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Stock Symbol: CZNC

Chartered 1864

FEDERAL DEPOSIT INSURANCE CORP

**June 30, 2012**

## **QUARTERLY REPORT**

Dear Shareholder:

I am proud to report another quarter of outstanding financial results. Net income for the second quarter was \$5.7 million and \$11.3 million year-to-date. Return on Average Assets (ROAA) is 1.72% for 2012, slightly higher than the 1.71% for the first six months of 2011. Return on Average Equity (ROAE) of 13.12% for 2012 is modestly lower than the 15.43% for the first half of 2011. Both metrics place Citizens & Northern in the top tier of our peer group.

The past quarter saw the balance sheet grow marginally with increases to loans and deposits while borrowed funds declined. Nonperforming Assets to Total Assets is very low at .72%. Capital remains strong and is well in excess of the regulatory defined "Well Capitalized" metrics.

Dividends paid in the first six months of 2012 of 38 cents per share represent a 40.7% increase over dividends paid the first six months of 2011. The market value of our stock (CZNC) closed the quarter at \$19.05 per share, an increase of 26.4% over the past year.

The Federal Reserve Bank's desire to keep interest rates low will continue to apply pressure to our net interest margin. Coupled with revenue reductions and expense increases associated with Dodd-Frank it will require management to maintain its excellent efficiency ratio and to grow interest income and non-interest income.

I am confident the Board of Directors, management and employees are up to the challenge of continuing to enhance shareholder value. We solicit your continued support and welcome your questions and comments.

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

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10 N Main Street, <b>Coudersport</b> , PA 16915	800-921-9150
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428 Main Street, <b>Towanda</b> , PA 18848	888-987-8784
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**C&N FINANCIAL SERVICES CORPORATION** – 90-92 Main Street, Wellsboro, PA

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**CONDENSED, CONSOLIDATED EARNINGS INFORMATION**

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

	2ND QUARTER 2012 <u>(Current)</u>	1ST QUARTER 2012 <u>(Prior Qtr)</u>	2ND QUARTER 2011 <u>(Prior Yr)</u>	6 MONTHS ENDED JUNE 2012 <u>(Current)</u>		2011 <u>(Prior Yr)</u>
Interest and Dividend Income	\$ 14,529	\$ 14,776	\$ 15,443	\$ 29,305	\$ 30,741	
Interest Expense	2,401	2,502	3,628	4,903	7,644	
Net Interest Income	12,128	12,274	11,815	24,402	23,097	
Provision (Credit) for Loan Losses	367	(182)	31	185	(161)	
Net Interest Income After Provision (Credit) for Loan Losses	11,761	12,456	11,784	24,217	23,258	
Other Income	4,095	3,759	3,673	7,854	6,228	
Net Gains (Losses) on Available-for-sale Securities	203	(2)	163	201	2,002	
Noninterest Expenses	8,280	8,517	7,794	16,797	16,057	
Income Before Income Tax Provision	7,779	7,696	7,826	15,475	15,431	
Income Tax Provision	2,094	2,109	2,129	4,203	4,193	
<b>Net Income</b>	<b>\$ 5,685</b>	<b>\$ 5,587</b>	<b>\$ 5,697</b>	<b>\$ 11,272</b>	<b>\$ 11,238</b>	

**PER COMMON SHARE DATA:**

Net Income – Basic	\$0.46	\$0.46	\$0.47	\$0.92	\$0.92
Net Income – Diluted	\$0.46	\$0.46	\$0.47	\$0.92	\$0.92
Dividend Per Share	\$0.20	\$0.18	\$0.14	\$0.38	\$0.27
Number Shares Used in Computation - Basic	12,225,808	12,206,870	12,177,110	12,216,339	12,176,027
Number Shares Used in Computation - Diluted	12,242,833	12,245,752	12,180,199	12,243,303	12,179,153

**CONDENSED, CONSOLIDATED BALANCE SHEET DATA**

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

	JUNE 30, 2012	MAR. 31, 2012	JUNE 30, 2011
<b>ASSETS</b>			
Cash & Due from Banks	\$ 69,158	\$ 56,498	\$ 49,392
Available-for-sale Securities	478,368	486,664	464,214
Loans Held for Sale	3,190	2,223	167
Loans, Net	696,777	690,218	705,667
Intangible Assets	12,117	12,135	12,211
Other Assets	67,917	69,026	77,999
<b>TOTAL ASSETS</b>	<b>\$1,327,527</b>	<b>\$1,316,764</b>	<b>\$1,309,650</b>
<b>LIABILITIES</b>			
Deposits	\$1,029,456	\$1,016,801	\$ 995,361
Repo Sweep Accounts	4,242	4,030	20,343
Total Deposits and Repo Sweeps	1,033,698	1,020,831	1,015,704
Borrowed Funds	110,038	115,202	133,182
Other Liabilities	7,729	9,117	7,071
<b>TOTAL LIABILITIES</b>	<b>1,151,465</b>	<b>1,145,150</b>	<b>1,155,957</b>
<b>SHAREHOLDERS' EQUITY</b>			
Common Shareholders' Equity, Excluding Accumulated Other Comprehensive Income (Loss)	165,008	161,240	148,707
Accumulated Other Comprehensive Income (Loss):			
Net Unrealized Gains/Losses on			
Available-for-sale Securities	11,519	10,852	5,299
Defined Benefit Plans	(465)	(478)	(313)
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>176,062</b>	<b>171,614</b>	<b>153,693</b>
<b>TOTAL LIABILITIES &amp; SHAREHOLDERS' EQUITY</b>	<b>\$1,327,527</b>	<b>\$1,316,764</b>	<b>\$1,309,650</b>

**CONDENSED, CONSOLIDATED FINANCIAL HIGHLIGHTS**

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

	<b>6 MONTHS ENDED</b>		<b>% INCREASE (DECREASE)</b>
	<b>JUNE 30,</b>		
	<b><u>2012</u></b>	<b><u>2011</u></b>	
<b>EARNINGS PERFORMANCE</b>			
Net Income	\$ 11,272	\$ 11,238	0.30%
Return on Average Assets	1.72%	1.71%	0.58%
Return on Average Equity	13.12%	15.43%	-14.97%
<b>BALANCE SHEET HIGHLIGHTS</b>			
Total Assets	\$ 1,327,527	\$ 1,309,650	1.37%
Available-for-Sale Securities	478,368	464,214	3.05%
Loans (Net)	696,777	705,667	-1.26%
Allowance for Loan Losses	7,657	8,269	-7.40%
Deposits and Repo Sweep Accounts	1,033,698	1,015,704	1.77%
Trust Assets Under Management	669,538	634,821	5.47%
<b>SHAREHOLDERS' VALUE (PER COMMON SHARE)</b>			
Net Income - Basic	\$0.92	\$0.92	0.00%
Net Income - Diluted	\$0.92	\$0.92	0.00%
Dividends	\$0.38	\$0.27	40.74%
Common Book Value	\$14.39	\$12.65	13.75%
Tangible Common Book Value	\$13.40	\$11.64	15.12%
Market Value (Last Trade)	\$19.05	\$15.07	26.41%
Market Value / Common Book Value	132.38%	119.13%	11.12%
Market Value / Tangible Common Book Value	142.16%	129.47%	9.81%
Price Earnings Multiple	10.35	8.19	26.37%
Dividend Yield	3.99%	3.58%	11.45%
<b>SAFETY AND SOUNDNESS</b>			
Tangible Common Equity / Tangible Assets	12.46%	10.90%	14.31%
Nonperforming Assets / Total Assets	0.72%	0.75%	-4.00%
Allowance for Loan Losses / Total Loans	1.09%	1.16%	-6.03%
Total Risk Based Capital Ratio (a)	22.56%	19.40%	16.29%
Tier 1 Risk Based Capital Ratio (a)	21.33%	18.15%	17.52%
Leverage Ratio (a)	11.76%	10.14%	15.98%
<b>AVERAGE BALANCES</b>			
Average Assets	\$1,307,146	\$1,313,482	-0.48%
Average Equity	171,775	145,620	17.96%

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

**EXHIBIT 99.3 – Supplemental, Unaudited Financial Information**



**AVAILABLE-FOR-SALE SECURITIES**

(In Thousands)

	June 30, 2012		March 31, 2012		December 31, 2011	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Obligations of U.S. Government agencies	\$23,244	\$23,916	\$24,810	\$25,488	\$24,877	\$25,587
Obligations of states and political subdivisions:						
Tax-exempt	135,736	141,140	128,628	133,337	129,401	132,962
Taxable	19,524	19,924	16,846	17,206	14,004	14,334
Mortgage-backed securities	103,801	108,426	117,251	121,943	116,602	121,769
Collateralized mortgage obligations,						
Issued by U.S. Government agencies	162,780	165,923	162,846	165,764	161,818	165,131
Trust preferred securities issued by individual institutions	6,179	6,221	7,783	8,147	7,334	8,146
Collateralized debt obligations:						
Pooled trust preferred securities - senior tranches	2,516	2,386	4,993	4,638	4,996	4,638
Pooled trust preferred securities - mezzanine tranches	0	1,146	0	782	0	730
Other collateralized debt obligations	660	660	660	660	660	660
<b>Total debt securities</b>	<b>454,440</b>	<b>469,742</b>	<b>463,817</b>	<b>477,965</b>	<b>459,692</b>	<b>473,957</b>
Marketable equity securities	6,208	8,626	6,151	8,699	5,643	7,728
<b>Total</b>	<b>\$460,648</b>	<b>\$478,368</b>	<b>\$469,968</b>	<b>\$486,664</b>	<b>\$465,335</b>	<b>\$481,685</b>

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

**(In Thousands)**

	<b>June 30, 2012</b>	<b>Mar. 31, 2012</b>	<b>Dec. 31, 2011</b>	<b>June 30, 2011</b>
Residential mortgage:				
Residential mortgage loans - first liens	\$321,163	\$326,343	\$331,015	\$334,300
Residential mortgage loans - junior liens	27,404	27,590	28,851	30,214
Home equity lines of credit	31,858	30,534	30,037	28,544
1-4 Family residential construction	10,699	8,409	9,959	8,574
<b>Total residential mortgage</b>	<b>391,124</b>	<b>392,876</b>	<b>399,862</b>	<b>401,632</b>
Commercial:				
Commercial loans secured by real estate	164,771	158,323	156,388	157,282
Commercial and industrial	52,704	54,370	57,191	59,791
Political subdivisions	36,858	36,517	37,620	34,675
Commercial construction and land	26,517	23,577	23,518	24,726
Loans secured by farmland	10,079	10,334	10,949	10,927
Multi-family (5 or more) residential	6,409	6,326	6,583	7,514
Agricultural loans	3,263	2,982	2,987	3,182
Other commercial loans	563	323	552	576
<b>Total commercial</b>	<b>301,164</b>	<b>292,752</b>	<b>295,788</b>	<b>298,673</b>
Consumer	12,146	11,960	12,665	13,631
<b>Total</b>	<b>704,434</b>	<b>697,588</b>	<b>708,315</b>	<b>713,936</b>
Less: allowance for loan losses	(7,657)	(7,370)	(7,705)	(8,269)
<b>Loans, net</b>	<b>\$696,777</b>	<b>\$690,218</b>	<b>\$700,610</b>	<b>\$705,667</b>

**Loans Held for Sale**

**(In Thousands)**

	<b>June 30, 2012</b>	<b>Mar. 31, 2012</b>	<b>Dec. 31, 2011</b>	<b>June 30, 2011</b>
Residential mortgage loans originated and serviced - outstanding balance	\$74,070	\$64,569	\$57,577	\$39,416
Less: outstanding balance of loans sold	(70,880)	(62,346)	(56,638)	(39,249)
<b>Loans held for sale, net</b>	<b>\$3,190</b>	<b>\$2,223</b>	<b>\$939</b>	<b>\$167</b>

**ANALYSIS OF THE ALLOWANCE FOR LOAN LOSSES**  
(In Thousands)

	<b>3 Months Ended June 30, 2012</b>	<b>3 Months Ended Mar. 31, 2012</b>	<b>6 Months Ended June 30, 2012</b>	<b>6 Months Ended June 30, 2011</b>
Balance, beginning of period	\$7,370	\$7,705	\$7,705	\$9,107
Charge-offs	(115)	(176)	(291)	(897)
Recoveries	35	23	58	220
Net charge-offs	(80)	(153)	(233)	(677)
Provision (credit) for loan losses	367	(182)	185	(161)
Balance, end of period	\$7,657	\$7,370	\$7,657	\$8,269

**PAST DUE AND NONPERFORMING ASSETS**  
(In Thousands)

	<b>June 30, 2012</b>	<b>Mar. 31, 2012</b>	<b>Dec. 31, 2011</b>	<b>June 30, 2011</b>
Total loans past due 30-89 days and still accruing	\$5,191	\$5,827	\$7,898	\$6,611
Nonperforming assets:				
Total loans past due 90 days or more and still accruing	\$1,144	\$1,252	\$1,267	\$561
Total nonaccrual loans	7,447	6,961	7,197	7,586
Foreclosed assets held for sale (real estate)	904	977	1,235	1,665
Total nonperforming assets	\$9,495	\$9,190	\$9,699	\$9,812
Total nonperforming assets as a % of assets	0.72%	0.70%	0.73%	0.75%

**Table III - Analysis of Average Daily Balances and Rates**  
(Dollars in Thousands)

	3 Months Ended 6/30/2012 Average Balance	Rate of Return/ Cost of Funds %	3 Months Ended 3/31/2012 Average Balance	Rate of Return/ Cost of Funds %	3 Months Ended 6/30/2011 Average Balance	Rate of Return/ Cost of Funds %
<b>EARNING ASSETS</b>						
Available-for-sale securities, at amortized cost:						
Taxable	\$333,255	3.13%	\$331,007	3.32%	\$335,289	3.48%
Tax-exempt	130,111	5.94%	127,729	6.03%	128,049	6.02%
Total available-for-sale securities	463,366	3.92%	458,736	4.08%	463,338	4.18%
Interest-bearing due from banks	37,300	0.33%	34,334	0.33%	29,385	0.22%
Loans held for sale	1,865	4.96%	1,057	3.42%	342	7.04%
Loans receivable:						
Taxable	666,752	6.18%	665,936	6.26%	681,333	6.39%
Tax-exempt	36,344	6.31%	36,218	6.36%	34,806	6.38%
Total loans receivable	703,096	6.18%	702,154	6.27%	716,481	6.39%
Total Earning Assets	1,205,627	5.13%	1,196,281	5.25%	1,209,204	5.39%
Cash	17,791		16,891		17,631	
Unrealized gain/loss on securities	17,545		17,923		5,805	
Allowance for loan losses	(7,435)		(7,739)		(8,938)	
Bank premises and equipment	18,908		18,898		22,114	
Intangible Asset - Core Deposit Intangible	186		204		287	
Intangible Asset - Goodwill	11,942		11,942		11,942	
Other assets	47,046		48,282		56,349	
<b>Total Assets</b>	<b>\$1,311,610</b>		<b>\$1,302,682</b>		<b>\$1,314,394</b>	
<b>INTEREST-BEARING LIABILITIES</b>						
Interest-bearing deposits:						
Interest checking	\$156,994	0.13%	\$161,524	0.13%	\$166,795	0.28%
Money market	210,646	0.19%	205,866	0.19%	207,266	0.27%
Savings	107,514	0.10%	104,532	0.10%	95,821	0.20%
Certificates of deposit	199,320	1.55%	191,924	1.73%	205,346	1.96%
Individual Retirement Accounts	144,095	0.91%	146,241	0.96%	156,611	2.46%
Other time deposits	1,314	0.31%	942	0.00%	1,350	0.30%
Total interest-bearing deposits	819,883	0.62%	811,029	0.67%	833,189	1.09%
Borrowed funds:						
Short-term	5,650	0.07%	7,422	0.16%	19,407	0.17%
Long-term	113,301	4.01%	115,607	4.00%	135,344	4.01%
Total borrowed funds	118,951	3.82%	123,029	3.77%	154,751	3.53%
Total Interest-bearing Liabilities	938,834	1.03%	934,058	1.08%	987,940	1.47%
Demand deposits	191,349		189,275		169,677	
Other liabilities	7,774		9,452		6,998	
<b>Total Liabilities</b>	<b>1,137,957</b>		<b>1,132,785</b>		<b>1,164,615</b>	
Stockholders' equity, excluding other comprehensive income/loss	162,721		158,801		146,267	
Other comprehensive income/loss	10,932		11,096		3,512	
<b>Total Stockholders' Equity</b>	<b>173,653</b>		<b>169,897</b>		<b>149,779</b>	
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$1,311,610</b>		<b>\$1,302,682</b>		<b>\$1,314,394</b>	
Interest Rate Spread		4.10%		4.17%		3.92%
Net Interest Income/Earning Assets		4.33%		4.41%		4.19%
<b>Total Deposits (Interest-bearing and Demand)</b>	<b>\$1,011,232</b>		<b>\$1,000,304</b>		<b>\$1,002,866</b>	

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

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



**Table III - Analysis of Average Daily Balances and Rates**  
(Dollars in Thousands)

	6 Months Ended 6/30/2012 Average Balance	Rate of Return/ Cost of Funds %	6 Months Ended 6/30/2011 Average Balance	Rate of Return/ Cost of Funds %
<b>EARNING ASSETS</b>				
Available-for-sale securities, at amortized cost:				
Taxable	\$332,131	3.22%	\$331,219	3.45%
Tax-exempt	128,920	5.99%	127,514	6.05%
<b>Total available-for-sale securities</b>	<b>461,051</b>	<b>4.00%</b>	<b>458,733</b>	<b>4.17%</b>
Interest-bearing due from banks	35,817	0.33%	30,561	0.21%
Loans held for sale	1,461	4.40%	1,028	5.30%
Loans receivable:				
Taxable	666,344	6.22%	684,277	6.39%
Tax-exempt	36,281	6.34%	34,939	6.41%
<b>Total loans receivable</b>	<b>702,625</b>	<b>6.23%</b>	<b>720,244</b>	<b>6.39%</b>
<b>Total Earning Assets</b>	<b>1,200,954</b>	<b>5.19%</b>	<b>1,209,538</b>	<b>5.39%</b>
Cash	17,341		17,310	
Unrealized gain/loss on securities	17,734		2,626	
Allowance for loan losses	(7,587)		(9,069)	
Bank premises and equipment	18,903		22,293	
Intangible Asset - Core Deposit Intangible	195		301	
Intangible Asset - Goodwill	11,942		11,942	
Other assets	47,664		58,541	
<b>Total Assets</b>	<b>\$1,307,146</b>		<b>\$1,313,482</b>	
<b>INTEREST-BEARING LIABILITIES</b>				
Interest-bearing deposits:				
Interest checking	\$159,259	0.13%	\$165,146	0.30%
Money market	208,256	0.19%	205,363	0.29%
Savings	106,023	0.10%	94,232	0.22%
Certificates of deposit	195,622	1.64%	208,721	1.97%
Individual Retirement Accounts	145,168	0.94%	158,880	2.73%
Other time deposits	1,128	0.18%	1,154	0.35%
<b>Total interest-bearing deposits</b>	<b>815,456</b>	<b>0.65%</b>	<b>833,496</b>	<b>1.17%</b>
Borrowed funds:				
Short-term	6,536	0.12%	18,143	0.16%
Long-term	114,454	4.00%	140,544	4.01%
<b>Total borrowed funds</b>	<b>120,990</b>	<b>3.79%</b>	<b>158,687</b>	<b>3.57%</b>
<b>Total Interest-bearing Liabilities</b>	<b>936,446</b>	<b>1.05%</b>	<b>992,183</b>	<b>1.55%</b>
Demand deposits	190,312		168,948	
Other liabilities	8,613		6,731	
<b>Total Liabilities</b>	<b>1,135,371</b>		<b>1,167,862</b>	
Stockholders' equity, excluding other comprehensive income/loss				
Other comprehensive income/loss	160,761		144,172	
Other comprehensive income/loss	11,014		1,448	
<b>Total Stockholders' Equity</b>	<b>171,775</b>		<b>145,620</b>	
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$1,307,146</b>		<b>\$1,313,482</b>	
Interest Rate Spread		4.14%		3.84%
Net Interest Income/Earning Assets		4.37%		4.12%
<b>Total Deposits (Interest-bearing and Demand)</b>	<b>\$1,005,768</b>		<b>\$1,002,444</b>	

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

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

**COMPARISON OF NONINTEREST INCOME**  
(In Thousands)

	Three Months Ended			Six Months Ended	
	June 30, 2012	Mar. 31, 2012	June 30, 2011	June 30, 2012	June 30, 2011
Service charges on deposit accounts	\$1,256	\$1,161	\$1,225	\$2,417	\$2,356
Service charges and fees	235	220	207	455	425
Trust and financial management revenue	960	929	946	1,889	1,823
Brokerage revenue	288	168	229	456	352
Insurance commissions, fees and premiums	73	34	58	107	126
Interchange revenue from debit card transactions	488	495	485	983	937
Net gains from sales of loans	373	265	155	638	414
Increase in cash surrender value of life insurance	117	119	132	236	254
Net (loss) gain from other real estate	(184)	104	(24)	(80)	(43)
Net gain from premises and equipment	270	0	0	270	0
Impairment loss on limited partnership investment	0	0	0	0	(948)
Other operating income	219	264	260	483	532
Total other operating income, before realized gains on available-for-sale securities, net	\$4,095	\$3,759	\$3,673	\$7,854	\$6,228

**COMPARISON OF NONINTEREST EXPENSE**  
(In Thousands)

	Three Months Ended			Six Months Ended	
	June 30, 2012	Mar. 31, 2012	June 30, 2011	June 30, 2012	June 30, 2011
Salaries and wages	\$3,586	\$3,575	\$3,469	\$7,161	\$6,870
Pensions and other employee benefits	1,090	1,366	1,018	2,456	2,324
Occupancy expense, net	628	636	665	1,264	1,397
Furniture and equipment expense	461	482	453	943	937
FDIC Assessments	157	146	189	303	514
Pennsylvania shares tax	340	332	320	672	639
Other operating expense	2,018	1,980	1,680	3,998	3,376
Total Noninterest Expense	\$8,280	\$8,517	\$7,794	\$16,797	\$16,057