CITIZENS & NORTHERN CORP
Form 10-Q
August 04, 2006

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, 2006

OR

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

FOR THE TRANSITION PERIOD FROM ___________ TO ___________.

Commission file number: 000-16084

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

PENNSYLVANIA	23-2451943
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

90-92 MAIN STREET, WELLSBORO, PA 16901
(Address of principal executive offices) (Zip code)

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

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to section 12(g) of the Act:
COMMON STOCK Par Value $1.00

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 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) 8,249,290 Shares Outstanding on August 2, 2006

CITIZENS & NORTHERN CORPORATION - FORM 10-Q

INDEX

2

CITIZENS & NORTHERN CORPORATION - FORM 10-Q

ITEM 1. FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET

(In Thousands Except Share Data)

	JUNE 30, 2006	DECEMBER 3 2005
	(UNAUDITED)	(NOTE)
ASSETS		
Cash and due from banks:		
Noninterest-bearing	$ 19,242	$ 20,922
Interest-bearing	22,842	5,524
Total cash and cash equivalents	42,084	26,446
Available-for-sale securities	362,573	427,298
Held-to-maturity securities	418	422
Loans, net	650,294	644,938
Bank-owned life insurance	18,943	18,643
Accrued interest receivable	4,890	5,500
Bank premises and equipment, net	23,306	22,605
Foreclosed assets held for sale	654	194
Intangible Asset - Core Deposit Intangible	400	464
Intangible Asset - Goodwill	2,919	2,919
Other assets	17,226	13,525
TOTAL ASSETS	$1,123,707	$1,162,954
LIABILITIES		
Deposits:		
Noninterest-bearing	$ 104,827	$ 96,644
Interest-bearing	651,647	660,421
Total deposits	756,474	757,065
Dividends payable	1,987	1,973
Short-term borrowings	50,950	34,734
Long-term borrowings	180,889	232,205
Accrued interest and other liabilities	4,781	5,009
TOTAL LIABILITIES	995,081	1,030,986
STOCKHOLDERS' EQUITY		
Common stock, par value $1.00 per share; authorized 20,000,000 shares, issued 8,472,382 in 2006 and 8,389,418 in 2005	8,472	8,389
Stock dividend distributable	--	2,183
Paid-in capital	27,059	24,964
Retained earnings	95,773	93,728
Total	131,304	129,264
Accumulated other comprehensive (loss) income	(89)	4,698
Unamortized stock compensation	(30)	(50
Treasury stock, at cost:		
193,557 shares at June 30, 2006	(2,559)	
168,627 shares at December 31, 2005		(1,944
TOTAL STOCKHOLDERS' EQUITY	128,626	131,968
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	$1,123,707	$1,162,954

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

Note: The balance sheet at December 31, 2005 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.

3

CITIZENS & NORTHERN CORPORATION - FORM 10-Q

CONSOLIDATED STATEMENT OF INCOME
(IN THOUSANDS, EXCEPT PER SHARE DATA) (UNAUDITED)

	3 MONTHS ENDED		F 6 M
	JUNE 30, 2006 (CURRENT)	JUNE 30, 2005 (PRIOR YEAR)	2 (CU
INTEREST INCOME			
Interest and fees on loans	$ 10,695	$ 9,318	$
Interest on balances with depository institutions	23	9	
Interest on loans to political subdivisions	335	268	
Interest on federal funds sold	53	22	
Income from available-for-sale and held-to-maturity securities:			
Taxable	3,550	3,618	
Tax-exempt	1,046	1,415	
Dividends	282	258	
Total interest and dividend income	15,984	14,908	
INTEREST EXPENSE			
Interest on deposits	5,298	3,628	
Interest on short-term borrowings	623	332	
Interest on long-term borrowings	1,645	2,195	
Total interest expense	7,566	6,155	
Interest margin	8,418	8,753	
(Credit) provision for loan losses	(300)	375	
Interest margin after (credit) provision for loan losses	8,718	8,378	
OTHER INCOME			
Service charges on deposit accounts	513	383	
Service charges and fees	109	109	
Trust and financial management revenue	547	571	
Insurance commissions, fees and premiums	121	86	
Increase in cash surrender value of life insurance	153	140	
Fees related to credit card operation	--	203	

Other operating income	494	395	
Total other income before realized gains on securities, net	1,937	1,889	
Realized gains on securities, net	1,333	929	
Total other income	3,270	2,818	
OTHER EXPENSES			
Salaries and wages	3,364	3,048	
Pensions and other employee benefits	1,005	953	
Occupancy expense, net	594	461	
Furniture and equipment expense	668	650	
Pennsylvania shares tax	244	197	
Other operating expense	2,101	1,864	
Total other expenses	7,976	7,173	
Income before income tax provision	4,012	4,023	
Income tax provision	813	725	
NET INCOME	$ 3,199	$ 3,298	$
PER SHARE DATA:			
Net income - basic	$ 0.39	$ 0.40	$
Net income - diluted	$ 0.39	$ 0.39	$
Dividend per share	$ 0.24	$ 0.23	$
Number of shares used in computation - basic	8,281,011	8,292,574	8,2
Number of shares used in computation - diluted	8,303,913	8,356,885	8,3

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

4

CITIZENS & NORTHERN CORPORATION - FORM 10-Q

CONSOLIDATED STATEMENT OF CASH FLOWS
(IN THOUSANDS)

	6 MONTHS ENDED	
	JUNE 30, 2006	JUNE 30, 2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 6,019	$ 6,593
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	300	750
Realized gains on securities, net	(2,648)	(1,995)
Gain on sale of premises and equipment	(26)	--

Gain on sale of foreclosed assets, net	(52)	(113)
Depreciation expense	1,266	1,111
Loss from writedown of impaired premises and equipment	169	--
Accretion and amortization of securities, net	245	142
Increase in cash surrender value of life insurance	(300)	(279)
Amortization of restricted stock	20	46
Amortization of core deposit intangible	64	--
Increase in accrued interest receivable and other assets	(2,902)	(1,980)
Increase in accrued interest payable and other liabilities	656	1,835
Net Cash Provided by Operating Activities	2,811	6,110
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from maturity of held-to-maturity securities	3	5
Proceeds from sales of available-for-sale securities	68,962	103,978
Proceeds from calls and maturities of available-for-sale securities	17,469	32,764
Purchase of available-for-sale securities	(26,556)	(116,208)
Purchase of Federal Home Loan Bank of Pittsburgh stock	(958)	(3,053)
Redemption of Federal Home Loan Bank of Pittsburgh stock	2,352	3,554
Net increase in loans	(6,215)	(32,637)
Purchase of premises and equipment	(2,332)	(2,845)
Proceeds from sales of premises and equipment	222	--
Proceeds from sale of foreclosed assets	151	643
Net Cash Provided by (Used in) Investing Activities	53,098	(13,800)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net (decrease) increase in deposits	(591)	8,560
Net increase in short-term borrowings	16,216	16,384
Proceeds from long-term borrowings	--	19,557
Repayments of long-term borrowings	(51,316)	(35,785)
Purchase of treasury stock	(651)	--
Sale of treasury stock	49	453
Tax benefit from compensation plans	7	--
Dividends paid	(3,985)	(3,779)
Net Cash (Used In) Provided by Financing Activities	(40,271)	5,390
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	15,638	(2,300)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	26,446	18,953
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 42,084	$ 16,653
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Assets acquired through foreclosure of real estate loans	$ 559	$ 199
Interest paid	$ 14,958	$ 10,503
Income taxes paid	$ 1,500	$ 1,325

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

CITIZENS & NORTHERN CORPORATION - FORM 10-Q

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, 2005, 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 and cash flows for the interim periods.

Results reported for the three-month and six-month periods ended June 30, 2006 might not be indicative of the results for the year ending December 31, 2006.

Certain merchant services revenue previously included in fees related to credit card operations has been reclassified to Other Operating Income. Merchant services revenue was $45,000 and $35,000 for the three months ended June 30, 2006 and 2005. Merchant services revenue was $80,000 and $58,000 for the six months ended June 30, 2006 and 2005.

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

2. PER SHARE DATA

Net income per share is based on the weighted-average number of shares of common stock outstanding. The number of shares used in calculating net income and cash dividends per share reflect the retroactive effect of stock dividends for all periods presented. The following data show the amounts used in computing net income per share and the weighted average number of shares of dilutive stock options. As shown in the table that follows, diluted earnings per share is computed using weighted average common shares outstanding, plus weighted-average common shares available from the exercise of all dilutive stock options, less the number of shares that could be repurchased with the proceeds of stock option exercises based on the average share price of the Corporation's common stock during the period.

	NET INCOME	WEIGHTED-AVERAGE COMMON SHARES	EARNINGS PER SHARE
SIX MONTHS ENDED JUNE 30, 2006			
Earnings per share - basic	$6,019,000	8,288,921	$0.73
Dilutive effect of potential common stock arising from stock options:			
Exercise of outstanding stock options		140,995	
Hypothetical share repurchase at $24.44		(110,675)	
Earnings per share - diluted	$6,019,000	8,319,241	$0.72
SIX MONTHS ENDED JUNE 30, 2005			
Earnings per share - basic	$6,593,000	8,283,921	$0.80
Dilutive effect of potential common stock arising from stock options:			
Exercise of outstanding stock options		231,305	
Hypothetical share repurchase at $30.05		(163,842)	
Earnings per share - diluted	$6,593,000	8,351,384	$0.79

	NET INCOME	WEIGHTED-AVERAGE COMMON SHARES	EARNINGS PER SHARE
QUARTER ENDED JUNE 30, 2006			
Earnings per share - basic	$3,199,000	8,281,011	$0.39
Dilutive effect of potential common stock arising from stock options:			
Exercise of outstanding stock options		122,005	
Hypothetical share repurchase at $22.70		(99,103)	
Earnings per share - diluted	$3,199,000	8,303,913	$0.39
QUARTER ENDED JUNE 30, 2005			
Earnings per share - basic	$3,298,000	8,292,574	$0.40
Dilutive effect of potential common stock arising from stock options:			
Exercise of outstanding stock options		220,808	
Hypothetical share repurchase at $30.11		(156,497)	
Earnings per share - diluted	$3,298,000	8,356,885	$0.39

3. STOCK COMPENSATION PLANS

Effective in the first quarter of 2006, the Financial Accounting Standards Board issued SFAS No. 123R, which replaces SFAS No. 123 and supersedes APB Opinion 25. SFAS No. 123R requires the Corporation to record stock option expense based on estimated fair value calculated using an option valuation model. The provisions of SFAS 123R must be applied to any new awards granted, and to any modifications of existing awards. Since the Corporation has neither modified, nor issued, any new options in 2006, and all options issued prior to December 31, 2005 are fully vested, the provisions of SFAS No. 123R have no impact on net income in 2006.

In previous years, the Corporation used the intrinsic value method of accounting for stock compensation plans, with compensation cost measured by the excess of the quoted market price of the stock as of the grant date (or other measurement date) over the amount an employee or director must pay to acquire the stock. Stock options issued under the Corporation's stock option plans have had no intrinsic value; therefore, no compensation cost was recorded for them.

The Corporation has also made prior awards of restricted stock. Compensation cost related to restricted stock has been recognized based on the market price of the stock at the grant date over the vesting period.

The following table illustrates the effect on net income and earnings per share if the Corporation had applied the fair value provisions of SFAS No. 123 to stock options.

CITIZENS & NORTHERN CORPORATION - FORM 10-Q

(NET INCOME IN THOUSANDS)	3 MONTHS ENDED JUNE 30, 2006	3 MONTHS ENDED JUNE 30, 2005	6 MONTHS ENDED JUNE 30, 2006	6 MONTHS ENDED JUNE 30, 2005
Net income, as reported	$3,199	$3,298	$6,019	$6,593
Deduct: Total stock option compensation expense determined under fair value method for all awards, net of tax effects	--	(34)	--	(69)
Pro forma net income	$3,199	$3,264	$6,019	$6,524
Earnings per share-basic				
As reported	$ 0.39	$ 0.40	$ 0.73	$ 0.80
Pro forma	$ 0.39	$ 0.39	$ 0.73	$ 0.79
Earnings per share-diluted				
As reported	$ 0.39	$ 0.39	$ 0.72	$ 0.79
Pro forma	$ 0.39	$ 0.39	$ 0.72	$ 0.78

4. COMPREHENSIVE INCOME

U.S. generally accepted accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Although unrealized gains and losses on available-for-sale securities are reported as a separate component of the equity section of the balance sheet, changes in unrealized gains and losses on available-for-sale securities, along with net income, are components of comprehensive income.

The components of comprehensive income, and the related tax effects, are as follows:

	3 MONTHS ENDED		6 M
(IN THOUSANDS)	JUNE 30, 2006	JUNE 30, 2005	JUNE 3 2006
Net income	$ 3,199	$ 3,298	$ 6,01
Unrealized holding gains (losses) on available-for-sale securities	(2,342)	4,759	(4,60
Reclassification adjustment for gains realized in income	(1,333)	(929)	(2,64
Other comprehensive income (loss) before income tax	(3,675)	3,830	(7,25
Income tax related to other comprehensive income/loss	1,254	(1,302)	2,46
Other comprehensive income (loss)	(2,421)	2,528	(4,78
Comprehensive income	$ 778	$ 5,826	$ 1,23

CITIZENS & NORTHERN CORPORATION - FORM 10-Q

5. SECURITIES

Amortized cost and fair value of securities at June 30, 2006 are summarized as follows:

(IN THOUSANDS)	JUNE 30, 2006 AMORTIZED COST	GROSS UNREALIZED HOLDING GAINS	GROSS UNREALIZED HOLDING LOSSES	FAIR VALUE
AVAILABLE-FOR-SALE SECURITIES:				
Obligations of other U.S. Government agencies	$ 34,000	$ --	$(1,179)	$ 32,821
Obligations of states and political subdivisions	74,495	852	(1,054)	74,293
Mortgage-backed securities	123,153	65	(4,843)	118,375
Other securities	107,456	844	(2,083)	106,217
Total debt securities	339,104	1,761	(9,159)	331,706
Marketable equity securities	23,612	7,569	(314)	30,867
Total	$362,716	$ 9,330	$(9,473)	$362,573
HELD-TO-MATURITY SECURITIES:				
Obligations of the U.S. Treasury	$ 312	$ 2	$ --	$ 314
Obligations of other U.S. Government agencies	98	5	--	103
Mortgage-backed securities	8	--	--	8
Total	$ 418	$ 7	$ --	$ 425

The following table presents gross unrealized losses and fair value of investments aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at June 30, 2006.

(IN THOUSANDS)	LESS THAN 12 MONTHS FAIR VALUE	LESS THAN 12 MONTHS UNREALIZED LOSSES	12 MONTHS OR MORE FAIR VALUE	12 MONTHS OR MORE UNREALIZED LOSSES
AVAILABLE-FOR-SALE SECURITIES:				
Obligations of other U.S. Government agencies	$ 26,119	$ (881)	$ 6,702	$ (298)
Obligations of states and political subdivisions	33,281	(741)	9,048	(313)
Mortgage-backed securities	27,021	(696)	88,247	(4,147)
Other securities	50,681	(653)	36,070	(1,430)
Total debt securities	137,102	(2,971)	140,067	(6,188)
Marketable equity securities	1,949	(116)	2,772	(198)
Total temporarily impaired available-for-sale				

securities	$139,051	$(3,087)	$142,839	$(6,386)

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns 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) the intent and ability of the Corporation to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

The unrealized losses on debt securities are primarily the result of volatility in interest rates. Based on the credit worthiness of the issuers, management believes the Corporation's debt securities at June 30, 2006 were not other-than-temporarily impaired.

6. DEFINED BENEFIT PLANS

The Corporation has a noncontributory defined benefit pension plan for all employees meeting certain age and length of service requirements. Benefits are based primarily on years of service and the average annual compensation during the highest five consecutive years.

In addition, 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, 2006 and December 31, 2005, and will not affect the Corporation's future expenses.

The Corporation uses a December 31 measurement date for its plans.

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

	PENSION SIX MONTHS ENDED JUNE 30,		POSTRETIREMENT SIX MONTHS ENDED JUNE 30,	
(IN THOUSANDS)	2006	2005	2006	2005
Service cost	$ 305	$ 238	$32	$24
Interest cost	315	309	31	33
Expected return on plan assets	(416)	(397)	--	--
Amortization of transition (asset) obligation	(12)	(12)	18	18
Recognized net actuarial loss (gain)	39	19	1	1
Net periodic benefit cost (benefit)	$ 231	$ 157	$82	$76

(IN THOUSANDS)	PENSION THREE MONTHS ENDED JUNE 30, 2006	2005	POSTRETIREMENT THREE MONTHS ENDED JUNE 30, 2006	2005
Service cost	$ 153	$ 119	$16	$12
Interest cost	158	154	16	16
Expected return on plan assets	(208)	(199)	--	--
Amortization of transition (asset) obligation	(6)	(6)	9	9
Recognized net actuarial loss (gain)	19	9	--	--
Net periodic benefit cost (benefit)	$ 116	$ 77	$41	$37

For 2006, the minimum funding requirement for the defined benefit pension plan is $379,000; however, the Board of Directors authorized funding, in April 2006, up to the maximum funding limit of $640,000. For the six months to date of 2006, the Corporation funded postretirement contributions totaling $26,000, with estimated annual postretirement contributions of $62,000 expected in 2006 for the full year.

7. 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.

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 2006 AND 2005

Unless otherwise noted, all references to "2006" in the following discussion of operating results are intended to mean the six months ended June 30, 2006, and similarly, references to "2005" relate to the six months ended June 30, 2005.

EARNINGS OVERVIEW

Net income in 2006 was $6,019,000, which represents a decrease of 8.7% in net income compared to net income of $6,593,000 for 2005. Net income per share was $0.73 (basic) and $0.72 (diluted) for 2006. Return on average assets was 1.05% in 2006, as compared to 1.17% in 2005. Return on average equity was 9.17% for 2006, as compared to 9.96% for the same period in 2005.

The most significant income statement changes between 2006 and 2005 were as follows:

- The net interest margin was $17,003,000 in 2006, a decrease of $486,000, or 2.8%, from $17,489,000 in 2005. Despite growth in both loans and deposits, the continued decrease in Net Interest Margin is attributed primarily to increases in short-term interest rates, compared to relatively flat long-term rates associated with the loan portfolio. Changes in the net interest margin are discussed in more detail later in Management's Discussion and Analysis.

- Other (non-interest) expenses increased $1,518,000, or 10.6%, in 2006 compared to 2005. For the first six months of 2006, a total of $1,200,000 of the total increase related to operations and start-up costs in new markets. New branch operations include First State Bank, our Jersey Shore office (opened August 2005) and our Old Lycoming Township office (opened March 2006). The other significant organizational change affecting the comparison of noninterest expense between 2006 and 2005 is the sale of the credit card portfolio that took place in the fourth quarter 2005. Total noninterest expense attributable to the credit card operation was $534,000 in 2005. Additional discussion of Other Expenses is described in the "Non-interest Expense" section of Management's Discussion and

Analysis.

- The provision for loan losses was $300,000 in the first six months of 2006, which is a decrease of $450,000 compared to the same period in 2005. In 2006, the negotiations and workout of a few large commercial loans were completed which resulted in actual charge-offs being less than the previously established estimated allowances by approximately $500,000.

- Net realized gains on securities were $2,648,000 in the first six months of 2006, an increase of $653,000, compared to $1,995,000 in 2005. Sales of bank stocks provided most of the gains realized in 2006.

Net income in the second quarter 2006 was $3,199,000, down 3.0% from second quarter 2005 net income, but up $379,000 (13.4%) from the first quarter 2006. Net income per share (basic and diluted) was $0.39 in the second quarter 2006, as compared to $0.40 (basic) and $0.39 (diluted) in the second quarter 2005, and up from $0.34 (basic and diluted) in the first quarter 2006. In the second quarter 2006, the Corporation recorded a credit for loan losses (reduction in expense) of $300,000, as compared to loan loss expense of $375,000 in the second quarter 2005 and $600,000 in the first quarter 2006. The credit for loan losses in the second quarter 2006 was mainly the result of the commercial loan workout situations previously mentioned.

TABLE I - QUARTERLY FINANCIAL DATA
(IN THOUSANDS)

	JUNE 30, 2006	MAR. 31, 2006	DEC. 31, 2005	SEPT. 30, 2005	JU
Interest income	$15,984	$15,863	$15,936	$15,571	$
Interest expense	7,566	7,278	7,149	6,426	
Interest margin	8,418	8,585	8,787	9,145	
(Credit) provision for loan losses	(300)	600	901	375	
Interest margin after provision for loan losses	8,718	7,985	7,886	8,770	
Other income	1,937	1,789	1,895	2,149	
Securities gains (losses)	1,333	1,315	(586)	393	
Gain from sale of credit card loans	--	--	1,906	--	
Other expenses	7,976	7,843	7,358	7,303	
Income before income tax provision	4,012	3,246	3,743	4,009	
Income tax provision	813	426	639	722	
Net income	$ 3,199	$ 2,820	$ 3,104	$ 3,287	$
Net income per share - basic	$ 0.39	$ 0.34	$ 0.37	$ 0.40	$
Net income per share - diluted	$ 0.39	$ 0.34	$ 0.37	$ 0.39	$

The number of shares used in calculating net income per share for each quarter presented in Table I reflects the retroactive effect of stock dividends.

PROSPECTS FOR THE REMAINDER OF 2006

Management expects 2006 to continue as a year for building on recent capital investments. The opening of new branches in Jersey Shore (August 2005) and Old Lycoming Township (March 2006) provide growth opportunities in the Lycoming County market, especially for expansion of commercial lending and Trust and financial management relationships. The August 2005 acquisition of Canisteo Valley Corporation, including the First State Bank branches in Canisteo and South Hornell, creates opportunities for market development along the northern border of our current market operations. Excluding any allocation of administrative costs, the Jersey Shore and Old Lycoming branch operations generated a pre-tax loss totaling $279,000 in the first six months of 2006, while Canisteo Valley Corporation and First State Bank produced a modest pre-tax profit of $140,000. Management expects these investments to result in profitability growth within the next 2-4 years; however, in the aggregate, these investments will probably not result in a positive earnings contribution over the second half of 2006.

The yield curve has been flat or slightly inverted (meaning there is little or no difference between short-term and long-term interest rates, or that short-term rates are higher than long-term rates) throughout much of 2005 and all of 2006 to date. In this type of interest rate environment, there is little opportunity for the Corporation to earn a positive spread between earnings on available-for-sale securities and interest costs associated with borrowings. Accordingly, unless the shape of the yield curve changes from its current structure, management expects to utilize cash flows from operations to pay off borrowings as they mature in 2006, effectively reducing total assets and liabilities. Management hopes to use earnings from growth in loans and deposits to offset the anticipated reduction in net interest income associated with the lack of opportunity for a positive spread between earnings on securities and the interest costs on borrowings.

On November 30, 2005, the Corporation sold substantially its entire credit card portfolio, and recognized a gain of $1.9 million. As part of the sale, the Corporation continued to provide servicing of these credit cards through May 18, 2006. The Corporation recorded a $280,000 liability for the estimated direct costs of providing servicing, net of servicing fees to be received from the buyer. Also in 2005, the Corporation recorded an accrual of $175,000 for estimated losses associated with credit card receivables sold with recourse. The $1.9 million gain recorded in 2005 was net of the servicing and recourse liabilities. Through June 30, 2006, direct servicing costs, net of fees received, have totaled $43,000, with a remaining liability balance for servicing of $237,000. Losses charged against the recourse liability through June 30, 2006, have totaled $58,000, with a remaining liability balance of $117,000. The liabilities for servicing and recourse losses are included in accrued interest and other liabilities in the consolidated balance sheet. Management expects to pay for additional expenditures related to servicing the credit card portfolio, and for losses on receivables sold with recourse, over the remainder of 2006, with the total amount of the expenditures to be determined by mid-December 2006 (the Corporation's recourse obligation expires as of November 30, 2006).

Management expects to record the difference between the total amount of the additional servicing expenditures and recourse losses, and the related liability balances, as a gain or loss in the fourth quarter 2006.

Another major variable that affects the Corporation's earnings is securities gains and losses, particularly from bank stocks and other equity securities. Management's decisions regarding sales of securities are based on a variety of factors, with the overall goal of maximizing portfolio return over a long-term horizon. It is difficult to predict, with much precision, the amount of net securities gains and losses that will be realized throughout the remainder of 2006.

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. The Corporation receives estimated fair values of debt securities from an independent valuation service, or from brokers. In developing these 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. The large majority of the Corporation's securities are classified as available-for-sale. Accordingly, these securities are carried at fair value on the consolidated balance sheet, with unrealized gains and losses excluded from earnings and reported separately through accumulated other comprehensive income (included in stockholders' equity).

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 2006 and 2005. 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 Tables.

The net interest margin, on a tax-equivalent basis, of $18,379,000 in 2006 decreased $699,000, or 3.7% from 2005. As reflected in Table IV, interest rate changes had the most significant impact on net interest margin with reductions of $1,753,000 in the net interest margin compared to 2005. The reduction in net interest income from higher rates reflects the Corporation's "liability sensitive" position, that is, deposits and borrowings reprice more quickly, on average, than the earning assets base of loans and available-for-sale securities. Table IV also shows that volume increases had the effect of increasing net interest income of $1,054,000 in 2006 compared to 2005, and was primarily attributed to increased volume of loans. As presented in Table III, the "Interest Rate Spread" (excess of average rate of return on interest-bearing assets over average cost of funds on interest-bearing liabilities) tightened further to 2.98% compared to 3.22% for the year ended December 31, 2005 and 3.28% for the first six months of 2005.

INTEREST INCOME AND EARNING ASSETS

Interest income increased 6.5%, to $33,223,000 in 2006 from $31,190,000 in 2005. Interest and fees from loans increased $2,720,000, or 14.3%, while income from available-for-sale securities decreased $775,000, or 6.4%.

As indicated in Table III, average available-for-sale securities in the first six months of 2006 amounted to $406,914,000, a decrease of 9.5% from the first six months of 2005. Proceeds from sales and maturities of securities have been used, in part, to help fund the continued growth in loans. Also, since short-term interest rates have been rising faster than long-term rates, there have been few opportunities to purchase mortgage-backed securities or other bonds at spreads sufficient to justify the applicable interest rate risk. The average rate of return on available-for-sale securities of 5.59% for the first six months of 2006 was higher than the 5.41% level in the first six months of 2005, and the 5.35% rate for the year ended December 31, 2005. The higher average yield on available-for-sale securities is attributed, in part, to the sale of certain lower yielding securities in the fourth quarter 2005. Such lower yielding securities were acquired in 2003 and 2004, when market yields were lower than current conditions. In addition, increased holdings of adjustable rate trust preferred securities in 2005 and 2006 have contributed to the increased yield since the yield on these securities generally rises consistent with short-term rates.

The average balance of gross loans increased 8.9% to $653,577,000 for the first six months of 2006 from $600,163,000 in the first six months of 2005. The acquisition of First State Bank in the third quarter of 2005 provided $22,128,000 of the growth in average gross loans compared to the previous year. Excluding loans acquired from First State Bank, average loans increased 5.2%. The average rate of return on loans was 6.73% in the first six months of 2006, as compared to 6.41% in first six months of 2005, and 6.53% for the year 2005.

INTEREST EXPENSE AND INTEREST-BEARING LIABILITIES

Interest expense rose $2,732,000, or 22.6%, to $14,844,000 in 2006 from $12,112,000 in 2005. Table III reflects the current trend in interest rates incurred on liabilities, as the overall cost of funds on interest-bearing liabilities rose to 3.30% for the first six months of of 2006, from 2.81% for the year ended December 31, 2005, and 2.69% for the first six months of 2005. In addition, Table III shows the impact of rising short-term interest rates, by category, on the Corporation's primary sources of funds: (1) money market accounts, which increased to an average rate of 3.18% in 2006 compared to 1.86% in 2005, (2) interest checking accounts, which increased to an average rate of 2.60% from .63%, (3) certificates of deposit, which increased to an average rate of 3.75% from 3.14%, (4) short-term borrowings, which rose to an average rate of 3.92% from 2.46%. The average rate incurred on long-term borrowings remained substantially unchanged, and reflects the replacement of such borrowings with either short-term instruments or repayment using the proceeds from the available-for-sale securities portfolio.

From Table III, you can calculate that total average deposits (interest-bearing and noninterest-bearing) increased to $752,127,000 in the first six months of 2006, or a 10.9% increase, from $678,209,000 in the first six months of 2005. The increase in the average deposit balances for the first six months of each year has been significantly impacted by fluctuations in deposits from municipal and non-profit customers. In addition, the acquisition of First State Bank provided an increase in average deposits of $26,627,000 in 2006 compared to 2005. The most significant increases in average deposits by categories were $34,490,000 for interest checking accounts (90.7%), $25,618,000 for certificates of deposit (13.7%), $20,562,000 (25.8%) for demand deposit accounts. Most of the increase in interest checking balances is attributable to one local governmental customer, for which the Corporation became the primary depository institution in September 2005. Average money market account balances decreased $13,993,000, or 7.2%, in the first six months of 2006 as compared to the same period in 2005, as some depositors' have moved balances to higher-rate certificates of deposit or withdrawn funds to invest in equities.

The combined average total short-term and long-term borrowed funds decreased $54,282,000 to $255,225,000 in the first six months of 2006 from $309,507,000 in the first six months of 2005. Throughout most of 2005 and 2006, the yield curve has been flat or inverted, limiting opportunities for the Corporation to earn a positive spread over interest costs associated with maintaining borrowed funds. Accordingly, the Corporation has been paying off borrowings as they mature, or rolling them over at terms of less than one year. The pace of such changes or trends is reflected in the Corporation's consolidated balance sheet, as total short-term borrowings increased to $50,950,000 at June 30, 2006 from $34,734,000 at December 31, 2005, while total long-term borrowings decreased to $180,889,000 at June 30, 2006 from $232,205,000 at December 31, 2005.

TABLE II - ANALYSIS OF INTEREST INCOME AND EXPENSE

	SIX MONTHS ENDED JUNE 30,		
(IN THOUSANDS)	2006	2005	INCREASE/ (DECREASE)

INTEREST INCOME			
Available-for-sale securities:			
Taxable	$ 7,815	$ 7,820	$ (5)
Tax-exempt	3,467	4,237	(770)
Total available-for-sale securities	11,282	12,057	(775)
Held-to-maturity securities,			
Taxable	12	12	--
Interest-bearing due from banks	35	13	22
Federal funds sold	96	30	66
Loans:			
Taxable	20,861	18,324	2,537
Tax-exempt	937	754	183
Total loans	21,798	19,078	2,720
Total Interest Income	33,223	31,190	2,033
INTEREST EXPENSE			
Interest checking	936	118	818
Money market	2,828	1,782	1,046
Savings	172	141	31
Certificates of deposit	3,952	2,906	1,046
Individual Retirement Accounts	2,416	2,104	312
Other time deposits	3	3	--
Short-term borrowings	1,049	557	492
Long-term borrowings	3,488	4,501	(1,013)
Total Interest Expense	14,844	12,112	2,732
Net Interest Income	$18,379	$19,078	$ (699)

Note: Interest income from tax-exempt securities and loans has been adjusted to a fully tax-equivalent basis, using the Corporation's marginal federal income tax rate of 34%.

TABLE III - ANALYSIS OF AVERAGE DAILY BALANCES AND RATES

(DOLLARS IN THOUSANDS)	6 MONTHS ENDED 6/30/2006 AVERAGE BALANCE	RATE OF RETURN/ COST OF FUNDS %	YEAR ENDED 12/31/2005 AVERAGE BALANCE	RATE OF RETURN/ COST OF FUNDS %
EARNING ASSETS				
Available-for-sale securities, at amortized cost:				
Taxable	$ 299,648	5.26%	$ 319,230	4.83%
Tax-exempt	107,266	6.52%	123,295	6.72%

Total available-for-sale securities	406,914	5.59%	442,525	5.35%
Held-to-maturity securities,				
Taxable	420	5.76%	427	5.85%
Interest-bearing due from banks	1,973	3.58%	1,293	2.63%
Federal funds sold	3,388	5.71%	2,600	3.73%
Loans:				
Taxable	622,647	6.76%	592,227	6.55%
Tax-exempt	30,930	6.11%	26,117	6.25%
Total loans	653,577	6.73%	618,344	6.53%
Total Earning Assets	1,066,272	6.28%	1,065,189	6.03%
Cash	19,351		9,014	
Unrealized gain/loss on securities	4,757		11,197	
Allowance for loan losses	(8,792)		(7,297)	
Bank premises and equipment	23,519		19,247	
Intangible Asset - Core Deposit Intangible	410		169	
Intangible Asset - Goodwill	2,919		983	
Other assets	38,036		46,117	
Total Assets	$1,146,472		$1,144,619	
INTEREST-BEARING LIABILITIES				
Interest checking	$ 72,519	2.60%	$ 46,408	1.15%
Money market	179,277	3.18%	188,507	2.20%
Savings	63,701	0.54%	60,203	0.50%
Certificates of deposit	212,494	3.75%	197,165	3.26%
Individual Retirement Accounts	122,544	3.98%	121,013	3.46%
Other time deposits	1,065	0.57%	1,152	0.52%
Short-term borrowings	54,004	3.92%	44,267	2.80%
Long-term borrowings	201,221	3.50%	254,987	3.47%
Total Interest-bearing Liabilities	906,825	3.30%	913,702	2.81%
Demand deposits	100,527		87,956	
Other liabilities	7,915		10,496	
Total Liabilities	1,015,267		1,012,154	
Stockholders' equity, excluding other comprehensive income/loss	128,088		125,076	
Other comprehensive income/loss	3,117		7,389	
Total Stockholders' Equity	131,205		132,465	
Total Liabilities and Stockholders' Equity	$1,146,472		$1,144,619	
Interest Rate Spread		2.98%		3.22%
Net Interest Income/Earning Assets		3.48%		3.62%

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

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

CITIZENS & NORTHERN CORPORATION - FORM 10-Q

TABLE IV - ANALYSIS OF VOLUME AND RATE CHANGES

(IN THOUSANDS)	YTD ENDED 6/30/06 VS. 6/30/05 CHANGE IN VOLUME	CHANGE IN RATE	TOTAL CHANGE
EARNING ASSETS			
Available-for-sale securities:			
Taxable	$ (714)	$ 709	$ (5)
Tax-exempt	(464)	(306)	(770)
Total available-for-sale securities	(1,178)	403	(775)
Held-to-maturity securities,			
Taxable	--	--	--
Interest-bearing due from banks	14	8	22
Federal funds sold	20	46	66
Loans:			
Taxable	1,521	1,016	2,537
Tax-exempt	215	(32)	183
Total loans	1,736	984	2,720
Total Interest Income	592	1,441	2,033
INTEREST-BEARING LIABILITIES			
Interest checking	182	636	818
Money market	(138)	1,184	1,046
Savings	17	14	31
Certificates of deposit	430	616	1,046
Individual Retirement Accounts	16	296	312
Other time deposits	--	--	--
Short-term borrowings	116	376	492
Long-term borrowings	(1,085)	72	(1,013)
Total Interest Expense	(462)	3,194	2,732
Net Interest Income	$ 1,054	$(1,753)	$ (699)

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

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

CITIZENS & NORTHERN CORPORATION - FORM 10-Q

TABLE V - COMPARISON OF NON-INTEREST INCOME

(IN THOUSANDS)

	6 MONTHS ENDED	
	JUNE 30, 2006	JUNE 30, 2005
Service charges on deposit accounts	$ 963	$ 725
Service charges and fees	174	196
Trust and financial management revenue	1,058	1,050
Insurance commissions, fees and premiums	260	184
Increase in cash surrender value of life insurance	300	279
Fees related to credit card operation	--	390
Other operating income	971	768
Total other operating income, before realized gains on securities, net	3,726	3,592
Realized gains on securities, net	2,648	1,995
Total Other Income	$6,374	$5,587

Total non-interest income increased $787,000, or 14.1%, in 2006 compared to 2005, primarily related to an increase in net realized gains on securities of $653,000. Securities gains are discussed in the Earnings Overview section of Management's Discussion and Analysis. Other items of significance are as follows:

- Service charges on deposit accounts increased $238,000, or 32.8%, in 2006 as compared to 2005. Overdraft charges represent the primary increase year over year with $114,000, of which $41,000 represents overdraft charges to customers of First State Bank. The aggregate increase includes approximately $85,000 associated with a rate change initiated in August 2005.

- Fees related to credit card operation decreased $390,000 to due to the sale of the Citizens & Northern Bank's credit card operations in the fourth quarter 2005.

- Other operating income increased $260,000, or 36.6%, in 2006 over 2005. Included in this category were an increase of $119,000 in dividend income on Federal Home Loan Bank of Pittsburgh stock, mainly due to a change in the record date for such distributions, and an increase of $54,000 in debit and ATM card fees.

TABLE VI- COMPARISON OF NON-INTEREST EXPENSE
(IN THOUSANDS)

	6 MONTHS ENDED	
	JUNE 30, 2006	JUNE 30, 2005
Salaries and wages	$ 6,686	$ 5,923
Pensions and other employee benefits	2,148	1,985

Occupancy expense, net	1,140	925
Furniture and equipment expense	1,318	1,298
Pennsylvania shares tax	488	412
Other expense	4,039	3,758
Total Other Expense	$15,819	$14,301

Salaries and wages increased $763,000, or 12.9%, for 2006 compared to 2005. The increase in salaries expense relates primarily to the increase in the number of full-time equivalent employees, which increased 12.1%, to 376 as of June 30, 2006 from 335 as of June 30, 2005. For 2006, new branch operations at Jersey Shore, Old Lycoming Township and First State Bank added $475,000 to salaries expense.

Pension and other employee benefits associated with the new branch operations added $128,000 in 2006 to this category. Pension plan expense increased 37.3%, or $62,000, in 2006 due to lower investment returns for 2005 than included in the actuarial assumptions, as well as increases in the number of employees and covered compensation, which include employees from First State Bank.

Occupancy expense increased $215,000, or 23.2%, in 2006 compared to 2005. Total occupancy costs in 2006 include $129,000 for the Jersey Shore, Old Lycoming and First State Bank locations, and $93,000 for the new administration building in Wellsboro (which opened in March 2006).

Other (noninterest) expense increased $281,000 or 7.5% in 2006 compared to 2005. The increase in other expenses includes $362,000 for First State Bank in 2006, including $64,000 for the amortization of core deposit intangibles. In addition, in the second quarter 2006, other expense included a one-time charge of $169,000 for impairment of leasehold improvements from early termination of a property lease. Other expenses include legal and professional fees, as well as expenses associated with maintaining and preparing other real estate (ORE) properties for sale. In 2006, attorney fees related to collection activities on a large commercial credit decreased $98,000, and ORE properties expenses decreased $73,000 in 2006 compared to 2005. In addition, 2005 costs associated with the 2005 NASDAQ Small Cap registration of $34,000 did not recur in 2006; NASDAQ annual fees were at the same level in both years.

FINANCIAL CONDITION

Significant changes in the average balances of the Corporation's earning assets and interest-bearing liabilities are described in the "Net Interest Margin" section of Management's Discussion and Analysis. Also included in the Net Interest Margin section is a discussion of management's decision to reduce the Corporation's balances of available-for-sale securities and borrowings, in response to the flat and inverted yield curve prevalent throughout much of 2005 and 2006. The allowance for loan losses and stockholders' equity are discussed in separate sections of Management's Discussion and Analysis.

As reflected in the consolidated balance sheet, total cash and cash equivalents as of June 30, 2006 amounted to $42,084,000, up from $26,446,000 at December 31, 2005. The level of cash and cash equivalents maintained at June 30, 2006 is higher than the average level maintained by the Corporation throughout the last several years. The high cash and cash equivalents balance resulted in part from proceeds from sales of available-for-sale securities in June that had not been reinvested in other securities or used for origination of loans. Management expects to use some of the cash to help pay off borrowings totaling $12,200,000 that mature in the third quarter 2006. Also, management may utilize some of the cash to repurchase shares of its common stock pursuant to a Board-approved plan that ends August 31, 2006, and which would permit the Corporation to acquire additional shares (in excess of purchases completed through June 30, 2006) at a total cost up to approximately $12,290,000.

The Corporation has completed several planned building construction projects during the first six months of 2006, which required additional expenditures for completion costs, furnishings, and related equipment of approximately $2,332,000. Additional capital expenditures for the remainder of 2006 are expected to be less than $2,500,000, mainly for technology-related and other equipment upgrades and replacements.

PROVISION AND ALLOWANCE FOR LOAN LOSSES

The allowance for loan losses reflects probable losses resulting from the analysis of individual loans and historical loss experience, as modified for identified trends and concerns, for each loan category. The historical loan loss experience element is determined based on the ratio of net charge-offs to average loan balances over a three-year period, for each significant type of loan, modified for qualitative risk adjustment factors identified by management for each type of loan. The charge-off ratio and qualitative factors are then applied to the current outstanding loan balance for each type of loan (net of other loans that are individually evaluated).

Effective in 2005, management changed its process for determining and disclosing the components of the allowance for loan losses. A management committee evaluates qualitative factors, including economic conditions, lending policies, changes in the portfolio, risk profile of the portfolio, competition and regulatory requirements, and other factors. This analysis is performed separately for the following categories of lending activity: commercial, mortgage and consumer. Based on the results of these evaluations, allocations have been made to the components of the allowance shown in Table VIII. For periods prior to 2005, Table VIII includes the portion of the allowance determined by management's subjective assessment of economic conditions and other factors in the unallocated component of the allowance. Primarily as a result of this change in process, Table VIII shows the amounts allocated to the allowance for commercial, consumer mortgage and consumer loans at June 30, 2006 and December 31, 2005 have increased in comparison to the corresponding amounts at December 31, 2004 and previous years, while the unallocated portion of the allowance was $550,000 at June 30, 2006 and $0 at December 31, 2005, down from $2,578,000 at December 31, 2004.

In the second quarter 2006, settlements were reached related to two large commercial loan relationships that had been classified as impaired. Total charge-offs related to these relationships were $568,000, leading to a comparatively high level of net charge-offs for the six months ended June 30, 2006 (as shown in Table VII) of $599,000. As of the end of the first quarter 2006, the estimated allowance for loan losses associated with these two relationships totaled $1,018,000, with the favorable difference of $450,000 between management's previous estimated losses and the actual charge-off amounts contributing to a reduction in the provision for loan losses during the second quarter 2006. These favorable differences led to a lower provision for loan losses of $300,000 for the first six months of 2006 as compared to $750,000 for the same period in 2005, with a credit (negative) provision for loan losses of $300,000 for the second quarter 2006.

As indicated in Table IX, total impaired loans fell to $5,673,000 at June 30, 2006 from $8,967,000 at March 31, 2006 and $8,216,000 at December 31, 2005. In total, the valuation allowance related to impaired loans fell to $1,530,000 at June 30, 2006, from $2,603,000 at March 31, 2006 and $2,374,000 at December 31, 2005. Table IX also shows that the amount of loans classified as non-accrual fell to $5,901,000 at June 30, 2006, from $9,176,000 at March 31, 2006 and $6,365,000 at December 31, 2005. The reductions in impaired and non-accrual loan balances resulted mainly from the settlements of the two large commercial loan relationships discussed above. In the first quarter 2006, a commercial loan with a balance of $2,025,000 was identified as impaired, and an estimated valuation allowance of $500,000 was established. As of June 30, 2006, the outstanding balance of this loan was $1,996,000 and management's estimate of loss was lowered to $400,000. Management believes it has been conservative in its decisions concerning identification of impaired loans, estimates of loss and non-accrual status. However, the actual losses realized from these relationships could vary materially from the allowances calculated as of June 30, 2006. Management continues to closely monitor its commercial loan relationships for possible credit losses, and will adjust its estimates of loss and decisions concerning non-accrual status, if appropriate.

Tables VII, VIII, IX and X present an analysis of the allowance for loan losses, the allocation of the allowance, information concerning impaired and past due loans and a five-year summary of loans by type.

TABLE VII- ANALYSIS OF THE ALLOWANCE FOR LOAN LOSSES
(IN THOUSANDS)

	SIX MONTHS ENDED JUNE 30, 2006	SIX MONTHS ENDED JUNE 30, 2005	YEARS ENDED DECEMBER 31, 2005	2004	2003	2002
Balance, beginning of year	$8,361	$6,787	$6,787	$6,097	$5,789	$5,265
Charge-offs:						
Real estate loans	443	175	264	375	168	123
Installment loans	99	78	224	217	326	116
Credit cards and related plans	18	114	198	178	171	190
Commercial and other loans	171	202	298	16	303	123
Total charge-offs	731	569	984	786	968	552
Recoveries:						
Real estate loans	--	12	14	3	75	30
Installment loans	35	33	61	32	52	30
Credit cards and related plans	17	14	30	23	17	18

Commercial and other loans	80	10	50	18	32	58
Total recoveries	132	69	155	76	176	136
Net charge-offs	599	500	829	710	792	416
Allowance for loan losses recorded in acquisition	--	--	377	--	--	--
Provision for loan losses	300	750	2,026	1,400	1,100	940
Balance, end of period	$8,062	$7,037	$8,361	$6,787	$6,097	$5,789

TABLE VIII - ALLOCATION OF THE ALLOWANCE FOR LOAN LOSSES BY TYPE
(IN THOUSANDS)

	AS OF JUNE 30,	AS OF DECEMBER 31,				
	2006	2005	2004	2003	2002	2001
Commercial	$2,368	$2,705	$1,909	$1,578	$1,315	$ 852
Consumer mortgage	3,047	2,806	513	456	460	188
Impaired loans	1,530	2,374	1,378	1,542	1,877	1,736
Consumer	567	476	409	404	378	302
Unallocated	550	--	2,578	2,117	1,759	2,187
Total Allowance	$8,062	$8,361	$6,787	$6,097	$5,789	$5,265

TABLE IX - PAST DUE AND IMPAIRED LOANS
(IN THOUSANDS)

	JUNE 30, 2006	MAR. 31, 2006	DEC. 31, 2005	DEC. 31, 2004	DEC. 200
Impaired loans without a valuation allowance	$ 448	$ 819	$ 910	$3,552	$ 1
Impaired loans with a valuation allowance	5,225	8,148	7,306	4,709	4,5
Total impaired loans	$5,673	$8,967	$8,216	$8,261	$4,6
Valuation allowance related to impaired loans	$1,530	$2,603	$2,374	$1,378	$1,5
Total nonaccrual loans	$5,901	$9,176	$6,365	$7,796	$1,1
Total loans past due 90 days or more and still accruing	$1,035	$1,139	$1,369	$1,307	$2,5

TABLE X - SUMMARY OF LOANS BY TYPE
(IN THOUSANDS)

	JUNE 30, 2006	AS OF DECEMBER 31, 2005	2004	2003	2002	200
Real estate - construction	$ 9,160	$ 5,552	$ 4,178	$ 2,856	$ 103	$ 1,
Real estate - residential mortgage	372,345	361,857	347,705	330,807	292,136	245,
Real estate - commercial mortgage	177,263	153,661	128,073	100,240	78,317	60,
Consumer	31,155	31,559	31,702	33,977	31,532	29,
Agricultural	2,373	2,340	2,872	2,948	3,024	2,
Commercial	38,767	69,396	43,566	34,967	30,874	24,
Other	1,628	1,871	1,804	1,183	2,001	1,
Political subdivisions	25,665	27,063	19,713	17,854	13,062	13,
Lease receivables	--	--	--	65	96	
Total	658,356	653,299	579,613	524,897	451,145	379,
Less: allowance for loan losses	(8,062)	(8,361)	(6,787)	(6,097)	(5,789)	(5,
Loans, net	$650,294	$644,938	$572,826	$518,800	$445,356	$373,

RECENT ACCOUNTING PRONOUNCEMENT

The Financial Accounting Standards Board recently issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes." This pronouncement, which will be effective for the Corporation in 2007, clarifies accounting for income tax positions that are either: (1) complex, and therefore, subject to varied interpretation, or (2) controversial. Management does not expect this pronouncement to have a significant impact on the Corporation's financial position or results of operations in 2007.

DERIVATIVE FINANCIAL INSTRUMENTS

The Corporation has utilized derivative financial instruments related to a certificate of deposit product called the "Index Powered Certificate of Deposit" (IPCD). IPCDs have a term of 5 years, with interest paid at maturity based on 90% of the appreciation (as defined) in the S&P 500 index. There is no guaranteed interest payable to a depositor of an IPCD - however, assuming an IPCD is held to maturity, a depositor is guaranteed the return of his or her principal, at a minimum. In 2004, the Corporation stopped originating new IPCDs, but continues to maintain and account for IPCDs and the related derivative contracts entered into between 2001 and 2004.

Statement of Financial Accounting Standards No. 133 requires the Corporation to separate the amount received from each IPCD issued into 2 components: (1) an embedded derivative, and (2) the principal amount of each deposit. Embedded derivatives are derived from the Corporation's obligation to pay each IPCD depositor a return based on appreciation in the S&P 500 index. Embedded derivatives are carried at fair value, and are included in other liabilities in the consolidated balance sheet. Changes in fair value of the embedded derivative are included in other expense in the consolidated income statement. The difference between the contractual amount of each IPCD issued, and the amount of the embedded derivative, is recorded as the initial deposit (included in interest-bearing deposits in the consolidated balance sheet). Interest expense is added to principal ratably over the term of each IPCD at an effective interest rate that will increase the principal balance to equal the contractual IPCD amount at maturity.

In connection with IPCD transactions, the Corporation has entered into Equity Indexed Call Option (Swap) contracts with the Federal Home Loan Bank of Pittsburgh (FHLB-Pittsburgh). Under the terms of the Swap contracts, the Corporation must pay FHLB-Pittsburgh quarterly amounts calculated based on the contractual amount of IPCDs issued times a negotiated rate. In return, FHLB-Pittsburgh is obligated to pay the Corporation, at the time of maturity of the IPCDs, an amount equal to 90% of the appreciation (as defined) in the S&P 500 index. If the S&P 500 index does not appreciate over the term of the related IPCDs, the FHLB-Pittsburgh would make no payment to the Corporation. The effect of the Swap contracts is to limit the Corporation's cost of IPCD funds to the market rate of interest paid to FHLB-Pittsburgh. (In addition, the Corporation paid a fee of 0.75% to a consulting firm at inception of each deposit. These fees are being amortized to interest expense over the term of the IPCDs.) Swap assets or liabilities are carried at fair value, and included in other assets or other liabilities in the consolidated balance sheet. Changes in fair value of swap liabilities are included in other expense in the consolidated income statement.

Amounts recorded as of June 30, 2006 and December 31, 2005, and for the first six months of 2006 and 2005, related to IPCDs are as follows (in thousands):

	JUNE 30, 2006	DEC. 31, 2005
Contractual amount of IPCDs (equal to notional amount of Swap contracts)	$3,665	$3,952
Carrying value of IPCDs	3,540	3,733
Carrying value of embedded derivative liabilities	532	558
Carrying value of Swap contract (assets) liabilities	(388)	(346)

	6 MONTHS ENDED JUNE 30, 2006	6 MONTHS ENDED JUNE 30, 2005
Interest expense	$94	$78
Other expense	8	(5)

LIQUIDITY

Liquidity is the ability to quickly raise cash at a reasonable cost. An adequate liquidity position permits the Corporation to pay creditors, compensate for unforeseen deposit fluctuations and fund unexpected loan demand. The Corporation maintains overnight borrowing facilities with several correspondent banks that provide a source of day-to-day liquidity. Also, the Corporation maintains borrowing facilities with FHLB - Pittsburgh, secured by mortgage loans and various investment securities. At June 30, 2006, the Corporation had unused borrowing availability with correspondent banks and the Federal Home Loan Bank of Pittsburgh totaling approximately $177,000,000. Additionally, the Corporation uses repurchase agreements placed with brokers to borrow funds secured by investment assets, and uses "RepoSweep" arrangements to borrow funds from commercial banking customers on an overnight basis. Further, if required to raise cash in an emergency situation, the Corporation could sell non-pledged investment securities to meet its obligations. At June 30, 2006, the carrying value of non-pledged securities was $121,495,000.

Management believes the combination of its strong capital position (discussed in the next section), ample available borrowing facilities and substantial non-pledged securities portfolio have placed the Corporation in a position of minimal short-term and long-term liquidity risk.

STOCKHOLDERS' EQUITY AND CAPITAL ADEQUACY

The Corporation and the subsidiary banks (Citizens & Northern Bank and First State Bank) are subject to various regulatory capital requirements administered by the federal banking agencies. The Corporation's consolidated capital ratios at June 30, 2006 are as follows:

Total capital to risk-weighted assets	17.58%
Tier 1 capital to risk-weighted assets	16.12%
Tier 1 capital to average total assets	11.00%

Management expects the Corporation and the subsidiary banks to maintain capital levels that exceed the regulatory standards for well-capitalized institutions for the next 12 months and for the foreseeable future, including the effects of any repurchases of common stock that may occur (as discussed in the "Financial Condition" section of Management's Discussion and Analysis).

As shown in the consolidated balance sheet, Accumulated Other Comprehensive (Loss) Income fell to ($89,000) at June 30, 2006 from $4,698,000 at December 31, 2005. The Accumulated Other Comprehensive Income balance represents unrealized gains and losses on available-for-sale securities, net of deferred income tax. Rising interest rates, which reduce the market prices of debt securities, were a significant factor in the decline in Accumulated Other Comprehensive (Loss) Income at June 30, 2006 compared to December 31, 2005, as well as the effect of gains realized from the sales of securities during the same period.

INFLATION

The Corporation is significantly affected by the Federal Reserve Board's efforts to control inflation through changes in interest rates. Since mid-2004, the Federal Reserve Board has increased the Fed funds target rate 17 times from 1% to its current level of 5.25%. Further concerns about the possibility of inflation could lead to further increases in the Fed funds target rate, which management believes would be detrimental to the corporation's net interest margin. Although management cannot predict future changes in the rate of inflation, management monitors the impact of economic trends, including any indicators of inflationary pressure, in managing interest rate and other financial risks.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

MARKET RISK

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

INTEREST RATE RISK

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

Citizens & Northern Bank uses a simulation model to calculate the potential effects of interest rate fluctuations on net interest income and the market value of portfolio equity. Only assets and liabilities of Citizens & Northern Bank are included in management's monthly simulation model calculations. Since Citizens & Northern Bank makes up more than 90% of the Corporation's total assets and liabilities, and because Citizens & Northern Bank is the source of the most volatile interest rate risk, management does not consider it necessary to run the model for the remaining entities within the consolidated group. For purposes of these calculations, the market value of portfolio equity includes the fair values of financial instruments, such as securities, loans, deposits and borrowed funds, and the book values of nonfinancial assets and liabilities, such as premises and equipment and accrued expenses. The model measures and projects potential changes in net interest income, and calculates the discounted present value of anticipated cash flows of financial instruments, assuming an immediate increase or decrease in interest rates. Management ordinarily runs a variety of scenarios within a range of plus or minus 50-300 basis points of current rates.

Citizens & Northern Bank's Board of Directors has established policy guidelines for acceptable levels of interest rate risk, based on an immediate increase or decrease in interest rates. The Bank's policy provides limits at +/- 100, 200 and 300 basis points from current rates for fluctuations in net interest income from the baseline (flat rates) one-year scenario. The policy also limits acceptable market value variances from the baseline values based on current rates. As Table XI shows, as of June 30, 2006 and December 31, 2005, the decline in net interest income and market value exceed the policy threshold marks, if interest rates rise immediately by 200 or 300 basis points. The "out of policy" positions are a reflection of the Corporation's liability sensitive position (on average, deposits and borrowings reprice more quickly than loans and debt securities). Management has reviewed these positions with the Board of Directors monthly throughout 2005 and to date in 2006. In addition, management will continue to evaluate whether to make any changes to asset or liability holdings in an effort to reduce exposure to rising interest rates.

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

TABLE XI - THE EFFECT OF HYPOTHETICAL CHANGES IN INTEREST RATES

JUNE 30, 2006 DATA
(IN THOUSANDS)

	PERIOD ENDING JUNE 30, 2007				
BASIS POINT CHANGE IN RATES	INTEREST INCOME	INTEREST EXPENSE	NET INTEREST INCOME (NII)	NII % CHANGE	NII RISK LIMIT
+300	$67,958	$45,617	$22,341	-23.6%	20.0%
+200	65,996	41,282	24,714	-15.5%	15.0%
+100	63,983	36,946	27,037	-7.6%	10.0%
0	61,862	32,611	29,251	0.0%	0.0%
-100	59,261	28,311	30,950	5.8%	10.0%
-200	56,185	24,194	31,991	9.4%	15.0%
-300	52,819	21,009	31,810	8.7%	20.0%

JUNE 30, 2006 DATA, CONTINUED
(IN THOUSANDS)

	MARKET VALUE OF PORTFOLIO EQUITY AT JUNE 30, 2006		
BASIS POINT CHANGE IN RATES	PRESENT VALUE EQUITY	PRESENT VALUE % CHANGE	PRESENT VALUE RISK LIMIT
+300	$ 48,494	-57.4%	45.0%
+200	69,795	-38.7%	35.0%
+100	91,791	-19.4%	25.0%
0	113,865	0.0%	0.0%
-100	131,103	15.1%	25.0%
-200	142,625	25.3%	35.0%
-300	150,309	32.0%	45.0%

DECEMBER 31, 2005 DATA
(IN THOUSANDS)

	PERIOD ENDING DECEMBER 31, 2006				
BASIS POINT CHANGE IN RATES	INTEREST INCOME	INTEREST EXPENSE	NET INTEREST INCOME (NII)	NII % CHANGE	NII RISK LIMIT
+300	$66,381	$43,764	$22,617	-24.8%	20.0%
+200	64,649	39,466	25,183	-16.3%	15.0%
+100	62,850	35,168	27,682	-7.9%	10.0%
0	60,942	30,871	30,071	0.0%	0.0%
-100	58,178	26,573	31,605	5.1%	10.0%
-200	55,000	23,098	31,902	6.1%	15.0%
-300	51,805	19,877	31,928	6.2%	20.0%

	MARKET VALUE OF PORTFOLIO EQUITY AT DECEMBER 31, 2005		
BASIS POINT CHANGE IN RATES	PRESENT VALUE EQUITY	PRESENT VALUE % CHANGE	PRESENT VALUE RISK LIMIT
+300	$ 54,493	-56.8%	45.0%
+200	77,762	-38.3%	35.0%
+100	102,136	-19.0%	25.0%
0	126,029	0.0%	0.0%
-100	142,377	13.0%	25.0%
-200	151,148	19.9%	35.0%
-300	160,867	27.6%	45.0%

EQUITY SECURITIES RISK

The Corporation's equity securities portfolio consists primarily of investments in stock of banks and bank holding companies located mainly in Pennsylvania. The Corporation also owns some other stocks and mutual funds. Included in "Other Equity Securities" in the table that follows are preferred stocks issued by U.S. Government agencies with a fair value of $2,000,000 at June 30, 2006 and $1,997,000 at December 31, 2005.

Investments in bank stocks are subject to the risk factors that affect the banking industry in general, including competition from non-bank entities, credit risk, interest rate risk and other factors, which could result in a decline in market prices. Also, losses could occur in individual stocks held by the Corporation because of specific circumstances related to each bank. Further, because of the concentration of bank and bank holding companies located in Pennsylvania, these investments could decline in market value if there is a downturn in the state's economy.

Equity securities held as of June 30, 2006 and December 31, 2005 are presented in Table XII.

TABLE XII -- EQUITY SECURITIES
(IN THOUSANDS)

AT JUNE 30, 2006	COST	FAIR VALUE	HYPOTHETICAL 10% DECLINE IN MARKET VALUE	HYPOTHETICAL 20% DECLINE IN MARKET VALUE
Banks and bank holding companies	$19,567	$26,354	$(2,635)	$(5,271)
Other equity securities	4,045	4,513	(451)	(903)
Total	$23,612	$30,867	$(3,086)	$(6,174)

AT DECEMBER 31, 2005	COST	FAIR VALUE	HYPOTHETICAL 10% DECLINE IN MARKET VALUE	HYPOTHETICAL 20% DECLINE IN MARKET VALUE
Banks and bank holding companies	$20,010	$28,879	$(2,888)	$(5,776)
Other equity securities	4,023	4,387	(439)	(877)
Total	$24,033	$33,266	$(3,327)	$(6,653)

ITEM 4. CONTROLS AND PROCEDURES

The Corporation's management, under the supervision of and with the participation of the Corporation's Chief Executive Officer and Chief Financial Officer, has carried out an evaluation of the design and effectiveness of the Corporation's disclosure controls and procedures as defined in Rule 13a-15(e) and Rule 15d-15(e) of the Securities Exchange Act of 1934 as of the end of period covered by this report. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, the Corporation's disclosure controls and procedures are effective to ensure that all material information required to be disclosed in reports the Corporation files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms.

There were no significant changes in the Corporation's internal control over financial reporting that occurred during the period covered by this report that has materially affected, or that is reasonably likely to affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. RISK FACTORS

There have been no material changes from the risk factors previously disclosed in Item 1A of the Corporation's Form 10-K filed March 3, 2006

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

a. Issuer Sales of Equity Securities

During the quarter ended June 30, 2006, the Corporation issued 1,056 shares of common stock held in treasury upon the exercise of stock options by employees under the Corporation's equity compensation plans. Exercise prices for the stock options ranged from $14.17 to $22.08 per share, with an average exercise price of $19.29 per share. The aggregate cash proceeds to the Corporation from exercises of stock options during the quarter ended June 30, 2006 was $20,365. Treasury shares were issued upon exercise of these options by a small number of directors or employees in reliance upon the private placement exemption from registration under Section 4(2) of the Securities Act of 1933.

c. Issuer Purchases of Equity Securities

On August 19, 2005, the Corporation announced a plan to repurchase shares of its outstanding common stock up to a total of $3 million over the period ending August 31, 2006. On May 18, 2006, the plan was amended to increase the total value of common stock that could be repurchased to $13 million. Also, on June 22, 2006, the Corporation adopted a written trading plan under Rule 10b5-1 of the Securities Exchange Act of 1934 to facilitate the repurchase of its common stock at times when it would ordinarily be prevented from doing so because of insider trading laws or self-imposed trading blackout periods. Under the Rule 10b5-1 plan, a broker selected by the Corporation was given the authority under terms and limitations specified in the Rule 10b5-1 plan to repurchase shares on behalf of the Corporation, up to the total that remained under the existing repurchase authorization. Purchases were permitted under the Rule 10b5-1 plan beginning June 26, 2006, and ending July 19, 2006. The Corporation remains authorized to repurchase shares after the termination of the Rule 10b5-1 plan through August 31, 2006. As of June 30, 2006, the maximum additional value available for purchases under this program is $12,289,625.

The following table sets forth a summary of the purchases by the Corporation, on the open market, of its equity securities for the second quarter of 2006:

PERIOD	TOTAL NUMBER OF SHARES PURCHASED	AVERAGE PRICE PAID PER SHARE	TOTAL NUMBER OF SHARES PURCHASED AS PART OF PUBLICLY ANNOUNCED PLANS OR PROGRAMS	MAXIMUM VALUE OF THAT MAY PURCHASED PLANS OR
April 1 - 30, 2006	10,000	$24.25	10,000	$ 2,28

May 1 - 31, 2006	0	--	0	$12,28
June 1 - 30, 2006	0	--	0	$12,28

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The Annual Meeting of Shareholders of Citizens & Northern Corporation was held on Tuesday, April 18, 2006. The Board of Directors fixed the close of business on February 28, 2006 as the record date for the determination of stockholders entitled to notice of and to vote at the Annual Meeting and at any adjournment thereof. On this record date, there were outstanding and entitled to vote 8,295,569 shares of Common Stock.

The total number of votes cast was 5,620,528, including 8,627 voted in person by owners or representatives and 5,611,901 voted by proxy. The only issue voted on was election of Class I Directors, with the following results:

R. Robert DeCamp	
Total Votes in Favor	5,555,689
Total Votes Withheld	64,839
Edward H. Owlett, III	
Total Votes in Favor	5,531,284
Total Votes Withheld	89,244
James E. Towner	
Total Votes in Favor	5,523,667
Total Votes Withheld	99,861

There were 287,207 shares non-voted by brokers related to the election of the Class I Directors noted above.

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

3. (i) Articles of Incorporation	Incorporated by reference to the exhibits filed with the Corporation's registration statement on Form S-4 on March 27, 1987.
3. (ii) By-laws	Incorporated by reference to Exhibit 3.1 of the Corporation's Form 8-K filed August 25, 2004

11. Statement re: computation of per share earnings	Information concerning the computation of earnings per share is provided in Note 2 to the Consolidated Financial Statements, which is included in Part I, Item 1 of For
31. Rule 13a-14(a)/15d-14(a) certifications:	
31.1 Certification of Chief Executive Officer	Filed herewith
31.2 Certification of Chief Financial Officer	Filed herewith
32. Section 1350 certifications	Filed herewith

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CITIZENS & NORTHERN CORPORATION

August 4, 2006 Date	By: /s/ Craig G. Litchfield Chairman, President and Chief Executive Officer
August 4, 2006 Date	By: /s/ Mark A. Hughes Treasurer and Chief Financial Officer