CITIZENS & NORTHERN CORP
Form 10-K
February 20, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2013

OR

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

For the transition period from _______________ to _________________________.

Commission file number: 0-16084

CITIZENS & NORTHERN CORPORATION

(Exact name of Registrant as specified in its charter)

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

90-92 MAIN STREET, WELLSBORO, PA 16901

(Address of principal executive offices) (Zip code)

570-724-3411

(Registrant's telephone number including area code)

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

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

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of “large accelerated filer,” “accelerated filer “and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

(Check one:) Large accelerated filer ¨ Accelerated filer x Non-accelerated filer ¨ Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ¨ No x

The aggregate market value of the registrant's common stock held by non-affiliates at June 30, 2013, the registrant's most recently completed second fiscal quarter, was $232,640,563.

The number of shares of common stock outstanding at February 13, 2014 was 12,409,748.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's proxy statement for the annual meeting of its shareholders to be held April 17, 2014 are incorporated by reference into Parts III and IV of this report.

PART I

ITEM 1. BUSINESS

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

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

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

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

Major initiatives within the last 5 years included the following:

- in 2009, raised capital of $26.440 million by issuing preferred stock and a warrant to sell 194,794 shares of common stock to the U.S. Department of the Treasury under the Troubled Asset Relief Program (“TARP”) Capital Purchase Program;
- in 2009, issued common stock, which raised a total of $24.585 million of capital, net of offering costs;
- in 2009, began originating and selling residential mortgage loans to the secondary market through the MPF Xtra program administered by the Federal Home Loan Banks of Pittsburgh and Chicago, with significant growth in volume of activity under this program as evidenced by net gains from sales of loans of $2,191,000 in 2013, $1,925,000 in 2012 and $1,107,000 in 2011 and a total outstanding balance of residential mortgages sold and serviced of $145,954,000 at December 31, 2013;
- repurchased in 2010 all of the preferred stock and redeemed the warrant from the TARP Capital Purchase Program;
- merged the operations of First State Bank into C&N Bank and Canisteo Valley Corporation into Citizens & Northern Corporation in 2010;

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

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

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

Virtually all of the Corporation's banking offices are located in the "Marcellus Shale," an area extending across portions of New York State, Pennsylvania, Ohio, Maryland, West Virginia and Virginia. In recent years, most of the Pennsylvania counties in which the Corporation operates have been significantly affected by an upsurge in natural gas exploration, as technological developments have made exploration of the Marcellus Shale commercially feasible. From 2009 through approximately the first half of 2012, a significant portion of the Corporation's new business opportunities in lending, Trust and other services arose either directly or indirectly from Marcellus Shale-related activity. Due in large part to a decline in the market price of natural gas, Marcellus Shale natural gas exploration activity slowed over the course of 2012 and further slowed in 2013, though it has not completely stalled. Due to its pervasive nature, it is virtually impossible to quantify the aggregate impact of Marcellus Shale-related activity on the Corporation's financial position at December 31, 2013 and results of operations in 2009 through 2013.

At December 31, 2013, C&N Bank had total assets of $1,224,369,000, total deposits of $956,981,000, net loans outstanding of $635,640,000 and 287 full-time equivalent employees.

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

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

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

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

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

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

ITEM 1A. RISK FACTORS

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

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

Biggert-Waters Flood Insurance Act – In 2012, the Biggert-Waters Flood Insurance Act (the "Act") became law. The Act was designed to strengthen the National Flood Insurance Program by phasing out the federal government's subsidization of portions of the cost of flood insurance policies. Recent changes resulting from the Act have included: (1) phase-in of increased flood insurance rates for some properties, generally with an increase of 25% per year for 4 years until full-risk rates are reached, and (2) elimination of grandfathering of original flood-risk ratings, so that effective in 2014, all buildings will be rated using the latest flood zone maps. For primary residences that have never flooded and whose insurance policy has never lapsed, the government-funded subsidy will continue; however, the full-risk rate will apply immediately if a flood insurance policy lapses or if a property located in a flood zone is newly purchased.

Unless the Act is revised or repealed, reductions in collateral values associated with properties located in flood zones that secure some of the Corporation's residential and commercial loans could occur, and some borrowers may become unable or unwilling to make their loan payments as a result of the increased costs of flood insurance. These potential results of the Act's provisions could have a material adverse effect on the Corporation's financial condition, results of operations or liquidity.

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

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

Limited Geographic Diversification - The Corporation grants commercial, residential and personal loans to customers primarily in the Pennsylvania counties of Tioga, Bradford, Sullivan, Lycoming, Potter, Cameron and McKean, and in Steuben and Allegany Counties in New York State. Although the Corporation has a diversified loan portfolio, a significant portion of its debtors' ability to honor their contracts is dependent on the local economic conditions within the region. As described in the "Business" section of Form 10-K, in recent years the Corporation's market area has been significantly impacted by natural gas development activities associated with exploration of the Marcellus Shale. While Marcellus Shale-related development has created economic opportunities for business and individuals throughout much of our market area, natural gas exploration activity slowed in 2012 and further slowed in 2013, and the possibility exists that this activity could be further reduced or cease as a result of changes in economic conditions, environmental concerns or other factors.

Deterioration in economic conditions, including possible effects if Marcellus Shale-related activity were to further diminish or cease, could adversely affect the quality of the Corporation's loan portfolio and the demand for its products and services, and accordingly, could have a material adverse effect on the Corporation's financial condition, results of operations or liquidity.

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

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

Mortgage Banking – In September 2009, the Corporation entered into an agreement to originate and sell residential mortgage loans to the secondary market through the MPF Xtra program administered by the Federal Home Loan Banks of Pittsburgh and Chicago. The Corporation's mortgage sales activity under this program was not significant in 2009, but has subsequently increased. At December 31, 2013, total residential mortgages sold and serviced amounted to $145,954,000. The Corporation must strictly adhere to the MPF Xtra program guidelines for origination, underwriting and servicing loans, and failure to do so may result in the Corporation being forced to repurchase loans or being dropped from the program. As of December 31, 2013, the total outstanding balance of residential mortgage loans the Corporation has repurchased as a result of identified instances of noncompliance amounted to $1,420,000. If the volume of such forced repurchases of loans were to increase significantly, or if the Corporation were to be dropped from the program, it could have a material adverse effect on the Corporation's financial condition, results of operations or liquidity.

Equity Securities Risk - The Corporation's equity securities portfolio consists of investments in stocks of banks and bank holding companies. Investments in bank stocks are subject to the risk factors affecting the banking industry, and that could cause a general market decline in the value of bank stocks. Also, losses could occur in individual stocks held by the Corporation because of specific circumstances related to each bank. These factors could have a material adverse effect on the Corporation's financial condition, results of operations or liquidity. For additional information regarding equity securities risk, see Part II, Item 7A, "Quantitative and Qualitative Disclosures About Market Risk."

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

The Federal Home Loan Bank of Pittsburgh - Through its subsidiary (C&N Bank), the Corporation is a member of the Federal Home Loan Bank of Pittsburgh (FHLB-Pittsburgh), which is one of 12 regional Federal Home Loan Banks. The Corporation has a line of credit with the FHLB-Pittsburgh that is secured by a blanket lien on its loan portfolio. Access to this line of credit is critical if a funding need arises. However, there can be no assurance that the FHLB-Pittsburgh will be able to provide funding when needed, nor can there be assurance that the FHLB-Pittsburgh will provide funds specifically to the Corporation should its financial condition deteriorate and/or regulators prevent that access. The inability to access this source of funds could have a materially adverse effect on the Corporation’s financial flexibility if alternate financing is not available at acceptable interest rates. The failure of the FHLB-Pittsburgh or the FHLB system in general, may materially impair the Corporation’s ability to meet short- and long-term liquidity needs or to meet growth plans.

The Corporation owns common stock of the FHLB-Pittsburgh in order to qualify for membership in the FHLB system and access services from the FHLB-Pittsburgh. The FHLB-Pittsburgh faces a variety of risks in its operations including interest rate risk, counterparty credit risk, and adverse changes in its regulatory framework. In addition, the 12 Federal Home Loan Banks are jointly liable for the consolidated obligations of the FHLB system. To the extent that one FHLB cannot meet its obligations, other FHLBs can be called upon to make required payments. Such risks affecting the FHLB-Pittsburgh could adversely impact the value of the Corporation’s investment in the common stock of the FHLB-Pittsburgh and/or affect its access to credit.

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

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

FDIC Insurance Assessments - In 2008 and 2009, higher levels of bank failures dramatically increased the resolution costs of the Federal Deposit Insurance Corporation, or the FDIC, and depleted the deposit insurance fund. In addition, the FDIC and the U.S. Congress have taken action to increase federal deposit insurance coverage, placing additional stress on the deposit insurance fund. In order to maintain a strong funding position and restore reserve ratios of the deposit insurance fund, in 2009 the FDIC increased assessment rates and imposed a special assessment on all insured institutions. In December 2009, we paid a pre-payment of the FDIC’s estimated assessment total for the next three years, totaling approximately $5.5 million. The pre-payment amount was included in Other Assets in the consolidated balance sheet, with amounts amortized in 2010 through the first six months of 2013 based on current assessments. In June 2013, as the FDIC’s funding position was strengthened in comparison to its position in 2009, the FDIC refunded the unamortized portions of the pre-payments from banks, including a refund of $2.7 million to the Corporation.

Although our total expenses from FDIC assessments have steadily decreased - to $604,000 in 2013, $633,000 in 2012, $832,000 in 2011 and $1,450,000 in 2010 - from $2,092,000 in 2009, we are generally unable to control the amount of premiums that we are required to pay for FDIC insurance. If a significant number of bank or financial institution failures occur, we may be required to pay higher FDIC premiums. Future increases in FDIC insurance premiums or additional special assessments may materially adversely affect our results of operations.

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

The Bank owns each of its properties, except for the branch facilities located at 130 Court Street, Williamsport, PA, and at 2 East Mountain Avenue, South Williamsport, PA, which are leased. In September 2011, the Athens, PA office was damaged by flooding and reopened in April 2012. The Bank did not incur a significant financial loss associated with the flooding, as almost all of the cost of replacement was covered by insurance. All of the other properties are in good condition. None of the owned properties are subject to encumbrance.

A listing of properties is as follows:

Main administrative offices:

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

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Branch offices – Citizens & Northern Bank:

428 S. Main Street Athens, PA 18810	514 Main Street Laporte, PA 18626	2 East Mountain Avenue ** South Williamsport, PA 17702
10 North Main Street Coudersport, PA 16915	4534 Williamson Trail Liberty, PA 16930	41 Main Street Tioga, PA 16946
111 W. Main Street Dushore, PA 18614	1085 S. Main Street Mansfield, PA 16933	428 Main Street Towanda, PA 18848
563 Main Street East Smithfield, PA 18817	612 James Monroe Avenue Monroeton, PA 18832	64 Elmira Street Troy, PA 16947
104 W. Main Street Elkland, PA 16920	3461 Route 405 Highway Muncy, PA 17756	90-92 Main Street Wellsboro, PA 16901
135 East Fourth Street Emporium, PA 15834	100 Maple Street Port Allegany, PA 16743	1510 Dewey Avenue Williamsport, PA 17701
230 Railroad Street Jersey Shore, PA 17740	24 Thompson Street Ralston, PA 17763	130 Court Street ** Williamsport, PA 17701
102 E. Main Street Knoxville, PA 16928	1827 Elmira Street Sayre, PA 18840	1467 Golden Mile Road Wysox, PA 18854
3 Main Street Canisteo, NY 14823	6250 County Rte 64 Hornell, NY 14843	

Facilities management office:

13 Water Street

Wellsboro, PA 16901

** designates leased branch facility

ITEM 3. LEGAL PROCEEDINGS

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

ITEM 4. MINE SAFETY DISCLOSURE

Not applicable.

PART II

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

QUARTERLY SHARE DATA

Trades of the Corporation's stock are executed through various brokers who maintain a market in the Corporation's stock. The Corporation's stock is listed on the NASDAQ Capital Market with the trading symbol CZNC. As of December 31, 2013, there were 2,465 shareholders of record of the Corporation's common stock.

The following table sets forth the high and low sales prices of the common stock during 2013 and 2012.

	2013			2012		
	High	Low	Dividend Declared per Quarter	High	Low	Dividend Declared per Quarter
First quarter	$20.00	$18.65	$0.25	$22.48	$18.12	$0.18
Second quarter	20.46	18.51	0.25	20.69	16.79	0.20
Third quarter	21.45	19.08	0.25	20.80	17.78	0.22
Fourth quarter	21.00	19.37	0.25	20.25	17.51	0.24

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

On May 19, 2011, the Corporation authorized a plan for repurchases of outstanding common stock, up to a total of $1 million. On September 22, 2011, the Corporation’s Board of Directors authorized additional repurchases of outstanding common stock in open market or privately negotiated transactions, up to a total of $1 million, as an addition to the May 2011 stock repurchase program. The Board of Directors’ authorizations provide that: (1) the treasury stock repurchase programs became effective when publicly announced and shall continue thereafter until suspended or terminated by the Board of Directors, in its sole discretion; and (2) all shares of common stock repurchased pursuant to the programs shall be held as treasury shares and be available for use and reissuance for purposes as and when determined by the Board of Directors including, without limitation, pursuant to the Corporation’s Dividend Reinvestment and Stock Purchase Plan and its equity compensation program. As of December 31, 2013, the maximum additional value available for purchases under this program was $980,694.

In the fourth quarter 2013, the Corporation made no purchases of its equity securities.

PERFORMANCE GRAPH

Set forth below is a chart comparing the Corporation's cumulative return to stockholders against the cumulative return of the Russell 2000 and a Peer Group Index of similar banking organizations selected by the Corporation for the five-year period commencing December 31, 2008 and ended December 31, 2013. The index values are market-weighted dividend-reinvestment numbers, which measure the total return for investing $100.00 five years ago. This meets Securities & Exchange Commission requirements for showing dividend reinvestment share performance over a five-year period and measures the return to an investor for placing $100.00 into a group of bank stocks and reinvesting any and all dividends into the purchase of more of the same stock for which dividends were paid.

	Period Ending					
Index	**12/31/08**	**12/31/09**	**12/31/10**	**12/31/11**	**12/31/12**	**12/31/13**
Citizens & Northern Corporation	100.00	50.34	80.96	104.19	111.31	127.65
Russell 2000	100.00	127.17	161.32	154.59	179.86	249.69
CZNC Peer Group Index*	100.00	97.12	110.34	106.20	123.81	154.01

The Corporation's peer group consists of banks headquartered in Pennsylvania with total assets of $700 million to $2 billion as of September 30, 2013. This peer group consists of ACNB Corporation, Gettysburg; AmeriServ Financial, Inc., Johnstown; Citizens Financial Services, Inc., Mansfield; CNB Financial Corporation, Clearfield; Codorus Valley Bancorp, Inc., York; ENB Financial Corp., Ephrata; ESB Financial Corporation, Ellwood; ESSA Bancorp, Inc., Stroudsburg; First Keystone Corporation, Berwick; First National Community Bancorp, Inc., Dunmore; FNB Bancorp, Inc., Newtown; Fox Chase Bancorp, Inc., Hatboro; Franklin Financial Services Corporation, Chambersburg; Harleysville Savings Financial Corporation, Harleysville; Integrity Bancshares, Inc., Camp Hill; Norwood Financial Corp., Honesdale; Orrstown Financial Services, Inc., Shippensburg; Penns Woods Bancorp, Inc., Williamsport; Peoples Financial Services Corp., Scranton; QNB Corp., Quakertown; Republic First Bancorp, Inc., Philadelphia; Royal Bancshares of Pennsylvania, Inc., Narberth; Somerset Trust Holding Company, Somerset; TF Financial Corporation, Newtown.

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

EQUITY COMPENSATION PLAN INFORMATION

The following table sets forth information concerning the Stock Incentive Plan and Independent Directors Stock Incentive Plan, both of which have been approved by the Corporation's shareholders. The figures shown in the table below are as of December 31, 2013.

	Number of Securities to be Issued Upon Exercise of Outstanding Options	Weighted-average Exercise Price of Outstanding Options	Number of Securities Remaining for Future Issuance Under Equity Compensation Plans
Equity compensation plans approved by shareholders	358,176	$19.03	334,810
Equity compensation plans not approved by shareholders	0	N/A	0

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

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ITEM 6. SELECTED FINANCIAL DATA

	As of or for the Year Ended December 31,				
INCOME STATEMENT (In Thousands)	**2013**	**2012**	**2011**	**2010**	**2009**
Interest and fee income	$48,914	$56,632	$61,256	$62,114	$67,976
Interest expense	5,765	9,031	13,556	19,245	24,456
Net interest income	43,149	47,601	47,700	42,869	43,520
Provision (credit) for loan losses	2,047	288	(285)	1,191	680
Net interest income after provision (credit) for loan losses	41,102	47,313	47,985	41,678	42,840
Noninterest income excluding securities gains (losses)	16,451	16,383	13,897	13,809	12,711
Net impairment losses recognized in earnings from available-for-sale securities	(25)	(67)	0	(433)	(85,363)
Net realized gains on available-for-sale securities	1,743	2,749	2,216	1,262	1,523
Loss on prepayment of debt	1,023	2,333	0	0	0
Noninterest expense excluding loss on prepayment of debt	33,471	32,914	32,016	31,461	33,701
Income (loss) before income tax provision (credit)	24,777	31,131	32,082	24,855	(61,990)
Income tax provision (credit)	6,183	8,426	8,714	5,800	(22,655)
Net income (loss)	18,594	22,705	23,368	19,055	(39,335)
U.S. Treasury preferred dividends	0	0	0	1,474	1,428
Net income (loss) available to common shareholders	$18,594	$22,705	$23,368	$17,581	($40,763)
PER COMMON SHARE:					
Basic earnings per share	$1.51	$1.86	$1.92	$1.45	($4.40)
Diluted earnings per share	$1.50	$1.85	$1.92	$1.45	($4.40)
Cash dividends declared per share	$1.00	$0.84	$0.58	$0.39	$0.72
Book value per common share at period-end	$14.49	$14.89	$13.77	$11.43	$10.46
Tangible book value per common share at period-end	$13.51	$13.91	$12.77	$10.42	$9.43
Weighted average common shares outstanding - basic	12,352,383	12,235,748	12,162,045	12,131,039	9,271,869
Weighted average common shares outstanding - diluted	12,382,790	12,260,208	12,166,768	12,131,039	9,271,869
END OF PERIOD BALANCES (In Thousands)					
Available-for-sale securities	$482,658	$472,577	$481,685	$443,956	$396,288
Gross loans	644,303	683,910	708,315	730,411	721,011
Allowance for loan losses	8,663	6,857	7,705	9,107	8,265
Total assets	1,237,695	1,286,907	1,323,735	1,316,588	1,321,795
Deposits	954,516	1,006,106	1,018,206	1,004,348	926,789
Borrowings	96,723	89,379	130,313	166,908	235,471
Stockholders' equity	179,472	182,786	167,385	138,944	152,410
Common stockholders' equity (stockholders' equity, excluding preferred stock)	179,472	182,786	167,385	138,944	126,661
AVERAGE BALANCES (In Thousands)					
Total assets	1,237,096	1,305,163	1,313,445	1,326,145	1,296,086
Earning assets	1,145,340	1,199,538	1,208,584	1,205,608	1,208,280
Gross loans	656,495	700,241	714,421	721,997	728,748
Deposits	964,031	1,008,469	1,001,125	965,615	886,703
Stockholders' equity	181,412	175,822	152,718	150,133	141,787

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	As of or for the Year Ended December 31,				
	2013	2012	2011	2010	2009
KEY RATIOS					
Return on average assets	1.50%	1.74%	1.78%	1.44%	-3.03%
Return on average equity	10.25%	12.91%	15.30%	12.69%	-27.74%
Average equity to average assets	14.66%	13.47%	11.63%	11.32%	10.94%
Net interest margin (1)	4.05%	4.26%	4.22%	3.81%	3.84%
Efficiency (2)	53.27%	48.82%	49.37%	52.64%	57.00%
Cash dividends as a % of diluted earnings per share	66.67%	45.41%	30.21%	26.90%	NM
Tier 1 leverage	13.79%	12.53%	10.93%	9.20%	9.86%
Tier 1 risk-based capital	25.10%	22.86%	19.95%	15.87%	16.70%
Total risk-based capital	26.59%	24.01%	21.17%	17.17%	17.89%
Tangible common equity/tangible assets	13.66%	13.39%	11.84%	9.71%	8.72%
Nonperforming assets/total assets	1.53%	0.82%	0.73%	0.92%	0.76%
Nonperforming loans/total loans	2.80%	1.41%	1.19%	1.58%	1.27%
Allowance for loan losses/total loans	1.34%	1.00%	1.09%	1.25%	1.15%
Net charge-offs/average loans	0.04%	0.16%	0.16%	0.05%	0.04%

NM = Not a meaningful ratio.

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

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

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

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

- changes in monetary and fiscal policies of the Federal Reserve Board and the U.S. Government, particularly related to changes in interest rates
- changes in general economic conditions
- legislative or regulatory changes
- downturn in demand for loan, deposit and other financial services in the Corporation’s market area
- increased competition from other banks and non-bank providers of financial services
- technological changes and increased technology-related costs
- changes in accounting principles, or the application of generally accepted accounting principles.

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

EARNINGS OVERVIEW

In 2013, net income totaled $18,594,000, or $1.51 per common share - basic and $1.50 per share – diluted, as compared to $1.86 per share – basic and $1.85 per share – diluted in 2012 and $1.92 per basic and diluted share in 2011. The results for 2013 represented a return on average assets of 1.50% and a return on average equity of 10.25%.

2013 vs. 2012

Net income for 2013 of $18,594,000 was $4,111,000 (18.1%) lower than 2012 net income. Some of the more significant highlights related to annual earnings are as follows:

- Net interest income totaled $43,149,000 in 2013, down $4,452,000 (9.4%) from 2012. In 2013, yields earned on securities and loans fell by more than the corresponding drop in interest rates paid on deposits and borrowings. While the fully taxable equivalent net interest margin of 4.05% in 2013 was high by historical standards over the past 20 years, it was down 0.21% from 2012. Average earning assets declined in 2013 by $54.2 million, reflecting a reduction in average loans outstanding of $43.7 million, and average deposits decreased $44.4 million. Also, net interest income in 2012 was enhanced by the recovery of a security that had been written down in prior years, resulting in income (accretion) of $855,000.

- The provision for loan losses $2,047,000 in 2013, as compared to $288,000 in 2012. The increase in the provision in 2013 included the effects of establishing an allowance of $1,552,000 on loans to one commercial borrower.

- In 2013, noninterest revenue, excluding net realized gains on available-for-sale securities, totaled $16,451,000, which exceeded the total 2012 amount by $68,000. Gains from sales of loans totaled $2,191,000 in 2013, an increase of $266,000 over the 2012 total. The increase in gains from sales of loans in 2013 resulted mainly from an increase in the fair value of servicing rights associated with mortgage loans sold with servicing retained. Total Trust and brokerage revenue of $4,871,000 in the year ended December 31, 2013 was $223,000 (4.8%) higher than the total for 2012. For the year ended December 31, 2013, the net loss from disposals of premises and equipment totaled ($16,000) as compared to net gains of $270,000 in 2012, mainly from an insurance recovery in 2012 associated with a flood-related claim.

- In 2013 and 2012, the Corporation generated gains from sales of securities and also incurred losses from prepayment of borrowings. Realized gains from securities totaled $1,718,000 in the year ended December 31, 2013 as compared to $2,682,000 in 2012, while losses from prepayment of borrowings amounted to $1,023,000 in 2013 as compared to $2,333,000 in 2012.

- Noninterest expenses, excluding losses from prepayment of borrowings, totaled $33,471,000 in 2013, an increase of $557,000 over the corresponding total for 2012. In 2013, the Corporation incurred professional fees expense of $724,000 related to a consulting engagement in which the consulting firm identified recommendations for potential increases in revenues, mainly related to service charges on deposit accounts. Also, in 2013, C&N incurred professional fees expense of $315,000 from a consulting project related to debit card operations and electronic funds processing, for which reductions in electronic funds processing expenses and other benefits are expected to be realized over approximately the next five years. Mainly as a result of the consulting engagements described above, professional fees expense was $1,048,000 higher in 2013 as compared to 2012. Pensions and other employee benefit costs were $347,000 lower in 2013 than in 2012, including a reduction of $171,000 in health insurance expense associated with the Corporation's partially self-insured plan due to a lower amount of claims.

2012 vs. 2011

In 2012, net income of $22,705,000 was $663,000 (2.8%) lower than 2011 net income. Some of the more significant highlights are as follows:

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

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

- Total noninterest revenue, excluding realized gains and losses from available-for-sale securities, totaled $16,383,000 in 2012, or $2,486,000 more than the corresponding 2011 amount. In 2011, noninterest revenue included an impairment loss of $948,000 related to an investment in a real estate limited partnership. The increase in noninterest revenue for 2012 included a significant increase in gains from sales of residential mortgage loans, which totaled $1,925,000 in 2012, up $818,000 over 2011. Trust revenues totaled $3,847,000 in 2012, an increase of $375,000 (10.8%) over 2011, while brokerage revenues of $801,000 increased $161,000 (25.2%) over 2011. Service charges on deposit accounts of $5,036,000 in 2012 were up $263,000 (5.5%) over 2011.

In 2012, pre-tax net realized gains from securities totaled $2,682,000, while losses were incurred from prepayment of borrowings totaling $2,333,000. In comparison, security gains totaled $2,216,000 in 2011, and there were no losses from prepayments of borrowings. In both years, securities gains included significant amounts from sales of pooled trust-preferred securities that had previously been written off. The loss from pre-payment of borrowings included third quarter 2012 losses of $2,190,000 from prepayment of principal of $12 million on long-term borrowings (repurchase agreements) with an average interest rate of 3.93%.

Noninterest expense, excluding the loss from prepayment of borrowings, was $32,914,000 in 2012, up $898,000 (2.8%) from 2011. Salaries and wages were $504,000, or 3.6%, higher for 2012 as compared to 2011, including an increase in stock-based compensation of $98,000. The increase in noninterest expense in 2012 includes an increase in other operating expense of $376,000, mainly from increases in legal fees related to lending and collection matters and expenses related to other real estate properties. Software subscriptions expense increased $187,000 in 2012 over 2011, reflecting costs associated with lending-related software. Automated teller machine and debit card processing expenses increased $110,000 in 2012 over 2011, reflecting an increase in debit card transaction volume and vendor fee increases. FDIC assessments were $199,000 lower in 2012 than in 2011, reflecting the benefit of a change in the FDIC's method for determining assessments that became effective in the second quarter 2011. Occupancy expense was $162,000 lower in 2012 as compared to 2011, in part due to reduced costs stemming from the 2011 sale of the Court Street, Williamsport location, and corresponding lease back of approximately 18% of the space that had been previously utilized.

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

CRITICAL ACCOUNTING POLICIES

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

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

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

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

NET INTEREST INCOME

The Corporation's primary source of operating income is net interest income, which is equal to the difference between the amounts of interest income and interest expense. Tables I, II and III include information regarding the Corporation's net interest income in 2013, 2012, and 2011. In each of these tables, the amounts of interest income earned on tax-exempt securities and loans have been adjusted to a fully taxable-equivalent basis. Accordingly, the net interest income amounts reflected in these tables exceed the amounts presented in the consolidated financial statements. The discussion that follows is based on amounts in the tables.

In 2009 and the first quarter 2010, the Corporation recorded OTTI on its holding of a trust preferred security issued by Carolina First Mortgage Loan Trust, a subsidiary of The South Financial Group, Inc. In the fourth quarter 2010, The Toronto-Dominion Bank acquired The South Financial Group, Inc., made a payment for the full amount of previously deferred interest, and resumed quarterly payments on the security. The Corporation recognized a material change in the expected cash flows and recorded accretion income (included in interest income) to offset the previous OTTI charges as an adjustment to the security's yield over its remaining life. Accretion income from this security totaled $855,000 in 2012 and $825,000 in 2011. The security had a face amount of $2,000,000 and matured in May 2012.

Excluding interest income (including accretion) and the average balance of this security from the calculations used to determine Tables I, II and III, the interest rate spread and interest margin (fully taxable equivalent net interest income divided by average total earning assets) would be as follows:

	Year Ended December 31,		
	2013	**2012**	**2011**
Interest rate spread:			
Actual from Table II	3.88%	4.04%	3.96%
Excluding Carolina First security	3.88%	3.97%	3.89%
Interest margin:			
Actual from Table II	4.05%	4.26%	4.22%
Excluding Carolina First security	4.05%	4.18%	4.14%

2013 vs. 2012

Fully taxable equivalent net interest income was $46,384,000 in 2013, $4,657,000 (9.1%) lower than in 2012. As shown in Table III, in 2013 compared to 2012, interest rate changes had the effect of decreasing net interest income $3,743,000, and net changes in volume had the effect of decreasing net interest income $914,000. The most significant components of the rate change in net interest income in 2013 were a decrease in interest income of $2,615,000 attributable to lower rates earned on loans receivable and a decrease in interest income of $2,554,000 attributable to lower rates earned on available-for-sale securities, partially offset by a decrease in interest expense of $1,413,000 due to lower rates paid on interest-bearing deposits. The most significant components of the volume change in net interest income in 2013 were a decrease in interest income of $2,588,000 attributable to a decline in the balance of loans receivable, a decrease in interest expense of $1,180,000 attributable to a reduction in the balance of borrowed funds, and a decrease in interest expense of $691,000 attributable to a reduction in the balance of interest-bearing deposits (primarily certificates of deposit). As presented in Table II, the “Interest Rate Spread” (excess of average rate of return on earning assets over average cost of funds on interest-bearing liabilities) was 3.88% in 2013, as compared to 4.04% in 2012.

INTEREST INCOME AND EARNING ASSETS

Interest income totaled $52,149,000 in 2013, a decrease of 13.2% from 2012. Interest and fees on loans receivable decreased $5,203,000, or 12.2%. As indicated in Table II, average available-for-sale securities (at amortized cost) totaled $461,564,000 in 2013, a decrease of $2,785,000 (0.6%) from 2012. Net contraction in the Corporation’s available-for-sale securities portfolio was primarily made up of U.S. Government agency mortgage-backed securities and trust preferred securities. This contraction was partially offset by increases in the balances of U.S. Government agency bonds, municipal securities, and U.S. Government agency collateralized mortgage obligations. The Corporation’s yield on securities fell in 2012 and 2013 because of low market interest rates, the maturity of the

Carolina First security noted above, calls on municipal bonds and trust preferred securities, and prepayments on mortgage-backed securities and collateralized mortgage obligations. The average rate of return on available-for-sale securities was 3.12% for 2013 and 3.67% in 2012.

The average balance of gross loans receivable decreased 6.2% to $656,495,000 in 2013 from $700,241,000 in 2012. The Corporation experienced contraction in the balance of loans receivable due to borrowers prepaying or refinancing existing loans combined with modest demand for new loans. The decline in the balance of the residential mortgage portfolio was also affected by management's decision to sell a significant portion of newly originated residential mortgages on the secondary market. The Corporation's average rate of return on loans receivable declined to 5.73% in 2013 from 6.11% in 2012.

The average balance of interest-bearing due from banks decreased to $26,159,000 in 2013 from $32,337,000 in 2012. This has consisted primarily of balances held by the Federal Reserve and also includes other overnight deposits and FDIC-insured certificates of deposit issued by other financial institutions.

INTEREST EXPENSE AND INTEREST-BEARING LIABILITIES

Interest expense fell $3,266,000, or 36.2%, to $5,765,000 in 2013 from $9,031,000 in 2012. Table II shows that the overall cost of funds on interest-bearing liabilities fell to 0.67% in 2013 from 0.97% in 2012.

Total average deposits (interest-bearing and noninterest-bearing) decreased 4.4%, to $964,031,000 in 2013 from $1,008,469,000 in 2012. Decreases in the average balances of certificates of deposit, Individual Retirement Accounts, and money market accounts were partially offset by increases in average balances of interest checking and savings accounts. Consistent with continuing low short-term market interest rates, the average rates incurred on certificates of deposit and Individual Retirement Accounts have decreased significantly in 2013 as compared to 2012.

Total average borrowed funds decreased $29,723,000 to $82,328,000 in 2013 from $112,051,000 in 2012. During 2012 and 2013, the Corporation has paid off long-term borrowings as they matured using the cash flow received from loans and investment securities. In 2012, the Corporation prepaid principal totaling $17,000,000 on long-term borrowings (repurchase agreements); the Corporation incurred losses from the prepayments totaling $2,333,000. In March 2013, the Corporation prepaid principal of $7,000,000 on a long-term borrowing (repurchase agreement) with a rate of 3.60%; the Corporation incurred a loss from the prepayment totaling $1,023,000, which is reported in Other Expenses in the Consolidated Statements of Income. Management expects that the prepayments will have a favorable effect on the net interest margin in the future. After the effect of the prepayments, the remaining balance of long-term borrowings under repurchase agreements was $61,000,000 at December 31, 2013. The average rate on borrowed funds was 3.72% in 2013, compared to 3.77% in 2012.

2012 vs. 2011

Fully taxable equivalent net interest income was $51,041,000 in 2012, $86,000 (0.2%) higher than in 2011. As shown in Table III, net changes in volume had the effect of increasing net interest income $961,000 in 2012 compared to 2011, and interest rate changes had the effect of decreasing net interest income $875,000. The most significant components of the volume change in net interest income in 2012 were a decrease in interest expense of $1,203,000 attributable to a reduction in the balance of borrowed funds, a decrease in interest expense of $411,000 attributable to a reduction in the balance of interest-bearing deposits (primarily certificates of deposit and Individual Retirement Accounts), and a decrease in interest income of $887,000 attributable to a decline in the balance of loans receivable. The most significant components of the rate change in net interest income in 2012 were a decrease in interest expense of $2,894,000 due to lower rates paid on interest-bearing deposits, a decrease in interest income of $2,072,000 attributable to lower rates earned on available-for-sale securities and a decrease in interest income of $1,733,000 attributable to lower rates earned on loans receivable. As presented in Table II, the “Interest Rate Spread” (excess of average rate of return on earning assets over average cost of funds on interest-bearing liabilities) was 4.04% in 2012, as compared to 3.96% in 2011.

INTEREST INCOME AND EARNING ASSETS

Interest income totaled $60,072,000 in 2012, a decrease of 6.9% from 2011. Interest and fees on loans receivable decreased $2,620,000, or 5.8% while income from available-for-sale securities decreased $1,914,000, or 10.1%. As indicated in Table II, average available-for-sale securities (at amortized cost) totaled $464,349,000 in 2012, an increase of $2,445,000 (0.5%) from 2011. Net growth in the Corporation’s available-for-sale securities portfolio was primarily made up of U.S. Government agency collateralized mortgage obligations and municipal securities. This growth was partially offset by reductions in the balances of mortgage-backed securities, U.S. Government agency bonds, and trust preferred securities. The Corporation’s yield on taxable securities fell in 2011 and 2012 because of rapid prepayments on mortgage-backed securities and collateralized mortgage obligations as well as low market interest rates. The average rate of return on available-for-sale securities was 3.67% for 2012 and 4.11% in 2011.

The average balance of gross loans receivable decreased 2.0% to $700,241,000 in 2012 from $714,421,000 in 2011. The Corporation experienced contraction in the balance of loans receivable due to borrowers prepaying or refinancing existing loans combined with modest demand for new loans. The decline in the balance of the residential mortgage portfolio was also affected by management's decision to sell a significant portion of newly originated residential mortgages on the secondary market. The Corporation's average rate of return on loans receivable declined to 6.11% in 2012 from 6.36% in 2011.

The average balance of interest-bearing due from banks increased to $32,337,000 in 2012 from $31,359,000 in 2011. This consisted primarily of balances held by the Federal Reserve, as well as FDIC-insured certificates of deposit. During the fourth quarter 2011, the Corporation began investing in FDIC-insured certificates of deposit issued by other financial institutions and maturing within five years; these investments totaled $4,820,000 at December 31, 2012. The average balance of certificates of deposit issued by other financial institutions increased to $4,554,000 in 2012 from $677,000 in 2011.

INTEREST EXPENSE AND INTEREST-BEARING LIABILITIES

Interest expense fell $4,525,000, or 33.4%, to $9,031,000 in 2012 from $13,556,000 in 2011. Table II shows that the overall cost of funds on interest-bearing liabilities fell to 0.97% in 2012 from 1.38% in 2011.

Total average deposits (interest-bearing and noninterest-bearing) increased 0.7%, to $1,008,469,000 in 2012 from $1,001,125,000 in 2011. Increases in the average balances of demand deposits, savings accounts, and money market accounts were partially offset by decreases in Individual Retirement Accounts and certificates of deposit. Consistent with continuing low short-term market interest rates, the average rates incurred on deposit accounts decreased significantly in 2012 as compared to 2011.

Variable-rate accounts made up $130,833,000 of the average balance in Individual Retirement Accounts in 2012 and $144,008,000 in 2011. Prior to May 2011, substantially all of these accounts were paid interest at a rate that could change quarterly at management's discretion with a contractual floor of 3.00%. Effective in May 2011, the rate floor was removed; following this change, the rate paid on these accounts was lowered several times. As shown in Table II, the average rate on Individual Retirement Accounts decreased to 0.80% in 2012 from 2.04% in 2011.

Total average borrowed funds decreased $40,059,000 to $112,051,000 in 2012 from $152,110,000 in 2011. During 2011 and 2012, the Corporation paid off long-term borrowings as they matured using the cash flow received from loans and investment securities. In May and September 2012, the Corporation prepaid principal totaling $17,000,000 on long-term borrowings (repurchase agreements); the Corporation incurred losses from the prepayments totaling $2,333,000. The average rate on borrowed funds was 3.77% in 2012, compared to 3.58% in 2011.

The average balance of "RepoSweep" arrangements, which are used by the Corporation to borrow funds from commercial banking customers on an overnight basis and included within short-term borrowings, declined to $4,454,000 in 2012 from $17,216,000 in 2011 primarily as a result of changes to service charges assessed on related business checking accounts. During 2012, the Corporation took several short-term and overnight advances from the Federal Home Loan Bank of Pittsburgh (FHLB-Pittsburgh) to offset seasonal declines in deposit balances and meet other liquidity needs. Short-term and overnight advances averaged $2,377,000 in 2012 with no such advances outstanding during 2011.

TABLE I - ANALYSIS OF INTEREST INCOME AND EXPENSE

	Years Ended December 31,			Increase/(Decrease)	
(In Thousands)	**2013**	**2012**	**2011**	**2013/2012**	**2012/2011**
INTEREST INCOME					
Available-for-sale securities:					
Taxable	$7,105	$9,334	$11,297	($2,229)	($1,963)
Tax-exempt	7,296	7,725	7,676	(429)	49
Total available-for-sale securities	14,401	17,059	18,973	(2,658)	(1,914)
Interest-bearing due from banks	105	114	73	(9)	41
Loans held for sale	54	107	53	(53)	54
Loans receivable:					
Taxable	35,484	40,453	43,178	(4,969)	(2,725)
Tax-exempt	2,105	2,339	2,234	(234)	105
Total loans receivable	37,589	42,792	45,412	(5,203)	(2,620)
Total Interest Income	52,149	60,072	64,511	(7,923)	(4,439)
INTEREST EXPENSE					
Interest-bearing deposits:					
Interest checking	211	206	399	5	(193)
Money market	290	354	494	(64)	(140)
Savings	117	108	161	9	(53)
Certificates of deposit	1,522	3,002	3,905	(1,480)	(903)
Individual Retirement Accounts	562	1,136	3,150	(574)	(2,014)
Other time deposits	1	1	3	0	(2)
Total interest-bearing deposits	2,703	4,807	8,112	(2,104)	(3,305)
Borrowed funds:					
Short-term	9	10	23	(1)	(13)
Long-term	3,053	4,214	5,421	(1,161)	(1,207)
Total borrowed funds	3,062	4,224	5,444	(1,162)	(1,220)
Total Interest Expense	5,765	9,031	13,556	(3,266)	(4,525)
Net Interest Income	$46,384	$51,041	$50,955	($4,657)	$86

(1) Interest income from tax-exempt securities and loans has been adjusted to a fully taxable-equivalent basis, using the Corporation’s marginal federal income tax rate of 35% in 2013 and 2012 and 34% in 2011.

(2) Fees on loans are included with interest on loans and amounted to $1,338,000 in 2013, $1,427,000 in 2012, and $1,312,000 in 2011.

TABLE II - ANALYSIS OF AVERAGE DAILY BALANCES AND RATES
(Dollars in Thousands)

	Year Ended 12/31/2013 Average Balance	Rate of Return/ Cost of Funds %	Year Ended 12/31/2012 Average Balance	Rate of Return/ Cost of Funds %	Year Ended 12/31/2011 Average Balance	Rate of Return/ Cost of Funds %
EARNING ASSETS						
Available-for-sale securities,						
at amortized cost:						
Taxable	$330,980	2.15%	$332,911	2.80%	$333,441	3.39%
Tax-exempt	130,584	5.59%	131,438	5.88%	128,463	5.98%
Total available-for-sale securities	461,564	3.12%	464,349	3.67%	461,904	4.11%
Interest-bearing due from banks	26,159	0.40%	32,337	0.35%	31,359	0.23%
Federal funds sold	4	0.00%	0	0.00%	0	0.00%
Loans held for sale	1,118	4.83%	2,611	4.10%	900	5.89%
Loans receivable:						
Taxable	620,412	5.72%	662,751	6.10%	679,357	6.36%
Tax-exempt	36,083	5.83%	37,490	6.24%	35,064	6.37%
Total loans receivable	656,495	5.73%	700,241	6.11%	714,421	6.36%
Total Earning Assets	1,145,340	4.55%	1,199,538	5.01%	1,208,584	5.34%
Cash	16,854		17,408		17,762	
Unrealized gain/loss on securities	8,875		18,444		7,105	
Allowance for loan losses	(7,204)		(7,688)		(8,688)	
Bank premises and equipment	18,154		18,956		21,381	
Intangible Asset - Core Deposit Intangible	113		176		272	
Intangible Asset - Goodwill	11,942		11,942		11,942	
Other assets	43,022		46,387		55,087	
Total Assets	$1,237,096		$1,305,163		$1,313,445	
INTEREST-BEARING LIABILITIES						
Interest-bearing deposits:						
Interest checking	$174,790	0.12%	$163,840	0.13%	$162,583	0.25%
Money market	203,023	0.14%	208,814	0.17%	206,612	0.24%
Savings	117,055	0.10%	108,218	0.10%	97,099	0.17%
Certificates of deposit	148,598	1.02%	194,175	1.55%	205,231	1.90%
Individual Retirement Accounts	129,255	0.43%	142,315	0.80%	154,688	2.04%
Other time deposits	1,062	0.09%	1,191	0.08%	1,231	0.24%
Total interest-bearing deposits	773,783	0.35%	818,553	0.59%	827,444	0.98%
Borrowed funds:						
Short-term	6,422	0.14%	6,831	0.15%	17,216	0.13%
Long-term	75,906	4.02%	105,220	4.00%	134,894	4.02%
Total borrowed funds	82,328	3.72%	112,051	3.77%	152,110	3.58%
Total Interest-bearing Liabilities	856,111	0.67%	930,604	0.97%	979,554	1.38%
Demand deposits	190,248		189,916		173,681	
Other liabilities	9,325		8,821		7,492	
Total Liabilities	1,055,684		1,129,341		1,160,727	

Stockholders' equity, excluding other comprehensive income/loss	175,893	164,316	148,324
Other comprehensive income/loss	5,519	11,506	4,394
Total Stockholders' Equity	181,412	175,822	152,718
Total Liabilities and Stockholders' Equity	$1,237,096	$1,305,163	$1,313,445
Interest Rate Spread	3.88%	4.04%	3.96%
Net Interest Income/Earning Assets	4.05%	4.26%	4.22%
Total Deposits (Interest-bearing and Demand)	$964,031	$1,008,469	$1,001,125

(1) Rates of return on tax-exempt securities and loans are presented on a fully taxable-equivalent basis, using the Corporation's marginal federal income tax rate of 35% in 2013 and 2012 and 34% in 2011.

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

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TABLE III - ANALYSIS OF VOLUME AND RATE CHANGES

(In Thousands)	**Year Ended**	**12/31/13 vs. 12/31/12**		**Year Ended**	**12/31/12 vs. 12/31/11**	
	Change in Volume	**Change in Rate**	**Total Change**	**Change in Volume**	**Change in Rate**	**Total Change**
EARNING ASSETS						
Available-for-sale securities:						
Taxable	($54)	($2,175)	($2,229)	($18)	($1,945)	($1,963)
Tax-exempt	(50)	(379)	(429)	176	(127)	49
Total available-for-sale securities	(104)	(2,554)	(2,658)	158	(2,072)	(1,914)
Interest-bearing due from banks	(24)	15	(9)	2	39	41
Loans held for sale	(69)	16	(53)	74	(20)	54
Loans receivable:						
Taxable	(2,502)	(2,467)	(4,969)	(1,039)	(1,686)	(2,725)
Tax-exempt	(86)	(148)	(234)	152	(47)	105
Total loans receivable	(2,588)	(2,615)	(5,203)	(887)	(1,733)	(2,620)
Total Interest Income	(2,785)	(5,138)	(7,923)	(653)	(3,786)	(4,439)
INTEREST-BEARING LIABILITIES						
Interest-bearing deposits:						
Interest checking	13	(8)	5	3	(196)	(193)
Money market	(10)	(54)	(64)	5	(145)	(140)
Savings	9	0	9	16	(69)	(53)
Certificates of deposit	(607)	(873)	(1,480)	(201)	(702)	(903)
Individual Retirement Accounts	(96)	(478)	(574)	(234)	(1,780)	(2,014)
Other time deposits	0	0	0	0	(2)	(2)
Total interest-bearing deposits	(691)	(1,413)	(2,104)	(411)	(2,894)	(3,305)
Borrowed funds:						
Short-term	(1)	0	(1)	(15)	2	(13)
Long-term	(1,179)	18	(1,161)	(1,188)	(19)	(1,207)
Total borrowed funds	(1,180)	18	(1,162)	(1,203)	(17)	(1,220)
Total Interest Expense	(1,871)	(1,395)	(3,266)	(1,614)	(2,911)	(4,525)
Net Interest Income	($914)	($3,743)	($4,657)	$961	($875)	$86

(1) Changes in income on tax-exempt securities and loans are presented on a fully taxable-equivalent basis, using the Corporation's marginal federal income tax rate of 35% in 2013 and 2012 and 34% in 2011.

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

NONINTEREST INCOME

Years Ended December 31, 2013, 2012 and 2011

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

TABLE IV - COMPARISON OF NONINTEREST INCOME

(In Thousands)	**2013**	**2012**	**$ Change**	**% Change**
Service charges on deposit accounts	$4,966	$5,036	($70)	(1.4)
Service charges and fees	877	929	(52)	(5.6)
Trust and financial management revenue	4,087	3,847	240	6.2
Brokerage revenue	784	801	(17)	(2.1)
Insurance commissions, fees and premiums	170	221	(51)	(23.1)
Interchange revenue from debit card transactions	1,941	1,938	3	0.2
Net gains from sales of loans	2,191	1,925	266	13.8
Increase in cash surrender value of life insurance	399	455	(56)	(12.3)
Net (loss) gain from premises and equipment	(16)	270	(286)	(105.9)
Other operating income	1,052	961	91	9.5
Total other operating income before realized (losses) gains on available-for-sale securities, net	$16,451	$16,383	$68	0.4

	2012	**2011**	**$ Change**	**% Change**
Service charges on deposit accounts	$5,036	$4,773	$263	5.5
Service charges and fees	929	849	80	9.4
Trust and financial management revenue	3,847	3,472	375	10.8
Brokerage revenue	801	640	161	25.2
Insurance commissions, fees and premiums	221	257	(36)	(14.0)
Interchange revenue from debit card transactions	1,938	1,922	16	0.8
Net gains from sales of loans	1,925	1,107	818	73.9
Increase in cash surrender value of life insurance	455	509	(54)	(10.6)
Net gain from premises and equipment	270	324	(54)	(16.7)
Impairment loss on limited partnership investment	0	(948)	948	(100.0)
Other operating income	961	992	(31)	(3.1)
Total other operating income before realized (losses) gains on available-for-sale securities, net	$16,383	$13,897	$2,486	17.9

Total noninterest income, excluding realized gains on available-for-sale securities, increased $68,000 or .4% in 2013 compared to 2012. In 2012, total noninterest income increased $2,486,000 (17.9%) from 2011. Total noninterest income in 2011 included an impairment loss of $948,000 related to an investment in a real estate limited partnership (discussed in more detail below). Excluding the 2011 impairment loss on the limited partnership investment and gains from available-for-sale securities, noninterest income increased $1,538,000 (10.4%) in 2012 over 2011. Items of significance related to noninterest income are as follows:

2013 vs. 2012

Net gains from sales of loans increased $266,000 in 2013. Since December 2009, the Corporation has sold a significant amount of residential mortgage loans into the secondary market through the MPF Xtra program administered by the Federal Home Loan Banks of Pittsburgh and Chicago. Volume remained brisk throughout most of 2013, slowing somewhat in the fourth quarter as long-term interest rates rose. Overall, the sales volume in 2013 was comparable to 2012, with the aggregate increase in revenue attributable to higher values of servicing rights on 2013 originations, mainly due to estimated longer average lives of loans caused by an increase in long-term interest rates.

In 2013, Trust and financial management revenue increased $240,000, or 6.2%. Trust revenue from employee benefit and retirement services was $121,000 higher in 2013 as compared to 2012. The increase in trust revenue in 2013 reflects the impact of new business obtained as well as higher valuations of U.S. equities and fixed income securities throughout most of the period. Assets under management by the Corporation's Trust and financial management group totaled $796,115,000 at December 31, 2013, an increase of 12.5% over the total one year earlier.

The net gain from premises and equipment of $270,000 in 2012 included a gain of $272,000 from the excess of insurance proceeds received over the historical book value of assets replaced or reconstructed at the Athens, PA branch, which was damaged by a flood in September 2011 and remained closed until it was re-opened in April 2012. The loss of $16,000 in 2013 included charges related to the abandonment of certain communications equipment.

2012 vs. 2011

In 2011, the Corporation reported an impairment loss of $948,000 related to an investment in a real estate limited partnership. Based on updated financial information, management prepared an estimated valuation based on cash flow analysis. That analysis showed the estimated cash flows to be derived from the limited partnership's activities would not be sufficient to provide a return on the Corporation's limited partnership investment. Accordingly, management made the decision to completely write-off the limited partnership investment in 2011.

Net gains from sales of loans increased $818,000 in 2012. The increase in revenue from sales in 2012 reflected the impact of significant refinancing activity, as market interest rates fell throughout most of the year.

Trust and financial management revenue increased $375,000, or 10.8%, in 2012, including an increase in revenue from employee benefit and retirement services of $129,000. The increase in trust revenue in 2012 reflects the impact of new business obtained as well as higher valuations of U.S. equities and fixed income securities throughout most of the period. Assets under management by the Corporation's Trust and financial management group totaled $707,912,000 at December 31, 2012, an increase of 11.5% over the total one year earlier.

In 2012, service charges on deposit accounts increased $263,000, or 5.5%, reflecting changes in prices and terms for some types of fees effective at the beginning of 2012.

In 2012, brokerage revenue increased $161,000, or 25.2%, reflecting increased sales of annuities used by customers as investment vehicles in retirement.

As described above, the net gain from premises and equipment of $270,000 in 2012 included a gain of $272,000 from the excess of insurance proceeds received over the historical book value of assets replaced or reconstructed at the Athens, PA branch. In 2011, the Corporation realized net gains from sales of premises and equipment totaling $324,000, including a gain of $329,000 from sale of the Court Street, Williamsport, PA location. The Corporation has entered into a leasing arrangement to continue to utilize approximately 18% of the facility. The Corporation has accounted for the leaseback as an operating lease.

NONINTEREST EXPENSE

Years Ended December 31, 2013, 2012 and 2011

As shown in Table V below, total noninterest expense decreased $753,000 in 2013 as compared to 2012. As discussed in the Earnings Overview section of Management's Discussion and Analysis, in 2013, the Corporation incurred losses totaling $1,023,000 and, in 2012, losses total $2,333,000 from prepayment of borrowings (repurchase agreements). Excluding losses from prepayment of debt, total noninterest expense was $557,000 (1.7%) higher in 2013 as compared to 2012. In 2012, total noninterest expense, excluding losses on prepayment of debt, increased $898,000 (2.8%) over 2011. Changes of significance (other than the previously discussed loss on prepayment of debt) are discussed in the narrative that follows.

TABLE V - COMPARISON OF NONINTEREST EXPENSE
(In Thousands)

	2013	2012	$ Change	% Change
Salaries and wages	$14,206	$14,370	($164)	(1.1)
Pensions and other employee benefits	4,150	4,497	(347)	(7.7)
Occupancy expense, net	2,473	2,476	(3)	(0.1)
Furniture and equipment expense	1,948	1,887	61	3.2
FDIC Assessments	604	633	(29)	(4.6)
Pennsylvania shares tax	1,402	1,312	90	6.9
Professional fees	1,534	486	1,048	215.6
Automated teller machine and interchange expense	1,020	1,136	(116)	(10.2)
Software subscriptions	836	890	(54)	(6.1)
Loss on prepayment of debt	1,023	2,333	(1,310)	(56.2)
Other operating expense	5,298	5,227	71	1.4
Total Other Expense	$34,494	$35,247	($753)	(2.1)

	2012	2011	$ Change	% Change
Salaries and wages	$14,370	$13,866	$504	3.6
Pensions and other employee benefits	4,497	4,407	90	2.0
Occupancy expense, net	2,476	2,638	(162)	(6.1)
Furniture and equipment expense	1,887	1,932	(45)	(2.3)
FDIC Assessments	633	832	(199)	(23.9)
Pennsylvania shares tax	1,312	1,306	6	0.5
Professional fees	486	455	31	6.8
Automated teller machine and interchange expense	1,136	1,026	110	10.7
Software subscriptions	890	703	187	26.6
Loss on prepayment of debt	2,333	0	2,333	100.0
Other operating expense	5,227	4,851	376	7.8
Total Other Expense	$35,247	$32,016	$3,231	10.1

2013 vs. 2012

Professional fees increased $1,048,000, or 215.6%.. As noted in the Earnings Overview section, the Corporation incurred professional fee expense of $315,000 in 2013 for a consulting project related to debit card operations and electronic funds processing, for which management expects the consultants' services to result in increases in noninterest revenue and reductions in noninterest expense going forward, most significantly from an estimated total reduction in expense of $1.9 million for electronic funds processing over approximately the next 5 years. In addition, the Corporation incurred professional fees expense of $724,000 related to a consulting engagement in which the consulting firm identified recommendations for potential increases in revenues with an estimated annual total pre-tax benefit of approximately $1.3 million. Management expects to realize ongoing benefits from implementing the recommendations to a significant extent starting in the fourth quarter 2013 and thereafter, though the actual amount of benefits to be derived is difficult to estimate and is dependent on many variables.

Pensions and other employee benefits decreased $347,000, or 7.7%. Health care expense decreased $171,000 as the amount of claims incurred during 2013 was lower than 2012. The Corporation is self-insured for health insurance, up to a cap for catastrophic levels of losses, which are insured by a third party. Postretirement health care expense decreased $156,000, reflecting amendments to the plan that include elimination of the accrual of service time by full-time employees as well as changes to some of the age and length-of-service requirements for participants to receive some of the benefits provided under the plan. Unemployment compensation decreased $51,000 as a result of a decrease in the Corporation's experience-based Pennsylvania rate in 2013.

Salaries and wages decreased $164,000, or 1.1%, mainly as a result of reduced incentive bonus compensation.

Automated teller machine and interchange expenses decreased $116,000, or 10.2%, mainly resulting from benefits derived from consulting project noted previously.

2012 vs. 2011

Salaries and wages increased $504,000, or 3.6%, mainly as a result of merit-based salary increases. The increase in this category in 2012 also included an increase in stock-based compensation for employees (excluding non-employee Directors) of $98,000.

Occupancy expense decreased $162,000, or 6.1%. Within this category, snow removal and related expenses were $52,000 lower in 2012, reflecting the milder winter weather throughout the Corporation's market area. Depreciation expense was $118,000 lower in 2012, mainly due to the impact of the sale of the Court Street, Williamsport property in the third quarter 2011. In connection with the sale, the Corporation entered into a lease arrangement to continue to use a portion of the building. The lease is accounted for as an operating lease. Management estimates that total building-related expenses (including the effects of lower depreciation referred to above) for this location were $122,000 lower in 2012 than in 2011.

FDIC Assessments decreased $199,000, or 23.9%. Effective April 1, 2011, the FDIC's method of determining assessments to banks changed, with the new methodology resulting in higher assessments to larger, more complex or higher-risk institutions, and smaller assessments to many community and small regional banks. The Corporation's estimated first quarter 2012 FDIC assessment was substantially lower than the first quarter 2011 amount, reflecting the new methodology. The favorable decline also reflects rate changes attributed to improvements in the Corporation's risk profile based on financial ratios.

Software-related subscriptions and updates, mainly related to lending-related activities, increased $187,000, or 26.6%

Fees paid related to interchange and ATM processing, increased $110,000 or 10.8%, reflecting increases in transaction volumes as well as nonrecurring charges related to changes in technical requirements.

Other operating expense increased $376,000, or 7.8%. This category includes many different types of expenses, with the most significant differences in amounts between 2012 and 2011 as follows:

- Expense related to a change in third-party merchant processing in 2012 of $110,000, with no corresponding expense in 2011
- Attorney fees, mainly from lending-related collection matters, up $100,000, or 47.2%
- Expenses associated with other real estate properties, up $78,000, or 92.2%

INCOME TAXES

The effective income tax rate was approximately 25% of pre-tax income in 2013, down from approximately 27% in 2012 and 2011. The lower effective tax rate in 2013 is mainly attributable to lower pre-tax income in comparison to 2012 and 2011. The Corporation's effective tax rates differ from the statutory rate of 35% principally because of the effects of tax-exempt interest income.

The Corporation recognizes deferred tax assets and liabilities based on differences between the financial statement carrying amounts and the tax basis of assets and liabilities. At December 31, 2013, the net deferred tax asset was $6,344,000, up from the balance at December 31, 2012 of $1,725,000. The largest changes in temporary difference components were as follows:

- At December 31, 2013, net unrealized losses on available-for-securities resulted in a deferred tax asset of $541,000. In contrast, at December 31, 2012, the deferred tax liability associated with unrealized gains on available-for-sale securities was $6,228,000. The reduction in fair value of available-for-securities in 2013 was caused primarily by increases in long-term interest rates.

- The deferred tax asset related to loan losses increased $632,000, to $3,032,000 at December 31, 2013 as compared to $2,400,000 at December 31, 2012. The increase in this item in 2013 resulted from an increase in the allowance for loan losses for financial reporting purposes.

- In 2013, the deferred tax asset from net realized losses on securities fell to $91,000, a reduction of $1,163,000 from December 31, 2012, mainly due to the first quarter 2013 sale of a pooled trust-preferred security for which OTTI had been recorded for financial reporting purposes in previous years.

- The deferred tax asset representing the credit for alternative minimum tax paid fell to $1,905,000 at December 31, 2013, a reduction of $1,704,000 from December 31, 2012, as the Corporation's federal taxable income in 2013 exceeded alternative minimum taxable income.

The Corporation regularly reviews deferred tax assets for recoverability based on history of earnings, expectations for future earnings and expected timing of reversals of temporary differences. Realization of deferred tax assets ultimately depends on the existence of sufficient taxable income, including taxable income in prior carryback years, as well as future taxable income. Management believes the recorded net deferred tax asset at December 31, 2013 is fully realizable; however, if management determines the Corporation will be unable to realize all or part of the net deferred tax asset, the Corporation would adjust the deferred tax asset, which would negatively impact earnings.

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

SECURITIES

Table VI shows the composition of the investment portfolio at December 31, 2013, 2012 and 2011. Comparison of the amortized cost totals of available-for-sale securities at each year-end presented reflects a decrease of $10,554,000 to $454,781,000 at December 31, 2012 from December 31, 2011. This change was followed by an increase of $29,422,000 to $484,203,000 at December 31, 2013. In both 2012 and 2013, the Corporation increased its holdings of municipal bonds, agency collateralized mortgage obligations and U.S. Government agency securities. The increases were partially offset by decreases in the balances of mortgage-backed securities, trust preferred securities, and pooled trust preferred securities as management reinvested cash flows from these securities in other types of investments. Changes in the investment portfolio are discussed in more detail in the Net Interest Income section of Management's Discussion and Analysis. As discussed in more detail in Note 7 to the financial statements, the Corporation reported net realized gains from available-for-sale securities of $1,718,000 in 2013, $2,682,000 in 2012 and $2,216,000 in 2011.

As reflected in Table VI, the fair value of available-for-sale securities as of December 31, 2013 was $1,545,000, or 0.3%, less than the total amortized cost basis. The aggregate unrealized loss position at December 31, 2013 included an unrealized loss of $4,431,000 on debt securities, partially offset by an unrealized gain of $2,886,000 on marketable equity securities (bank stocks). Increases in intermediate-term and long-term interest rates in 2013 led to a decrease in the aggregate fair value of debt securities in 2013 in comparison to historical cost basis. Management has reviewed the Corporation's holdings as of December 31, 2013 and concluded that unrealized losses on all of the securities in an unrealized loss position are considered temporary. Notes 6 and 7 to the consolidated financial statements provide more detail concerning the Corporation's processes for evaluating securities for other-than-temporary impairment, and for valuation of trust-preferred securities. Management will continue to closely monitor the status of impaired securities in 2014.

TABLE VI - INVESTMENT SECURITIES

(In Thousands)	2013 Amortized Cost	2013 Fair Value	As of December 31, 2012 Amortized Cost	2012 Fair Value	2011 Amortiz Cost
AVAILABLE-FOR-SALE SECURITIES:					
Obligations of U.S. Government agencies	$47,382	$45,877	$30,695	$31,217	$24,877
Obligations of states and political subdivisions:					
Tax-exempt	127,748	128,426	130,168	137,020	129,401
Taxable	35,153	34,471	24,426	24,817	14,004
Mortgage-backed securities	84,849	86,208	76,368	80,196	116,602
Collateralized mortgage obligations, Issued by U.S. Government agencies	182,373	178,092	179,770	183,510	161,818
Trust preferred securities issued by individual institutions	0	0	5,167	5,171	7,334
Collateralized debt obligations:					
Pooled trust preferred securities - senior tranches	0	0	1,615	1,613	4,996
Pooled trust preferred securities - mezzanine tranches	0	0	0	0	0
Other collateralized debt obligations	660	660	660	660	660
Total debt securities	478,165	473,734	448,869	464,204	459,692
Marketable equity securities	6,038	8,924	5,912	8,373	5,643
Total	$484,203	$482,658	$454,781	$472,577	$465,33

The following table presents the contractual maturities and the weighted-average yields (calculated based on amortized cost) of investment securities as of December 31, 2013. Yields on tax-exempt securities are presented on a nominal basis, that is, the yields are not presented on a fully taxable-equivalent basis. Actual maturities may differ from contractual maturities because counterparties may have the right to call or prepay obligations with or without call or prepayment penalties.

(In Thousands, Except for Percentages)	**Within One Year**	**Yield**	**One- Five Years**	**Yield**	**Five- Ten Years**	**Yield**	**After Ten Years**
AVAILABLE-FOR-SALE SECURITIES:							
Obligations of U.S. Government agencies	$12,434	1.73%	$11,073	1.72%	$23,875	1.33%	$0
Obligations of states and political subdivisions:							
Tax-exempt	8,823	3.29%	21,703	1.89%	37,116	2.67%	60,10
Taxable	3,855	1.99%	16,005	2.09%	14,728	2.40%	565
Trust preferred securities issued by individual institutions	0	0.00%	0	0.00%	0	0.00%	0
Collateralized debt obligations:							
Pooled trust preferred securities - senior tranches	0	0.00%	0	0.00%	0	0.00%	0
Other collateralized debt obligations	626	0.00%	0	0.00%	0	0.00%	34
Subtotal	$25,738	2.26%	$48,781	1.92%	$75,719	2.19%	$60,70

Mortgage-backed securities
Collateralized mortgage obligations, Issued by U.S. Government agencies
Total

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

FINANCIAL CONDITION

Significant changes in the average balances of the Corporation's earning assets and interest-bearing liabilities are described in the Net Interest Income section of Management's Discussion and Analysis. The discussion provides useful information regarding changes in the Corporation's balance sheet over the 3-year period ended December 31, 2013, including discussions related to available-for-sale securities, loans, deposits and borrowings. Other significant balance sheet items - the allowance for loan losses and stockholders' equity - are discussed in separate sections of Management's Discussion and Analysis.

The total of loans outstanding (without consideration of the allowance for loan losses) at December 31, 2013 reflects a total decrease of $76,708,000 (10.6%) from the balance at December 31, 2009 to the total outstanding of $644,303,000 at December 31, 2013. Loan volumes are heavily dependent on economic conditions in the Corporation's market area, and are significantly influenced by interest rates. Since the end of 2009, the Corporation experienced a net decrease in total loans outstanding under the residential mortgage segment ($39,721,000) with more residential mortgage originations than in previous years sold into the secondary market. In September 2009, the Corporation initiated participation in the MPF Xtra program administered by the Federal Home Loan Banks of Pittsburgh and Chicago for the sale of mortgage loans to the secondary market. At December 31, 2013, the outstanding balance of residential mortgage loans originated by the Corporation, and sold with servicing retained was $145,954,000. Total commercial segment loans outstanding decreased ($28,547,000) at December 31, 2013 as compared to December 31, 2009, including a reduction of $26,176,000 at December 31, 2013 from year-end 2012. Also, in the last four years, consumer loans have steadily decreased ($8,440,000) to the December 31, 2013 balance of $10,762,000.

Table VIII presents loan maturity data as of December 31, 2013. The interest rate simulation model classifies certain loans under different categories than they appear in Table VII. Fixed-rate loans are shown in Table VIII based on their contractually scheduled principal repayments, and variable-rate loans are shown based on the date of the next change in rate. Table VIII shows that fixed-rate loans are approximately 38% of the loan portfolio. Of the 62% of the portfolio made up of variable-rate loans, a significant portion (45%) will re-price after more than one year. Variable-rate loans re-pricing after more than one year include significant amounts of residential and commercial real estate loans. The Corporation's substantial investment in long-term, fixed-rate loans and variable-rate loans with extended periods until re-pricing is one of the concerns management attempts to address through interest rate risk management practices. See Part II, Item 7A for a more detailed discussion of the Corporation's interest rate risk.

Total future capital purchases in 2014 are estimated at approximately $1.7 million. Management does not expect capital expenditures to have a material, detrimental effect on the Corporation's financial condition during 2014.

TABLE VII - Five-year Summary of Loans by Type

(In Thousands)

	2013	**%**	**2012**	**%**	**2011**	**%**	**2010**	**%**	**2009**	**%**
Residential mortgage:										
Residential mortgage loans - first liens	$299,831	46.5	$311,627	45.6	$331,015	46.7	$333,012	45.6	$340,268	47.2
Residential mortgage loans - junior liens	23,040	3.6	26,748	3.9	28,851	4.1	31,590	4.3	35,734	5.0
Home equity lines of credit	34,530	5.4	33,017	4.8	30,037	4.2	26,853	3.7	23,577	3.3
1-4 Family residential construction	13,909	2.2	12,842	1.9	9,959	1.4	14,379	2.0	11,452	1.6
Total residential mortgage	371,310	57.6	384,234	56.2	399,862	56.5	405,834	55.6	411,031	57.0
Commercial:										
Commercial loans secured by real estate	147,215	22.8	158,413	23.2	156,388	22.1	167,094	22.9	163,483	22.7
Commercial and industrial	42,387	6.6	48,442	7.1	57,191	8.1	59,005	8.1	49,753	6.9
Political subdivisions	16,291	2.5	31,789	4.6	37,620	5.3	36,480	5.0	37,598	5.2
Commercial construction	17,003	2.6	28,200	4.1	23,518	3.3	24,004	3.3	15,264	2.1
Loans secured by farmland	10,468	1.6	11,403	1.7	10,949	1.5	11,353	1.6	11,856	1.6
Multi-family (5 or more) residential	10,985	1.7	6,745	1.0	6,583	0.9	7,781	1.1	8,338	1.2
Agricultural loans	3,251	0.5	3,053	0.4	2,987	0.4	3,472	0.5	3,848	0.5
Other commercial loans	14,631	2.3	362	0.1	552	0.1	392	0.1	638	0.1
Total commercial	262,231	40.7	288,407	42.2	295,788	41.8	309,581	42.4	290,778	40.3
Consumer	10,762	1.7	11,269	1.6	12,665	1.8	14,996	2.1	19,202	2.7
Total	644,303	100.0	683,910	100.0	708,315	100.0	730,411	100.0	721,011	100.0
Less: allowance for loan losses	(8,663)		(6,857)		(7,705)		(9,107)		(8,265)	
Loans, net	$635,640		$677,053		$700,610		$721,304		$712,746	

TABLE VIII – LOAN MATURITY DISTRIBUTION

(In Thousands) As of December 31, 2013

	Fixed-Rate Loans				Variable- or Adjustable-Rate Loans			
	1 Year or Less	1-5 Years	>5 Years	Total	1 Year or Less	1-5 Years	>5 Years	Total
Real Estate	$776	$16,678	$173,974	$191,428	$60,003	$214,804	$54,604	$329,411
Commercial	15,225	9,463	18,628	43,317	46,286	22,687	308	69,281
Consumer	2,444	5,258	3,035	10,737	77	0	52	129
Total	$18,445	$31,399	$195,637	$245,482	$106,367	$237,491	$54,963	$398,821

PROVISION AND ALLOWANCE FOR LOAN LOSSES

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

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

The allowance for loan losses was $8,663,000 at December 31, 2013, up from $6,857,000 at December 31, 2012. As shown in Table X, the total of specific allowances on impaired loans totaled $2,333,000 at December 31, 2013, which was $1,710,000 higher than the total of specific allowances on impaired loans at December 31, 2012. The increase in the specific allowances on impaired loans in 2013 includes an allowance of $1,522,000 established on loans to one commercial borrower. Table X also shows the collectively determined component of the allowance for residential mortgages was $145,000 higher at December 31, 2013 than at December 31, 2012. The allowance for the residential mortgage segment was affected by the net charge-off percentage used to determine a portion of the collectively determined allowance, which was higher at December 31, 2013 than at December 31, 2012. The collectively evaluated components of the allowance for the residential and commercial segments were also affected by slight increases in qualitative factors at December 31, 2013 as compared to December 31, 2012, while lower loan balances had the effect of decreasing the collectively evaluated components of the allowance for the commercial segment.

The provision for loan losses is determined based on the amount required in order to maintain an appropriate allowance for loan losses in light of all factors considered. The provision for loan losses by segment for 2013, 2012 and 2011 is as follows:

(In Thousands)

	2013	**2012**	**2011**
Residential mortgage	$559	$149	$194
Commercial	1,507	20	(625)
Consumer	24	112	25
Unallocated	(43)	7	121
Total	$2,047	$288	($285)

The provision for loan losses was $2,047,000 in 2013, in comparison to a provision for loan losses of $288,000 in 2012 and a credit for loan losses of $285,000 in 2011. As shown in Table XII, the average provision for loan losses for the five-year period ended December 31, 2013 was $784,000. The total amount of the provision for loan losses for each period is determined based on the amount required to maintain an appropriate allowance in light of all of the factors described above.

In 2013, the provision for loan losses related to the commercial segment includes a provision of $1,522,000 from the establishment of an allowance on loans to one borrower. In 2012, the Corporation's provision for loan losses for the commercial segment included a net provision of $464,000 related to a commercial relationship for which charge-offs totaling $760,000 were recorded, while the provision was reduced by the net decrease in the collectively evaluated portion of the allowance for loan losses as a result of a lower balance of outstanding loans. Similarly, the credit for loan losses from the commercial segment in 2011 reflected the effect of a lower balance of loans outstanding, along with reductions related to a few large commercial relationships. The provision for loan losses for the residential mortgage segment increased in 2013, mainly as a result of the increase in average net charge-offs used to estimate a portion of the collectively determined allowance.

Table XI presents information related to past due and impaired loans, and loans that have been modified under terms that are considered troubled debt restructurings (TDRs). At December 31, 2013, total impaired loans were $16,321,000, up from $7,429,000 at December 31, 2012. Nonaccrual loans totaled $14,934,000 at December 31, 2013, up from $7,353,000 at December 31, 2012. The increase in impaired and nonaccrual loans in 2013 resulted mainly from classification as nonperforming of two large commercial loans with outstanding balances totaling $7,599,000 at December 31, 2013. Total loans past due 90 days or more and still in accrual status increased to $3,131,000 at December 31, 2013 from $2,311,000 at December 31, 2012. Interest continues to be accrued on loans 90 days or more past due that management deems to be well secured and in the process of collection, and for which no loss is anticipated. Over the period 2009-2013, each period includes a few large commercial relationships that have required significant monitoring and workout efforts. As a result, a limited number of relationships may significantly impact the total amount of allowance required on impaired loans, and may significantly impact the amount of total charge-offs reported in any one period.

Management believes it has been conservative in its decisions concerning identification of impaired loans, estimates of loss, and nonaccrual status; however, the actual losses realized from these relationships could vary materially from the allowances calculated as of December 31, 2013. Management continues to closely monitor its commercial loan relationships for possible credit losses, and will adjust its estimates of loss and decisions concerning nonaccrual status, if appropriate.

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

TABLE IX - ANALYSIS OF THE ALLOWANCE FOR LOAN LOSSES

(In Thousands)	**Years Ended December 31,**				
	2013	**2012**	**2011**	**2010**	**2009**
Balance, beginning of year	$6,857	$7,705	$9,107	$8,265	$7,857
Charge-offs:					
Residential mortgage	(95)	(552)	(100)	(340)	(146)

Commercial	(459)	(498)	(1,189)	(91)	(39)
Consumer	(117)	(171)	(157)	(188)	(293)
Total charge-offs	(671)	(1,221)	(1,446)	(619)	(478)
Recoveries:					
Residential mortgage	24	18	3	55	8
Commercial	348	8	255	113	77
Consumer	58	59	71	102	121
Total recoveries	430	85	329	270	206
Net charge-offs	(241)	(1,136)	(1,117)	(349)	(272)
Provision (credit) for loan losses	2,047	288	(285)	1,191	680
Balance, end of period	$8,663	$6,857	$7,705	$9,107	$8,265
Net charge-offs as a % of average loans	0.04%	0.16%	0.16%	0.05%	0.04%

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TABLE X - COMPONENTS OF THE ALLOWANCE FOR LOAN LOSSES

(In Thousands)

	As of December 31,				
	2013	**2012**	**2011**	**2010**	**2009**
ASC 310 - Impaired loans	$2,333	$623	$1,126	$2,288	$1,126
ASC 450 - Collective segments:					
Commercial	2,583	2,594	2,819	3,047	2,677
Residential mortgage	3,156	3,011	3,130	3,227	3,859
Consumer	193	188	204	232	281
Unallocated	398	441	426	313	322
Total Allowance	$8,663	$6,857	$7,705	$9,107	$8,265

TABLE XI - PAST DUE AND IMPAIRED LOANS, NONPERFORMING ASSETS

AND TROUBLED DEBT RESTRUCTURINGS (TDRs)

(In Thousands)

	As of December 31,				
	2013	**2012**	**2011**	**2010**	**2009**
Impaired loans with a valuation allowance	$9,889	$2,710	$3,433	$5,457	$2,690
Impaired loans without a valuation allowance	6,432	4,719	4,431	3,191	3,257
Total impaired loans	$16,321	$7,429	$7,864	$8,648	$5,947
Total loans past due 30-89 days and still accruing	$8,305	$7,756	$7,898	$7,125	$9,445
Nonperforming assets:					
Total nonaccrual loans	$14,934	$7,353	$7,197	$10,809	$9,092
Total loans past due 90 days or more and still accruing	3,131	2,311	1,267	727	31
Total nonperforming loans	18,065	9,664	8,464	11,536	9,123
Foreclosed assets held for sale (real estate)	892	879	1,235	537	873
Total nonperforming assets	$18,957	$10,543	$9,699	$12,073	$9,996
Loans subject to troubled debt restructurings (TDRs):					
Performing	$3,267	$906	$1,064	$645	$326
Nonperforming	908	1,155	2,413	0	0
Total TDRs	$4,175	$2,061	$3,477	$645	$326
Total nonperforming loans as a % of loans	2.80%	1.41%	1.19%	1.58%	1.27%
Total nonperforming assets as a % of assets	1.53%	0.82%	0.73%	0.92%	0.76%
Allowance for loan losses as a % of total loans	1.34%	1.00%	1.09%	1.25%	1.15%

Allowance for loan losses as a % of nonperforming loans	47.95%	70.95%	91.03%	78.94%	90.60%

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TABLE XII - FIVE-YEAR HISTORY OF LOAN LOSSES

(In Thousands)

	2013	2012	2011	2010	2009	Average
Average gross loans	$656,495	$700,241	$714,421	$721,997	$728,748	$704,380
Year-end gross loans	644,303	683,910	708,315	730,411	721,011	697,590
Year-end allowance for loan losses	8,663	6,857	7,705	9,107	8,265	8,119
Year-end nonaccrual loans	14,934	7,353	7,197	10,809	9,092	9,877
Year-end loans 90 days or more past due and still accruing	3,131	2,311	1,267	727	31	1,493
Net charge-offs	241	1,136	1,117	349	272	623
Provision (credit) for loan losses	2,047	288	(285)	1,191	680	784
Earnings coverage of charge-offs	77	20	21	55	(145)	14
Allowance coverage of charge-offs	36	6	7	26	30	13
Net charge-offs as a % of provision (credit) for loan losses	11.77%	394.44%	-391.93%	29.30%	40.00%	79.46%
Net charge-offs as a % of average gross loans	0.04%	0.16%	0.16%	0.05%	0.04%	0.09%
Net income (loss)	18,594	22,705	23,368	19,055	(39,335)	8,877

CONTRACTUAL OBLIGATIONS AND OFF-BALANCE SHEET ARRANGEMENTS

Table XIII presents the Corporation’s significant fixed and determinable contractual obligations as of December 31, 2013 by payment date. The payment amounts represent the principal amounts of time deposits and borrowings and do not include interest.

TABLE XIII – CONTRACTUAL OBLIGATIONS

(In Thousands)

	1 Year or Less	1-3 Years	3-5 Years	Over 5 Years	Total
Time deposits	$147,316	$89,560	$24,161	$0	$261,037
Short-term borrowings:					
Federal Home Loan Bank of Pittsburgh	20,000	0	0	0	20,000
Customer repurchase agreements	3,385	0	0	0	3,385
Long-term borrowings:					
Federal Home Loan Bank of Pittsburgh	0	153	10,022	2,163	12,338
Repurchase agreements	0	0	61,000	0	61,000
Total	$170,701	$89,713	$95,183	$2,163	$357,760

In addition to the amounts described in Table XIII, the Corporation has obligations related to deposits without a stated maturity with outstanding principal balances totaling $693,479,000 at December 31, 2013.

The Corporation's operating lease commitments at December 31, 2013 are immaterial. The Corporation's significant off-balance sheet arrangements consist of commitments to extend credit and standby letters of credit. Off-balance sheet arrangements are described in Note 16 to the consolidated financial statements.

LIQUIDITY

Liquidity is the ability to quickly raise cash at a reasonable cost. An adequate liquidity position permits the Corporation to pay creditors, compensate for unforeseen deposit fluctuations and fund unexpected loan demand. At December 31, 2013, the Corporation maintained overnight interest-bearing deposits with the Federal Reserve Bank of Philadelphia and other correspondent banks totaling $22,674,000.

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

The Corporation has a line of credit with the Federal Reserve Bank of Philadelphia's Discount Window. Management intends to use this line of credit as a contingency funding source. As collateral for the line, the Corporation has pledged available-for-sale securities with a carrying value of $27,188,000 at December 31, 2013.

The Corporation's outstanding, available, and total credit facilities at December 31, 2013 and December 31, 2012 are as follows:

	Outstanding		**Available**		**Total Credit**	
(In Thousands)	**Dec. 31, 2013**	**Dec. 31, 2012**	**Dec. 31, 2013**	**Dec. 31, 2012**	**Dec. 31, 2013**	**Dec. 31, 2012**
Federal Home Loan Bank of Pittsburgh	$34,335	$17,809	$304,875	$328,023	$339,210	$345,832
Federal Reserve Bank Discount Window	0	0	26,078	27,367	26,078	27,367
Other correspondent banks	0	0	45,000	45,000	45,000	45,000
Total credit facilities	$34,335	$17,809	$375,953	$400,390	$410,288	$418,199

At December 31, 2013, the Corporation's outstanding credit facilities with the Federal Home Loan Bank of Pittsburgh included a short-term borrowing of $20,000,000, long-term borrowings with a total amount of $12,338,000 and a letter of credit in the amount of $1,997,000. At December 31, 2012, the Corporation's outstanding credit facilities with the Federal Home Loan Bank of Pittsburgh consisted of long-term borrowings with a total amount of $15,812,000 as well as a letter of credit in the amount of $1,997,000. Additional information regarding borrowed funds is included in Note 12 to the consolidated financial statements.

Additionally, the Corporation uses repurchase agreements placed with brokers to borrow funds secured by investment assets and "RepoSweep" arrangements to borrow funds from commercial banking customers on an overnight basis. If required to raise cash in an emergency situation, the Corporation could sell available-for-sale securities to meet its obligations. At December 31, 2013, the carrying value of available-for-sale securities in excess of amounts required to meet pledging or repurchase agreement obligations was $246,560,000.

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

STOCKHOLDERS' EQUITY AND CAPITAL ADEQUACY

The Corporation and C&N Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Details concerning regulatory capital amounts and ratios are presented in Note 18 to the consolidated financial statements. As reflected in Note 18, at December 31, 2013 and 2012, the ratios of total capital to risk-weighted assets, tier 1 capital to risk-weighted assets and tier 1 capital to average total assets are well in excess of regulatory capital requirements.

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

Management expects the Corporation and C&N Bank to maintain capital levels that exceed the regulatory standards for well-capitalized institutions for the next 12 months and for the foreseeable future. Planned capital expenditures are not expected to have a significantly detrimental effect on capital ratios. See the discussion of future changes in regulatory capital requirements in the "New Capital Rule" section below.

The Corporation's total stockholders' equity is affected by fluctuations in the fair values of available-for-sale securities. The difference between amortized cost and fair value of available-for-sale securities, net of deferred income tax, is included in Accumulated Other Comprehensive Income (Loss) within stockholders' equity. The balance in Accumulated Other Comprehensive Income related to unrealized (losses) gains on available-for-sale securities, net of deferred income tax, amounted to ($1,004,000) at December 31, 2013 and $11,568,000 at December 31, 2012. Changes in accumulated other comprehensive income (loss) are excluded from earnings and directly increase or decrease stockholders' equity. If available-for-sale securities are deemed to be other-than-temporarily impaired, unrealized losses are recorded as a charge against earnings, and amortized cost for the affected securities is reduced. Note 7 to the consolidated financial statements provides additional information concerning management's evaluation of available-for-sale securities for other-than-temporary impairment at December 31, 2013.

Stockholders’ equity is also affected by the underfunded or overfunded status of defined benefit pension and postretirement plans. The balance in Accumulated Other Comprehensive Income (Loss) related to defined benefit plans, net of deferred income tax, was $11,000 at December 31, 2013 and ($565,000) at December 31, 2012.

NEW CAPITAL RULE

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

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

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

Prompt correction action levels -		
Critically undercapitalized:		
Tangible equity to total assets	≤2%	≤2%

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

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

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

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

COMPREHENSIVE INCOME

Comprehensive Income is the total of (1) net income, and (2) all other changes in equity from non-stockholder sources, which are referred to as Other Comprehensive Income. Changes in the components of Accumulated Other

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

Comprehensive Income totaled $6,598,000 in 2013 as compared to $23,548,000 in 2012 and $35,129,000 in 2011. In 2013, Comprehensive Income included: (1) Net Income of $18,594,000 in 2013, which was $4,111,000 lower than in 2012 and $4,774,000 lower than in 2011; (2) Other Comprehensive Loss from unrealized losses on available-for-sale securities, net of deferred income tax, of ($12,572,000) in 2013 as compared to Other Comprehensive Income $777,000 in 2012 and $12,142,000 in 2011; and (3) Other Comprehensive Income from defined benefit plans of $576,000 in 2013 as compared to Other Comprehensive Income of $66,000 in 2012 and Other Comprehensive Loss of $381,000 in 2011.

Fluctuations in the amounts of unrealized gains and losses on the Corporation's available-for-sale securities in 2011 through 2013 have resulted mainly from changes in interest rates. Increases in intermediate-term and long-term interest rates in 2013 led to a decrease in the aggregate fair value of securities in 2013, after fairly limited changes in rates in 2012 and a decrease in rates in 2011 led to an aggregate increase in fair value of securities in 2011.

INFLATION

The Corporation is significantly affected by the Federal Reserve Board's efforts to control inflation through changes in short-term interest rates. Beginning in September 2007, in response to concerns about weakness in the U.S. economy, the Federal Reserve lowered the fed funds target rate numerous times; in December 2008, it established a target range of 0% to 0.25%, which it has maintained through 2013. Also, the Federal Reserve has injected massive amounts of liquidity into the nation's monetary system through a variety of programs. The Federal Reserve has purchased large amounts of securities in an effort to keep interest rates low and stimulate economic growth. Although the Federal Reserve reduced the amount of securities it purchased beginning in late 2013, highly accommodative monetary policy in the form of low short-term interest rates is expected for the foreseeable future.

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

RECENT ACCOUNTING PRONOUNCEMENTS

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

MARKET RISK

Market risk is the risk of loss arising from adverse changes in market rates and prices of the Corporation's financial instruments. In addition to the effects of interest rates, the market prices of the Corporation's debt securities within the available-for-sale securities portfolio are affected by fluctuations in the risk premiums (amounts of spread over risk-free rates) demanded by investors.

Management cannot control changes in market prices of securities based on fluctuations in the risk premiums demanded by investors, nor can management control the volume of deferrals or defaults by the issuers of debt securities owned by the Corporation. However, management attempts to limit the risk that economic conditions would force the Corporation to sell securities for realized losses by maintaining a strong capital position (discussed in the "Stockholders' Equity and Capital Adequacy" section of Management's Discussion and Analysis) and ample sources of liquidity (discussed in the "Liquidity" section of Management's Discussion and Analysis).

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

INTEREST RATE RISK

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

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

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

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

Table XIV, which follows this discussion, is based on the results of calculations performed using the simulation model as of December 31, 2013 and October 31, 2012. The table shows that as of the respective dates, the changes in net interest income and changes in market value were within the policy limits in all scenarios.

TABLE XIV - THE EFFECT OF HYPOTHETICAL CHANGES IN INTEREST RATES

December 31, 2013 Data

(In Thousands) **Period Ending December 31, 2014**

Basis Point Change in Rates	Interest Income	Interest Expense	Net Interest Income (NII)	NII % Change	NII Risk Limit
+400	$53,993	$23,975	$30,018	-24.4%	25.0%
+300	51,748	18,975	32,773	-17.4%	20.0%
+200	49,496	14,091	35,405	-10.8%	15.0%
+100	47,146	9,552	37,594	-5.3%	10.0%
0	44,821	5,123	39,698	0.0%	0.0%
-100	42,432	4,897	37,535	-5.4%	10.0%
-200	40,747	4,895	35,852	-9.7%	15.0%
-300	40,059	4,895	35,164	-11.4%	20.0%
-400	39,968	4,895	35,073	-11.7%	25.0%

Market Value of Portfolio Equity at December 31, 2013

Basis Point Change in Rates	Present Value Equity	Present Value % Change	Present Value Risk Limit
+400	$161,652	-28.5%	50.0%
+300	175,176	-22.6%	45.0%
+200	192,513	-14.9%	35.0%
+100	209,428	-7.4%	25.0%
0	226,204	0.0%	0.0%
-100	230,189	1.8%	25.0%
-200	233,902	3.4%	35.0%
-300	250,451	10.7%	45.0%
-400	282,994	25.1%	50.0%

October 31, 2012 Data
(In Thousands) **Period Ending October 31, 2013**

Basis Point Change in Rates	Interest Income	Interest Expense	Net Interest Income (NII)	NII % Change	NII Risk Limit
+400	$60,813	$26,050	$34,763	-18.9%	25.0%
+300	58,329	20,789	37,540	-12.4%	20.0%
+200	55,398	16,004	39,394	-8.1%	15.0%
+100	52,592	11,338	41,254	-3.7%	10.0%
0	49,534	6,673	42,861	0.0%	0.0%
-100	46,881	6,236	40,645	-5.2%	10.0%
-200	46,178	6,233	39,945	-6.8%	15.0%
-300	45,925	6,233	39,692	-7.4%	20.0%
-400	45,800	6,233	39,567	-7.7%	25.0%

Market Value of Portfolio Equity at October 31, 2012

Basis Point Change in Rates	Present Value Equity	Present Value % Change	Present Value Risk Limit
+400	$165,826	-21.7%	50.0%
+300	179,904	-15.1%	45.0%
+200	193,117	-8.8%	35.0%
+100	204,290	-3.6%	25.0%
0	211,846	0.0%	0.0%
-100	207,561	-2.0%	25.0%
-200	230,184	8.7%	35.0%
-300	268,229	26.6%	45.0%

EQUITY SECURITIES RISK

The Corporation's equity securities portfolio consists of investments in stocks of banks and bank holding companies. Investments in bank stocks are subject to risk factors that affect the banking industry in general, including credit risk, competition from non-bank entities, interest rate risk and other factors, which could result in a decline in market prices. Also, losses could occur in individual stocks held by the Corporation because of specific circumstances related to each bank. As discussed further in Note 6 of the consolidated financial statements, the Corporation recognized other-than-temporary impairment losses related to bank stocks of $25,000 in the first quarter 2013 and $67,000 in the first quarter 2012.

Equity securities held as of December 31, 2013 and 2012 are presented in Table XV. Table XV presents quantitative data concerning the effects of a decline in fair value of the Corporation's equity securities of 10% or 20%. The data in Table XV does not reflect the effects of any appreciation in value that may occur, nor does it present the Corporation's maximum exposure to loss on equity securities, which would be 100% of their fair value as of December 31, 2013.

TABLE XV - EQUITY SECURITIES RISK

(In Thousands)

	Dec. 31, 2013	**Dec. 31, 2012**
Cost	$6,038	$5,912
Fair Value	8,924	8,373
Hypothetical 10% Decline In Market Value	(892)	(837)
Hypothetical 20% Decline In Market Value	(1,785)	(1,675)

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA
CONSOLIDATED BALANCE SHEETS

(In Thousands, Except Share and Per Share Data)	**December 31, 2013**	**December 31, 2012**
ASSETS		
Cash and due from banks:		
Noninterest-bearing	$15,917	$21,356
Interest-bearing	28,702	38,480
Total cash and due from banks	44,619	59,836
Available-for-sale securities, at fair value	482,658	472,577
Loans held for sale	54	2,545
Loans receivable	644,303	683,910
Allowance for loan losses	(8,663)	(6,857)
Loans, net	635,640	677,053
Bank-owned life insurance	21,743	21,344
Accrued interest receivable	4,146	4,281
Bank premises and equipment, net	17,430	18,707
Foreclosed assets held for sale	892	879
Deferred tax asset, net	6,344	1,725
Intangible asset - Core deposit intangibles	87	138
Intangible asset - Goodwill	11,942	11,942
Other assets	12,140	15,880
TOTAL ASSETS	$1,237,695	$1,286,907
LIABILITIES		
Deposits:		
Noninterest-bearing	$191,245	$189,941
Interest-bearing	763,271	816,165
Total deposits	954,516	1,006,106
Short-term borrowings	23,385	5,567
Long-term borrowings	73,338	83,812
Accrued interest and other liabilities	6,984	8,636
TOTAL LIABILITIES	1,058,223	1,104,121
STOCKHOLDERS' EQUITY		
Preferred stock, $1,000 par value; authorized 30,000 shares; $1,000 liquidation preference per share; no shares issued at December 31, 2013 and December 31, 2012	0	0
Common stock, par value $1.00 per share; authorized 20,000,000 shares in 2013 and 2012; issued 12,596,540 at December 31, 2013 and 12,525,411 at December 31, 2012	12,596	12,525
Paid-in capital	70,105	68,622
Retained earnings	101,216	94,839
Treasury stock, at cost; 206,477 shares at December 31, 2013 and 251,376 shares at December 31, 2012	(3,452)	(4,203)
Sub-total	180,465	171,783
Accumulated other comprehensive (loss) income:		
Unrealized (loss) gain on available-for-sale securities	(1,004)	11,568
Defined benefit plans gain (loss)	11	(565)

Total accumulated other comprehensive (loss) income	(993)	11,003
TOTAL STOCKHOLDERS' EQUITY	179,472	182,786
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	$1,237,695	$1,286,907

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

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Consolidated Statements of Income	**Years Ended December 31,**		
(In Thousands Except Per Share Data)	**2013**	**2012**	**2011**
INTEREST INCOME			
Interest and fees on loans	$35,484	$40,453	$43,178
Interest on balances with depository institutions	105	114	73
Interest on loans to political subdivisions	1,381	1,539	1,499
Interest on mortgages held for sale	54	107	53
Income from available-for-sale securities:			
Taxable	6,810	9,029	11,036
Tax-exempt	4,785	5,085	5,156
Dividends	295	305	261
Total interest and dividend income	48,914	56,632	61,256
INTEREST EXPENSE			
Interest on deposits	2,703	4,807	8,112
Interest on short-term borrowings	9	10	23
Interest on long-term borrowings	3,053	4,214	5,421
Total interest expense	5,765	9,031	13,556
Net interest income	43,149	47,601	47,700
Provision (credit) for loan losses	2,047	288	(285)
Net interest income after provision (credit) for loan losses	41,102	47,313	47,985
OTHER INCOME			
Service charges on deposit accounts	4,966	5,036	4,773
Service charges and fees	877	929	849
Trust and financial management revenue	4,087	3,847	3,472
Interchange revenue from debit card transactions	1,941	1,938	1,922
Net gains from sale of loans	2,191	1,925	1,107
Increase in cash surrender value of life insurance	399	455	509
Insurance commissions, fees and premiums	170	221	257
Impairment loss on limited partnership investment	0	0	(948)
Other operating income	1,820	2,032	1,956
Sub-total	16,451	16,383	13,897
Total other-than-temporary impairment losses on available-for-sale securities	(25)	(67)	0
Portion of (gain) recognized in other comprehensive loss (before taxes)	0	0	0
Net impairment losses recognized in earnings	(25)	(67)	0
Realized gains on available-for-sale securities, net	1,743	2,749	2,216
Net realized gains recognized in earnings on available-for-sale securities	1,718	2,682	2,216
Total other income	18,169	19,065	16,113
OTHER EXPENSES			
Salaries and wages	14,206	14,370	13,866
Pensions and other employee benefits	4,150	4,497	4,407
Occupancy expense, net	2,473	2,476	2,638
Furniture and equipment expense	1,948	1,887	1,932
FDIC Assessments	604	633	832
Pennsylvania shares tax	1,402	1,312	1,306
Professional fees	1,534	486	455
Automated teller machine and interchange expense	1,020	1,136	1,026
Software subscriptions	836	890	703
Loss on prepayment of debt	1,023	2,333	0

Other operating expense	5,298	5,227	4,851
Total other expenses	34,494	35,247	32,016
Income before income tax provision	24,777	31,131	32,082
Income tax provision	6,183	8,426	8,714
NET INCOME	$18,594	$22,705	$23,368
NET INCOME PER SHARE - BASIC	$1.51	$1.86	$1.92
NET INCOME PER SHARE - DILUTED	$1.50	$1.85	$1.92

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In Thousands)	**Years Ended December 31,**		
	2013	**2012**	**2011**
Net income	$18,594	$22,705	$23,368
Unrealized (losses) gains on available-for-sale securities:			
Unrealized holding (losses) gains on available-for-sale securities	(17,623)	4,128	20,611
Reclassification adjustment for gains realized in income	(1,718)	(2,682)	(2,216)
Other comprehensive (loss) gain on available-for-sale securities	(19,341)	1,446	18,395
Unfunded pension and postretirement obligations:			
Changes from plan amendments and actuarial gains and losses included in accumulated other comprehensive gain (loss)	885	8	(626)
Amortization of net transition obligation, prior service cost and net actuarial loss included in net periodic benefit cost	2	77	55
Other comprehensive gain (loss) on unfunded retirement obligations	887	85	(571)
Other comprehensive (loss) income before income tax	(18,454)	1,531	17,824
Income tax related to other comprehensive loss (income)	6,458	(688)	(6,063)
Net other comprehensive (loss) income	(11,996)	843	11,761
Comprehensive income	$6,598	$23,548	$35,129

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

Consolidated Statements of Changes in

Stockholders' Equity

(In Thousands Except Share and Per

Share Data)

	Common Shares	Treasury Shares	Common Stock	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Tot
Balance, January 1, 2011	**12,408,212**	**254,614**	**$12,408**	**$66,648**	**$65,920**	**($1,601)**	**($4,431)**	**$13**
Net income					23,368			23,3
Other comprehensive income, net						11,761		11,7
Cash dividends declared on common stock, $.58 per share					(7,052)			(7,0
Treasury stock purchased		70,849					(1,022)	(1,0
Shares issued for dividend reinvestment plan	52,708		53	772				825
Shares issued from treasury related to Exercise of stock options		(4,856)		(11)			82	71
Restricted stock granted		(15,622)		(272)			272	0
Forfeiture of restricted stock		406		7			(7)	0
Stock-based compensation expense				423				423
Tax effect of stock option exercises				1				1
Tax benefit from employee benefit plan					66			66
Balance, December 31, 2011	**12,460,920**	**305,391**	**12,461**	**67,568**	**82,302**	**10,160**	**(5,106)**	**167**
Net income					22,705			22,7
Other comprehensive income, net						843		843
Cash dividends declared on common stock, $.84 per share					(10,272)			(10,
Shares issued for dividend reinvestment plan	64,491		64	1,147				1,21
Shares issued from treasury related to exercise of stock options		(15,023)		(22)			251	229
Restricted stock granted		(42,552)		(711)			711	0
Forfeiture of restricted stock		3,560		59			(59)	0
Stock-based compensation expense				567				567
Tax effect of stock option exercises				14				14
Tax benefit from employee benefit plan					104			104
Balance, December 31, 2012	**12,525,411**	**251,376**	**12,525**	**68,622**	**94,839**	**11,003**	**(4,203)**	**182**
Net income					18,594			18,5
Other comprehensive loss, net						(11,996)		(11,
Cash dividends declared on common stock, $1.00 per share					(12,343)			(12,
Shares issued for dividend reinvestment plan	71,129		71	1,356				1,42
Shares issued from treasury related to exercise of stock options		(10,656)		5			179	184
Restricted stock granted		(37,886)		(633)			633	0
Forfeiture of restricted stock		3,643		61			(61)	0

Stock-based compensation expense				696				696
Tax effect of stock option exercises				(2)				(2)
Tax benefit from employee benefit plan					126			126
Balance, December 31, 2013	**12,596,540**	**206,477**	**$12,596**	**$70,105**	**$101,216**	**($993)**	**($3,452)**	**$17**

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

CONSOLIDATED STATEMENTS OF CASH FLOWS	**Years Ended December 31,**		
(In Thousands)	**2013**	**2012**	**2011**
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$18,594	$22,705	$23,368
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision (credit) for loan losses	2,047	288	(285)
Realized gains on available-for-sale securities, net	(1,718)	(2,682)	(2,216)
Loss on prepayment of debt	1,023	2,333	0
Loss (gain) on disposition of premises and equipment	16	(270)	(324)
Loss (gain) on sale of foreclosed assets, net	71	66	(41)
Depreciation expense	2,020	1,939	2,077
Accretion and amortization on securities, net	1,836	1,581	1,317
Accretion and amortization on loans, deposits and borrowings, net	(32)	(49)	(35)
Amortization of mortgage servicing rights	155	97	68
Impairment loss on limited partnership interest	0	0	948
Increase in cash surrender value of life insurance	(399)	(455)	(509)
Stock-based compensation	696	567	423
Amortization of core deposit intangibles	51	74	114
Deferred income taxes	1,839	3,760	3,818
Gains on sales of mortgage loans, net	(2,191)	(1,925)	(1,107)
Origination of mortgage loans for sale	(58,427)	(62,829)	(26,610)
Proceeds from sales of mortgage loans	62,436	62,821	31,786
Decrease (increase) in accrued interest receivable and other assets	3,234	(1,043)	3,580
(Decrease) increase in accrued interest payable and other liabilities	(679)	674	1,092
Net Cash Provided by Operating Activities	30,572	27,652	37,464
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from maturities of certificates of deposit	480	0	0
Purchase of certificates of deposit	(1,688)	(1,060)	(3,760)
Proceeds from sales of available-for-sale securities	25,500	24,228	25,471
Proceeds from calls and maturities of available-for-sale securities	97,123	114,247	108,138
Purchase of available-for-sale securities	(152,163)	(126,820)	(152,044)
Redemption of Federal Home Loan Bank of Pittsburgh stock	2,680	1,931	1,513
Purchase of Federal Home Loan Bank of Pittsburgh stock	(1,624)	0	0
Net decrease in loans	39,059	22,320	19,264
Proceeds from bank-owned life insurance	0	0	1,442
Purchase of premises and equipment	(801)	(1,622)	(998)
Proceeds from disposition of premises and equipment	42	456	3,060
Purchase of investment in limited liability entity	(147)	(538)	(397)
Return of principal on limited liability entity investments	164	114	116
Proceeds from sale of foreclosed assets	255	1,380	1,112
Net Cash Provided by Investing Activities	8,880	34,636	2,917
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net (decrease) increase in deposits	(51,590)	(12,106)	13,839
Net increase (decrease) in short-term borrowings	17,818	617	(13,463)
Repayments of long-term borrowings	(11,497)	(43,884)	(23,132)
Purchase of treasury stock	0	0	(1,022)
Sale of treasury stock	184	229	71
Tax benefit from compensation plans	124	118	67

Common dividends paid	(10,916)	(9,061)	(6,227)
Net Cash Used in Financing Activities	(55,877)	(64,087)	(29,867)
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(16,425)	(1,799)	10,514
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	55,016	56,815	46,301
CASH AND CASH EQUIVALENTS, END OF YEAR	$38,591	$55,016	$56,815
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Assets acquired through foreclosure of real estate loans	$339	$1,004	$1,769
Interest paid	$5,782	$9,246	$13,609
Income taxes paid	$4,213	$4,250	$3,616

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

Material estimates that are particularly susceptible to change include: (1) the allowance for loan losses, (2) fair values of debt securities based on estimates from independent valuation services or from brokers, (3) fair values of debt securities based on unobservable inputs, as determined using management's estimates of cash flows and applicable discount rates,(4) assessment of impaired securities to determine whether or not the securities are other-than-temporarily impaired, (5) valuation of deferred tax assets and (6) valuation of obligations from defined benefit plans.

INVESTMENT SECURITIES - Investment securities are accounted for as follows:

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

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

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

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

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

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

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

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

The allowance for loan losses is maintained at a level considered adequate to provide for losses that can be reasonably anticipated. Management performs a quarterly evaluation of the adequacy of the allowance. The allowance is based on the Corporation’s past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower’s ability to repay, the estimated value of any underlying collateral, composition of the loan portfolio, current economic conditions and other relevant factors. This evaluation is inherently subjective as it requires material estimates that may be susceptible to significant revision as more information becomes available. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Corporation’s allowance for loan losses. Such agencies may require the Corporation to recognize adjustments to the allowance based on their judgments of information available to them at the time of their examination. In the process of evaluating the loan portfolio, management also considers the Corporation’s exposure to losses from unfunded loan commitments. As of December 31, 2013 and 2012, management determined that no allowance for credit losses related to unfunded loan commitments was required.

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

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

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

The qualitative factors used in the general component calculations are designed to address credit risk characteristics associated with each segment. The Corporation's credit risk associated with all of the segments is significantly impacted by these factors, which include economic conditions within its market area, the Corporation's lending policies, changes or trends in the portfolio, risk profile, competition, regulatory requirements and other factors. Further, the residential mortgage segment is significantly affected by the values of residential real estate that provide collateral for the loans. The majority of the Corporation's commercial segment loans (approximately 71% at December 31, 2013) are secured by real estate, and accordingly, the Corporation's risk for the commercial segment is significantly affected by commercial real estate values. The consumer segment includes a wide mix of loans for different purposes, primarily secured loans, including loans secured by motor vehicles, manufactured housing and other types of collateral.

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

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

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

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

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

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

INTEREST COSTS - The Corporation capitalizes interest as a component of the cost of premises and equipment constructed or acquired for its own use. The amount of capitalized interest in 2013, 2012, and 2011 was not significant.

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

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

SERVICING RIGHTS - The estimated fair value of servicing rights related to mortgage loans sold and serviced by the Corporation is recorded as an asset upon the sale of such loans. The valuation of servicing rights is adjusted quarterly, with changes in fair value included in Other Operating Income in the consolidated statements of operations. Significant inputs to the valuation include expected net servicing income to be received, the expected life of the underlying loans and the discount rate. The servicing rights asset is included in Other Assets in the consolidated balance sheet, with a balance equal to fair value of $1,123,000 at December 31, 2013 and $605,000 at December 31, 2012.

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

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

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

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

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

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

2. RECENT ACCOUNTING PRONOUNCEMENTS:

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

In January 2013, the FASB issued ASU 2013-01, Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities. The amendments in this standard clarify that the scope of ASU 2011-11 applies to (among other types of instruments) repurchase agreements that are either offset or subject to an enforceable master netting arrangement or similar agreement. The amendments in ASU 2011-11 require an entity to disclose information about offsetting and related arrangements to enable users of financial statements to understand the effect of those arrangements on the entity's financial position. The Corporation has two types of repurchase agreements that have been recognized as borrowings in the consolidated financial statements: (1) overnight repurchase agreements with customers, and (2) repurchase agreements with a broker-dealer. The Corporation does not offset assets and liabilities related to either of these types of repurchase agreement. The overnight repurchase agreements with customers are not subject to a master netting arrangement or similar arrangement, and accordingly, the disclosure requirements of ASU 2011-11 do not apply. As disclosed in Note 12 to these consolidated financial statements, the Master Repurchase Agreement between the Corporation and the broker-dealer provides that the Agreement constitutes a "netting contract," as defined; however, the Corporation and the broker-dealer have no other obligations to one another and therefore, no netting has occurred.

In February 2013, the FASB issued ASU 2013-02, Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. The amendments in this standard require an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, this standard requires an entity to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required by U.S. GAAP to be reclassified in their entirety to net income, an entity will be required to cross-reference to other disclosures required under U.S. GAAP that provide additional detail about those amounts. As required, the Corporation has implemented the amendments in this ASU prospectively in Note 3 to these consolidated financial statements.

In July 2013, the FASB issued ASU 2013-11, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. The amendments in this standard clarify that an unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except as follows. To the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. For the Corporation, the amendments in this Update are effective beginning in the first quarter 2014. The Corporation will be affected by these amendments if unrecognized tax benefits arise in future periods.

In December 2013, the FASB issued ASU 2013-12, Definition of a Public Business Entity. The amendment in this Update provides a single definition of public business entity for use in future financial accounting and reporting guidance. The amendment does not affect existing requirements and does not have an effective date. The amendment specifies the following: (1) an entity that is required by the Securities and Exchange Commission (SEC) to file or furnish financial statements with the SEC, or does file or furnish financial statements with the SEC, is considered a public entity, (2) a consolidated subsidiary of a public company is not considered a public business entity for purposes of its standalone financial statements other than those included in an SEC filing by its parent or by other registrants or those that are issuers and are required to file or furnish financial statements with the SEC, and (3) a business entity that has securities that are not subject to contractual restrictions on transfer and that is by law, contract or regulation required to prepare U.S. GAAP financial statements (including footnotes) and make them publicly available on a periodic basis is considered a public business entity. Based on this definition, Citizens & Northern Corporation is considered a public business entity, while the individual subsidiaries are not considered to be public business entities for purposes of their standalone financial statements.

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

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

3. COMPREHENSIVE INCOME

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

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

(In Thousands)	**Before-Tax Amount**	**Income Tax Effect**	**Net-of-Tax Amount**
2012			
Unrealized gains on available-for-sale securities:			
Unrealized holding gains on available-for-sale securities	$4,128	($1,608)	$2,520
Reclassification adjustment for (gains) realized in income	(2,682)	939	(1,743)
Other comprehensive gain on available-for-sale securities	1,446	(669)	777
Unfunded pension and postretirement obligations:			
Changes from plan amendments and actuarial gains and losses included in other comprehensive income	8	(2)	6
Amortization of net transition obligation, prior service cost and net actuarial loss included in net periodic benefit cost	77	(17)	60
Other comprehensive gain on unfunded retirement obligations	85	(19)	66
Total other comprehensive income	$1,531	($688)	$843

(In Thousands)	Before-Tax Amount	Income Tax Effect	Net-of-Tax Amount
2011			
Unrealized gains on available-for-sale securities:			
Unrealized holding gains on available-for-sale securities	$20,611	($7,006)	$13,605
Reclassification adjustment for (gains) realized in income	(2,216)	753	(1,463)
Other comprehensive gain on available-for-sale securities	18,395	(6,253)	12,142
Unfunded pension and postretirement obligations:			
Changes from plan amendments and actuarial gains and losses included in other comprehensive income	(626)	208	(418)
Amortization of net transition obligation, prior service cost and net actuarial loss included in net periodic benefit cost	55	(18)	37
Other comprehensive loss on unfunded retirement obligations	(571)	190	(381)
Total other comprehensive income	$17,824	($6,063)	$11,761

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

(In Thousands)	Unrealized Holding Gains (Losses) on Securities	Unfunded Pension and Postretirement Obligations	Accumulated Other Comprehensive Income (Loss)
2013			
Balance, beginning of period	$11,568	($565)	$11,003
Other comprehensive (loss) income before reclassifications	(11,455)	575	(10,880)
Amounts reclassified from accumulated other comprehensive loss	(1,117)	1	(1,116)
Other comprehensive (loss)	(12,572)	576	(11,996)
Balance, end of period	($1,004)	$11	($993)
2012			
Balance, beginning of period	$10,791	($631)	$10,160
Other comprehensive income before reclassifications	2,520	6	2,526
Amounts reclassified from accumulated other comprehensive income	(1,743)	60	(1,683)
Other comprehensive income	777	66	843
Balance, end of period	$11,568	($565)	$11,003
2011			
Balance, beginning of period	($1,351)	($250)	($1,601)
Other comprehensive loss before reclassifications	13,605	(418)	13,187
Amounts reclassified from accumulated other comprehensive income	(1,463)	37	(1,426)

Other comprehensive income	12,142	(381)	11,761
Balance, end of period	$10,791	($631)	$10,160

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

For the Year Ended December 31, 2013

(In Thousands)

Details about Accumulated Other Comprehensive Income Components	**Reclassified from Accumulated Other Comprehensive (Loss) Income**	**Affected Line Item in th Statements of Income**
Unrealized gains and losses on available-for-sale Securities	$25	Total other-than-tempora available-for-sale securit
	(1,743)	Realized gains on availab
	(1,718)	Total before tax
	601	Income tax provision
	(1,117)	Net of tax
Amortization of defined benefit pension and postretirement items		
Prior service cost	(31)	Pensions and other emplo
Actuarial loss	33	Pensions and other emplo
	2	Total before tax
	(1)	Income tax provision
	1	Net of tax
Total reclassifications for the period	($1,116)	

4. PER SHARE DATA

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

	Net Income	**Weighted-Average Common Shares**	**Earnings Per Share**

2013			
Earnings per share – basic	$18,594,000	12,352,383	$1.51
Dilutive effect of potential common stock arising from stock options:			
Exercise of outstanding stock options		250,236	
Hypothetical share repurchase at $19.86		(219,829)	
Earnings per share – diluted	$18,594,000	12,382,790	$1.50
2012			
Earnings per share – basic	$22,705,000	12,235,748	$1.86
Dilutive effect of potential common stock arising from stock options:			
Exercise of outstanding stock options		200,589	
Hypothetical share repurchase at $19.16		(176,129)	
Earnings per share – diluted	$22,705,000	12,260,208	$1.85

	Net Income	Weighted-Average Common Shares	Earnings Per Share
2011			
Earnings per share – basic	$23,368,000	12,162,045	$1.92
Dilutive effect of potential common stock arising from stock options:			
Exercise of outstanding stock options		92,398	
Hypothetical share repurchase at $ 15.87		(87,675)	
Earnings per share – diluted	$23,368,000	12,166,768	$1.92

Stock options that were anti-dilutive were excluded from net income per share calculations. Weighted-average common shares available from anti-dilutive instruments totaled 88,521 shares in 2013, 145,333 shares in 2012 and 223,333 shares in 2011.

5. CASH AND DUE FROM BANKS

Cash and due from banks at December 31, 2013 and 2012 include the following:

(In thousands)	Dec. 31, 2013	Dec. 31, 2012
Cash and cash equivalents	$38,591	$55,016
Certificates of deposit	6,028	4,820
Total cash and due from banks	$44,619	$59,836

Certificates of deposit are issues by U.S. banks with original maturities greater than three months. Each certificate of deposit is fully FDIC-insured. The Corporation maintains cash and cash equivalents with certain financial institutions in excess of the FDIC insurance limit.

The Corporation is required to maintain reserves against deposit liabilities in the form of cash and balances with the Federal Reserve Bank. The reserves are based on deposit levels, account activity, and other services provided by the Federal Reserve Bank. Required reserves were $15,318,000 at December 31, 2013 and $14,128,000 at December 31, 2012.

6. FAIR VALUE MEASUREMENTS AND FAIR VALUES OF FINANCIAL INSTRUMENTS

The Corporation measures certain assets at fair value. Fair value is defined as the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. FASB ASC topic 820, “Fair Value Measurements and Disclosures” establishes a framework for measuring fair value that includes a hierarchy used to classify the inputs used in measuring fair value. The hierarchy prioritizes the inputs used in determining valuations into three levels. The level in the fair value hierarchy within which the fair value measurement falls is determined based on the lowest level input that is significant to the fair value measurement. The levels of the fair value hierarchy are as follows:

Level 1 – Fair value is based on unadjusted quoted prices in active markets that are accessible to the Corporation for identical assets. These generally provide the most reliable evidence and are used to measure fair value whenever available.

Level 2 – Fair value is based on significant inputs, other than Level 1 inputs, that are observable either directly or indirectly for substantially the full term of the asset through corroboration with observable market data. Level 2 inputs include quoted market prices in active markets for similar assets, quoted market prices in markets that are not active for identical or similar assets and other observable inputs.

Level 3 – Fair value is based on significant unobservable inputs. Examples of valuation methodologies that would result in Level 3 classification include option pricing models, discounted cash flows and other similar techniques.

The Corporation monitors and evaluates available data relating to fair value measurements on an ongoing basis and recognizes transfers among the levels of the fair value hierarchy as of the date of an event or change in circumstances that affects the valuation method chosen. Examples of such changes may include the market for a particular asset becoming active or inactive, changes in the availability of quoted prices, or changes in the availability of other market data.

At December 31, 2013 and 2012, assets measured at fair value and the valuation methods used are as follows:

	December 31, 2013			
(In Thousands)	**Quoted Prices in Active Markets (Level 1)**	**Other Observable Inputs (Level 2)**	**Unobservable Inputs (Level 3)**	**Total Fair Value**
Recurring fair value measurements				
AVAILABLE-FOR-SALE SECURITIES:				
Obligations of U.S. Government agencies	$0	$45,877	$0	$45,877
Obligations of states and political subdivisions:				
Tax-exempt	0	128,426	0	128,426
Taxable	0	34,471	0	34,471
Mortgage-backed securities	0	86,208	0	86,208
Collateralized mortgage obligations,				
Issued by U.S. Government agencies	0	178,092	0	178,092
Collateralized debt obligations	0	660	0	660
Total debt securities	0	473,734	0	473,734
Marketable equity securities	8,924	0	0	8,924
Total available-for-sale securities	8,924	473,734	0	482,658
Servicing rights	0	0	1,123	1,123
Total recurring fair value measurements	$8,924	$473,734	$1,123	$483,781
Nonrecurring fair value measurements				
Impaired loans with a valuation allowance	$0	$0	$9,889	$9,889
Valuation allowance	0	0	(2,333)	(2,333)
Impaired loans, net	0	0	7,556	7,556
Foreclosed assets held for sale	0	0	892	892
Total nonrecurring fair value measurements	$0	$0	$8,448	$8,448

	December 31, 2012			
(In Thousands)	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total Fair Value
Recurring fair value measurements				
AVAILABLE-FOR-SALE SECURITIES:				
Obligations of U.S. Government agencies	$0	$31,217	$0	$31,217
Obligations of states and political subdivisions:				
Tax-exempt	0	137,020	0	137,020
Taxable	0	24,817	0	24,817
Mortgage-backed securities	0	80,196	0	80,196
Collateralized mortgage obligations,				
Issued by U.S. Government agencies	0	183,510	0	183,510
Trust preferred securities issued by individual institutions	0	5,171	0	5,171
Collateralized debt obligations:				
Pooled trust preferred securities - senior tranches	0	0	1,613	1,613
Other collateralized debt obligations	0	660	0	660
Total debt securities	0	462,591	1,613	464,204
Marketable equity securities	8,373	0	0	8,373
Total available-for-sale securities	8,373	462,591	1,613	472,577
Servicing rights	0	0	605	605
Total recurring fair value measurements	$8,373	$462,591	$2,218	$473,182
Nonrecurring fair value measurements				
Impaired loans with a valuation allowance	$0	$0	$2,710	$2,710
Valuation allowance	0	0	(623)	(623)
Impaired loans, net	0	0	2,087	2,087
Foreclosed assets held for sale	0	0	879	879
Total nonrecurring fair value measurements	$0	$0	$2,966	$2,966

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

Management's evaluation and selection of valuation techniques and the unobservable inputs used in determining the fair values of assets valued using Level 3 methodologies include sensitive assumptions. Other market participants might use substantially different assumptions, which could result in calculations of fair values that would be substantially different than the amount calculated by management. The following table shows quantitative information regarding significant techniques and inputs used at December 31, 2013 and 2012 for assets measured using unobservable inputs (Level 3 methodologies) on a recurring basis:

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Asset	Fair Value at 12/31/13 (In Thousands)	Valuation Technique	Unobservable Input(s)	Method or Value As of 12/31/13	
Servicing rights	$1,123	Discounted cash flow	Discount rate	12.00%	Rate used through modeling peri
			Loan prepayment speeds	152.00%	Weighted-average PSA
			Servicing fees	0.25%	of loan balances
				4.00%	of payments are late
				5.00%	late fees assessed
				$1.94	Miscellaneous fees per account p
			Servicing costs	$6.00	Monthly servicing cost per accou
				$24.00	Additional monthly servicing co loan on loans more than 30 days
				1.50%	of loans more than 30 days delin
				3.00%	annual increase in servicing cost

Asset	Fair Value at 12/31/12 (In Thousands)	Valuation Technique	Unobservable Input(s)	Method or Value As of 12/31/12	
Pooled trust preferred securities - senior tranches	$1,613	Discounted cash flow	Issuer defaults	50.26%	Actual deferrals and defaults as % of outstanding collateral
				19.73%	Expected additional net deferrals and defaults as % of performing collateral
			Issuer prepayments	41.24%	Expected issuer prepayments as % of performing collateral
			Discount rate	11.70%	Implied 7.57% discount rate at 12/31/07 plus 4.13% spread for credit and liquidity risk
Servicing rights	605	Discounted cash flow	Discount rate	12.00%	Rate used through modeling period
			Loan prepayment speeds	288.00%	Weighted-average PSA
			Servicing fees	0.25%	of loan balances
				5.00%	of payments are late
				5.00%	late fees assessed

	$1.94	Miscellaneous fees per account per month
Servicing costs	$6.00	Monthly servicing cost per account
	$24.00	Additional monthly servicing cost per loan on loans more than 30 days delinquent
	1.50%	of loans more than 30 days delinquent
	3.00%	annual increase in servicing costs

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

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

	Year Ended December 31, 2013			
(In Thousands)	**Pooled Trust Preferred Securities - Senior Tranches**	**Pooled Trust Preferred Securities - Mezzanine Tranches**	**Servicing Rights**	**Total**
Balance, beginning of period	$1,613	$0	$605	$2,218
Issuances of servicing rights	0	0	673	673
Accretion and amortization, net	(2)	0	0	(2)
Proceeds from sales and calls	(1,636)	(571)	0	(2,207)
Realized gains, net	23	571	0	594
Unrealized losses included in earnings	0	0	(155)	(155)
Unrealized gains (losses) included in other comprehensive income	2	0	0	2
Balance, end of period	$0	$0	$1,123	$1,123

(In Thousands)	Year Ended December 31, 2012 Pooled Trust Preferred Securities - Senior Tranches	Pooled Trust Preferred Securities - Mezzanine Tranches	Servicing Rights	Total
Balance, beginning of period	$4,638	$730	$375	$5,743
Issuances of servicing rights	0	0	327	327
Accretion and amortization, net	(8)	0	0	(8)
Proceeds from sales and calls	(3,429)	(1,835)	0	(5,264)
Realized gains, net	56	1,835	0	1,891
Unrealized losses included in earnings	0	0	(97)	(97)
Unrealized gains (losses) included in other comprehensive income	356	(730)	0	(374)
Balance, end of period	$1,613	$0	$605	$2,218

	Year Ended December 31, 2011 Pooled Trust Preferred Securities - Senior Tranches	Pooled Trust Preferred Securities - Mezzanine Tranches	Servicing Rights	Total
Balance, beginning of period	$7,400	$0	$204	$7,604
Issuances of servicing rights	0	0	239	239
Accretion and amortization, net	(41)	0	0	(41)
Proceeds from sales and calls	(5,001)	(98)	0	(5,099)
Realized gains, net	81	98	0	179
Unrealized losses included in earnings	0	0	(68)	(68)
Unrealized gains included in other comprehensive income	2,199	730	0	2,929
Balance, end of period	$4,638	$730	$375	$5,743

No other-than-temporary impairment losses on securities valued using Level 3 methodologies were recorded in 2013, 2012 or 2011.

Certain of the Corporation's financial instruments are not measured at fair value in the consolidated financial statements. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument. Certain financial instruments and all nonfinancial instruments are excluded from disclosure requirements. Therefore, the aggregate fair value amounts presented may not represent the underlying fair value of the Corporation.

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

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

CERTIFICATES OF DEPOSIT - Fair values for certificates of deposit, included in cash and due from banks in the consolidated balance sheet, are based on quoted market prices for certificates of similar remaining maturities.

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

LOANS HELD FOR SALE - Fair values of loans held for sale are determined based on applicable sale prices available under the Federal Home Loan Banks' MPF Xtra program.

LOANS - Fair values are estimated for portfolios of loans with similar financial characteristics. Loans are segregated by type such as commercial, commercial real estate, residential mortgage and other consumer. Each loan category is further segmented into fixed-rate and adjustable-rate interest terms and by performing and nonperforming categories. The fair value of performing loans is calculated by discounting contractual cash flows, adjusted for estimated prepayments based on historical experience, using estimated market discount rates that reflect the credit and interest rate risk inherent in the loans. Fair value of nonperforming loans is based on recent appraisals or estimates prepared by the Corporation’s lending officers.

SERVICING RIGHTS - The fair value of servicing rights, included in other assets in the consolidated balance sheet, is determined through a discounted cash flow valuation. Significant inputs include expected net servicing income, the discount rate and the expected prepayment speeds of the underlying loans.

DEPOSITS - The fair value of deposits with no stated maturity, such as noninterest-bearing demand deposits, savings, money market and interest checking accounts, is (by definition) equal to the amount payable at December 31, 2013 and 2012. The fair value of time deposits, such as certificates of deposit and Individual Retirement Accounts, is based on the discounted value of contractual cash flows. The discount rate is estimated using the rates currently offered for deposits of similar remaining maturities. The fair value estimates of deposits do not include the benefit that results from the low-cost funding provided by the deposit liabilities compared to the cost of borrowing funds in the market, commonly referred to as the core deposit intangible.

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

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

OFF-BALANCE SHEET COMMITMENTS - The Corporation has commitments to extend credit and has issued standby letters of credit. Standby letters of credit are conditional guarantees of performance by a customer to a third party. Estimates of the fair value of these off-balance sheet items were not made because of the short-term nature of these arrangements and the credit standing of the counterparties.

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

(In Thousands)	**Valuation**	**December 31, 2013**		**December 31, 2012**	
	Method(s)	**Carrying**	**Fair**	**Carrying**	**Fair**

	Used	Amount	Value	Amount	Value
Financial assets:					
Cash and cash equivalents	Level 1	$38,591	$38,591	$55,016	$55,016
Certificates of deposit	Level 2	6,028	6,057	4,860	4,860
Available-for-sale securities	See Above	482,658	482,658	472,577	472,577
Restricted equity securities (included in Other Assets)	Level 2	3,786	3,786	4,842	4,842
Loans held for sale	Level 1	54	54	2,545	2,545
Loans, net	Level 3	635,640	634,937	677,053	693,047
Accrued interest receivable	Level 1	4,146	4,146	4,281	4,281
Servicing rights	Level 3	1,123	1,123	605	605
Financial liabilities:					
Deposits with no stated maturity	Level 1	693,479	693,479	693,687	693,687
Time deposits	Level 3	261,037	262,376	312,419	315,005
Short-term borrowings	Level 3	23,385	23,356	5,567	5,527
Long-term borrowings	Level 3	73,338	79,400	83,812	96,032
Accrued interest payable	Level 1	120	120	137	137

7. SECURITIES

Amortized cost and fair value of available-for-sale securities at December 31, 2013 and 2012 are summarized as follows:

(In Thousands)	December 31, 2013 Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
Obligations of U.S. Government agencies	$47,382	$282	($1,787)	$45,877
Obligations of states and political subdivisions:				
Tax-exempt	127,748	2,766	(2,088)	128,426
Taxable	35,154	206	(889)	34,471
Mortgage-backed securities	84,849	1,819	(460)	86,208
Collateralized mortgage obligations,				
Issued by U.S. Government agencies	182,372	761	(5,041)	178,092
Collateralized debt obligations:	660	0	0	660
Total debt securities	478,165	5,834	(10,265)	473,734
Marketable equity securities	6,038	2,886	0	8,924
Total	$484,203	$8,720	($10,265)	$482,658

(In Thousands)	Amortized Cost	December 31, 2012 Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
Obligations of U.S. Government agencies	$30,695	$572	($50)	$31,217
Obligations of states and political subdivisions:				
Tax-exempt	130,168	7,030	(178)	137,020
Taxable	24,426	462	(71)	24,817
Mortgage-backed securities	76,368	3,828	0	80,196
Collateralized mortgage obligations,				
Issued by U.S. Government agencies	179,770	3,887	(147)	183,510
Trust preferred securities issued by individual institutions	5,167	4	0	5,171
Collateralized debt obligations:				
Pooled trust preferred securities - senior tranches	1,615	0	(2)	1,613
Other collateralized debt obligations	660	0	0	660
Total debt securities	448,869	15,783	(448)	464,204
Marketable equity securities	5,912	2,500	(39)	8,373
Total	$454,781	$18,283	($487)	$472,577

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The following table presents gross unrealized losses and fair value of available-for-sale securities with unrealized loss positions that are not deemed to be other-than-temporarily impaired, aggregated by length of time that individual securities have been in a continuous unrealized loss position at December 31, 2013 and 2012:

December 31, 2013	**Less Than 12 Months**		**12 Months or More**		**Total**	
(In Thousands)	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
Obligations of U.S. Government agencies	$22,489	($1,337)	$4,598	($450)	$27,087	($1,787)
Obligations of states and political subdivisions:						
Tax-exempt	44,285	(1,425)	5,808	(663)	50,093	(2,088)
Taxable	20,873	(766)	2,378	(123)	23,251	(889)
Mortgage-backed securities	34,377	(460)	0	0	34,377	(460)
Collateralized mortgage obligations,						
Issued by U.S. Government agencies	113,204	(4,608)	7,399	(433)	120,603	(5,041)
Total temporarily impaired available-for-sale securities	$235,228	($8,596)	$20,183	($1,669)	$255,411	($10,265)

December 31, 2012	**Less Than 12 Months**		**12 Months or More**		**Total**	
(In Thousands)	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
Obligations of U.S. Government agencies	$10,006	($50)	$0	$0	$10,006	($50)
Obligations of states and political subdivisions:						
Tax-exempt	7,082	(92)	3,285	(86)	10,367	(178)
Taxable	4,149	(71)	0	0	4,149	(71)
Collateralized mortgage obligations,						
Issued by U.S. Government agencies	16,755	(146)	454	(1)	17,209	(147)
Collateralized debt obligations,						
Pooled trust preferred securities - senior tranches	0	0	1,613	(2)	1,613	(2)
Total debt securities	37,992	(359)	5,352	(89)	43,344	(448)
Marketable equity securities	95	(6)	67	(33)	162	(39)
Total temporarily impaired available-for-sale securities	$38,087	($365)	$5,419	($122)	$43,506	($487)

Gross realized gains and losses from available-for-sale securities (including OTTI losses in gross realized losses) and the related income tax provision were as follows:

(In Thousands)	**2013**	**2012**	**2011**
Gross realized gains from sales	$1,918	$2,798	$2,226
Gross realized losses from sales	(175)	(49)	(10)

Losses from OTTI Impairment	(25)	(67)	0
Net realized gains	$1,718	$2,682	$2,216
Income tax provision related to net realized gains	$601	$939	$753

The amortized cost and fair value of available-for-sale debt securities by contractual maturity are shown in the following table as of December 31, 2013. Actual maturities may differ from contractual maturities because counterparties may have the right to call or prepay obligations with or without call or prepayment penalties.

(In Thousands)	**Amortized Cost**	**Fair Value**
Due in one year or less	$25,738	$25,925
Due from one year through five years	48,781	49,064
Due from five years through ten years	75,719	73,454
Due after ten years	60,705	60,990
Subtotal	210,943	209,433
Mortgage-backed securities	84,849	86,208
Collateralized mortgage obligations,		
Issued by U.S. Government agencies	182,373	178,093
Total	$478,165	$473,734

The Corporation’s mortgage-backed securities and collateralized mortgage obligations have stated maturities that may differ from actual maturities due to borrowers’ ability to prepay obligations. Cash flows from such investments are dependent upon the performance of the underlying mortgage loans and are generally influenced by the level of interest rates. In the table above, mortgage-backed securities and collateralized mortgage obligations are shown in one period.

Investment securities carried at $323,613,000 at December 31, 2013 and $293,310,000 at December 31, 2012 were pledged as collateral for public deposits, trusts and certain other deposits as provided by law. See Note 12 for information concerning securities pledged to secure borrowing arrangements.

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

The Corporation recognized net impairment losses in earnings, as follows:

(In Thousands)	**2013**	**2012**	**2011**
Marketable equity securities (bank stocks)	($25)	($67)	$0

A summary of information management considered in evaluating debt and equity securities for OTTI at December 31, 2013 is provided below.

Debt Securities

At December 31, 2013, management performed an assessment for possible OTTI of the Corporation's debt securities on an issue-by-issue basis, relying on information obtained from various sources, including publicly available financial data, ratings by external agencies, brokers and other sources. The extent of individual analysis applied to each security depended on the size of the Corporation's investment, as well as management's perception of the credit risk associated with each security. Based on the results of the assessment, management believes impairment of these debt securities, including municipal bonds with no external ratings, at December 31, 2013 to be temporary.

At December 31, 2013, the total amortized cost basis of municipal bonds with no external credit ratings was $20,303,000, with an aggregate unrealized loss of $789,000. At the time of purchase, each of these bonds was considered investment grade and had been rated by at least one credit rating agency. Most of the bonds for which credit rating agencies have withdrawn their ratings were insured by an entity that has reported significant financial problems and declines in its regulatory capital ratios, and most of the ratings were removed in the fourth quarter 2009. However, the insurance remains in effect on the bonds. In the third quarter 2013, a credit rating agency withdrew its ratings on several bonds due to changes in its rating methodology related to credit enhancement programs provided by issuers' state governments. However, the credit enhancement remains in effect on the bonds. None of the unrated municipal bonds has failed to make a scheduled payment.

The Corporation recognized OTTI charges in 2009 and 2010 related to its holding of a trust preferred security issued by Carolina First Mortgage Loan Trust, a subsidiary of The South Financial Group, Inc. In the fourth quarter 2010, The Toronto-Dominion Bank acquired The South Financial Group, Inc. After the acquisition, The Toronto-Dominion Bank made a payment for the full amount of previously deferred interest and resumed quarterly payments on the security. The Corporation recognized a material change in the expected cash flows in the fourth quarter 2010 and began recording accretion income (included in interest income) to offset the previous OTTI charges as an adjustment to the security's yield over its remaining life. The security had a face amount of $2,000,000 and matured in May 2012. Because the security matured, the Corporation recorded no accretion income in 2013. The Corporation recorded accretion income totaling $855,000 in 2012 and $825,000 in 2011.

During the second quarter 2013, the Corporation's holding of the senior tranche of MMCAPS Funding I, Ltd., a pooled trust preferred security, was fully redeemed primarily due to prepayments of debt by the underlying issuers in the pool. The Corporation received aggregate proceeds of $1,636,000, which included a realized pretax gain of $23,000. Also during the second quarter 2013, Astoria Financial Corporation redeemed (called) the trust preferred security held by the Corporation. The Corporation received aggregate proceeds of $5,171,000, which included a realized pretax gain of $13,000.

During the first quarter 2013, management sold the Corporation's holding of the mezzanine tranche of ALESCO Preferred Funding IX, Ltd. for aggregate pretax proceeds of $571,000, which was recorded as a gain on the sale of securities. This security had an original face amount of $3,000,000. In 2009, the Corporation recognized other-than-temporary impairment on this security and wrote the carrying value down to zero.

During the third quarter 2012, management sold the Corporation's holdings of the mezzanine tranches of U.S. Capital Funding II, Ltd. The securities were sold for aggregate pretax proceeds of $1,754,000, which was recorded as a gain on the sale of securities. During the first quarter 2011, management sold the Corporation's holding of the mezzanine tranche of MMCAPS Funding I, Ltd. The security was sold for aggregate pretax proceeds of $1,485,000, which was recorded as a gain on the sale of securities.

Equity Securities

The Corporation's marketable equity securities at December 31, 2013 and 2012 consisted exclusively of stocks of banking companies. In 2013, the Corporation recognized an other-than-temporary impairment loss related to a bank stock of $25,000. In 2012, the Corporation recognized an other-than-temporary impairment loss related to a bank stock of $67,000. The Corporation recognized no other-than-temporary impairment losses related to bank stocks in 2011. Management's decisions to recognize other-than-temporary impairment losses followed evaluations of the issuers' published financial results in which management determined that the recovery of the Corporation's cost basis within the foreseeable future was uncertain. As a result of this determination, the Corporation recognized impairment losses to write each stock down to the most recent trade price at the end of the quarter in which each loss was recognized. At December 31, 2013, none of the Corporation's bank stock holdings were impaired.

Realized gains from sales of bank stocks totaled $1,018,000 in 2013, $538,000 in 2012 and $91,000 in 2011.

C&N Bank is a member of the Federal Home Loan Bank of Pittsburgh (FHLB-Pittsburgh), which is one of 12 regional Federal Home Loan Banks. As a member, C&N Bank is required to purchase and maintain stock in FHLB-Pittsburgh. There is no active market for FHLB-Pittsburgh stock, and it must ordinarily be redeemed by FHLB-Pittsburgh in order to be liquidated. C&N Bank's investment in FHLB-Pittsburgh stock, included in Other Assets in the consolidated balance sheet, was $3,656,000 at December 31, 2013 and $4,712,000 at December 31, 2012. The Corporation evaluated its holding of FHLB-Pittsburgh stock for impairment and deemed the stock to not be impaired at December 31, 2013 and December 31, 2012. In making this determination, management concluded that recovery of total outstanding par value, which equals the carrying value, is expected. The decision was based on review of financial information that FHLB-Pittsburgh has made publicly available.

8. LOANS

Loans outstanding at December 31, 2013 and 2012 are summarized as follows:

Summary of Loans by Type (In Thousands)	**Dec. 31, 2013**	**Dec. 31, 2012**
Residential mortgage:		
Residential mortgage loans - first liens	$299,831	$311,627
Residential mortgage loans - junior liens	23,040	26,748
Home equity lines of credit	34,530	33,017
1-4 Family residential construction	13,909	12,842
Total residential mortgage	371,310	384,234
Commercial:		
Commercial loans secured by real estate	147,215	158,413
Commercial and industrial	42,387	48,442
Political subdivisions	16,291	31,789
Commercial construction and land	17,003	28,200
Loans secured by farmland	10,468	11,403
Multi-family (5 or more) residential	10,985	6,745
Agricultural loans	3,251	3,053
Other commercial loans	14,631	362
Total commercial	262,231	288,407
Consumer	10,762	11,269
Total	644,303	683,910
Less: allowance for loan losses	(8,663)	(6,857)
Loans, net	$635,640	$677,053

The Corporation grants loans to individuals as well as commercial and tax-exempt entities. Commercial, residential and personal loans are made to customers geographically concentrated in the Pennsylvania and New York counties that make up the market serviced by Citizens & Northern Bank. Although the Corporation has a diversified loan portfolio, a significant portion of its debtors' ability to honor their contracts is dependent on the local economic conditions within the region. There is no concentration of loans to borrowers engaged in similar businesses or activities that exceed 10% of total loans at December 31, 2013.

Transactions within the allowance for loan losses, summarized by segment and class, were as follows:

Year Ended December 31, 2013 (In Thousands)	Dec. 31, 2012 Balance	Charge-offs	Recoveries	Provision (Credit)	Dec. 31, 2013 Balance
Allowance for Loan Losses:					
Residential mortgage:					
Residential mortgage loans - first liens	$2,619	($84)	$24	$415	$2,974
Residential mortgage loans - junior liens	247	0	0	47	294
Home equity lines of credit	255	0	0	14	269
1-4 Family residential construction	96	(11)	0	83	168
Total residential mortgage	3,217	(95)	24	559	3,705
Commercial:					
Commercial loans secured by real estate	1,930	(169)	344	1,018	3,123
Commercial and industrial	581	(286)	4	292	591
Political subdivisions	0	0	0	0	0
Commercial construction and land	234	(4)	0	37	267
Loans secured by farmland	129	0	0	(14)	115
Multi-family (5 or more) residential	67	0	0	36	103
Agricultural loans	27	0	0	3	30
Other commercial loans	3	0	0	135	138
Total commercial	2,971	(459)	348	1,507	4,367
Consumer	228	(117)	58	24	193
Unallocated	441	0	0	(43)	398
Total Allowance for Loan Losses	$6,857	($671)	$430	$2,047	$8,663

Year Ended December 31, 2012 (In Thousands)	Dec. 31, 2011 Balance	Charge-offs	Recoveries	Provision (Credit)	Dec. 31, 2012 Balance
Allowance for Loan Losses:					
Residential mortgage:					
Residential mortgage loans - first liens	$3,026	($543)	$18	$118	$2,619
Residential mortgage loans - junior liens	266	(9)	0	(10)	247
Home equity lines of credit	231	0	0	24	255
1-4 Family residential construction	79	0	0	17	96
Total residential mortgage	3,602	(552)	18	149	3,217
Commercial:					
Commercial loans secured by real estate	2,004	0	1	(75)	1,930
Commercial and industrial	946	(57)	7	(315)	581
Political subdivisions	0	0	0	0	0
Commercial construction and land	267	(441)	0	408	234
Loans secured by farmland	126	0	0	3	129
Multi-family (5 or more) residential	66	0	0	1	67
Agricultural loans	27	0	0	0	27

Other commercial loans	5	0	0	(2)	3
Total commercial	3,441	(498)	8	20	2,971
Consumer	228	(171)	59	112	228
Unallocated	434	0	0	7	441
Total Allowance for Loan Losses	$7,705	($1,221)	$85	$288	$6,857

(In Thousands)	December 31, 2010 Balance	Charge-offs	Recoveries	Provision (Credit)	December 31, 2011 Balance
Allowance for Loan Losses:					
Residential mortgage:					
Residential mortgage loans - first liens	$2,745	($49)	$0	$330	$3,026
Residential mortgage loans - junior liens	334	(51)	3	(20)	266
Home equity lines of credit	218	0	0	13	231
1-4 Family residential construction	208	0	0	(129)	79
Total residential mortgage	3,505	(100)	3	194	3,602
Commercial:					
Commercial loans secured by real estate	3,314	(973)	1	(338)	2,004
Commercial and industrial	862	(216)	254	46	946
Political subdivisions	0	0	0	0	0
Commercial construction and land	590	0	0	(323)	267
Loans secured by farmland	139	0	0	(13)	126
Multi-family (5 or more) residential	63	0	0	3	66
Agricultural loans	32	0	0	(5)	27
Other commercial loans	0	0	0	5	5
Total commercial	5,000	(1,189)	255	(625)	3,441
Consumer	289	(157)	71	25	228
Unallocated	313	0	0	121	434
Total Allowance for Loan Losses	$9,107	($1,446)	$329	($285)	$7,705

In the evaluation of the loan portfolio, management determines two major components for the allowance for loan losses – (1) a specific component based on an assessment of certain larger relationships, mainly commercial purpose loans, on a loan-by-loan basis; and (2) a general component for the remainder of the portfolio based on a collective evaluation of pools of loans with similar risk characteristics.

In determining the larger loan relationships for detailed assessment under the specific allowance component, the Corporation uses an internal risk rating system. Under the risk rating system, the Corporation classifies problem or potential problem loans as "Special Mention," "Substandard," or "Doubtful" on the basis of currently existing facts, conditions and values. Substandard loans include those characterized by the distinct possibility that the Corporation will sustain some loss if the deficiencies are not corrected. Loans classified as Doubtful have all the weaknesses inherent in those classified as Substandard with the added characteristic that the weaknesses present make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable. Loans that do not currently expose the Corporation to sufficient risk to warrant classification as Substandard or Doubtful, but possess weaknesses that deserve management's close attention, are deemed to be Special Mention. Risk ratings are updated any time that conditions or the situation warrants. Loans not classified are included in the "Pass" column in the table below.

The following tables summarize the aggregate credit quality classification of outstanding loans by risk rating as of December 31, 2013 and 2012:

December 31, 2013: **(In Thousands)**	**Pass**	**Special Mention**	**Substandard**	**Doubtful**	**Total**
Residential mortgage:					
Residential mortgage loans - first liens	$286,144	$1,876	$11,629	$182	$299,831
Residential mortgage loans - junior liens	21,694	351	995	0	23,040
Home equity lines of credit	33,821	295	414	0	34,530
1-4 Family residential construction	13,837	0	72	0	13,909
Total residential mortgage	355,496	2,522	13,110	182	371,310
Commercial:					
Commercial loans secured by real estate	129,834	5,866	11,368	147	147,215
Commercial and Industrial	32,317	6,697	3,138	235	42,387
Political subdivisions	16,291	0	0	0	16,291
Commercial construction and land	13,792	427	2,036	748	17,003
Loans secured by farmland	8,279	758	1,402	29	10,468
Multi-family (5 or more) residential	10,665	316	4	0	10,985
Agricultural loans	3,169	34	48	0	3,251
Other commercial loans	14,532	99	0	0	14,631
Total Commercial	228,879	14,197	17,996	1,159	262,231
Consumer	10,587	6	169	0	10,762
Totals	$594,962	$16,725	$31,275	$1,341	$644,303

December 31, 2012: **(In Thousands)**	**Pass**	**Special Mention**	**Substandard**	**Doubtful**	**Total**
Residential mortgage:					
Residential mortgage loans - first liens	$295,929	$3,633	$11,872	$193	$311,627
Residential mortgage loans - junior liens	25,394	420	934	0	26,748
Home equity lines of credit	32,374	130	513	0	33,017
1-4 Family residential construction	12,759	0	83	0	12,842
Total residential mortgage	366,456	4,183	13,402	193	384,234
Commercial:					
Commercial loans secured by real estate	146,381	6,994	5,038	0	158,413
Commercial and Industrial	41,237	3,030	3,810	365	48,442
Political subdivisions	31,679	110	0	0	31,789
Commercial construction and land	26,744	231	477	748	28,200
Loans secured by farmland	9,102	751	1,517	33	11,403
Multi-family (5 or more) residential	6,394	342	9	0	6,745
Agricultural loans	2,963	28	62	0	3,053
Other commercial loans	362	0	0	0	362
Total Commercial	264,862	11,486	10,913	1,146	288,407
Consumer	11,053	12	203	1	11,269

Totals	$642,371	$15,681	$24,518	$1,340	$683,910

The scope of loans evaluated individually for impairment include all loan relationships greater than $200,000 for which there is at least one extension of credit graded Special Mention, Substandard or Doubtful. Also, all loans classified as troubled debt restructurings (discussed in more detail below) and all loan relationships less than $200,000 in the aggregate, but with an estimated loss of $100,000 or more, are individually evaluated for impairment. Loans that are individually evaluated for impairment, but which are not determined to be impaired, are combined with all remaining loans that are not reviewed on a specific basis, and such loans are included within larger pools of loans based on similar risk and loss characteristics for purposes of determining the general component of the allowance. The loans that have been individually evaluated, but which have not been determined to be impaired, are included in the "Collectively Evaluated" column in the table summarizing the allowance and associated loan balances as of December 31, 2013 and 2012.

The following tables present a summary of loan balances and the related allowance for loan losses summarized by portfolio segment and class for each impairment method used as of December 31, 2013 and 2012:

December 31, 2013 (In Thousands)	**Loans:**			**Allowance for Loan Losses:**		
	Individually Evaluated	**Collectively Evaluated**	**Totals**	**Individually Evaluated**	**Collectively Evaluated**	**Totals**
Residential mortgage:						
Residential mortgage loans - first liens	$2,727	$297,104	$299,831	$449	$2,525	$2,974
Residential mortgage loans - junior liens	183	22,857	23,040	100	194	294
Home equity lines of credit	0	34,530	34,530	0	269	269
1-4 Family residential construction	0	13,909	13,909	0	168	168
Total residential mortgage	2,910	368,400	371,310	549	3,156	3,705
Commercial:						
Commercial loans secured by real estate	7,988	139,227	147,215	1,577	1,546	3,123
Commercial and industrial	1,276	41,111	42,387	106	485	591
Political subdivisions	0	16,291	16,291	0	0	0
Commercial construction and land	2,776	14,227	17,003	72	195	267
Loans secured by farmland	1,318	9,150	10,468	29	86	115
Multi-family (5 or more) residential	0	10,985	10,985	0	103	103
Agricultural loans	48	3,203	3,251	0	30	30
Other commercial loans	0	14,631	14,631	0	138	138
Total commercial	13,406	248,825	262,231	1,784	2,583	4,367
Consumer	5	10,757	10,762	0	193	193
Unallocated						398
Total	$16,321	$627,982	$644,303	$2,333	$5,932	$8,663

December 31, 2012 (In Thousands)	**Loans:**			**Allowance for Loan Losses:**		
	Individually Evaluated	**Collectively Evaluated**	**Totals**	**Individually Evaluated**	**Collectively Evaluated**	**Totals**
Residential mortgage:						
Residential mortgage loans - first liens	$2,341	$309,286	$311,627	$206	$2,413	$2,619
Residential mortgage loans - junior liens	158	26,590	26,748	0	247	247
Home equity lines of credit	0	33,017	33,017	0	255	255
1-4 Family residential construction	0	12,842	12,842	0	96	96
Total residential mortgage	2,499	381,735	384,234	206	3,011	3,217
Commercial:						
Commercial loans secured by real estate	1,938	156,475	158,413	146	1,784	1,930
Commercial and industrial	939	47,503	48,442	197	384	581
Political subdivisions	0	31,789	31,789	0	0	0
Commercial construction and land	1,034	27,166	28,200	0	234	234
Loans secured by farmland	923	10,480	11,403	34	95	129
Multi-family (5 or more) residential	9	6,736	6,745	0	67	67

Agricultural loans	40	3,013	3,053	0	27	27
Other commercial loans	0	362	362	0	3	3
Total commercial	4,883	283,524	288,407	377	2,594	2,971
Consumer	47	11,222	11,269	40	188	228
Unallocated						441
Total	$7,429	$676,481	$683,910	$623	$5,793	$6,857

Summary information related to impaired loans as of December 31, 2013 and 2012 is as follows:

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(In Thousands)	2013	2012
Impaired loans with a valuation allowance	$9,889	$2,710
Impaired loans without a valuation allowance	6,432	4,719
Total impaired loans	$16,321	$7,429
Valuation allowance related to impaired loans	$2,333	$623

Additional summary information related to impaired loans for 2013, 2012 and 2011 is as follows:

(In Thousands)	2013	2012	2011
Average investment in impaired loans	$9,690	$7,209	$7,455
Interest income recognized on impaired loans	$426	$278	$245
Interest income recognized on a cash basis on impaired loans	$426	$278	$245

The breakdown by portfolio segment and class of nonaccrual loans and loans past due ninety days or more and still accruing is as follows:

(In Thousands)	December 31, 2013		December 31, 2012	
	Past Due 90+ Days and Accruing	Nonaccrual	Past Due 90+ Days and Accruing	Nonaccrual
Residential mortgage:				
Residential mortgage loans - first liens	$2,016	$3,533	$1,900	$3,064
Residential mortgage loans - junior liens	187	110	29	111
Home equity lines of credit	87	62	40	200
1-4 Family residential construction	0	72	0	0
Total residential mortgage	2,290	3,777	1,969	3,375
Commercial:				
Commercial loans secured by real estate	744	7,096	120	1,338
Commercial and industrial	17	434	68	761
Commercial construction and land	5	2,663	149	887
Loans secured by farmland	0	902	0	923
Agricultural loans	0	35	0	40
Total commercial	766	11,130	337	3,949
Consumer	75	27	5	29
Totals	$3,131	$14,934	$2,311	$7,353

The amounts shown in the table immediately above include loans classified as troubled debt restructurings (described in more detail below), if such loans are considered past due ninety days or more, or nonaccrual.

The tables below present a summary of the contractual aging of loans as of December 31, 2013 and 2012:

(In Thousands)	As of December 31, 2013 Current & Past Due Less than 30 Days	Past Due 30-89 Days	Past Due 90+ Days	Total	As of December 31, 2012 Current & Past Due Less than 30 Days	Past Due 30-89 Days	Past Due 90+ Days	Total
Residential mortgage:								
Residential mortgage loans - first liens	$289,483	$6,776	$3,572	$299,831	$302,373	$6,228	$3,026	$311,627
Residential mortgage loans - junior liens	22,247	506	287	23,040	26,247	371	130	26,748
Home equity lines of credit	34,263	118	149	34,530	32,593	184	240	33,017
1-4 Family residential construction	13,837	0	72	13,909	12,627	215	0	12,842
Total residential mortgage	359,830	7,400	4,080	371,310	373,840	6,998	3,396	384,234
Commercial:								
Commercial loans secured by real estate	145,055	405	1,755	147,215	156,834	704	875	158,413
Commercial and industrial	41,730	434	223	42,387	47,569	317	556	48,442
Political subdivisions	16,291	0	0	16,291	31,789	0	0	31,789
Commercial construction and land	14,303	32	2,668	17,003	26,944	248	1,008	28,200
Loans secured by farmland	9,267	329	872	10,468	10,438	75	890	11,403
Multi-family (5 or more) residential	10,985	0	0	10,985	6,743	2	0	6,745
Agricultural loans	3,203	13	35	3,251	3,003	10	40	3,053
Other commercial loans	14,631	0	0	14,631	362	0	0	362
Total commercial	255,465	1,213	5,553	262,231	283,682	1,356	3,369	288,407
Consumer	10,516	171	75	10,762	11,135	129	5	11,269
Totals	$625,811	$8,784	$9,708	$644,303	$668,657	$8,483	$6,770	$683,910

Nonaccrual loans are included in the contractual aging immediately above. A summary of the contractual aging of nonaccrual loans at December 31, 2013 and 2012 is as follows:

(In Thousands)	Current & Past Due Less than 30 Days	Past Due 30-89 Days	Past Due 90+ Days	Total
December 31, 2013 Nonaccrual Totals	$7,878	$479	$6,577	$14,934
December 31, 2012 Nonaccrual Totals	$2,167	$727	$4,459	$7,353

Loans whose terms are modified are classified as Troubled Debt Restructurings (TDRs) if the Corporation grants such borrowers concessions and it is deemed that those borrowers are experiencing financial difficulty. Loans classified as TDRs are designated as impaired. The outstanding balance of loans subject to TDRs, as well as the contractual aging information at December 31, 2013 and 2012 is as follows:

Troubled Debt Restructurings (TDRs):

(In Thousands)	Current & Past Due Less than 30 Days	Past Due 30-89 Days	Past Due 90+ Days	Nonaccrual	Total
December 31, 2013 Totals	$3,254	$13	$0	$908	$4,175
December 31, 2012 Totals	$785	$121	$0	$1,155	$2,061

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A summary of TDRs that occurred during 2013, 2012 and 2011 is as follows:

Year Ended December 31, 2013 (Balances in Thousands)	**Number of Contracts**	**Pre-Modification Outstanding Recorded Investment**	**Post-Modification Outstanding Recorded Investment**
Residential mortgage:			
Residential mortgage loans - first liens	6	$677	$677
Residential mortgage loans - junior liens	3	102	102
Commercial:			
Commercial loans secured by real estate	2	866	866
Commercial and industrial	3	701	701
Loans secured by farmland	4	512	512
Agricultural loans	1	13	13
Consumer	1	6	6

Year Ended December 31, 2012 (Balances in Thousands)	**Number of Contracts**	**Pre-Modification Outstanding Recorded Investment**	**Post-Modification Outstanding Recorded Investment**
Commercial,			
Commercial and industrial	1	$65	$65

Year Ended December 31, 2011 (Balances in Thousands)	**Number Of Contracts**	**Pre-Modification Outstanding Recorded Investment**	**Post-Modification Outstanding Recorded Investment**
Residential mortgage,			
Home equity lines of credit	1	$93	$93
Commercial:			
Commercial loans secured by real estate	11	1,941	1,941
Commercial and industrial	3	14	14
Commercial construction and land	5	1,238	1,238
Multi-family (5 or more) residential	1	15	15

The TDRs that occurred in 2013 included interest only payments for an extended period of time (14 contracts), extensions of the final maturity date (3 contracts), reduction in interest rate (2 contracts) and reduction in payment amount for one year (1 contract). There was no allowance for loan losses on these loans at December 31, 2013 and no change in the allowance for loan losses resulting from these TDRs in the year ended December 31, 2013.

The TDR in 2012 was an extension of the final maturity and lowering of monthly payments required on a commercial loan. There was no allowance for loan losses on this loan at December 31, 2012. This loan was charged off in 2013, and there had been no allowance for loan losses on this loan prior to the charge-off.

In the table above, the 2011 TDR category for commercial loans secured by real estate includes six (6) contracts that stem from a forbearance agreement entered into with a commercial customer. The total principal balance of loans included in the forbearance agreement was $1,588,000, of which the Corporation had charged off $663,000 in the second quarter 2011 (prior to the forbearance agreement), and subsequently charged off an additional $438,000 in the fourth quarter 2011. Under the terms of the forbearance agreement, the Corporation had agreed to accept payment of less than the total principal amount of the loans, assuming payment was received by dates specified within the forbearance agreement. In 2012, the loans were not repaid and the forbearance agreement expired. Accordingly, the Corporation's concession terminated, and the loans were not classified as TDRs at December 31, 2012. At December 31, 2012 and 2011, the outstanding balance of the loans was $466,000, and the Corporation had no related allowance for loan losses. In 2013, payments received from this customer were applied to reduce the outstanding balance of the loans to $0, with $343,000 applied as a recovery (credited to the allowance for loan losses).

Other TDRs in 2011 included extensions of terms and maturities at lower than current market rates and acceptance of interest-only payments for extended periods of time. Except for the fourth quarter 2011 charge-off of $438,000 related to commercial loans subject to the forbearance agreement described above, there were no changes in the allowance for loan losses in 2011 resulting from the TDRs that occurred in 2011.

In 2012, there were no defaults on loans for which modifications considered to be TDRs were entered into within the previous 12 months. For 2013 and 2011, defaults on loans for which modifications considered to be TDRs were entered into within the previous 12 months are summarized as follows:

	Number of Contracts	**Recorded Investment**
Year Ended December 31, 2013 (Balances in Thousands)		
Residential mortgage,		
Residential mortgage loans - first liens	1	$85
Commercial:		
Commercial loans secured by real estate	2	588
Commercial construction and land	1	110
Agricultural loans	1	13

	Number of Contracts	**Recorded Investment**
Year Ended December 31, 2011 (Balances in Thousands)		
Residential mortgage,		
Home equity lines of credit	1	$93
Commercial:		
Commercial loans secured by real estate	2	207
Commercial construction and land	2	1,089

The events of default in 2013 in the table above included the borrowers' failure to make timely payments under the following circumstances: (1) for the Residential mortgage loan, the monthly payment amount had been reduced, (2) for the two Commercial loans secured by real estate, monthly payments of interest only were missed, (3) for the Commercial construction and land loan, a monthly payment was missed after the term of the loan had been extended, and (4) for the Agricultural loan, payment at maturity was not made on a loan that had been in interest only status. There were no adjustments to the allowance for loan losses in 2013 as a result of these events of default.

The events of default in 2011 in the table above resulted from the borrowers' failure to make payments due at maturity, based on loan maturity dates that had been extended from their original due dates. For one loan included in the Commercial construction and land class, with a balance of $950,000, the Corporation recorded a charge-off of $288,000 in 2012, leaving an outstanding balance of $662,000 at December 31, 2013 and 2012. The amount of the charge-off in 2012 exceeded the allowance for loan losses on the loan at December 31, 2011 by $223,000.

At December 31, 2013 and 2012, the Corporation evaluated loans to the borrowers who defaulted subsequent to restructurings, in determining the specific allowance for loan loss amounts related to the underlying loans. Based on the estimated value of the underlying collateral, net of estimated costs to sell the collateral, the Corporation determined that no allowance for loan losses was required at December 31, 2013 and 2012 for loans for which an event of default had occurred subsequent to restructuring.

9. BANK PREMISES AND EQUIPMENT

Bank premises and equipment are summarized as follows:

(In Thousands)	December 31,	
	2013	2012
Land	$2,818	$2,823
Buildings and improvements	26,869	26,850
Furniture and equipment	17,087	17,057
Construction in progress	2	40
Total	46,776	46,770
Less: accumulated depreciation	(29,346)	(28,063)
Net	$17,430	$18,707

Depreciation expense included in occupancy expense and furniture and equipment expense was as follows:

(In Thousands)	2013	2012	2011
Occupancy expense	$1,022	$1,050	$1,168
Furniture and equipment expense	998	889	909
Total	$2,020	$1,939	$2,077

10. INTANGIBLE ASSETS

There were no changes in the carrying amount of goodwill in 2013 and 2012. The balance in goodwill was $11,942,000 at December 31, 2013 and 2012. The Corporation did not complete any acquisitions in 2013 or 2012.

The Corporation has adopted ASU No. 2011-08, Intangibles – Goodwill and Other (Topic 350) – Testing Goodwill for Impairment. In testing goodwill for impairment as of December 31, 2013, the Corporation assessed qualitative factors to determine whether it is more likely than not that the fair value of its only reporting unit, its community banking operation, is less than its carrying amount. The qualitative factors assessed included the Corporation’s recent financial performance, economic conditions in the Corporation’s market area, macroeconomic conditions and other factors. Based on the assessment of qualitative factors, the Corporation determined that it is not more likely than not that the fair value of the community banking operation has fallen below its carrying value, and therefore, the Corporation did not perform the more detailed, two-step goodwill impairment test described in Topic 350. Accordingly, there was no goodwill impairment as of December 31, 2013.

Information related to the core deposit intangibles are as follows:

	December 31,	
(In Thousands)	**2013**	**2012**
Gross amount	$2,034	$2,034
Less: accumulated amortization	(1,947)	(1,896)
Net	$87	$138

Amortization expense was $51,000 in 2013, $74,000 in 2012 and $114,000. Estimated amortization expense for each of the ensuing five years is as follows:

(In Thousands)	
2014	$35
2015	22
2016	12
2017	6
2018	4

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11. DEPOSITS

At December 31, 2013, the scheduled maturities of time deposits are as follows:

(In Thousands)	
2014	$147,316
2015	63,508
2016	26,052
2017	13,549
2018	10,612
	$261,037

Included in interest-bearing deposits are time deposits in the amount of $100,000 or more. As of December 31, 2013, the remaining maturities or time to next re-pricing of time deposits of $100,000 or more are as follows:

(In Thousands)	
Three months or less	$42,707
Over 3 months through 12 months	11,703
Over 1 year through 3 years	9,921
Over 3 years	9,158
Total	$73,489

Interest expense from time deposits of $100,000 or more amounted to $721,000 in 2013, $1,846,000 in 2012 and $2,369,000 in 2011.

12. BORROWED FUNDS

SHORT-TERM BORROWINGS

Short-term borrowings include the following:

(In Thousands)	Dec. 31, 2013	Dec. 31, 2012
FHLB-Pittsburgh borrowings	$20,000	$0

Customer repurchase agreements	3,385	5,567
Total short-term borrowings	$23,385	$5,567

The weighted average interest rate on total short-term borrowings outstanding was 0.22% at December 31, 2013 and 0.10% at December 31, 2012. The maximum amount of total short-term borrowings outstanding at any month-end was $23,385,000 in 2013, $20,120,000 in 2012 and $21,968,000 in 2011.

Overnight borrowings are available from the FHLB-Pittsburgh, federal funds purchased overnight from other banks, and from the Federal Reserve Bank of Philadelphia's Discount Window. There were no overnight borrowings outstanding as of December 31, 2013 and 2012.

The Corporation had available credit with other correspondent banks totaling $45,000,000 at December 31, 2013 and 2012. These lines of credit are primarily unsecured. No amounts were outstanding at December 31, 2013 or December 31, 2012.

The Corporation has a line of credit with the Federal Reserve Bank of Philadelphia's Discount Window. At December 31, 2013, the Corporation had available credit in the amount of $26,078,000 on this line with no outstanding advances. At December 31, 2012 the Corporation had available credit in the amount of $27,367,000 on this line with no outstanding advances. As collateral for the line, the Corporation has pledged available-for-sale securities with a carrying value of $27,188,000 at December 31, 2013 and $28,432,000 at December 31, 2012.

The FHLB-Pittsburgh loan facilities are collateralized by qualifying loans secured by real estate with a book value totaling $453,792,000 at December 31, 2013 and $471,731,000 at December 31, 2012. Also, the FHLB-Pittsburgh loan facilities require the Corporation to invest in established amounts of FHLB-Pittsburgh stock. The carrying values of the Corporation's holdings of FHLB-Pittsburgh stock (included in Other Assets) were $3,656,000 at December 31, 2013 and $4,712,000 at December 31, 2012.

The short-term borrowing from the FHLB-Pittsburgh matured in January 2014 and had an interest rate of 0.24%.

The Corporation engages in repurchase agreements with certain commercial customers. These agreements provide that the Corporation sells specified investment securities to the customers on an overnight basis and repurchases them on the following business day. The weighted average rate paid by the Corporation on customer repurchase agreements was 0.10% at December 31, 2013 and December 31, 2012. The carrying value of the underlying securities was $11,269,000 at December 31, 2013 and $11,179,000 at December 31, 2012.

LONG-TERM BORROWINGS

Long-term borrowings are as follows:

(In Thousands)	**Dec. 31, 2013**	**Dec. 31, 2012**
FHLB-Pittsburgh borrowings	$12,338	$15,812
Repurchase agreements	61,000	68,000
Total long-term borrowings	$73,338	$83,812

Long-term borrowings from FHLB-Pittsburgh are as follows:

(In Thousands)	**At December 31,**	
	2013	**2012**
Loans matured in 2013 with rates ranging from 2.86% to 3.62%	$0	$3,211
Loan maturing in 2016 with a rate of 6.86%	153	196
Loan maturing in 2017 with a rate of 6.83%	22	27
Loan maturing in 2017 with a rate of 3.81%	10,000	10,000
Loan maturing in 2020 with a rate of 4.79%	1,146	1,297
Loan maturing in 2025 with a rate of 4.91%	1,017	1,081
Total long-term FHLB-Pittsburgh borrowings	$12,338	$15,812

Repurchase agreements included in long-term borrowings are as follows:

(In Thousands)	**At December 31,**	
	2013	**2012**
Agreement maturing in 2017 with a rate of 3.595%	$27,000	$34,000
Agreement maturing in 2017 with a rate of 4.265%	34,000	34,000

Total long-term repurchase agreements	$61,000	$68,000

The Corporation incurred a loss of $1,023,000 in 2013 on prepayment of $7,000,000 of the agreement with an interest rate of 3.595%. In 2012, the Corporation incurred losses totaling $2,333,000 from prepayment of repurchase agreement obligations, including a loss of $2,190,000 on prepayment of a total $12,000,000 of the agreements shown in the table above.

In December 2007, the Corporation entered into the two repurchase agreements shown in the table above in the original amounts of $40,000,000 each. In 2012, the Corporation paid off principal totaling $6,000,000 on each of these agreements, incurring the loss from prepayment noted above and leaving a balance of $34,000,000 outstanding for each agreement at December 31, 2012. The borrowing with an interest rate of 3.595% became putable by the issuer at quarterly intervals starting in December 2010, and the borrowing with an interest rate of 4.265% became putable at quarterly intervals starting in December 2012. Each of these borrowings contained an embedded cap, providing that on the quarterly anniversary of the transaction settlement date, if three-month LIBOR were higher than 5.15%, the Corporation's interest rate payable would decrease by twice the amount of the excess, down to a minimum rate of 0%. The embedded cap on one of the agreements expired in December 2010, and the embedded cap on the other agreement expired in December 2012.

Securities sold under repurchase agreements were delivered to the broker-dealer who is the counter-party to the transactions. The broker-dealer may have sold, loaned or otherwise disposed of such securities to other parties in the normal course of their operations, and has agreed to resell to the Corporation substantially identical securities at the maturities of the agreements. The Master Repurchase Agreement between the Corporation and the broker-dealer provides that the Agreement constitutes a "netting contract," as defined; however, the Corporation and the broker-dealer have no other obligations to one another and accordingly, no netting has occurred. The carrying value of the underlying securities was $79,814,000 at December 31, 2013 and $89,428,000 at December 31, 2012. Average daily repurchase agreement borrowings amounted to $62,630,000 in 2013, $78,790,000 in 2012, and $90,644,000 in 2011. The maximum amounts of outstanding borrowings under repurchase agreements with broker-dealers were $68,000,000 in 2013, $85,000,000 in 2012, and $92,500,000 in 2011. The weighted average interest rate on repurchase agreements was 4.01% in 2013, 3.97% in 2012, and 3.93% in 2011.

13. EMPLOYEE AND POSTRETIREMENT BENEFIT PLANS

DEFINED BENEFIT PLANS

The Corporation sponsors a defined benefit health care plan that provides postretirement medical benefits and life insurance to employees who meet certain age and length of service requirements. Effective January 1, 2013, this plan was amended so that full-time employees no longer accrue service time toward the Corporation-subsidized portion of the medical benefits. The plan was also amended effective January 1, 2013 to change some of the age and length-of-service requirements for participants to receive some of the benefits provided under the plan. 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 significantly affect the liability balance at December 31, 2013 and December 31, 2012, and are not expected to significantly affect the Corporation's future expenses. The Corporation uses a December 31 measurement date for the postretirement plan.

In an acquisition in 2007, the Corporation assumed the Citizens Trust Company Retirement Plan, a defined benefit pension plan. This plan covers certain employees who were employed by Citizens Trust Company on December 31, 2002, when the plan was amended to discontinue admittance of any future participant and to freeze benefit accruals. Information related to the Citizens Trust Company Retirement Plan has been included in the tables that follow. The Corporation uses a December 31 measurement date for this plan.

The following table shows the funded status of the defined benefit plans:

(In Thousands)

	Pension:		**Postretirement:**	
	2013	**2012**	**2013**	**2012**
CHANGE IN BENEFIT OBLIGATION:				
Benefit obligation at beginning of year	$1,783	$1,613	$2,081	$2,054
Service cost	0	0	41	91
Interest cost	71	72	55	81
Plan participants' contributions	0	0	208	199
Actuarial (gain) loss	(104)	128	(171)	(87)
Plan amendments	0	0	(557)	0
Benefits paid	(17)	(30)	(266)	(257)
Benefit obligation at end of year	$1,733	$1,783	$1,391	$2,081
CHANGE IN PLAN ASSETS:				
Fair value of plan assets at				

beginning of year	$1,842	$1,057	$0	$0
Actual return on plan assets	143	121	0	0
Employer contribution	0	694	58	58
Plan participants' contributions	0	0	208	199
Benefits paid	(17)	(30)	(266)	(257)
Fair value of plan assets at end of year	$1,968	$1,842	$0	$0
Funded status at end of year	$235	$59	($1,391)	($2,081)

At December 31, 2013 and 2012, the following pension plan and postretirement plan asset and liability amounts were recognized in the consolidated balance sheet:

Assets and liabilities:

(In Thousands)	**Pension:**		**Postretirement:**	
	2013	**2012**	**2013**	**2012**
Other assets	$235	$59		
Accrued interest and other liabilities			$1,391	$2,081

At December 31, 2013 and 2012, the following items included in accumulated other comprehensive income (loss) had not been recognized as components of expense:

Items not yet recognized as a component of net periodic benefit cost: (In Thousands)	**Pension:**		**Postretirement:**	
	2013	**2012**	**2013**	**2012**
Net transition obligation	$0	$0	$0	$0
Prior service cost	0	0	(433)	94
Net actuarial loss (gain)	357	546	59	230
Total	$357	$546	($374)	$324

For the defined benefit pension plan, amortization of the net actuarial loss is expected to be $15,000 in 2014. For the postretirement plan, the estimated amount of prior service cost that will be amortized from accumulated other comprehensive income into net periodic benefit cost in 2014 is a reduction in expense of $31,000, and no net actuarial loss is expected to be amortized in 2014.

The accumulated benefit obligation for the defined benefit pension plan was $1,733,000 at December 31, 2013 and $1,783,000 at December 31, 2012.

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

(In Thousands)	**Pension:**			**Postretirement:**		
	2013	**2012**	**2011**	**2013**	**2012**	**2011**
Service cost	$0	$0	$0	$41	$91	$83
Interest cost	71	72	73	55	81	92
Expected return on plan assets	(90)	(72)	(73)	0	0	0
Amortization of transition (asset) obligation	0	0	0	0	37	36
Amortization of prior service cost	0	0	0	(31)	13	14
Recognized net actuarial loss	32	27	5	1	0	0
Total net periodic benefit cost	$13	$27	$5	$66	$222	$225

The weighted-average assumptions used to determine net periodic benefit cost are as follows:

	Pension:			**Postretirement:**		
	2013	**2012**	**2011**	**2013**	**2012**	**2011**

Citizens Trust Company Retirement Plan and postretirement plan:						
Discount rate	4.00%	4.50%	5.50%	4.00%	4.50%	5.50%
Expected return on plan assets	5.31%	7.50%	7.50%	N/A	N/A	N/A
Rate of compensation increase	N/A	N/A	N/A	N/A	N/A	N/A

The weighted-average assumptions used to determine benefit obligations as of December 31, 2013 and 2012 are as follows:

	Pension:		**Postretirement:**	
	2013	**2012**	**2013**	**2012**
Discount rate	4.50%	4.00%	4.75%	4.00%
Rate of compensation increase	N/A	N/A	N/A	N/A

Estimated future benefit payments, including only estimated employer contributions for the postretirement plan, which reflect expected future service, are as follows:

(In Thousands)	**Pension**	**Postretirement**
2014	$229	$104
2015	20	98
2016	42	94
2017	19	94
2018	1,268	103
2019-2023	251	552

No estimated minimum contribution to the defined benefit pension plan is required in 2014, though the Corporation may make discretionary contributions.

The expected return on pension plan (Citizens Trust Company Retirement Plan) assets is a significant assumption used in the calculation of net periodic benefit cost. This assumption reflects the average long-term rate of earnings expected on the funds invested or to be invested to provide for the benefits included in the projected benefit obligation.

The fair values of pension plan assets at December 31, 2013 and 2012 are as follows:

	2013	**2012**
Cash and cash equivalents	36%	37%
Debt securities	24%	24%
Equity securities	30%	27%
Alternative funds	10%	12%
Total	100%	100%

C&N Bank's Trust and Financial Management Department manages the investment of the Citizens Trust Company Retirement Plan (pension plan) assets. Most of the Plan's securities are mutual funds, including mutual funds principally invested in debt securities, mutual funds invested in a diversified mix of large, mid- and small-capitalization U.S. stocks, foreign stocks, and mutual funds invested in alternative asset classes such as real estate, commodities and inflation-protected securities. The fair values of plan assets are determined based on Level 1 inputs (as described in Note 6). At December 31, 2013 and 2012, the targeted asset allocation for the pension plan was 26% equity securities, 61% debt securities, 11% alternative assets and 2% cash. The comparatively high allocation of plan assets to cash and cash equivalents at December 31, 2013 reflects possible lump sum distribution requirements within the next 2 to 3 years. The pension plan's assets do not include any shares of the Corporation's common stock.

PROFIT SHARING AND DEFERRED COMPENSATION PLANS

The Corporation has a profit sharing plan that incorporates the deferred salary savings provisions of Section 401(k) of the Internal Revenue Code. The Corporation's matching contributions to the Plan depend upon the tax deferred contributions of employees. The Corporation's total basic and matching contributions were $557,000 in 2013, $587,000 in 2012 and $559,000 in 2011.

The Corporation has an Employee Stock Ownership Plan (ESOP). Contributions to the ESOP are discretionary, and the ESOP uses funds contributed to purchase Corporation stock for the accounts of ESOP participants. These purchases are made on the market (not directly from the Corporation), and employees are not permitted to purchase Corporation stock under the ESOP. The ESOP includes a diversification feature, which allows participants, upon reaching age 55 and 10 years of service (as defined), to sell up to 50% of their Corporation shares back to the ESOP over a period of 6 years. As of December 31, 2013 and 2012, there were no shares allocated for repurchase by the ESOP.

Dividends paid on shares held by the ESOP are charged to retained earnings. All Corporation shares owned through the ESOP are included in the calculation of weighted-average shares outstanding for purposes of calculating earnings per share - basic and diluted. The ESOP held 362,888 shares of Corporation stock at December 31, 2013 and 346,218 shares at December 31, 2012, all of which had been allocated to Plan participants. The Corporation's contributions to the ESOP totaled $509,000 in 2013, $507,000 in 2012 and $496,000 in 2011.

The Corporation also has a nonqualified supplemental deferred compensation arrangement with its key officers. Charges to operating expense for officers' supplemental deferred compensation were $186,000 in 2013, $140,000 in 2012 and $108,000 in 2011.

STOCK-BASED COMPENSATION PLANS

The Corporation has a Stock Incentive Plan for a selected group of senior officers. A total of 850,000 shares of common stock may be issued under the Stock Incentive Plan. Awards may be made under the Stock Incentive Plan in the form of qualified options ("Incentive Stock Options," as defined in the Internal Revenue Code), nonqualified options, stock appreciation rights or restricted stock. Historically through December 31, 2013, all awards made under this Plan have consisted of Incentive Stock Options or restricted stock. Incentive Stock Options have an exercise price equal to the market value of the stock at the date of grant, vest after 6 months and expire after 10 years. Restricted stock awards issued under the Stock Incentive Plan vest ratably over terms ranging from 3-4 years, and the restricted stock awards issued under this Plan in 2013, 2012 and 2011 include a condition that the Corporation must meet an annual targeted return on average equity ("ROAE") performance ratio, as defined, in order for participants to vest. The Corporation met the ROAE target for the 2013, 2012 and 2011 plan years. There are 300,092 shares available for issuance under the Stock Incentive Plan as of December 31, 2013.

Also, the Corporation has an Independent Directors Stock Incentive Plan. This plan permits awards of nonqualified stock options and/or restricted stock to non-employee directors. A total of 135,000 shares of common stock may be issued under the Independent Directors Stock Incentive Plan. The recipients' rights to exercise stock options under this plan expire 10 years from the date of grant. The exercise prices of all stock options awarded under the Independent Directors Stock Incentive Plan are equal to market value as of the dates of grant. The restricted stock awards vest ratably over 3 years. There are 34,718 shares available for issuance under the Independent Directors Stock Incentive Plan as of December 31, 2013.

The Corporation records stock option expense based on estimated fair value calculated using the Black-Scholes-Merton option-pricing model with the following assumptions:

	2013	**2012**	**2011**
Volatility	41%	41%	37%
Expected option lives	8 Years	7 Years	8 Years
Risk-free interest rate	1.60%	1.53%	3.10%
Dividend yield	3.69%	3.97%	3.86%

Management estimated the lives for options based on the Corporation's average historical experience with both plans. The Corporation utilized its historical volatility and dividend yield over the immediately prior 8-year period to estimate future levels of volatility and dividend yield for the 2013 and 2011 awards, and utilized its historical volatility and dividend yield over the immediately prior 7-year period in estimating the value of the 2012 awards. The risk-free interest rate was based on the published yield of zero-coupon U.S. Treasury strips as of the grant date, with a maturity coinciding with the estimated option lives.

Total stock-based compensation expense is as follows:

(In Thousands)	**2013**	**2012**	**2011**
Stock options	$242	$247	$279
Restricted stock	454	320	144
Total	$696	$567	$423

A summary of stock option activity is presented below:

	2013		**2012**		**2011**	
		Weighted Average		**Weighted Average**		**Weighted Average**

	Shares	Exercise Price	Shares	Exercise Price	Shares	Exercise Price
Outstanding, beginning of year	337,670	$19.08	301,797	$19.05	226,894	$20.54
Granted	64,050	$19.21	64,757	$18.54	93,674	$15.06
Exercised	(10,656)	$17.22	(17,284)	$16.20	(13,042)	$16.71
Forfeited	(14,135)	$20.13	(6,830)	$21.51	(5,501)	$18.30
Expired	(18,753)	$20.73	(4,770)			