CITIZENS & NORTHERN CORP
Form 10-Q
August 07, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2009
or

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

For the transition period from _______________ to __________________________.

Commission file number: 000-16084

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

PENNSYLVANIA	23-2451943
(State or other jurisdiction of 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)

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 (§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 ¨ No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of “accelerated filer and large accelerated filer” in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer ¨ Accelerated filer x Non-accelerated filer ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes ¨ No x

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

Common Stock ($1.00 par value) 8,993,750 Shares Outstanding on July 30, 2009

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CONSOLIDATED BALANCE SHEET (In Thousands Except Share Data)	June 30, 2009 (Unaudited)	December 31, 2008 (Note)
ASSETS		
Cash and due from banks:		
Noninterest-bearing	$ 17,830	$ 18,105
Interest-bearing	33,449	5,923
Total cash and cash equivalents	51,279	24,028
Trading securities	547	2,306
Available-for-sale securities	415,791	419,688
Held-to-maturity securities	402	406
Loans, net	719,347	735,687
Bank-owned life insurance	22,574	22,297
Accrued interest receivable	5,606	5,846
Bank premises and equipment, net	25,118	25,909
Foreclosed assets held for sale	922	298
Deferred tax asset, net	20,291	16,389
Intangible asset - Core deposit intangibles	665	826
Intangible asset - Goodwill	11,942	12,014
Other assets	22,525	15,943
TOTAL ASSETS	$ 1,297,009	$ 1,281,637
LIABILITIES		
Deposits:		
Noninterest-bearing	$ 127,380	$ 124,922
Interest-bearing	758,564	739,135
Total deposits	885,944	864,057
Dividends payable	2,324	2,147
Short-term borrowings	39,390	48,547
Long-term borrowings	221,658	236,926
Accrued interest and other liabilities	11,135	7,934
TOTAL LIABILITIES	1,160,451	1,159,611
STOCKHOLDERS' EQUITY		
Preferred stock, $1,000 par value; authorized 30,000 shares; $1,000 liquidation preference per share; 26,440 shares issued at June 30, 2009 and no shares issued at December 31, 2008	25,664	0
Common stock, par value $1.00 per share; authorized 20,000,000 shares in 2009 and 2008; issued 9,284,148 in 2009 and 2008	9,284	9,284
Paid-in capital	45,453	44,308
Retained earnings	79,486	97,757
Unamortized stock compensation	(83)	(48)
Treasury stock, at cost; 306,178 shares at June 30, 2009 and 348,041 shares at December 31, 2008	(5,331)	(6,061)
Sub-total	154,473	145,240
Accumulated other comprehensive loss:		
Unrealized losses on available-for-sale securities (including $6,665 at		

June 30, 2009 for which a portion of an other-than-temporary impairment loss has been recognized in earnings)	(17,560)	(23,120)
Defined benefit plans	(355)	(94)
Total accumulated other comprehensive loss	(17,915)	(23,214)
TOTAL STOCKHOLDERS' EQUITY	136,558	122,026
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	$ 1,297,009	$ 1,281,637

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

Note: The balance sheet at December 31, 2008 has been derived from the audited financial statements at that date but does not include all the information and notes required by U.S. generally accepted accounting principles for complete financial statements.

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CONSOLIDATED STATEMENT OF INCOME (In Thousands, Except Per Share Data)	3 Months Ended June 30, 2009 (Current)	3 Months Ended June 30, 2008 (Prior Year)	Fiscal Year To Date 6 Months Ended June 30, 2009 (Current)	Fiscal Year To Date 6 Months Ended June 30, 2008 (Prior Year)
INTEREST INCOME				
Interest and fees on loans	$ 11,356	$ 12,269	$ 22,713	$ 24,581
Interest on balances with depository institutions	3	5	4	18
Interest on loans to political subdivisions	415	345	808	710
Interest on federal funds sold	7	24	15	74
Interest on trading securities	8	10	31	43
Income from available-for-sale and held-to-maturity securities:				
Taxable	4,268	4,768	8,922	9,759
Tax-exempt	1,124	736	2,060	1,439
Dividends	160	216	359	449
Total interest and dividend income	17,341	18,373	34,912	37,073
INTEREST EXPENSE				
Interest on deposits	3,699	4,757	7,680	10,384
Interest on short-term borrowings	140	237	310	543
Interest on long-term borrowings	2,325	2,730	4,780	5,453
Total interest expense	6,164	7,724	12,770	16,380
Interest margin	11,177	10,649	22,142	20,693
Provision (credit) for loan losses	93	(376)	(80)	528
Interest margin after provision (credit) for loan losses	11,084	11,025	22,222	20,165
OTHER INCOME				
Trust and financial management revenue	870	975	1,639	1,852
Service charges on deposit accounts	1,150	1,103	2,197	2,049
Service charges and fees	227	187	417	361
Insurance commissions, fees and premiums	76	97	157	169
Increase in cash surrender value of life insurance	126	192	277	390
Other operating income	605	601	1,133	1,821
Sub-total	3,054	3,155	5,820	6,642
Total other-than-temporary impairment losses on available-for-sale securities	(17,974)	(1,171)	(42,955)	(1,420)
Portion of (gain) loss recognized in other comprehensive loss (before taxes)	(1,806)	0	6,495	0
Net impairment losses recognized in earnings	(19,780)	(1,171)	(36,460)	(1,420)
Realized gains on available-for-sale securities, net	785	304	786	443
Net impairment losses recognized in earnings and realized gains on available-for-sale securities	(18,995)	(867)	(35,674)	(977)
Total other (loss) income	(15,941)	2,288	(29,854)	5,665
OTHER EXPENSES				
Salaries and wages	3,318	3,736	6,659	7,427
Pensions and other employee benefits	1,075	1,079	2,319	2,230
Occupancy expense, net	679	717	1,421	1,471
Furniture and equipment expense	702	642	1,376	1,290

FDIC assessments		956		24		1,258		47
Pennsylvania shares tax		318		292		636		584
Other operating expense		2,110		1,767		4,127		3,672
Total other expenses		9,158		8,257		17,796		16,721
(Loss) income before income tax provision		(14,015)		5,056		(25,428)		9,109
Income tax provision		(5,284)		1,303		(9,672)		2,240
Net (loss) income		(8,731)		3,753		(15,756)		6,869
U.S Treasury preferred dividends		373		0		682		0
NET (LOSS) INCOME AVAILABLE TO COMMON SHAREHOLDERS	$	(9,104)	$	3,753	$	(16,438)	$	6,869
PER SHARE DATA:								
Net (loss) income per average common share - basic	$	(1.01)	$	0.42	$	(1.83)	$	0.77
Net (loss) income per average common share - diluted	$	(1.01)	$	0.42	$	(1.83)	$	0.76

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

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Consolidated Statements of Cash Flows (In Thousands)	6 Months Ended June 30, 2009	June 30, 2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss) income	$ (15,756)	$ 6,869
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
(Credit) provision for loan losses	(80)	528
Realized losses on available-for-sale securities, net	35,674	977
Loss (gain) on sale of foreclosed assets, net	10	(39)
Depreciation expense	1,433	1,449
Loss on disposition of premises and equipment	8	0
Accretion and amortization on securities, net	20	220
Accretion and amortization on loans, deposits and borrowings, net	(176)	(208)
Increase in cash surrender value of life insurance	(277)	(390)
Stock-based compensation	314	256
Amortization of core deposit intangibles	161	276
Deferred income taxes	(7,856)	(477)
Net decrease (increase) in trading securities	116	(1,862)
Increase in accrued interest receivable and other assets	(6,422)	(1,629)
(Decrease) increase in accrued interest payable and other liabilities	(245)	1,587
Net Cash Provided by Operating Activities	6,924	7,557
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from maturity of held-to-maturity securities	4	2
Proceeds from sales of available-for-sale securities	14,452	15,131
Proceeds from calls and maturities of available-for-sale securities	31,779	38,525
Purchase of available-for-sale securities	(61,178)	(55,473)
Purchase of Federal Home Loan Bank of Pittsburgh stock	(4)	(1,772)
Redemption of Federal Home Loan Bank of Pittsburgh stock	0	1,974
Net decrease (increase) in loans	15,538	(14,913)
Purchase of premises and equipment	(650)	(732)
Return of principal on limited partnership investment	26	15
Proceeds from sale of foreclosed assets	320	299
Net Cash Provided by (Used in) Investing Activities	287	(16,944)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in deposits	21,874	9,872
Net (decrease) increase in short-term borrowings	(9,157)	1,481
Proceeds from long-term borrowings	0	24,703
Repayments of long-term borrowings	(15,151)	(27,185)
Purchase of treasury stock	0	(852)
Issuance of US Treasury preferred stock and warrant	26,409	0
Sale of treasury stock	30	0
Tax benefit from compensation plans	92	0
US Treasury preferred dividends paid	(427)	0
Common dividends paid	(3,630)	(4,091)
Net Cash Provided by Financing Activities	20,040	3,928
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	27,251	(5,459)

CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR		24,028		31,661
CASH AND CASH EQUIVALENTS, END OF PERIOD	$	51,279	$	26,202
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:				
Assets acquired through foreclosure of real estate loans	$	954	$	204
Securities transferred from trading to available-for-sale	$	1,643	$	3,072
Accrued purchase of available-for-sale securities	$	3,308	$	0
Interest paid	$	13,049	$	16,519
Income taxes paid	$	1,275	$	2,054

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

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Consolidated Statement of Changes in Stockholders' Equity
(In Thousands Except Per Share Data)

	Preferred Stock	Common Stock	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Unamortized Stock Compensation	Treasury Stock	Total
Balance, December 31, 2008	$ 0	$ 9,284	$ 44,308	$ 97,757	$ (23,214)	$ (48)	$ (6,061)	$ 122,026
Comprehensive (loss) income:								
Net loss				(15,756)				(15,756)
Unrealized gain on securities, net of reclassification and tax (including unrealized loss, net of tax, of $4,287 on securities for which an other-than-temporary impairment loss has been recognized)					7,938			7,938
Change in value of FASB 158 adjustment to equity					(261)			(261)
Total comprehensive loss								(8,079)
Reclassify non-credit portion of other-than-temporary impairment losses recognized in prior period				2,378	(2,378)			0
Issuance of U.S. Treasury preferred stock	25,588		821					26,409
Accretion of discount associated with U.S. Treasury preferred stock	76			(76)				0
Cash dividends on U.S. Treasury preferred stock				(606)				(606)
Cash dividends declared on common stock, $.48 per share				(4,303)				(4,303)
Shares issued for dividend reinvestment plan			46				629	675
Shares issued from treasury related to exercise of stock options			(4)				34	30
Restricted stock granted			10			(79)	69	0

Forfeiture of restricted stock			(1)			3	(2)	0
Stock-based compensation expense			273			41		314
Tax benefit from employee benefit plan				92				92
Balance, June 30, 2009	$ 25,664	$ 9,284	$ 45,453	$ 79,486	$ (17,915)	$ (83)	$ (5,331)	$ 136,558

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

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Notes to Consolidated Financial Statements

1. BASIS OF INTERIM PRESENTATION

The financial information included herein, with the exception of the consolidated balance sheet dated December 31, 2008, is unaudited; however, such information reflects all adjustments (consisting solely of normal recurring adjustments) that are, in the opinion of management, necessary for a fair presentation of the financial position, results of operations, cash flows and changes in stockholders' equity for the interim periods. Certain 2008 information has been reclassified for consistency with the 2009 presentation.

Results reported for the three-month and six-month periods ended June 30, 2009 might not be indicative of the results for the year ending December 31, 2009.

This document has not been reviewed or confirmed for accuracy or relevance by the Federal Deposit Insurance Corporation or any other regulatory agency.

2. CHANGES IN ACCOUNTING PRINCIPLES

As of January 1, 2009, the Corporation adopted the following new accounting pronouncements:

- FASB Staff Position (FSP) FAS 115-2 and FAS 124-2, "Recognition and Presentation of Other-Than-Temporary Impairments" amends other-than-temporary impairment (OTTI) accounting guidance for debt securities, requires new disclosures and changes the presentation and amount of OTTI recognized in the income statement. The FSP requires impairment of debt securities be separated into (a) the amount of the total impairment related to credit loss, which is recognized in the income statement, and (b) the amount of the total impairment related to all other factors, which is recognized in other comprehensive income. The total OTTI is presented in the income statement with an offset for the amount of total OTTI recognized in other comprehensive income. As required, the Corporation recognized the cumulative effect of adopting this FSP as an increase in retained earnings of $2,378,000, and a decrease in accumulated other comprehensive loss of the same amount, as of January 1, 2009. For the six-month period ended June 30, 2009, the effect of adopting this FSP was to reduce impairment losses recognized in earnings by $6,495,000, and increase the income tax provision by $2,208,000, resulting in an increase in net income of $4,287,000, or $0.48 per average common share. For the three-month period ended June 30, 2009, the effect of adopting this FSP was to increase impairment losses recognized in earnings by $1,806,000, and reduce the income tax provision by $614,000, resulting in a reduction in net income (larger net loss) of $1,192,000, or $0.13 per average common share. Additional disclosures required by this FSP are provided in Note 6 to the Consolidated Financial Statements.

- FSP FAS 157-4, "Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly" provides additional guidance for estimating fair value in accordance with FASB Statement No. 157, "Fair Value Measurements," when the volume and level of activity for the asset or liability have significantly decreased. This FSP also includes guidance on identifying circumstances that indicate a transaction is not orderly. There were no changes in the Corporation's valuation techniques or their application that resulted from adoption of this FSP. The FSP amends the disclosure requirements of FASB Statement No. 157 to require the Corporation to disclose in interim and annual periods the inputs and valuation techniques used to measure fair value and to discuss changes in valuation techniques and related inputs during the period. Further, the FSP requires presentation of information concerning securities in more detailed "major security types" than had been required in the past. Disclosures required by this FSP are provided in

Note 5 to the Consolidated Financial Statements.

- FSP FAS 107-1 and APB 28-1, “Interim Disclosures about Fair Values of Financial Instruments” requires the Corporation to provide disclosures each quarter that had previously been required only on an annual basis, about the fair value of financial instruments. The required disclosures are provided in Note 7 to the Consolidated Financial Statements.

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3. PER COMMON SHARE DATA

Basic net (loss) income per average common share represents income available to common shareholders divided by the weighted-average number of shares of common stock outstanding. As shown in the table that follows, diluted net income per common share for the three-month and six-month periods ended June 30, 2008 was 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 common 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. For the three-month and six-month periods ended June 30, 2009, outstanding stock options and the warrant (issued in January 2009) are anti-dilutive, and are therefore excluded in determining diluted loss per common share.

		Net (Loss) Income	Weighted-Average Common Shares		Earnings Per Share
Six Months Ended June 30, 2009					
Earnings per common share – basic and diluted	$	(16,438,000)	8,964,850	$	(1.83)
Six Months Ended June 30, 2008					
Earnings per share – basic	$	6,869,000	8,968,999	$	0.77
Dilutive effect of potential common stock arising from stock options:					
Exercise of outstanding stock options			148,788		
Hypothetical share repurchase at $19.09			(133,389)		
Earnings per share – diluted	$	6,869,000	8,984,398	$	0.76
Quarter Ended June 30, 2009					
Earnings per common share – basic and diluted	$	(9,104,000)	8,973,531	$	(1.01)
Quarter Ended June 30, 2008					
Earnings per share – basic	$	3,753,000	8,963,552	$	0.42
Dilutive effect of potential common stock arising from stock options:					
Exercise of outstanding stock options			148,788		
Hypothetical share repurchase at $ 18.89			(134,800)		
Earnings per share – diluted	$	3,753,000	8,977,540	$	0.42

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4. COMPREHENSIVE (LOSS) INCOME

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

(In Thousands)	3 Months Ended June 30,		6 Months Ended June 30,	
	2009	2008	2009	2008
Net (loss) income	$ (8,731)	$ 3,753	$ (15,756)	$ 6,869
Unrealized losses on available-for-sale securities:				
Unrealized holding losses on available-for-sale securities	(9,517)	(5,086)	(23,647)	(14,829)
Reclassification adjustment for losses realized in income	18,995	867	35,674	977
Other comprehensive gain (loss) before income tax	9,478	(4,219)	12,027	(13,852)
Income tax related to other comprehensive gain (loss)	3,222	(1,435)	4,089	(4,710)
Other comprehensive gain (loss) on available-for-sale securities	6,256	(2,784)	7,938	(9,142)
Unfunded pension and postretirement obligations:				
Change in items from defined benefit plans included in accumulated other comprehensive loss	(209)	0	(462)	0
Amortization of net transition obligation, prior service cost and net actuarial loss included in net periodic benefit cost	54	6	66	11
Other comprehensive (loss) gain before income tax	(155)	6	(396)	11
Income tax related to other comprehensive (loss) gain	(53)	1	(135)	2
Other comprehensive (loss) gain on unfunded retirement obligations	(102)	5	(261)	9
Net other comprehensive gain (loss)	6,154	(2,779)	7,677	(9,133)
Total comprehensive (loss) income	$ (2,577)	$ 974	$ (8,079)	$ (2,264)

In the six-month period ended June 30, 2009, the Corporation recognized other comprehensive loss of $6,495,000 before income tax, or $4,287,000 after income tax, related to available-for-sale debt securities for which a portion of an OTTI loss has been recognized in earnings. In the second quarter 2009, the Corporation recognized other comprehensive income of $1,806,000 before income tax, or $1,192,000 after income tax, related to available-for-sale debt securities for which a portion of an OTTI loss has been recognized in earnings.

5. ASSETS MEASURED AT FAIR VALUE ON A RECURRING BASIS

The Corporation measures certain assets at fair value on a recurring basis. 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. Statement of Financial Accounting Standards No. 157 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.

At June 30 2009, assets measured at fair value on a recurring basis and the valuation methods used are as follows:

	June 30, 2009 Market Values Based on:			
(In Thousands)	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total Fair Value
AVAILABLE-FOR-SALE SECURITIES:				
Obligations of other U.S. Government agencies	$ 0	$ 20,851	$ 0	$ 20,851
Obligations of states and political subdivisions	6,789	87,523	0	94,312
Mortgage-backed securities	4,291	166,591	0	170,882
Collateralized mortgage obligations	0	71,643	0	71,643
Corporate bonds	0	1,078	0	1,078
Trust preferred securities issued by individual institutions	0	6,566	0	6,566
Collateralized debt obligations:				
Pooled trust preferred securities - senior tranches	0	0	8,471	8,471
Pooled trust preferred securities - mezzanine tranches	0	0	28,999	28,999
Other collateralized debt obligations	0	713	0	713
Total debt securities	11,080	354,965	37,470	403,515
Marketable equity securities	12,276	0	0	12,276
Total available-for-sale securities	23,356	354,965	37,470	415,791
TRADING SECURITIES,				
Obligations of states and political subdivisions	484	63	0	547
Total	$ 23,840	$ 355,028	$ 37,470	$ 416,338

Management determined there were virtually no trades of pooled trust-preferred securities in the second half of 2008 or the first half of 2009, except for a limited number of transactions that took place as a result of bankruptcies, forced liquidations or similar circumstances. Also, in management's judgment, there were no available quoted market prices in active markets for assets sufficiently similar to the Corporation's pooled trust-preferred securities to be reliable as observable inputs. Accordingly, in the third quarter of 2008, the Corporation changed its method of valuing pooled trust-preferred securities from a Level 2 methodology that had been used in prior periods, based on price quotes received from pricing services, to a Level 3 methodology, using discounted cash flows.

At June 30, 2009, management calculated the fair values of pooled trust-preferred securities by applying discount rates to estimated cash flows for each security. Management used the cash flow estimates for each security determined using the process described in Note 6. Management used discount rates considered reflective of a market participant's expectations regarding the extent of credit and liquidity risk inherent in the securities. In establishing the discount rates, management considered: (1) the implied discount rates as of the end of 2007, prior to the market for trust-preferred securities becoming inactive; (2) adjustment to the year-end 2007 discount rates for the change in the spread between indicative market rates (3-month LIBOR, for most of the Corporation's securities) over corresponding risk-free rates (3-month U.S. Treasury Bill, for most of the Corporation's securities) in 2009; and (3) an additional adjustment – an increase of 2% in the discount rate – for liquidity risk. Management considered the additional 2% increase in the discount rate necessary in order to give some consideration to price estimates based on trades made under distressed conditions, as reported by brokers and pricing services. Management's estimates of cash flows and discount rates used to calculate fair values of pooled trust-preferred securities were based on sensitive assumptions, and market participants might use substantially different assumptions, which could result in calculations of fair values that would be substantially different than the amounts calculated by management.

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Following is a reconciliation of activity for assets (pooled trust-preferred securities) measured at fair value based on significant unobservable information:

	3 Months Ended		Fiscal Year To Date 6 Months Ended June 30,	
	June 30, 2009 (Current)	June 30, 2008 (Prior Year)	2009 (Current)	2008 (Prior Year)
Balance, beginning of period	$ 49,833	$ 0	$ 58,914	$ 0
Transfers	0	0	0	0
Purchases, issuances and settlements	(72)	0	41	0
Realized (losses) on securities deemed worthless	0	0	(335)	0
Unrealized (losses) included in earnings	(19,176)	0	(30,281)	0
Unrealized gains included in other comprehensive income	6,885	0	9,131	0
Balance, end of period	$ 37,470	$ 0	$ 37,470	$ 0

Unrealized losses included in earnings are from the Corporation's other-than-temporary impairment analysis of securities, as described in Note 6, and are included in net impairment losses recognized in earnings in the consolidated statement of income.

6. SECURITIES

The Corporation's trading assets at June 30, 2009 and December 31, 2008 were composed exclusively of municipal bonds. Gains and losses from trading activities are included in other operating income in the consolidated statement of income as follows (in thousands):

	3 Months Ended		Fiscal Year To Date 6 Months Ended June 30,	
	June 30, 2009	June 30, 2008	2009	2008
Gross realized gains	$ 1	$ 5	$ 41	$ 40
Gross realized losses	(104)	(63)	$ (104)	(63)
Net change in unrealized gains/losses	123	15	66	(1)
Net gains (losses)	$ 20	$ (43)	$ 3	$ (24)
Income taxes related to net gains (losses)	$ 7	$ (15)	$ 1	$ (8)

Amortized cost and fair value of available-for-sale and held-to-maturity securities at June 30, 2009 and December 31, 2008 are summarized as follows:

(In Thousands)	June 30, 2009 Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
AVAILABLE-FOR-SALE SECURITIES:				
Obligations of other U.S. Government agencies	$ 20,455	$ 424	$ (28)	$ 20,851
Obligations of states and political subdivisions	102,531	354	(8,573)	94,312
Mortgage-backed securities	166,275	4,622	(15)	170,882
Collateralized mortgage obligations	73,652	612	(2,621)	71,643
Corporate bonds	1,000	78	0	1,078
Trust preferred securities issued by individual institutions	10,326	0	(3,760)	6,566
Collateralized debt obligations:				
Pooled trust preferred securities - senior tranches	11,763	0	(3,292)	8,471
Pooled trust preferred securities - mezzanine tranches	44,029	0	(15,030)	28,999
Other collateralized debt obligations	713	0	0	713
Total debt securities	430,744	6,090	(33,319)	403,515
Marketable equity securities	11,653	1,459	(836)	12,276
Total	$ 442,397	$ 7,549	$ (34,155)	$ 415,791
HELD-TO-MATURITY SECURITIES:				
Obligations of the U.S. Treasury	$ 302	$ 9	$ 0	$ 311
Obligations of other U.S. Government agencies	100	1	0	101
Total	$ 402	$ 10	$ 0	$ 412

(In Thousands)	December 31, 2008 Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
AVAILABLE-FOR-SALE SECURITIES:				
Obligations of other U.S. Government agencies	$ 15,500	$ 701	$ 0	$ 16,201
Obligations of states and political subdivisions	80,838	197	(6,812)	74,223
Mortgage-backed securities	171,453	2,632	(229)	173,856
Collateralized mortgage obligations	70,619	187	(2,572)	68,234
Corporate bonds	1,000	117	0	1,117
Trust preferred securities issued by individual institutions	10,436	0	(2,835)	7,601
Collateralized debt obligations:				
Pooled trust preferred securities - senior tranches	11,938	0	(3,296)	8,642
Pooled trust preferred securities - mezzanine tranches	70,826	0	(20,554)	50,272
Other collateralized debt obligations	692	0	0	692
Total debt securities	433,302	3,834	(36,298)	400,838
Marketable equity securities	21,405	1,918	(4,473)	18,850
Total	$ 454,707	$ 5,752	$ (40,771)	$ 419,688

HELD-TO-MATURITY SECURITIES:								
Obligations of the U.S. Treasury	$	304	$	16	$	0	$	320
Obligations of other U.S. Government agencies		100		4		0		104
Mortgage-backed securities		2		0		0		2
Total	$	406	$	20	$	0	$	426

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The following table presents gross unrealized losses and fair value of available-for-sale investments aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at June 30, 2009 and December 31, 2008.

June 30, 2009 (In Thousands)	Less Than 12 Months Fair Value	Unrealized Losses	12 Months or More Fair Value	Unrealized Losses	Total Fair Value	Unrealized Losses
AVAILABLE-FOR-SALE SECURITIES:						
Obligations of other U.S. Government agencies	$ 4,927	$ (28)	$ 0	$ 0	$ 4,927	$ (28)
Obligations of states and political subdivisions	19,475	(1,175)	42,436	(7,398)	61,911	(8,573)
Mortgage-backed securities	4,295	(13)	704	(2)	4,999	(15)
Collateralized mortgage obligations	9,678	(276)	37,582	(2,345)	47,260	(2,621)
Trust preferred securities issued by individual institutions	3,190	(1,819)	3,376	(1,941)	6,566	(3,760)
Collateralized debt obligations:						
Pooled trust preferred securities - senior tranches	8,471	(3,292)	0	0	8,471	(3,292)
Pooled trust preferred securities - mezzanine tranches	0	0	29,001	(15,030)	29,001	(15,030)
Total debt securities	50,036	(6,603)	113,099	(26,716)	163,135	(33,319)
Marketable equity securities	818	(240)	983	(596)	1,801	(836)
Total temporarily impaired available-for-sale Securities	$ 50,854	$ (6,843)	$ 114,082	$ (27,312)	$ 164,936	$ (34,155)

December 31, 2008 (In Thousands)	Less Than 12 Months Fair Value	Unrealized Losses	12 Months or More Fair Value	Unrealized Losses	Total Fair Value	Unrealized Losses
AVAILABLE-FOR-SALE SECURITIES:						
Obligations of states and political subdivisions	$ 29,867	$ (3,202)	$ 26,679	$ (3,610)	$ 56,546	$ (6,812)
Mortgage-backed securities	21,746	(137)	6,713	(92)	28,459	(229)
Collateralized mortgage obligations	26,117	(1,054)	17,644	(1,518)	43,761	(2,572)
Trust preferred securities issued by individual institutions	3,810	(1,201)	3,791	(1,634)	7,601	(2,835)
Collateralized debt obligations:						
Pooled trust preferred securities - senior tranches	8,642	(3,296)	0	0	8,642	(3,296)
	0	0	41,911	(20,554)	41,911	(20,554)

Pooled trust preferred securities - mezzanine tranches						
Total debt securities	90,182	(8,890)	96,738	(27,408)	186,920	(36,298)
Marketable equity securities	4,062	(1,080)	6,407	(3,393)	10,469	(4,473)
Total temporarily impaired available-for-sale Securities	$ 94,244	$ (9,970)	$ 103,145	$ (30,801)	$ 197,389	$ (40,771)

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

(In Thousands)	3 Months Ended		6 Months Ended	
	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008
Pooled trust preferred securities - mezzanine tranches	$ (19,176)	$ 0	$ (30,281)	$ 0
Marketable equity securities (bank stocks)	(604)	(1,171)	(6,179)	(1,420)
Net impairment losses recognized in earnings	$ (19,780)	$ (1,171)	$ (36,460)	$ (1,420)

A summary of information management considered in evaluating debt and equity securities for OTTI at June 30, 2009 is provided below.

Debt Securities

In addition to the effects of volatility in interest rates on individual debt securities, management believes valuations of debt securities at June 30, 2009 have been negatively impacted by events affecting the overall credit markets during the last quarter of 2007, all of 2008 and the first half of 2009. There have been widespread disruptions to the normal operation of bond markets. Particularly with regard to pooled trust-preferred securities, trading volume has been limited and consisted almost entirely of sales by distressed sellers.

At June 30, 2009, management performed an assessment for possible OTTI of the Corporation’s investments in U.S. Government agency bonds and mortgage-backed securities, obligations of state and political subdivisions, collateralized mortgage obligations and trust preferred securities issued by individual issuers (banking companies) on an issue-by-issue basis, relying on information obtained from various sources, including publicly available financial data, ratings by external agencies, brokers and other sources. The extent of individual analysis applied to each security depended on the size of the Corporation’s investment, as well as management’s perception of the credit risk associated with each security. Based on the results of the assessment, management believes impairment of these debt securities at June 30, 2009 to be temporary.

Trust-preferred securities are very long-term (usually 30-year maturity) instruments with characteristics of both debt and equity, mainly issued by banks. The Corporation’s investments in pooled trust-preferred securities are each made up of 30 or more companies with geographic and size diversification. Almost all of the Corporation’s pooled trust-preferred securities are composed of debt issued by banking companies, with lesser amounts issued by insurance companies and real estate investment trusts.

All of the Corporation’s pooled trust-preferred securities were deemed investment grade by Moody’s and/or Fitch when they were purchased; however, all of the rated securities have been downgraded by Moody’s and by Fitch. As of June 30, 2009, the Corporation’s investment in a senior tranche security has an investment grade rating; however, all the mezzanine tranche securities have ratings several levels below investment grade or are not rated. In 2008 and the first half of 2009, some of the issuers of trust-preferred securities that are included in the Corporation’s pooled investments have elected to defer payment of interest on these obligations (trust-preferred securities typically permit deferral of quarterly interest payments for up to five years), and some issuers have defaulted. Trust-preferred securities are structured so that the issuers pay more interest into the trusts than would be required for pass through to the investors in the rated notes (such as the Corporation), with the excess used to cover administrative and other expenses, and to provide a cushion for some protection against the risk of loss for investors in the rated notes.

As of June 30, 2009, management evaluated the pooled trust-preferred securities for OTTI by estimating the cash flows expected to be received from each security, taking into account estimated levels of deferrals and defaults by the underlying issuers. In determining cash flows, management assumed all issuers currently deferring or in default would make no future payments, and assigned estimated future default levels for the remaining issuers in each security based on financial strength ratings assigned by a national ratings service. Management calculated the present value of each security based on the current book yield, adjusted for future changes in 3-month LIBOR (which is the index rate on the Corporation’s adjustable rate pooled trust-preferred securities) based on the applicable forward curve. Management’s estimates of cash flows used to evaluate other-than-temporary impairment of pooled trust-preferred securities were based on sensitive assumptions regarding the timing and amounts of defaults that may occur, and changes in those assumptions could produce different conclusions for each security.

For the senior tranche security with an amortized cost of $11,763,000, and four of the mezzanine tranche securities with an aggregate amortized cost of $14,308,000, the present value at June 30, 2009 determined based on estimated cash flows had not declined from management's previous assumptions used to determine book value, and accordingly, impairment was deemed temporary. However, for sixteen of the securities, the present values declined, including three securities which have been deemed worthless. As shown in the table above, the Corporation wrote the amortized cost basis of trust-preferred securities down to present value by $30,281,000 (pre-tax) in the first six months of 2009, including $19,176,000 in the second quarter.

As described in Note 2, the Corporation adopted FSP FAS 115-2 and FAS 124-2, "Recognition and Presentation of Other-Than-Temporary Impairments," effective January 1, 2009. As a result of implementing the FSP, the Corporation separated OTTI related to the trust-preferred securities into (a) the amount of the total impairment related to credit loss, which is recognized in the income statement, and (b) the amount of the total impairment related to all other factors, which is recognized in other comprehensive income. The Corporation measured the credit loss component of OTTI based on the difference between: (1) the present value of estimated cash flows, at the book yield in effect prior to recognition of any OTTI, as of June 30, 2009, and (2) the present value of estimated cash flows as of the end of the immediate prior quarter using book yield and management's cash flow assumptions at that time. For the six-month period ended June 30, 2009, the effect of adopting this FSP was to reduce pre-tax impairment losses recognized in earnings by $6,495,000. For the three-month period ended June 30, 2009, the effect of adopting this FSP was to increase impairment losses recognized in earnings by $1,806,000.

A roll-forward of the OTTI amount related to credit losses for the three-month and six-month periods ended June 30, 2009 is as follows:

(In Thousands)	3 Months Ended June 30, 2009	6 Months Ended June 30, 2009
Balance of credit losses on debt securities for which a portion of OTTI was recognized in other comprehensive income, beginning of period (as measured effective January 1, 2009 upon adoption of FSP FAS 115-2 and FAS 124-2)	$ (13,467)	$ (2,362)
Additional credit loss for which an OTTI was not previously recognized	(5,197)	(23,020)
Reduction for securities losses realized during the period	9,311	9,311
Additional credit loss for which an OTTI was previously recognized when the Corporation does not intend to sell the security and it is not more likely than not the Corporation will be required to sell the security before recovery of its amortized cost basis	(13,979)	(7,261)
Balance of credit losses on debt securities for which a portion of OTTI was recognized in other comprehensive income, end of period	$ (23,332)	$ (23,332)

Write-downs associated with securities deemed worthless are included in the line item labeled "Reduction for securities losses realized during the period" in the table immediately above.

Equity Securities

The Corporation's marketable equity securities include stocks of banking companies, and to a lesser extent, a mix of non-financial equities which include large cap domestic and foreign companies, as well as equity-based mutual funds and similar instruments. At June 30, 2009, the fair value of bank equities was $10,155,000, and the fair value of

non-bank equities was $2,121,000. Management evaluates the financial condition, earnings, dividend payment prospects and other relevant factors related to each issuer for which the stock is in an unrealized loss position, to determine whether the Corporation can realistically expect to recover its cost basis without realizing a loss.

Management's decision to record OTTI losses on bank stocks in 2009 was based on a combination of: (1) significant market depreciation in market prices in the first quarter 2009 (with some improvement in the second quarter 2009), and (2) management's intent to sell some of the stocks in 2009 to generate capital losses, which could be carried back and offset against capital gains generated in 2006 and 2007 to realize tax refunds. The Corporation sold bank stocks with a cost basis (adjusted for prior OTTI charges) totaling $3,651,000 in the first six months of 2009, and recorded an aggregate pre-tax realized gain on the sales of $1,024,000. The total realized gains on sales of bank stocks included gains totaling $291,000 on stocks for which OTTI had been previously recognized, and gains totaling $733,000 on sales of stocks for which no OTTI had been recognized. After the impact of the impairment charges and sales, virtually all of the Corporation's remaining bank stocks had an unrealized gain at June 30, 2009.

Consistent with declines in U.S. and worldwide equity markets, the values of the non-financial equities fell in the last half of 2008 and first quarter 2009, and appreciated in the second quarter 2009. At June 30, 2009, the total amortized cost basis of investments in non-bank equities in an unrealized loss position was $2,586,000, with an aggregate fair value of $1,751,000 and an unrealized loss of $835,000, or 32% of cost. There were 46 non-bank equities in an unrealized loss position at June 30, 2009. The largest unrealized loss amounts were from: (1) Federated Index Trust Mid-Cap Fund, which is indexed to the S&P 400 Mid-Cap Index, with an unrealized loss of $225,000 or 43% of cost, and (2) iShares MCSI EAFE Index Funds, an exchange traded fund indexed to international stocks, with an unrealized loss of $154,000, or 43% of cost. In the case of these two securities, as well as the rest of the non-bank equities, management believes the impairment to be a product of the current, cyclical downturn in equity markets, and management expects the Corporation to hold the securities until its cost basis can be recovered.

7. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of a financial instrument is the current amount that would be exchanged between willing parties, other than in a forced liquidation. When possible, fair value is determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Corporation's financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument. SFAS No. 107 excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements. Therefore, the aggregate fair value amounts presented may not represent the underlying fair value of the Corporation.

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

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

SECURITIES - Fair values for securities, excluding restricted equity securities, are based on quoted market prices or other methods as described in Note 5. The carrying value of restricted equity securities approximates fair value based on applicable redemption provisions.

LOANS - Fair values are estimated for portfolios of loans with similar financial characteristics. Loans are segregated by type such as commercial, commercial real estate, residential mortgage and other consumer. Each loan category is further segmented into fixed and adjustable rate interest terms and by performing and nonperforming categories. The fair value of performing loans is calculated by discounting contractual cash flows, adjusted for estimated prepayments

based on historical experience, using estimated market discount rates that reflect the credit and interest rate risk inherent in the loans. Fair value of nonperforming loans is based on recent appraisals or estimates prepared by the Corporation's lending officers.

DEPOSITS - The fair value of deposits with no stated maturity, such as noninterest-bearing demand deposits, savings, money market and interest checking accounts, is (by definition) equal to the amount payable on demand at June 30, 2009 and December 31, 2008. The fair value of all other deposit categories is based on the discounted value of contractual cash flows. The discount rate is estimated using the rates currently offered for deposits of similar remaining maturities. The fair value estimates of deposits do not include the benefit that results from the low-cost funding provided by the deposit liabilities compared to the cost of borrowing funds in the market, commonly referred to as the core deposit intangible.

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

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

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

(In Thousands)	June 30, 2009		December 31, 2008	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	$ 51,279	$ 51,279	$ 24,028	$ 24,028
Trading securities	547	547	2,306	2,306
Available-for-sale securities	415,791	415,791	419,688	419,688
Held-to-maturity securities	402	413	406	426
Restricted equity securities	8,970	8,970	8,954	8,954
Loans, net	719,347	720,425	735,687	725,586
Accrued interest receivable	5,606	5,606	5,846	5,846
Financial liabilities:				
Deposits	885,944	897,292	864,057	870,767
Short-term borrowings	39,390	39,062	48,547	47,653
Long-term borrowings	221,658	230,046	236,926	240,521
Accrued interest payable	781	781	956	956

8. DEFINED BENEFIT PLANS

The Corporation sponsors a defined benefit health care plan that provides postretirement medical benefits and life insurance to employees who meet certain age and length of service requirements. This plan contains a cost-sharing feature, which causes participants to pay for all future increases in costs related to benefit coverage. Accordingly, actuarial assumptions related to health care cost trend rates do not affect the liability balance at June 30, 2009 and December 31, 2008, and will not affect the Corporation's future expenses. The Corporation uses a December 31 measurement date for the postretirement plan.

The Corporation's defined benefit pension plan was frozen and terminated, effective December 31, 2007. In September 2008, the Corporation funded and settled substantially all of its obligations under the Plan.

In 2007, the Corporation assumed the Citizens Trust Company Retirement Plan, a defined benefit pension plan for which benefit accruals and participation were frozen in 2002. Information related to the Citizens Trust Company Retirement Plan has been included in the table that follows for 2009, but was insignificant for 2008. The Corporation uses a December 31 measurement date for this plan.

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

Defined Benefit Plans (In Thousands)	Pension Six Months Ended June 30,		Postretirement Six Months Ended June 30,	
	2009	2008	2009	2008
Service cost	$ 0	$ 20	$ 37	$ 35
Interest cost	33	298	47	39
Expected return on plan assets	(22)	(153)	0	0
Amortization of transition (asset) obligation	0	(12)	18	18

Amortization of prior service cost		0		0		7		5
Loss from partial settlement		39		0		0		0
Recognized net actuarial loss		2		0		0		0
Net periodic benefit cost	$	52	$	153	$	109	$	97

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(In Thousands)	Pension Three Months Ended June 30,		Postretirement Three Months Ended June 30,	
	2009	2008	2009	2008
Service cost	$ 0	$ 10	$ 18	$ 18
Interest cost	33	149	24	19
Expected return on plan assets	(22)	(76)	0	0
Amortization of transition (asset) obligation	0	(6)	9	9
Amortization of prior service cost	0	0	4	3
Loss from partial settlement	39	0	0	0
Recognized net actuarial loss	2	0	0	0
Net periodic benefit cost	$ 52	$ 77	$ 55	$ 49

In the first six months of 2009, the Corporation funded postretirement contributions totaling $30,000, with estimated annual postretirement contributions of $60,000 expected in 2009 for the full year. There were no contributions made to the Citizens Trust Company Retirement Plan in the first six months of 2009. Subsequent to June 30, 2009, the Corporation made contributions totaling $220,000 to the Citizens Trust Company Retirement Plan, including $200,000 for the 2008 plan year and $20,000 for the 2009 plan year. The amount funded for the 2008 plan year exceeded legal minimum funding requirements, which ranged from $38,000 to $41,000, depending on timing of the contributions. Additional contributions for the 2009 plan year totaling $18,000 are expected to be made in October 2009 and January 2010.

9. STOCK-BASED COMPENSATION PLANS

In January 2009, the Corporation granted options to purchase a total of 79,162 shares of common stock through its Stock Incentive and Independent Directors Stock Incentive Plans. In January 2008, the Corporation granted options to purchase a total of 83,257 shares of common stock. The exercise price for the 2009 awards is $19.88 per share, and the exercise price for the 2008 awards is $17.50 per share, based on the market price as of the date of each grant. The Corporation records stock option expense based on estimated fair value calculated using an option valuation model.

In calculating the fair value, the Corporation utilized the Black-Scholes option-pricing model. The calculated fair value of each option granted, and significant assumptions used in the calculations, are as follows:

	2009	2008
Fair value of each option granted	$ 4.21	$ 3.15
Volatility	28%	23%
Expected option lives	9 Years	9 Years
Risk-free interest rate	3.15%	4.05%
Dividend yield	3.94%	3.74%

In calculating the estimated fair value of stock option awards, management based its estimates of volatility and dividend yield on the Corporation’s experience over the immediately prior period of time consistent with the estimated lives of the options. The risk-free interest rate was based on the published yield of zero-coupon U.S. Treasury strips with an applicable maturity as of the grant dates. The 9-year expected option life used for both 2009 and 2008 awards was based on management’s estimates of the average term for all options issued under both plans. For the 2009 and 2008 awards, management assumed a 23% forfeiture rate for options granted under the Stock Incentive Plan, and a 0% forfeiture rate for the Directors Stock Incentive Plan. These estimated forfeiture rates were determined based on the

Corporation's historical experience.

Also, the Corporation awarded a total of 3,890 shares in January 2009 and 5,062 shares in January 2008 of restricted stock under the Stock Incentive and Independent Directors Stock Incentive Plans. Compensation cost related to restricted stock is recognized based on the market price of the stock at the grant date over the vesting period.

Total stock-based compensation is as follows:

(In Thousands)	3 Months Ended		Fiscal Year To Date	
	June 30, 2009	June 30, 2008	6 Months Ended June 30, 2009	2008
Stock options	$ 103	$ 91	$ 273	$ 209
Restricted stock	21	23	41	47
Total	$ 124	$ 114	$ 314	$ 256

10. ISSUANCE OF PREFERRED STOCK AND WARRANT UNDER THE TARP CAPITAL PURCHASE PROGRAM

On January 16, 2009, the Corporation issued 26,440 shares of Series A Preferred Stock ("Preferred Stock") and a Warrant to purchase up to 194,794 shares of common stock at an exercise price of $20.36 per share. The Corporation sold the Preferred Stock and Warrant to the United States Department of the Treasury ("Treasury") under the TARP Capital Purchase Program (the "Program") for an aggregate price of $26,440,000.

The Preferred Stock has no maturity date. The Preferred Stock has a par value of $1,000 per share and a liquidation preference amount of $1,000 per share. The Preferred Stock pays a cumulative dividend rate of 5% per annum for the first five years and will reset to a rate of 9% per annum after year five. The dividend is payable quarterly in arrears. The Treasury may transfer the Preferred Stock to a third party at any time. The American Recovery and Reinvestment Act of 2009, which became effective in February 2009, included a change to the Program that permits the Corporation to redeem the Preferred Stock at any time, subject to approval of banking regulators, for a price equal to the original issue price plus any accrued but unpaid dividends. If the Corporation were to redeem all the outstanding shares of Preferred Stock by December 31, 2009, 50% of the common shares issuable pursuant to the Warrant would be cancelled.

The shares of Preferred Stock are non-voting, other than class voting rights on (i) any authorization or issuance of shares ranking senior to the Preferred Stock, (ii) any amendment to the rights of the shares of Preferred Stock, or (iii) any merger, exchange or similar transaction which would adversely affect the rights of the Preferred Stock. If dividends on the Preferred Stock are not paid in full for six dividend periods, whether or not consecutive, the holders of the Preferred Stock will have the right to elect 2 directors. The right to elect directors will end when full dividends have been paid for four consecutive dividend periods. As of June 30, 2009, no dividends on the preferred stock were in arrears.

Pursuant to participation in the Program, the Corporation may continue to pay dividends on its common stock, subject to the following requirements and limitations: (1) all accrued and unpaid dividends for all past dividend periods on the Preferred Stock must be fully paid; and (2) consent of the Treasury is required for any increase in the per share dividends on common shares until January 16, 2012, unless prior to that date, the Corporation has redeemed the Preferred Stock in whole or the Treasury has transferred all of the Preferred Stock to third parties. Also, until January 16, 2012 (unless prior to that date, the Corporation has redeemed the Preferred Stock in whole or the Treasury has transferred all of the Preferred Stock to third parties) the Treasury's consent is required for any repurchases of common stock, except for repurchases of shares in connection with employee benefit plans in the ordinary course of business consistent with past practice.

The Warrant is exercisable and has a term of 10 years. The number of common shares that could be acquired upon exercise was based on 15% of the total proceeds, with the exercise price determined using the average market price of

the Corporation's common stock for the 20 trading days immediately prior to issuance. The Warrant is not subject to restrictions on transfer, except that Treasury may only transfer or exercise the Warrant with respect to one-half of the shares underlying the Warrant prior to the earlier of (i) the date on which the Corporation has received proceeds of at least $26,440,000 from a qualifying equity offering of Tier 1 perpetual preferred stock or common stock and (ii) December 31, 2009. Treasury has agreed that it will not vote any of the shares of common stock that it acquires upon exercise of the Warrant. This does not apply to any other person who acquires from Treasury any portion of the Warrant, or the shares of common stock underlying the Warrant.

In 2009, the Corporation recorded issuance of the Preferred Stock and Warrant as increases in stockholders' equity. Proceeds from the transaction, net of direct issuance costs of $31,000, have been allocated between Preferred Stock and the Warrant based on their respective fair values at the date of issuance. The fair value of the Preferred Stock was estimated based on dividend rates on recent preferred stock and other capital issuances by banking companies, and the fair value of the Warrant was estimated using the Black-Scholes option model. The amount allocated to the Warrant (recorded as an increase in Paid in Capital) was $821,000, and the amount initially allocated to Preferred Stock was $25,588,000. As a result, the Preferred Stock's initial carrying value was at a discount to the liquidation value or stated value of $26,440,000. In accordance with the SEC's Staff Accounting Bulletin No. 68, "Increasing Rate Preferred Stock," the discount is considered an unstated dividend cost that shall be accreted over the period preceding commencement of the perpetual dividend using the effective interest method, by charging the imputed dividend cost against retained earnings and increasing the carrying amount of the Preferred Stock by a corresponding amount. The discount is therefore being accreted over five years, resulting in an effective dividend rate (including stated dividends and the accretion of the discount on Preferred Stock) of 5.80%. In 2009, total dividends on Preferred Stock of $682,000, which has been deducted from net income to arrive at net income available to common shareholders in the Consolidated Statements of Income, included quarterly dividends paid of $427,000, dividends accrued based on the stated value of $179,000 and accretion of the discount on Preferred Stock of $76,000.

11. CONTINGENCIES

In the normal course of business, the Corporation may be subject to pending and threatened lawsuits in which claims for monetary damages could be asserted. In management's opinion, the Corporation's financial position and results of operations would not be materially affected by the outcome of such pending legal proceedings.

12. SUBSEQUENT EVENTS

The Corporation has evaluated and disclosed all material subsequent events that provide additional evidence about conditions that existed as of June 30, 2009. The Corporation evaluated these subsequent events through August 7, 2009, the date on which the financial statements contained herein were issued.

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ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Certain statements in this section and elsewhere in this quarterly report on Form 10-Q 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.

REFERENCES TO 2009 AND 2008

Unless otherwise noted, all references to “2009” in the following discussion of operating results are intended to mean the six months ended June 30, 2009, and similarly, references to “2008” relate to the six months ended June 30, 2008.

STATEMENT REGARDING NON-GAAP FINANCIAL MEASURES

This report contains supplemental financial information determined by methods other than in accordance with Accounting Principles Generally Accepted in the United States of America (“GAAP”). Management uses these non-GAAP measures in its analysis of the Corporation’s performance. One such measure, Core Earnings, excludes the effects of non-cash, after-tax unrealized gains and losses. Management believes the presentation of this financial measure, which excludes the impact of the specified items, provides useful supplemental information that is essential to a proper understanding of the financial results of the Corporation. The Core Earnings measure provides a method to assess operating performance excluding the impact of market volatility related to investments in pooled trust-preferred securities and bank stocks. This disclosure should not be viewed as a substitute for results determined in accordance with GAAP, nor is it necessarily comparable to non-GAAP performance measures that may be presented by other companies.

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RECONCILIATION OF NON-GAAP MEASURE (UNAUDITED)
dollars in thousands, except per-share data

	2009		2008	
QUARTER ENDED JUNE 30:	After-tax (Loss)/ Income	Diluted EPS	After-tax (Loss)/ Income	Diluted EPS
Net (loss) income available to common shareholders	$ (9,104)	$ (1.01)	$ 3,753	$ 0.42
Other-than-temporary impairment losses on available-for-sale securities	(19,780)		(1,171)	
Income taxes, at 34%	6,725		398	
Other-than-temporary impairment losses, net	(13,055)		(773)	
Core earnings available to common shareholders	$ 3,951	$ 0.44	$ 4,526	$ 0.50
SIX MONTHS ENDED JUNE 30:				
Net (loss) income available to common shareholders	$ (16,438)	$ (1.83)	$ 6,869	$ 0.76
Other-than-temporary impairment losses on available-for-sale securities	(36,460)		(1,420)	
Income taxes, at 34%	12,396		483	
Other-than-temporary impairment losses, net	(24,064)		(937)	
Core earnings available to common shareholders	$ 7,626	$ 0.85	$ 7,806	$ 0.87

EARNINGS OVERVIEW

The Corporation reported a net loss available to common shareholders of $16,438,000, or $1.83 per diluted share, in the first six months of 2009, which included positive Core Earnings available to common shareholders of $7,626,000 ($0.85 per diluted share), reduced by after-tax other-than-temporary impairment (OTTI) charges on available-for-sale securities of $24,064,000. For the first six months of 2008, the Corporation reported net income of $6,869,000, or $0.76 per diluted share, including Core Earnings of $7,806,000 ($0.87 per diluted share), reduced by after-tax OTTI charges on available-for-sale securities of $937,000. Core Earnings is an earnings performance measurement which the Corporation’s management has defined to exclude OTTI losses on available-for-sale securities. Core Earnings is a performance measurement that is not based on U.S. generally accepted accounting principles. Management believes Core Earnings information is meaningful for evaluating the Corporation’s operating performance, because it excludes some of the impact of market volatility as it relates to investments in pooled trust-preferred securities and bank stocks.

OTTI charges in the first six months of 2009 included pre-tax impairment charges on pooled trust-preferred securities totaling $30,281,000 and bank stocks totaling $6,179,000. Pooled trust-preferred securities are long-term instruments, mainly issued by banks, with 30 or more companies included in each pool. The impairment charges on pooled trust-preferred securities resulted from management’s assessment that it is unlikely some of the previously anticipated principal and interest will be received on several of the securities. Accordingly, management wrote down the cost basis of these securities to their estimated present value based on discounted cash flows as of June 30, 2009. After the impact of the impairment charges, the Corporation’s cost basis in pooled trust-preferred securities totaled $55.8

million, including senior tranche assets of $11.8 million and mezzanine tranche assets of $44.0 million. The estimated fair value at June 30, 2009 of pooled trust-preferred securities was $37.4 million.

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As described in more detail in Notes 2 and 6 to the Consolidated Financial Statements, the Corporation adopted three new accounting principles in the first quarter 2009, including FSP FAS 115-2 and FAS 124-2. This new FSP resulted in a change in the measurement of OTTI. For the six-month period ended June 30, 2009, the effect of adopting this FSP was to reduce impairment losses recognized in earnings by $6,495,000, and increase the income tax provision by $2,208,000, resulting in an increase in net income of $4,287,000, or $0.48 per average common share. For the three-month period ended June 30, 2009, the effect of adopting this FSP was to increase impairment losses recognized in earnings by $1,806,000, and reduce the income tax provision by $614,000, resulting in a reduction in net income (larger net loss) of $1,192,000, or $0.13 per average common share.

Other significant changes in the pre-tax components of Core Earnings for the first six months of 2009, as compared to the corresponding period in 2008, were as follows:

- The interest margin increased $1,449,000, or 7.0%. The interest margin has been positively impacted by lower short-term market interest rates, which have reduced interest rates paid on deposits and borrowings.

- Noninterest income decreased $822,000, or 12.4%. In the first half of 2008, noninterest income included a gain of $533,000 from redemption of restricted shares of Visa, resulting from Visa's initial public offering. Also, in the first half of 2009, the Corporation received no dividend income on its investment in restricted stock issued by the Federal Home Loan Bank of Pittsburgh, while dividend income on this stock was $202,000 in the first six months of 2008.

- The provision for loan losses was $608,000 lower in the first six months of 2009. The ratio of nonperforming loans and other real estate owned, as a percentage of assets, was 0.84% at June 30, 2009, higher than the 0.65% level a year earlier, but still relatively low by historical standards.

- Noninterest expense increased $1,075,000, or 6.4%. FDIC insurance costs increased $1,211,000 in the first six months of 2009, to $1,258,000 from $47,000 in the first half of 2008. The higher FDIC costs included the effects of premium increases and a special assessment of $589,000. Excluding FDIC costs, total noninterest expense was 0.8% lower in the first six months of 2009 as compared to the corresponding period in 2008.

TABLE I - QUARTERLY FINANCIAL DATA
(In Thousands)

	June 30, 2009	Mar. 31, 2009	Dec 31, 2008	Sept. 30, 2008	June 30, 2008	Mar. 31, 2008
Interest income	$ 17,341	$ 17,571	$ 18,589	$ 18,575	$ 18,373	$ 18,700
Interest expense	6,164	6,606	7,195	7,474	7,724	8,656
Interest margin	11,177	10,965	11,394	11,101	10,649	10,044
Provision (credit) for loan losses	93	(173)	240	141	(376)	904
Interest margin after provision for loan losses	11,084	11,138	11,154	10,960	11,025	9,140
Other income	3,054	2,766	3,179	3,062	3,155	3,487
Net losses on available-for-sale securities	(18,995)	(16,679)	(3,878)	(4,483)	(867)	(110)
Other expenses	9,158	8,638	7,989	8,736	8,257	8,464
(Loss) income before income tax provision	(14,015)	(11,413)	2,466	803	5,056	4,053
	(5,284)	(4,388)	288	(209)	1,303	937

Income tax (credit) provision												
Net (loss) income		(8,731)		(7,025)		2,178		1,012		3,753		3,116
US Treasury preferred dividends		373		309		0		0		0		0
Net (loss) income available to common shareholders	$	(9,104)	$	(7,334)	$	2,178	$	1,012	$	3,753	$	3,116
Net (loss) income per common share – basic	$	(1.01)	$	(0.82)	$	0.24	$	0.11	$	0.42	$	0.35
Net (loss) income per common share – diluted	$	(1.01)	$	(0.82)	$	0.24	$	0.11	$	0.42	$	0.35

Prospects for the Remainder of 2009

As described in the “Earnings Overview” section above, the Corporation reported a net loss for the each of the first two quarters of 2009, primarily because of substantial securities write-downs. While the securities portfolio is a significant concern, management remains optimistic about annual 2009 Core Earnings results. Core Earnings results for 2009 reflect the impact of significant operational changes made in 2007 and 2008, including successful implementation of an overdraft privilege program, as well as other enhancements to noninterest revenue sources resulting from a profitability review conducted by a nationally recognized consulting firm in 2008. In addition to revenue enhancements, the consulting firm worked with management to identify improvements in efficiency of various operational activities, which have resulted in significant expense reductions.

A major variable that affects the Corporation's earnings is securities gains and losses. The Corporation's losses from trust-preferred securities and bank stocks stem from the much-publicized economic problems affecting the national and international economy, which have particularly hurt the banking industry. Although management believes these conditions to be cyclical, the Corporation has significant unrealized losses on its available-for-sale securities as of June 30, 2009, with its largest unrealized losses on trust-preferred securities. Notes 5 and 6 to the consolidated financial statements provide more detail concerning the Corporation's processes for evaluating securities for other-than-temporary impairment, and for valuation of trust-preferred securities. Management will continue to closely monitor the status of impaired securities in 2009.

The Corporation's Core Earnings results for the first six months of 2009 benefited from a credit provision for loan losses of $80,000. Issues related to larger commercial borrowers significantly affect the Corporation's provision for loan losses in any particular period. Accordingly, the amount of loan loss provision for the remainder of 2009 will depend substantially on the credit status of the commercial portfolio. Although management is concerned about the condition of the national economy and the potential for problems in our market area, to date the Corporation has not experienced significant deterioration in loan delinquencies, or a noticeable change in volume of activity related to troubled loans or foreclosures. The Corporation has not originated interest only mortgages, loans without documentation of the borrowers' sources of income or net worth, or other types of subprime mortgage loans that have received negative publicity. However, if economic conditions deteriorate significantly in 2009, the Corporation may need to increase the provision for loan losses for the impact on the residential mortgage and consumer portions of the loan portfolio.

Despite the operational improvements cited above, the Corporation faces several factors that will negatively affect noninterest revenues and expenses in 2009. Management expects total noninterest operating expenses to increase slightly in 2009 as compared to 2008, mainly because of higher FDIC premiums. FDIC insurance costs increased $1,211,000 in the first six months of 2009, including the effects of higher recurring premiums as well as a special assessment of $589,000. The FDIC has increased its recurring charges and instituted the special assessment for all banks, to cover the FDIC's costs associated with dealing with troubled institutions. In the second half of 2009, the Corporation's FDIC expense is expected to range between $650,000 and $700,000, plus any additional charges that may be assessed. Also, total noninterest revenue may be lower in 2009 than in 2008. In 2008, noninterest income included a gain of $533,000 from redemption of Visa shares, resulting from Visa's initial public offering. Another source of revenue that is not expected to recur in 2009 is dividend income from the Federal Home Loan Bank of Pittsburgh restricted stock, which totaled $334,000 in 2008. The Federal Home Loan Bank of Pittsburgh's 2008 financial results were affected by significant losses on its securities portfolio, and it has discontinued paying dividends for the foreseeable future. Based on the information that has become publicly available through early August 2009, management does not believe its investment in Federal Home Loan Bank of Pittsburgh restricted stock of $8.6 million to be impaired at June 30, 2009; however, management will monitor the situation for possible deterioration that could result in an impairment loss in 2009. In addition to these issues, the Corporation's revenues from Trust and Financial Management activities are expected to fall slightly in 2009, because the market value of assets under management (which is used as the basis for determining the amount of fees for most Trust services) has fallen as a result of the significant declines in U.S. and international equity markets.

Management estimates total capital purchases for 2009 to be approximately $2 million, with computer software and hardware the largest planned categories of expenditure. Management has no current plans to acquire other financial institutions, or to build or acquire new branches in 2009, but will evaluate opportunities that arise if they seem likely to contribute positively to future earnings and shareholder value.

In July 2009, the Corporation amended its Dividend Reinvestment and Stock Purchase and Sale Plan. One of the effects of the plan amendments is to permit the Corporation to sell common shares directly under the plan at a

discount. The initial percentage discount has been set at 5%. Management expects common equity to increase as a result of this plan amendment; however, the amount of activity that will result from the changes in the plan is unknown.

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. Management believes that the allowance for loan losses is adequate and reasonable. The Corporation's methodology for determining the allowance for loan losses is described 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. Accordingly, when selling debt securities, management typically obtains price quotes from more than one source.

As described in Note 5 to the consolidated financial statements, in 2008, the Corporation changed its method of valuing pooled trust-preferred securities from using price quotes received from pricing services, to a Level 3 (as described in SFAS No. 157) methodology, using discounted cash flows. At both June 30, 2009 and December 31, 2008, management calculated the fair values of pooled trust-preferred securities by applying discount rates to estimated cash flows for each security. Management estimated the cash flows expected to be received from each security, taking into account estimated levels of deferrals and defaults by the underlying issuers, and used discount rates considered reflective of a market participant's expectations regarding the extent of credit and liquidity risk inherent in the securities. Management's estimates of cash flows and discount rates used to calculate fair values of pooled trust-preferred securities were based on sensitive assumptions, and use of different assumptions could result in calculations of fair values that would be substantially different than the amounts calculated by management.

As described in Note 6 to the consolidated financial statements, management evaluates securities for 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 estimates of cash flows used to evaluate other-than-temporary impairment of pooled trust-preferred securities are based on sensitive assumptions, and use of different assumptions could produce different conclusions for each security. Also, management's assessments of the likelihood and potential for recovery in value of equity securities are subjective and based on sensitive assumptions.

NET INTEREST MARGIN

The Corporation's primary source of operating income is represented by the net interest margin. The net interest margin is equal to the difference between the amounts of interest income and interest expense. Tables II, III and IV include information regarding the Corporation's net interest margin for the first six months of 2009 and 2008. 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 margin amounts reflected in these tables exceed the amounts presented in the consolidated financial statements. The discussion that follows is based on amounts in the related Tables.

The fully taxable equivalent net interest margin was $23,505,000 in 2009, $1,812,000 (8.4%) higher than in 2008. As shown in Table IV, net increases in volume had the effect of increasing net interest income $950,000 in 2009 over 2008, and interest rate changes had the effect of increasing net interest income $862,000. The most significant component of the volume change in interest income in 2009 was an increase of $829,000 attributable to growth in the tax-exempt portion of the available-for-sale securities portfolio. The most significant volume change in interest expense in 2009 was a decrease of $574,000 resulting from a decrease in borrowed funds. As presented in Table III, the "Interest Rate Spread" (excess of average rate of return on earning assets over average cost of funds on interest-bearing liabilities) was 3.44% in 2009, as compared to 3.17% in 2008.

INTEREST INCOME AND EARNING ASSETS

Interest income totaled $36,275,000 in 2009, a decrease of 4.7% from 2008. Income from available-for-sale securities increased $9,000, while interest and fees from loans decreased $1,717,000, or 6.7%. As indicated in Table III, total average available-for-sale securities (at amortized cost) in 2009 rose to $464,270,000, an increase of $19,098,000, or 4.3% from 2008. The Corporation has increased its municipal security portfolio and increased its yield at attractive prices. The Corporation's yield on taxable securities fell primarily because interest rates on variable-rate trust preferred securities have decreased. The average rate of return on available-for-sale securities was 5.34% for 2009 and 5.55% in 2008.

The average balance of gross loans decreased 0.6% to $732,992,000 in 2009 from $737,740,000 in 2008. Due to the challenging economic environment, the Corporation has experienced contraction in the balance of its mortgage and consumer loan portfolios, with slight growth in average commercial and tax-exempt loan balances. The Corporation's yield on loans fell as rates on new loans as well as existing, variable-rate loans have decreased. The average rate of return on loans was 6.57% in 2009 and 6.98% in 2008.

INTEREST EXPENSE AND INTEREST-BEARING LIABILITIES

Interest expense fell $3,610,000, or 22.0%, to $12,770,000 in 2009 from $16,380,000 in 2008. Table III shows that the overall cost of funds on interest-bearing liabilities fell to 2.53% in 2009 from 3.25% in 2008.

Total average deposits (interest-bearing and noninterest-bearing) increased 4.3%, to $871,139,000 in 2009 from $835,466,000 in 2008. This increase has come in interest checking, money market, and individual retirement accounts and is partially offset by a reduction in the balance in certificates of deposit. Consistent with substantial reductions in short-term global interest rates, the average rates incurred on deposit accounts have decreased significantly in 2009 as compared to 2008. The decreases in rates reduced interest expense on deposits by $2,856,000.

Total average borrowed funds decreased $26,375,000 to $271,313,000 in 2009 from $297,688,000 in 2008. During 2008 and early 2009, the Corporation has generally paid off long-term borrowings as they matured using the cash flow received from loans and mortgage-backed securities. The average rate on borrowed funds was 3.78% in 2009, down from 4.05% in 2008. This change primarily reflects lower rates being paid on customer repurchase agreements, which make up most of the Corporation's short-term borrowed funds.

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TABLE II - ANALYSIS OF INTEREST INCOME AND EXPENSE

(In Thousands)	Six Months Ended June 30, 2009	2008	Increase/ (Decrease)
INTEREST INCOME			
Available-for-sale securities:			
Taxable	$ 9,269	$ 10,196	$ (927)
Tax-exempt	3,031	2,095	936
Total available-for-sale securities	12,300	12,291	9
Held-to-maturity securities,			
Taxable	12	12	0
Trading securities	46	63	(17)
Interest-bearing due from banks	4	18	(14)
Federal funds sold	15	74	(59)
Loans:			
Taxable	22,713	24,581	(1,868)
Tax-exempt	1,185	1,034	151
Total loans	23,898	25,615	(1,717)
Total Interest Income	36,275	38,073	(1,798)
INTEREST EXPENSE			
Interest-bearing deposits:			
Interest checking	424	487	(63)
Money market	1,222	2,304	(1,082)
Savings	170	162	8
Certificates of deposit	3,542	4,871	(1,329)
Individual Retirement Accounts	2,319	2,557	(238)
Other time deposits	3	3	0
Total interest-bearing deposits	7,680	10,384	(2,704