	28	(51)
Amortization of net transition obligation, prior service cost, net actuarial loss and loss on settlement included in net periodic benefit cost	184	(65)	119
Other comprehensive income on unfunded retirement obligations	105	(37)	68
Total other comprehensive income	$ 9,775	$ (3,422)	$ 6,353

(In Thousands)	Before-Tax Amount	Income Tax Effect	Net-of-Tax Amount
2013			
Unrealized (losses) on available-for-sale securities:			
Unrealized holding losses on available-for-sale securities	$ (17,623)	$ 6,168	$ (11,455)
Reclassification adjustment for (gains) realized in income	(1,718)	601	(1,117)
Other comprehensive loss on available-for-sale securities	(19,341)	6,769	(12,572)
Unfunded pension and postretirement obligations:			
Changes from plan amendments and actuarial gains and losses included in other comprehensive income	885	(310)	575
Amortization of net transition obligation, prior service cost and net actuarial loss included in net periodic benefit cost	2	(1)	1
Other comprehensive income on unfunded retirement obligations	887	(311)	576
Total other comprehensive loss	$ (18,454)	$ 6,458	$ (11,996)

Changes in the components of accumulated other comprehensive income, included in stockholders' equity, are as follows:

(In Thousands)	Unrealized Holding Gains (Losses) on Securities	Unfunded Pension and Postretirement Obligations	Accumulated Other Comprehensive Income
2015			
Balance, beginning of period	$ 5,281	$ 79	$ 5,360
Other comprehensive loss before reclassifications	(929)	(88)	(1,017)
Amounts reclassified from accumulated other comprehensive income	(1,859)	44	(1,815)
Other comprehensive loss	(2,788)	(44)	(2,832)
Balance, end of period	$ 2,493	$ 35	$ 2,528
2014			
Balance, beginning of period	$ (1,004)	$ 11	$ (993)
Other comprehensive income before reclassifications	7,003	(51)	6,952
Amounts reclassified from accumulated other comprehensive income	(718)	119	(599)
Other comprehensive income	6,285	68	6,353
Balance, end of period	$ 5,281	$ 79	$ 5,360
2013			
Balance, beginning of period	$ 11,568	$ (565)	$ 11,003
Other comprehensive (loss) income before reclassifications	(11,455)	575	(10,880)

Amounts reclassified from accumulated other comprehensive loss	(1,117)	1	(1,116)
Other comprehensive (loss) income	(12,572)	576	(11,996)
Balance, end of period	$ (1,004)	$ 11	$ (993)

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

For the Year Ended December 31, 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	$ (2,861)	Realized gains on available-for-sale securities, net
	1,002	Income tax provision
	(1,859)	Net of tax
Amortization of defined benefit pension and postretirement items:		
Prior service cost	(31)	Pensions and other employee benefits
Actuarial loss	11	Pensions and other employee benefits
Loss on settlement	87	Pensions and other employee benefits
	67	Total before tax
	(23)	Income tax provision
	44	Net of tax
Total reclassifications for the period	$ (1,815)	

For the Year Ended December 31, 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	$ (1,104)	Realized gains on available-for-sale securities, net
	386	Income tax provision
	(718)	Net of tax
Amortization of defined benefit pension and postretirement items:		
Prior service cost	(31)	Pensions and other employee benefits
Actuarial loss	19	Pensions and other employee benefits
Loss on settlement	196	Pensions and other employee benefits
	184	Total before tax
	(65)	Income tax provision
	119	Net of tax
Total reclassifications for the period	$ (599)	

For the Year Ended December 31, 2013
(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	$ 25	Total other-than-temporary impairment losses on available-for-sale securities
	(1,743)	Realized gains on available-for-sale securities, net
	(1,718)	Total before tax
	601	Income tax provision
	(1,117)	Net of tax
Amortization of defined benefit pension and postretirement items:		
Prior service cost	(31)	Pensions and other employee benefits
Actuarial loss	33	Pensions and other employee benefits
	2	Total before tax
	(1)	Income tax provision
	1	Net of tax
Total reclassifications for the period	$ (1,116)	

4. 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
2015			
Earnings per share – basic	$16,471,000	12,211,941	$ 1.35
Dilutive effect of potential common stock arising from stock options:			
Exercise of outstanding stock options		210,402	
Hypothetical share repurchase at $20.04		(188,570)	
Earnings per share – diluted	$16,471,000	12,233,773	$ 1.35
2014			
Earnings per share – basic	$17,086,000	12,390,067	$ 1.38
Dilutive effect of potential common stock arising from stock options:			
Exercise of outstanding stock options		224,015	
Hypothetical share repurchase at $19.41		(202,032)	
Earnings per share – diluted	$17,086,000	12,412,050	$ 1.38
2013			
Earnings per share – basic	$18,594,000	12,352,383	$ 1.51
Dilutive effect of potential common stock arising from stock options:			
Exercise of outstanding stock options		250,236	
Hypothetical share repurchase at $19.86		(219,829)	
Earnings per share – diluted	$18,594,000	12,382,790	$ 1.50

Stock options that were anti-dilutive were excluded from net income per share calculations. Weighted-average common shares available from anti-dilutive instruments totaled 61,590 shares in 2015, 151,310 shares in 2014 and 88,521 shares in 2013.

5. CASH AND DUE FROM BANKS

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

(In thousands)	Dec. 31, 2015	Dec. 31, 2014
Cash and cash equivalents	$33,313	$31,619
Certificates of deposit	2,748	4,428
Total cash and due from banks	$36,061	$36,047

Certificates of deposit are issues 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.

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The Corporation is required to maintain reserves against deposit liabilities in the form of cash and balances with the Federal Reserve Bank. The reserves are based on deposit levels, account activity, and other services provided by the Federal Reserve Bank. Required reserves were $15,327,000 at December 31, 2015 and $16,853,000 at December 31, 2014.

6. 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.

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

	December 31, 2015			
(In Thousands)	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	$ 10,483	$ 0	$ 10,483
Obligations of states and political subdivisions:				
Tax-exempt	0	107,757	0	107,757
Taxable	0	34,597	0	34,597
Mortgage-backed securities	0	73,343	0	73,343
Collateralized mortgage obligations, Issued by U.S. Government agencies	0	191,715	0	191,715
Collateralized debt obligations	0	9	0	9
Total debt securities	0	417,904	0	417,904
Marketable equity securities	2,386	0	0	2,386
Total available-for-sale securities	2,386	417,904	0	420,290
Servicing rights	0	0	1,296	1,296
Total recurring fair value measurements	$ 2,386	$ 417,904	$ 1,296	$ 421,586
Nonrecurring fair value measurements				
Impaired loans with a valuation allowance	$ 0	$ 0	$ 1,933	$ 1,933
Valuation allowance	0	0	(820)	(820)
Impaired loans, net	0	0	1,113	1,113
Foreclosed assets held for sale	0	0	1,260	1,260
Total nonrecurring fair value measurements	$ 0	$ 0	$ 2,373	$ 2,373

	December 31, 2014			
(In Thousands)	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

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

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. The following table shows quantitative information regarding significant techniques and inputs used at December 31, 2015 and 2014 for servicing rights assets measured using unobservable inputs (Level 3 methodologies) on a recurring basis:

Asset	Fair Value at 12/31/15 (In Thousands)	Valuation Technique	Unobservable Input(s)	Method or Value As of 12/31/15		
Servicing rights	$ 1,296	Discounted cash flow	Discount rate	10.00	%	Rate used through modeling period
			Loan prepayment speeds	146.00	%	Weighted-average PSA
			Servicing fees	0.25	%	of loan balances
				4.00	%	of payments are late
				5.00	%	late fees assessed
				$1.94		Miscellaneous fees per account per month
			Servicing costs	$6.00		Monthly servicing cost per account
				$24.00		Additional monthly servicing cost per loan on loans more than 30 days delinquent
				1.50	%	of loans more than 30 days delinquent
				3.00	%	annual increase in servicing costs

Asset	Fair Value at 12/31/14 (In Thousands)	Valuation Technique	Unobservable Input(s)	Method or Value As of 12/31/14		
Servicing rights	$ 1,281	Discounted cash flow	Discount rate	10.00	%	Rate used through modeling period
			Loan prepayment speeds	156.00	%	Weighted-average PSA
			Servicing fees	0.25	%	of loan balances
				4.00	%	of payments are late
				5.00	%	late fees assessed
				$1.94		Miscellaneous fees per account per month
			Servicing costs	$6.00		Monthly servicing cost per account
				$24.00		Additional monthly servicing cost per loan on loans more than 30 days delinquent
				1.50	%	of loans more than 30 days delinquent
				3.00	%	annual increase in servicing costs

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

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

	Years Ended December 31,	
	2015	2014
(In Thousands)	Servicing Rights	Servicing Rights
Balance, beginning of period	$ 1,281	$ 1,123
Issuances of servicing rights	177	185
Unrealized losses included in earnings	(162)	(27)
Balance, end of period	$ 1,296	$ 1,281

(In Thousands)	Year Ended December 31, 2013 Pooled Trust Preferred Securities - Senior Tranches	Pooled Trust Preferred Securities - Mezzanine Tranches	Servicing Rights	Total
Balance, beginning of period	$1,613	$ 0	$ 605	$2,218
Issuances of servicing rights	0	0	451	451
Accretion and amortization, net	(2)	0	0	(2)
Proceeds from sales and calls	(1,636)	(571)	0	(2,207)
Realized gains, net	23	571	0	594
Unrealized gains included in earnings	0	0	67	67
Unrealized gains included in other comprehensive income	2	0	0	2
Balance, end of period	$0	$ 0	$ 1,123	$1,123

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

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

(In Thousands, Except Percentages) Asset	Balance at 12/31/15	Valuation Allowance at 12/31/15	Fair Value at 12/31/15	Valuation Technique	Unobservable Inputs	Value at 12/31/15 (Weighted Average)
Impaired loans:						
Residential mortgage loans - first liens	$ 42	$ 1	$ 41	Sales comparison	Discount to appraised value	31 %
Commercial:						
Commercial loans secured by real estate	317	97	220	Sales comparison	Discount to appraised value	46 %

Commercial and industrial