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

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2007

OR

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

For the transition period from __________ to __________.

Commission file number: 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 o No þ

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 o No þ

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 þ No o

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. o

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 the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated filer o	Accelerated filer þ	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

The aggregate market value of the registrant's common stock held by non-affiliates at June 30, 2007, the registrant's most recently completed second fiscal quarter, was $169,008,635.

The number of shares of common stock outstanding at February 26, 2008 was 8,972,797.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's proxy statement for the annual meeting of its shareholders to be held April 15, 2008 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”). 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. The First State Bank banking offices are located in the southern tier of New York State, in close proximity to many of the Corporation’s northern Pennsylvania branch locations. Management considers the New York State branches to be part of the same community banking operating segment as the Pennsylvania locations; however, the separate New York State charter for First State Bank has been maintained because of certain regulatory advantages. 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 the Bank.

On May 1, 2007, the Corporation completed its acquisition of Citizens Bancorp, Inc. (“Citizens.”) In connection with the transaction, Citizens Trust Company, the banking subsidiary of Citizens, has merged with and into C&N Bank. The Corporation’s management believes the acquisition of Citizens provides two significant benefits: (1) extension of its geographic market for banking services, which should provide growth opportunities, and (2) addition of management personnel with background and skills complementary to the Corporation’s management personnel. The aggregate acquisition price was $28,391,000, which included cash of $14,323,000 and 636,967 shares of the Corporation’s common stock valued at $14,068,000.

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. 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 and First State Bank (collectively, the “Banks”) provide an extensive range of banking services, including deposit and loan products for personal and commercial customers. The Banks also maintain 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 Banks’ business are competitive. The Banks primarily compete in Tioga, Bradford, Sullivan, Lycoming, Potter, Cameron and McKean counties in Pennsylvania, and Steuben and Allegany counties in New York. The Banks compete 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 the Banks’ market area are larger in overall size than the Banks. With respect to lending activities and attracting deposits, the Banks also compete with savings banks, savings and loan associations, insurance companies, regulated small loan companies and credit unions. Also, the Banks compete 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 Banks are 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 Banks serve a diverse customer base, and are not economically dependent on any small group of customers or on any individual industry.

Major initiatives over the last 5 years included the following:

- expanded trust and financial services capabilities, including investment management, employee benefits and insurance services;
- purchased and remodeled a former bank operations center in Williamsport, PA, and began offering trust and financial management, commercial lending, branch banking and other services, in 2004;
- opened a branch office at a leased facility in South Williamsport, PA in 2004;
- replaced the core banking computer system in 2004;

- constructed and opened a branch facility in Jersey Shore, PA in 2005;
- closed on the merger with Canisteo Valley Corporation in 2005;
- constructed and opened a branch facility in Old Lycoming Township, PA, which opened in March 2006
- constructed an administration building in Wellsboro, PA, which opened in March 2006; and
- as described above, in May 2007, acquired Citizens Bancorp, Inc.

At December 31, 2007, C&N Bank had total assets of $1,225,710,000, total deposits of $801,218,000, net loans outstanding of $708,734,000 and 338 full-time equivalent employees. At December 31, 2007, First State Bank had total assets of $46,388,000, total deposits of $37,929,000, net loans outstanding of $18,348,000 and 15 full-time equivalent employees.

Most of the 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.
- Canisteo Valley Corporation is the holding company for First State Bank. The Federal Reserve is the primary regulator for Canisteo Valley Corporation.
- First State Bank is a state-chartered, Federal Reserve member bank, supervised by the Federal Reserve and the New York State 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 a third party networking agreement between C&N Bank and UVEST Financial Services, Inc.
- 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 21 to the consolidated financial statements), management cannot predict the future and cannot eliminate the possibility of credit, operational or other losses. Accordingly, actual results may differ materially from management's expectations. Some of the Corporation's significant risks and uncertainties are discussed below.

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

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

Equity Securities Risk — The Corporation's equity securities portfolio consists primarily of investments in stocks of banks and bank holding companies, mainly based in Pennsylvania. 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. Further, because of the concentration of its holdings in Pennsylvania banks, these investments could decline in value if there were a downturn in the state's economy. 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."

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

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

Growth Strategy — In recent years, the Corporation has expanded its operations by acquisitions and by building and opening new branches. The Corporation's future financial performance will depend on its ability to execute its strategic plan and manage its future growth. Failure to execute these plans 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 restrictions 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.

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 Banks own each of their properties, except for the facility located at 2 East Mountain Avenue, South Williamsport, which is leased. All of the properties are in good condition. None of the owned properties are subject to encumbrance.

A listing of properties is as follows:

Main administrative offices:

90-92 Main Street
Wellsboro, PA 16901

or

10 Nichols Street
Wellsboro, PA 16901

Facilities management office:

13 Water Street
Wellsboro, PA 16901

Branch offices — C&N Bank:

428 S. Main Street Athens, PA 18810	1085 Main Street Mansfield, PA 16933	Courthouse Square Troy, PA 16947
111 Main Street Dushore, PA 18614	Route 220 Monroeton, PA 18832	90-92 Main Street Wellsboro, PA 16901
Main Street East Smithfield, PA 18817	3461 Route 405 Highway Muncy, PA 17756	1510 Dewey Avenue Williamsport, PA 17701
104 Main Street Elkland, PA 16920	24 Thompson Street Ralston, PA 17763	130 Court Street Williamsport, PA 17701
230 Railroad Street Jersey Shore, PA 17740	1827 Elmira Street Sayre, PA 18840	Route 6 Wysox, PA 18854
102 E. Main Street Knoxville, PA 16928	2 East Mountain Avenue South Williamsport, PA 17702	
Main Street Laporte, PA 18626	41 Main Street Tioga, PA 16946	
4534 Williamson Trail Liberty, PA 16930	428 Main Street Towanda, PA 18848	

Branch offices — C&N Bank — doing business as Citizens Trust Company, a division of Citizens & Northern Bank:

10 N. Main Street Coudersport, PA 16915	135 East Fourth Street Emporium, PA 15834	100 Maple Street Port Allegany, PA 16743

First State Bank offices:

3 Main Street
Canisteo, NY 14823

6250 County Route 64, East Avenue Extension
Hornell, NY 14843

ITEM 3. LEGAL PROCEEDINGS

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

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

During the fourth quarter of 2007, no matters were submitted to a vote of security holders, through the solicitation of proxies or otherwise.

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. Effective January 13, 2005, the Corporation's stock began to be listed on the NASDAQ Capital Market (formerly known as NASDAQ SmallCap) with the trading symbol CZNC. Previously, the Corporation's stock was available through the Over-The-Counter Bulletin Board. As of December 31, 2007, there were 2,502 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 2007 and 2006.

	2007			2006		
	High	Low	Dividend Declared per Quarter	High	Low	Dividend Declared per Quarter
First quarter	$23.21	$20.30	$0.24	$29.93	$23.76	$0.24
Second quarter	21.13	19.36	0.24	25.72	20.11	0.24
Third quarter	19.82	17.82	0.24	24.12	19.80	0.24
Fourth quarter	20.19	17.28	0.24	22.77	21.29	0.24

In addition to the cash dividends reflected in the table above, the Corporation declared a 1% stock dividend in the 4th quarter of each year presented, which was issued in January of the following year.

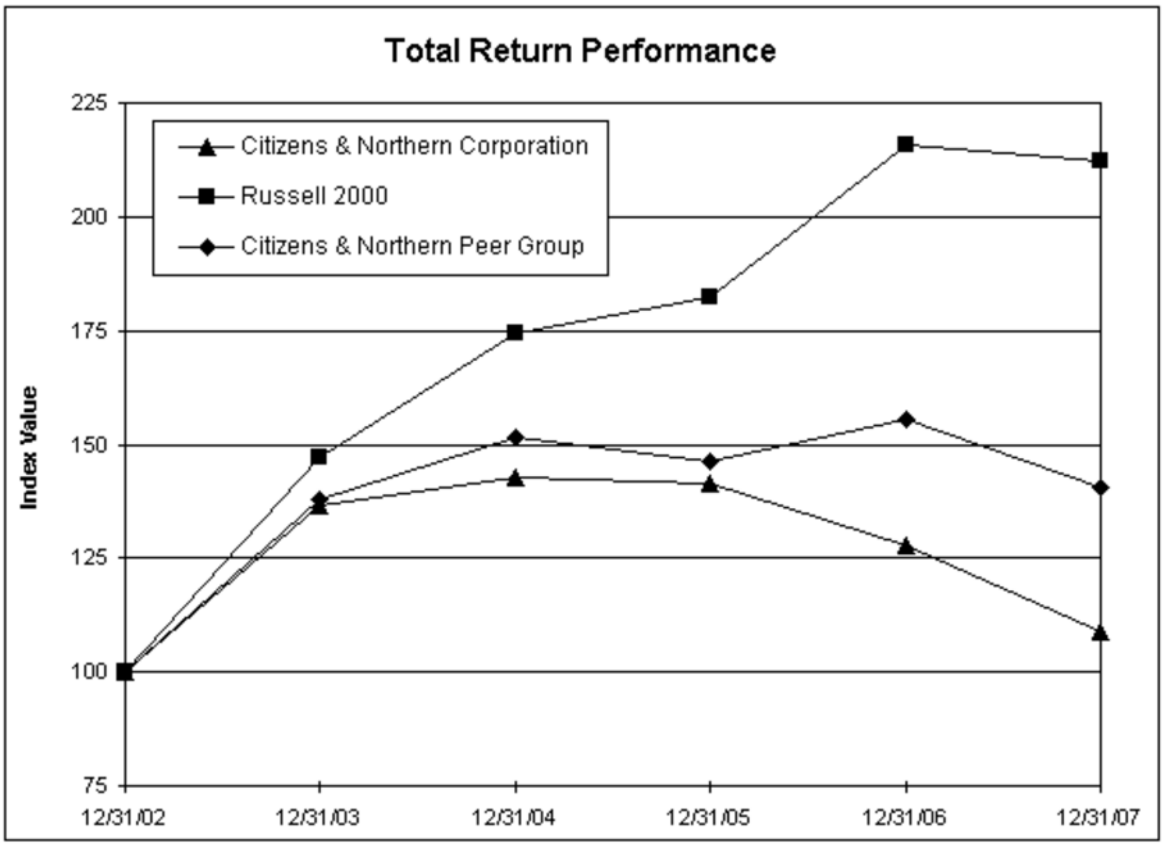
While the Corporation expects to continue its policy of regular quarterly dividend payments, future dividend payments will depend upon maintenance of a strong financial condition, future earnings and capital and regulatory requirements. Also, the Corporation, C&N Bank and First State Bank are subject to restrictions on the amount of dividends that may be paid without approval of banking regulatory authorities. These restrictions are described in Note 21 to the consolidated financial statements.

The Corporation did not purchase shares of its stock during the fourth quarter 2007.

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, 2002 and ended December 31, 2007. 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.

COMPARISON OF 5-YEAR CUMULATIVE RETURN



	Period Ending					
Index	12/31/02	12/31/03	12/31/04	12/31/05	12/31/06	12/31/07
Citizens & Northern Corporation	100.00	136.57	142.80	141.55	127.84	108.78
Russell 2000	100.00	147.25	174.24	182.18	215.64	212.26
Citizens & Northern Peer Group	100.00	138.06	151.48	146.32	155.68	140.65

The C&N peer group consists of banks headquartered in Pennsylvania with total assets of $500 million to $1.3 billion. This peer group consists of ACNB Corporation, Gettysburg; AmeriServ Financial, Inc., Johnstown; Bryn Mawr Bank Corporation, Bryn Mawr; Citizens Financial Services, Inc., Mansfield; CNB Financial Corporation, Clearfield; Codorus Valley Bancorp, York; Comm Bancorp, Inc., Clarks Summit; DNB Financial Corporation, Downingtown; Ephrata National Bank, Ephrata; Fidelity D & D Bancorp, Inc., Dunmore; First Chester County Corp., West Chester; First Keystone Corporation, Berwick; First National Community Bancorp, Inc., Dunmore; Franklin Financial Services Corporation, Chambersburg; IBT Bancorp, Inc., Irwin; Leesport Financial Corp., Wyomissing; Mid Penn Bancorp, Inc., Millersburg; Orrstown Financial Services, Inc., Shippensburg; Penns Woods Bancorp, Inc., Williamsport; Penseco Financial Services Corporation, Scranton; QNB Corp., Quakertown; Republic First Bancorp, Inc. , Philadelphia; and Tower Bancorp, Inc., Greencastle.

The data for this graph was obtained from SNL Financial L.C.

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, 2007.

	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	221,954	$ 21.76	126,474
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 15 to the consolidated financial statements.

ITEM 6. SELECTED FINANCIAL DATA

	As of or for the Year Ended December 31,				
	2007	2006	2005	2004	2003
INCOME STATEMENT (In Thousands)					
Interest and fee income	$ 70,221	$ 64,462	$ 61,108	$ 57,922	$ 55,223
Interest expense	33,909	30,774	25,687	22,606	23,537
Net interest income	36,312	33,688	35,421	35,316	31,686
Provision for loan losses	529	672	2,026	1,400	1,100
Net interest income after provision for loan losses	35,783	33,016	33,395	33,916	30,586
Noninterest income excluding securities gains and gains from sale of credit card loans	10,440	7,970	7,636	6,922	6,595
Net gains on available-for-sale securities	127	5,046	1,802	2,877	4,799
Gain from sale of credit card loans	—	340	1,906	—	—
Noninterest expense	33,283	31,614	28,962	26,001	22,114
Income before income tax provision	13,067	14,758	15,777	17,714	19,866
Income tax provision	2,643	2,772	2,793	2,851	3,609
Net income	$ 10,424	$ 11,986	$ 12,984	$ 14,863	$ 16,257
PER COMMON SHARE: (1)					
Basic earnings per share	$ 1.19	$ 1.42	$ 1.53	$ 1.76	$ 1.93
Diluted earnings per share	$ 1.19	$ 1.42	$ 1.52	$ 1.75	$ 1.92
Cash dividends declared per share	$ 0.96	$ 0.96	$ 0.93	$ 0.89	$ 0.85
Stock dividend	1%	1%	1%	1%	1%
Book value at period-end	$ 15.34	$ 15.51	$ 15.58	$ 15.61	$ 14.88
Tangible book value at period-end	$ 13.85	$ 15.13	$ 15.18	$ 15.61	$ 14.88
Weighted average common shares outstanding — basic	8,784,134	8,422,495	8,458,813	8,433,494	8,418,231
Weighted average common shares outstanding — diluted	8,795,366	8,448,169	8,517,598	8,481,750	8,466,946
END OF PERIOD BALANCES (In Thousands)					
Available-for-sale securities	$ 432,755	$ 356,665	$ 427,298	$ 475,085	$ 483,032
Gross loans	735,941	687,501	653,299	579,613	524,897
Allowance for loan losses	8,859	8,201	8,361	6,787	6,097
Total assets	1,283,746	1,127,368	1,162,954	1,123,002	1,066,901
Deposits	838,503	760,349	757,065	676,545	658,065
Borrowings	300,132	228,440	266,939	305,005	272,953
Stockholders' equity	137,781	129,888	131,968	131,585	125,343
AVERAGE BALANCES (In Thousands)					
Total assets	1,178,904	1,134,689	1,144,619	1,114,041	1,034,720
Earning assets	1,090,035	1,055,103	1,065,189	1,036,535	959,556
Gross loans	729,269	662,714	618,344	551,352	485,150
Deposits	812,255	750,982	702,404	669,307	651,026
Stockholders' equity	138,669	131,082	132,465	128,374	122,271
KEY RATIOS					
Return on average assets	0.88%	1.06%	1.13%	1.33%	1.57%
Return on average equity	7.52%	9.14%	9.80%	11.58%	13.30%
Average equity to average assets	11.76%	11.55%	11.57%	11.52%	11.82%
Net interest margin (2)	3.51%	3.42%	3.62%	3.78%	3.70%
Efficiency (3)	71.19%	75.89%	67.26%	61.56%	57.77%
Cash dividends as a % of diluted earnings per share	80.67%	67.61%	61.18%	50.86%	44.27%
Tier 1 leverage	10.91%	11.22%	10.62%	10.69%	10.80%
Tier 1 risk-based capital	15.46%	16.51%	16.52%	17.17%	18.67%
Total risk-based capital	16.52%	17.97%	18.19%	18.89%	20.61%

(1) All share and per share data have been restated to give effect to stock dividends and splits.

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

(3) The efficiency ratio is calculated by dividing total noninterest expense by the sum of net interest income and noninterest income excluding securities gains and gains from sale of credit card loans.

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

2007 vs. 2006

Net income was $10,424,000 in 2007, down from $11,986,000 in 2006. Net income per share (basic and diluted) was $1.19 (basic and diluted) in 2007 and $1.42 in 2006. Return on average equity was 7.52% in 2007 and 9.14% in 2006. Return on average assets was 0.88% in 2007 and 1.06% in 2006. Cash dividends declared were $0.96 per share in both 2007 and 2006.

Annual earnings for 2007 were impacted by a substantial decline in realized gains from available-for-sale securities, as net (pre-tax) gains totaled $127,000 in 2007 as compared to $5,046,000 in 2006. The lower net securities gains in 2007 reflect two significant factors: (1) management's decision in the second quarter 2007 to restructure the securities portfolio by selling mortgage-backed securities for a realized loss of $2,045,000, with the proceeds reinvested at higher yields, and (2) lower levels of realized gains from sales of bank stocks in 2007, due to lower market valuations of financial stocks. Excluding gains and losses on sales of available-for-sale securities, net of tax, and excluding the impact of reinvestment of proceeds from sales, net income per share was $1.18 (basic and diluted) in 2007, as compared to $1.03 (basic) and $1.02 (diluted) in 2006.

On May 1, 2007, the acquisition of Citizens Bancorp, Inc. became effective. Citizens Bancorp, Inc. was the parent company of Citizens Trust Company, with offices in Coudersport, Port Allegany and Emporium, PA. The Citizens Trust Company operations, which are now part of C&N Bank, contributed significantly to growth in total assets, including loans, as well as growth in deposits and trust assets under management, and increases in revenues and expenses in 2007. Note 4 to the consolidated financial statements includes pro forma income statement information, presented as if Citizens Bancorp, Inc. had been included in the Corporation's operating results since January 1, 2006. As presented in Note 4, after adjustment to exclude nonrecurring merger expenses and securities losses incurred by Citizens Bancorp, Inc. in early 2007 (prior to the acquisition), the Corporation's pro forma net income per share would have been $1.19 (basic) and $1.18 (diluted) in 2007, and $1.47 (basic) and $1.46 (diluted) in 2006. By the end of 2007, duplicate personnel and other operating costs had been eliminated, and the core banking and trust computer systems were converted to the Corporation's systems. Accordingly, management expects the addition of the former Citizens Bancorp, Inc. operations to be accretive to earnings in 2008.

In addition to the effects of lower net securities gains described above, other significant income statement changes between 2007 and 2006 were as follows:

- The net interest margin increased $2,624,000, or 7.8%, in 2007 as compared to 2006. Most of the increase in the net interest margin between years occurred in the last six months of 2007. Factors contributing to recent improvements in the net interest margin include: (1) the acquisition of Citizens Trust Company, which resulted in increased interest and fees on loans, and provided funding to help pay off borrowings, (2) a change in the shape of the yield curve, which has become positive after remaining flat or inverted throughout 2006 and the first half of 2007, allowing the Corporation opportunities to earn a positive spread from borrowing and investing activities, and (3) the increase in yield on the investment portfolio resulting from the restructuring described above.

- Noninterest income, excluding realized gains on available-for-sale securities, increased $2,130,000 (25.6%) in 2007 over 2006. Trust and Financial Management revenue increased $1,031,000 (42.8%). Assets under management by C&N's Trust and Financial Management Group increased 27.3%, to $659,193,000 at December 31, 2007 from $517,775,000 at December 31, 2006. The increase in Trust assets under management resulted from the acquisition of Citizens Bancorp, Inc., market value appreciation and new business. There were also significant increases in other sources of noninterest revenue, including service charges on deposits and other revenues. Noninterest income is discussed in more detail later in Management's Discussion and Analysis.

- Noninterest expense increased $1,669,000 (5.3%) in 2007 as compared to 2006. The increase in expenses reflects the addition of Citizens Trust Company. Also, professional fees of $240,000 were incurred in 2007 related to the computer core system conversions of the First State Bank (New York) and Citizens Trust Company operations. Other changes affecting noninterest expense are discussed later in Management's Discussion and Analysis.

- In 2007, the income tax provision was $2,643,000, or 20.2% of pre-tax income. In 2006, the income tax provision was $2,772,000, or 18.8% of pre-tax income. The higher income tax rate incurred in 2007 reflects management's decision to reduce the amount of average investments in municipal bonds, in an effort to eliminate alternative minimum tax.

2006 vs. 2005

Net income in 2006 was $11,986,000, or $1.42 per share (basic and diluted). Net income for 2006 was down from $1.53 per share (basic) and $1.52 per share (diluted) in 2005. Earnings results for 2006 were negatively impacted by the yield curve, which moved from flat to inverted, and by increases in noninterest expense.

The net interest margin decreased $1,733,000, or 4.9%, in 2006 as compared to 2005. The flat or inverted yield curve, along with competitive pressures, caused interest rates paid on liabilities (mainly deposits and borrowings) to increase more than the rates of interest earned on loans and investment securities. Further, the flat or inverted yield curve resulted in limited opportunities to earn a positive spread from maintaining borrowed funds and holding investment securities. Accordingly, the Corporation sold securities and repaid borrowings throughout much of 2006. The balance of available-for-sale securities was $70,633,000 lower at December 31, 2006 than one year earlier, and the December 31, 2006 balance of short-term and long-term borrowings was $40,023,000 lower than one year earlier.

Noninterest expense increased $2,652,000 (9.2%) in 2006 over 2005. Much of the increase in noninterest expense in 2006 was attributable to operations and start-up costs in new markets, including the First State Bank offices (Canisteo and South Hornell) in New York State, and the Jersey Shore and Old Lycoming Township offices in Pennsylvania.

Gains related to sales of credit card loans totaled $340,000 in 2006 and $1,906,000 in 2005. In the fourth quarter 2005, the Corporation sold the C&N Bank credit card receivables, and recorded a gain of $1,906,000. After the sale, the Corporation continued to provide servicing of credit cards for a portion of 2006, and was subject to possible losses associated with credit card receivables sold with recourse. In the fourth quarter 2006, the Corporation recorded an additional gain of $325,000 for the difference between the initial estimates of post-sale servicing expenses and recourse losses, and the actual amounts incurred. Also in 2006, the Corporation sold First State Bank's credit card portfolio for a gain of $15,000.

Net realized gains from sales of securities amounted to $5,046,000 in 2006, an increase of $3,244,000 over 2005. Most of the gains realized in 2006 were from sales of bank stocks. Also, in the fourth quarter 2005, C&N had net losses from sales of securities of $586,000. The fourth quarter 2005 losses were mainly from sales of debt securities that were purchased in 2003 and 2004, when market yields were lower than in 2005.

The provision for loan losses was $672,000 in 2006, down from $2,026,000 in 2005. In 2006, negotiations and workout of a few large, commercial loans were completed, resulting in charge-offs that were significantly less than the estimated allowances that had been previously established.

OUTLOOK FOR 2008

Management is cautiously optimistic about the Corporation's earnings prospects in 2008. One positive development is that the yield curve began to change to a more positive shape (meaning that long-term rates began to be higher than short-term rates) in the latter portion of 2007, after being flat or inverted for approximately three years. As described in more detail in Item 7A, Quantitative and Qualitative Disclosures About Market Risk, the Corporation is liability sensitive, meaning that its sources of funds (mainly deposits and borrowings) tend to re-price more quickly on average when interest rates change than do its earning assets (mainly loans and available-for-sale debt securities). Accordingly, the Corporation tends to generate lower earnings when short-term interest rates rise and higher earnings when short-term rates fall. With recent reductions in the Fed Funds target rate (which dropped from 5.25% in August 2007 to its level in late February 2008 of 3%), the Corporation has experienced some recent reductions in its cost of funds.

In December 2007, management entered into a significant leveraged investment purchase transaction, for two purposes: (1) to generate incremental positive net interest income, and (2) to reduce the magnitude of the Corporation's reduction in net interest income if interest rates rise significantly within the next few years. Specifically, the Corporation purchased mortgage-backed securities and a collateralized mortgage obligation for a total cost of approximately $86 million, funded mainly by two repurchase agreements (borrowings) of $40,000,000 each. The weighted-average initial book yield on the securities was 5.38%. The borrowings have a weighted-average interest rate of 3.94%, and mature in 2017. One of the borrowings is putable by the issuer at quarterly intervals starting in December 2010, and the other is putable quarterly starting in December 2012. Each of these borrowings contains an embedded cap, providing that on the quarterly anniversary of the transaction settlement date, if three-month LIBOR is higher than 5.15%, the Corporation's interest rate payable will decrease by twice the amount of the excess, down to a minimum rate of 0%. The embedded caps expire on the initial put dates in 2010 and 2012. For the 3-year and 5-year time periods indicated, if interest rates were to rise significantly, the embedded cap feature could cause the Corporation's interest expense on the borrowings to decrease, which would be a mitigant to the Corporation's overall interest rate risk position.

As discussed in the Earnings Overview section of Management's Discussion and Analysis, the addition of Citizens Bancorp, Inc. is expected to be accretive to earnings in 2008, and inclusion of those operations for the full year in 2008 (as opposed to eight months in 2007) will lead to higher reported levels of revenues and expenses. The addition of the Citizens Trust Company trust department has contributed significantly to growth in trust assets under management and revenue, and management expects continued strong trust revenue performance in 2008.

In January 2008, the Corporation implemented an overdraft privilege program. This program is designed to provide customers an opportunity to have checks paid that would otherwise have been returned, and to avoid charges from merchants and other payees. In turn, management expects the Corporation to generate higher levels of noninterest revenue from implementing the overdraft privilege program in 2008.

As discussed in Note 15 to the financial statements, in October 2007 the Corporation's Board of Directors adopted amendments to the defined benefit pension plan to freeze and terminate the Plan, effective December 31, 2007. The purpose of freezing and terminating the Plan is to control and reduce future employee benefit expenses. The Board of Directors also approved an amendment to the Corporation's Employee Savings & Retirement Plan (a 401(k) plan), which would increase matching contributions under that plan in 2008. Based on the current number and composition of employees and 401(k) plan participation, the increase in expense in 2008 associated with the 401(k) Plan will be approximately $150,000, which is less than the ongoing expense ($495,000 for the year ended December 31, 2007, excluding a loss from curtailment of $77,000) that would be expected from maintaining the defined benefit pension plan. The Corporation will record a realized loss from settlement of the defined benefit pension plan at the time it funds the final amounts necessary to extinguish its obligations under the Plan. The amount of settlement loss, which management expects will be incurred in 2008, has not yet been finally determined; however, management estimates a settlement loss in the income statement from termination of the plan in 2008 in an amount ranging from $500,000 to $1,000,000.

Another major variable that affects the Corporation's earnings is securities gains and losses. Management's decisions regarding sales of securities are based on a variety of factors, with the overall goal of maximizing portfolio return over a long-term horizon. Most of the Corporation's realized gains on available-for-sale securities in recent years have been from sales of bank stocks. Recently, market valuations of financial stocks have generally been depressed, and management believes that reports of sub-prime mortgage losses and similar events, mainly by very large financial institutions, have cast a shadow over stock prices for the entire sector. While management believes this valuation issue to be cyclical, opportunities for realized gains from bank stocks may be limited in 2008. Further, as discussed in more detail in Note 7 to the financial statements, the Corporation has significant unrealized losses on its holdings of municipal bonds and trust-preferred securities as of December 31, 2007. In the fourth quarter 2007, management has discussed the Corporation's individual holdings of municipal bonds and trust-preferred securities with its investment advisors, and has concluded that no downgrades or deterioration in the credit quality of the securities has occurred that would warrant an other-than-temporarily impairment charge to the income statement. Management will continue to closely monitor the status of the municipal bonds, trust-preferred issues and other debt securities in 2008.

Total capital purchases for 2008 are estimated at $1 million — $1.5 million, with computer hardware and software the largest planned categories of expenditure. Management has no current plans to build or acquire new branches in 2008, but will evaluate opportunities that arise if they seem likely to contribute positively to future earnings and shareholder value.

CRITICAL ACCOUNTING POLICIES

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

A material estimate that is particularly susceptible to significant change is the determination of the allowance for loan losses. Management believes that the allowance for loan losses is adequate and reasonable. The Corporation's methodology for determining the allowance for loan losses is described in a separate section later in Management's Discussion and Analysis. Given the very subjective nature of identifying and valuing loan losses, it is likely that well-informed individuals could make materially different assumptions, and could, therefore calculate a materially different allowance value. While management uses available information to recognize losses on loans, changes in economic conditions may necessitate revisions in future years. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Corporation's allowance for loan losses. Such agencies may require the Corporation to recognize adjustments to the allowance based on their judgments of information available to them at the time of their examination.

Another material estimate is the calculation of fair values of the Corporation's debt securities. The Corporation receives estimated fair values of debt securities from an independent valuation service, or from brokers. In developing these fair values, the valuation service and the brokers use estimates of cash flows, based on historical performance of similar instruments in similar interest rate environments. Based on experience, management is aware that estimated fair values of debt securities tend to vary among brokers and other valuation services. Accordingly, when selling debt securities, management typically obtains price quotes from more than one source. As described in Note 1 to the consolidated financial statements, the large majority of the Corporation's securities are classified as available-for-sale. Accordingly, these securities are carried at fair value on the consolidated balance sheet, with unrealized gains and losses excluded from earnings and reported separately through accumulated other comprehensive income (included in stockholders' equity).

NET INTEREST MARGIN
2007/2006/2005

The Corporation's primary source of operating income is represented by the net interest margin. The net interest margin is equal to the difference between the amounts of interest income and interest expense. Tables I, II and III include information regarding the Corporation's net interest margin in 2007, 2006 and 2005. In each of these tables, the amounts of interest income earned on tax-exempt securities and loans have been adjusted to a fully taxable-equivalent basis. Accordingly, the net interest margin amounts presented in these tables exceed the amounts presented in the consolidated financial statements. The discussion that follows is based on amounts in the Tables.

The fully taxable equivalent net interest margin was $38,228,000 in 2007, $2,123,000 (5.9%) higher than in 2006. As shown in Table III, net increases in volume had the effect of increasing net interest income $1,860,000 in 2007 over 2006, and interest rate changes had the effect of increasing net interest income $263,000. Increases in volume of earning assets and interest-bearing liabilities were significantly affected by the acquisition of Citizens Trust Company on May 1, 2007. The most significant components of the volume changes in 2007 were an increase of $4,677,000 attributable to loan growth and a decrease in interest expense on short-term and long-term borrowings of $1,007,000, partially offset by lower interest income of $2,029,000 from available-for-sale securities and an increase in interest expense of $1,150,000 on certificates of deposit. Although interest rates began to fall in the latter portion of 2007, rates were higher on average in 2007 than in 2006. Table III shows that changes in rates had the effect of increasing interest income $2,560,000, and increasing interest expense $2,297,000, in 2007 over 2006. As presented in Table II, the "Interest Rate Spread" (excess of average rate of return on interest-bearing assets over average cost of funds on interest-bearing liabilities) was 2.92% in 2007, comparable to the 2.90% Interest Rate Spread in 2006.

On a fully taxable-equivalent basis, net interest income fell 6.4%, to $36,105,000 in 2006 from $38,567,000 in 2005. As reflected in Table III, interest rate changes had the effect of decreasing net interest income $3,327,000 in 2006 as compared to 2005, as rising short-term interest rates caused increases in interest expense. Table III also shows that volume changes had the effect of increasing net interest income $865,000 in 2006 over 2005. The major components of the increase in net interest income from volume changes in 2006 were an increase of $2,958,000 attributable to loan growth and a decrease in interest expense of $2,392,000 related to lower long-term borrowings, partially offset by $3,386,000 lower interest income from a lower volume of available-for-sale securities. As presented in Table II, the "Interest Rate Spread" (excess of average rate of return on interest-bearing assets over average cost of funds on interest-bearing liabilities) shrunk to 2.90% in 2006 from 3.22% in 2005.

INTEREST INCOME AND EARNING ASSETS

Interest income totaled $72,137,000 in 2007, an increase of 7.9% over 2006. Interest and fees from loans increased $6,625,000, or 14.7%, while income from available-for-sale securities decreased $1,421,000, or 6.7%. As indicated in Table II, the average balance of gross loans increased 10.0% to $729,269,000 in 2007 from $662,714,000 in 2006. Excluding the impact of the acquisition of Citizens Trust Company, average loans increased 3.9%. The average rate of return on loans was 7.10% in 2007, up from 6.81% in 2006. Total average available-for-sale securities in 2007 fell to $352,808,000, a decrease of $32,311,000 or 8.4% from 2006. Throughout the calendar year 2006 and the first nine months of 2007, proceeds from sales and maturities of securities were used, in part, to help fund loans and pay off borrowings. Within the available-for-sale securities portfolio, the average balance of tax-exempt municipal bonds shrunk by $27,916,000 in 2007 as compared to 2006. Management decided in mid-2006 to reduce the Corporation's investment in municipal bonds in order to reduce the alternative minimum tax liability. The average rate of return on available-for-sale securities was 5.65% for 2007, up from 5.55% in 2006.

Interest income totaled $66,879,000 in 2006, or 4.1% higher than in 2005. Interest and fees from loans increased $4,749,000, or 11.8%, while income from available-for-sale securities decreased $2,334,000, or 9.8%. The majority of the increase in interest income resulted from higher loan volume, along with an increase in the average rate earned on loans, which more than offset the effect of the lower average volume of available-for-sale securities. Total average gross loans increased 7.2% in 2006 over 2005, to $662,714,000 from $618,344,000. The average rate of return on loans was 6.81% in 2006, up from 6.53% in 2005.

INTEREST EXPENSE AND INTEREST-BEARING LIABILITIES

Interest expense rose $3,135,000, or 10.2%, to $33,909,000 in 2007 from $30,774,000 in 2006. Table II shows that the overall cost of funds on interest-bearing liabilities rose to 3.70% in 2007, from 3.44% in 2006.

From Table III, you can calculate that total average deposits (interest-bearing and noninterest-bearing) increased 8.2%, to $812,255,000 in 2007 from $750,982,000 in 2006. In July 2007, the Citizens Trust Company trust operations were converted to the same operational platform as Citizens & Northern Bank, and $13,343,000 of money market deposits was transferred to another financial institution. Management utilizes a third-party provider for Trust & Financial Management money market allocations primarily for interest rate risk management reasons. Excluding acquired Citizens Trust Company deposit accounts, net of the transfers above, total average deposits increased 0.2% in 2007 over 2006. The average rate incurred on certificates of deposit has increased significantly in 2007 over 2006, to 4.44% from 3.96%. Also, the average rate on Individual Retirement Accounts increased significantly, to 4.50% in 2007 from 4.28% in 2006.

The combined average total short-term and long-term borrowed funds decreased $26,081,000 to $218,602,000 in 2007 from $244,683,000 in 2006. The yield curve was flat or inverted throughout 2006 and the first half of 2007, creating limited opportunities for earning a positive spread by purchasing or holding investment securities as compared to interest costs associated with maintaining borrowed funds. Accordingly, throughout that period of time, the Corporation paid off many borrowings as they matured. The average rate on long-term borrowings was 4.17% in 2007, up from 3.59% in 2006.

Interest expense rose $5,087,000, or 19.8%, to $30,774,000 in 2006 from $25,687,000 in 2005. Table II shows that the overall cost of funds on interest-bearing liabilities rose to 3.44% in 2006, from 2.81% in 2005.

Total average deposits (interest-bearing and noninterest-bearing) increased 6.9% to $750,982,000 in 2006 from $702,404,000 in 2005. The most significant increases in average deposits by categories were $21,961,000 for interest checking accounts (47.3%), $18,295,000 for certificates of deposit (9.3%), and $14,304,000 (16.3%) for demand deposit accounts. Average money market account balances decreased $9,219,000, or 4.9%, in 2006 as compared to 2005, as some depositors' moved balances to higher-rate certificates of deposit or withdrew funds to invest in equities. Most of the increase in interest checking balances in 2006 was attributable to one local governmental customer, for which the Corporation became the primary depository institution in September 2005. In addition, the acquisition of First State Bank contributed significantly to the increase in average deposits in 2006 compared to 2005. Excluding First State Bank, average total deposits increased 3.7% in 2006 compared to 2005.

The combined average total short-term and long-term borrowed funds decreased $54,571,000 to $244,683,000 in 2006 from $299,254,000 in 2005. As discussed earlier in Management's Discussion and Analysis, because the yield curve was flat or inverted, the Corporation paid off most borrowings as they matured in 2006.

TABLE I — ANALYSIS OF INTEREST INCOME AND EXPENSE

(In Thousands)	2007	Years Ended December 31, 2006	2005	Increase/(Decrease) 2007/2006	2006/2005
INTEREST INCOME					
Available-for-sale securities:					
Taxable	$15,954	$15,504	$15,407	$ 450	$ 97
Tax-exempt	3,988	5,859	8,290	(1,871)	(2,431)
Total available-for-sale securities	19,942	21,363	23,697	(1,421)	(2,334)
Held-to-maturity securities, Taxable	24	24	25	—	(1)
Trading securities	98	—	—	98	—
Interest-bearing due from banks	87	91	34	(4)	57
Federal funds sold	211	251	97	(40)	154
Loans:					
Taxable	49,670	43,247	38,768	6,423	4,479
Tax-exempt	2,105	1,903	1,633	202	270
Total loans	51,775	45,150	40,401	6,625	4,749
Total Interest Income	72,137	66,879	64,254	5,258	2,625
INTEREST EXPENSE					
Interest checking	1,830	1,784	535	46	1,249
Money market	6,018	5,809	4,148	209	1,661
Savings	343	337	303	6	34
Certificates of deposit	10,786	8,531	6,428	2,255	2,103
Individual Retirement Accounts	5,906	5,240	4,184	666	1,056
Other time deposits	7	7	6	—	1
Short-term borrowings	1,923	2,318	1,239	(395)	1,079
Long-term borrowings	7,096	6,748	8,844	348	(2,096)
Total Interest Expense	33,909	30,774	25,687	3,135	5,087
Net Interest Income	$38,228	$36,105	$38,567	$ 2,123	$(2,462)

(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 34%.

(2) Fees on loans are included with interest on loans and amounted to $985,000 in 2007, $811,000 in 2006 and $915,000 in 2005.

TABLE II — ANALYSIS OF AVERAGE DAILY BALANCES AND RATES

(Dollars in Thousands)	Year Ended 12/31/2007 Average Balance	Rate of Return/ Cost of Funds %	Year Ended 12/31/2006 Average Balance	Rate of Return/ Cost of Funds %	Year Ended 12/31/2005 Average Balance	Rate of Return/ Cost of Funds %
EARNING ASSETS						
Available-for-sale securities, at amortized cost:						
Taxable	$ 290,743	5.49%	$ 295,138	5.25%	$ 319,230	4.83%
Tax-exempt	62,065	6.43%	89,981	6.51%	123,295	6.72%
Total available-for-sale securities	352,808	5.65%	385,119	5.55%	442,525	5.35%
Held-to-maturity securities, Taxable	412	5.83%	418	5.74%	427	5.85%
Trading securities	1,665	5.89%	—	0.00%	—	0.00%
Interest-bearing due from banks	1,864	4.67%	2,272	4.01%	1,293	2.63%
Federal funds sold	4,017	5.25%	4,580	5.48%	2,600	3.73%
Loans:						
Taxable	696,667	7.13%	631,969	6.84%	592,227	6.55%
Tax-exempt	32,602	6.46%	30,745	6.19%	26,117	6.25%
Total loans	729,269	7.10%	662,714	6.81%	618,344	6.53%
Total Earning Assets	1,090,035	6.62%	1,055,103	6.34%	1,065,189	6.03%
Cash	19,485		19,027		9,014	
Unrealized gain/loss on securities	(324)		3,151		11,197	
Allowance for loan losses	(8,697)		(8,495)		(7,297)	
Bank premises and equipment	26,767		23,491		19,247	
Intangible Asset — Core deposit intangibles	1,287		389		169	
Intangible Asset — Goodwill	8,864		2,912		983	
Other assets	41,487		39,111		46,117	
Total Assets	$1,178,904		$1,134,689		$1,144,619	
INTEREST-BEARING LIABILITIES						
Interest checking	$ 75,488	2.42%	$ 68,369	2.61%	$ 46,408	1.15%
Money market	183,178	3.29%	179,288	3.24%	188,507	2.20%
Savings	62,976	0.54%	62,030	0.54%	60,203	0.50%
Certificates of deposit	242,822	4.44%	215,460	3.96%	197,165	3.26%
Individual Retirement Accounts	131,158	4.50%	122,459	4.28%	121,013	3.46%
Other time deposits	1,283	0.55%	1,116	0.63%	1,152	0.52%
Short-term borrowings	48,373	3.98%	56,606	4.09%	44,267	2.80%
Long-term borrowings	170,229	4.17%	188,077	3.59%	254,987	3.47%
Total Interest-bearing Liabilities	915,507	3.70%	893,405	3.44%	913,702	2.81%
Demand deposits	115,350		102,260		87,956	
Other liabilities	9,378		7,942		10,496	
Total Liabilities	1,040,235		1,003,607		1,012,154	
Stockholders' equity, excluding accumulated other comprehensive income/loss	140,035		129,004		125,076	
Accumulated other comprehensive income/loss	(1,366)		2,078		7,389	
Total Stockholders' Equity	138,669		131,082		132,465	

Total Liabilities and Stockholders’ Equity	$1,178,904		$1,134,689		$1,144,619	
Interest Rate Spread		2.92%		2.90%		3.22%
Net Interest Income/Earning Assets		3.51%		3.42%		3.62%

(1) Rates of return on tax-exempt securities and loans are calculated on a fully-taxable equivalent basis, using the Corporation’s marginal federal income tax rate of 34%.

(2) Nonaccrual loans are included in the loan balances above.

TABLE III — THE EFFECT OF VOLUME AND RATE CHANGES ON INTEREST INCOME AND INTEREST EXPENSE

(In Thousands)	Year Ended 12/31/07 vs. 12/31/06 Change in Volume	Change in Rate	Total Change	Year Ended 12/31/06 vs. 12/31/05 Change in Volume	Change in Rate	Total Change
EARNING ASSETS						
Available-for-sale securities:						
Taxable	$ (234)	$ 684	$ 450	$(1,210)	$ 1,307	$ 97
Tax-exempt	(1,795)	(76)	(1,871)	(2,176)	(255)	(2,431)
Total available-for-sale securities	(2,029)	608	(1,421)	(3,386)	1,052	(2,334)
Held-to-maturity securities, Taxable	—	—	—	(1)	—	(1)
Trading securities	98	—	98	—	—	—
Interest-bearing due from banks	(18)	14	(4)	34	23	57
Federal funds sold	(30)	(10)	(40)	96	58	154
Loans:						
Taxable	4,559	1,864	6,423	2,672	1,807	4,479
Tax-exempt	118	84	202	286	(16)	270
Total loans	4,677	1,948	6,625	2,958	1,791	4,749
Total Interest Income	2,698	2,560	5,258	(299)	2,924	2,625
INTEREST-BEARING LIABILITIES						
Interest checking	178	(132)	46	340	909	1,249
Money market	127	82	209	(212)	1,873	1,661
Savings	5	1	6	9	25	34
Certificates of deposit	1,150	1,105	2,255	635	1,468	2,103
Individual Retirement Accounts	384	282	666	51	1,005	1,056
Other time deposits	1	(1)	—	—	1	1
Short-term borrowings	(329)	(66)	(395)	405	674	1,079
Long-term borrowings	(678)	1,026	348	(2,392)	296	(2,096)
Total Interest Expense	838	2,297	3,135	(1,164)	6,251	5,087
Net Interest Income	$ 1,860	$ 263	$ 2,123	$ 865	$(3,327)	$(2,462)

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

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

NONINTEREST INCOME
2007/2006/2005

As discussed in the Earnings Overview section of Management's Discussion and Analysis, net realized gains on sales of available-for-sale securities were much lower in 2007 than in 2006, totaling $127,000 in 2007 as compared to $5,046,000 in 2006. Excluding realized gains on sales of available-for-sale securities, total noninterest income increased significantly ($2,130,000, or 25.6%) in 2007 over 2006.

2007 vs. 2006

- Trust and financial management revenue increased $1,031,000 (42.8%), including an increase of 22.3% excluding Citizens Trust Company, and a contribution to revenue from Citizens Trust Company of $493,000. Trust and financial management revenues are heavily affected by the amount of assets under management. Assets under management totaled $659,193,000 at December 31, 2007, an increase of 27.3% over year-end 2006. The increase in assets under management includes the impact of the addition of Citizens Trust Company, as well as significant appreciation in equity markets.
- Service charges on deposit accounts increased $525,000, or 25.8%, in 2007 as compared to 2006, including $436,000 from Citizens Trust Company.
- Service charges and fees increased $258,000 in 2007 over 2006. Among the types of fees included in this category are ATM-related fees, which increased $132,000 in 2007 over 2006, and letter of credit fees, which increased $125,000 in 2007 because of a few large, commercial transactions.
- In 2006, there was a gain from sale of credit card loans of $340,000, with no corresponding gain or loss in 2007. The credit card sale is discussed in more detail in the Earnings Overview section of Management's Discussion and Analysis.
- Other operating income increased $589,000, or 29.7%, in 2007 over 2006. Included in this category were increases in interchange fees related to debit card transactions of $158,000, higher broker-dealer revenues of $108,000, gain on sale of a restricted equity security of $80,000, higher fees from credit card agent bank activity of $61,000, training grant revenue of $43,000 and higher check sales of $39,000.

2006 vs. 2005

Total noninterest income increased $2,012,000, or 17.7%, in 2006 compared to 2005. The largest change within this category is related to securities gains, which increased $3,244,000, and which are discussed in the Earnings Overview section of Management's Discussion and Analysis. Also, gains related to sale of credit card loans decreased $1,566,000 in 2006 as compared to 2005, as discussed in the Earnings Overview section. Other items of significance are as follows:

- Service charges on deposit accounts increased $345,000, or 20.4%, in 2006 over 2005. C&N Bank overdraft charges increased $297,000 in 2006 over 2005, primarily from the effects of a rate increase in August 2005 and an increased volume of overdrafts on business checking accounts. Also, service charges from First State Bank increased $111,000 in 2006, as a result of including First State Bank in the Corporation's consolidated financial statements for the full year in 2006 (as opposed to only the last four months of 2005).
- Trust and financial management revenue increased $321,000, or 15.4%, in 2006 over 2005. Total assets under management amounted to $517,775,000 as of December 31, 2006, an increase of 23.8% over the amount one year earlier. Appreciation in the equities markets, along with an increase in volume of business, contributed to the increase in assets under management and revenue.
- Fees related to credit card operation decreased $806,000 due to the sale of C&N Bank's credit card operations in the fourth quarter 2005.
- Other operating income increased $348,000, or 21.3%, in 2006 over 2005. Included in this category were an increase of $185,000 in dividend income on Federal Home Loan Bank of Pittsburgh stock, due to a higher rate of dividends paid, and an increase of $104,000 in debit card fees.

TABLE IV — COMPARISON OF NONINTEREST INCOME
(In Thousands)

	2007	% Change	2006	% Change	2005
Service charges on deposit accounts	$ 2,559	25.8	$ 2,034	20.4	$ 1,689
Service charges and fees	704	57.8	446	21.5	367
Trust and financial management revenue	3,440	42.8	2,409	15.4	2,088
Insurance commissions, fees and premiums	446	(4.7)	468	(4.7)	491
Increase in cash surrender value of life insurance	719	14.1	630	12.5	560
Fees related to credit card operation	—	—	—	(100.0)	806
Gain on sale of credit card loans	—	(100.0)	340	(82.2)	1,906
Other operating income	2,572	29.7	1,983	21.3	1,635
Total other income before realized gains on securities, net	10,440	25.6	8,310	(12.9)	9,542
Realized gains on available-for-sale securities, net	127	(97.5)	5,046	180.0	1,802
Total Other Income	$10,567	(20.9)	$13,356	17.7	$11,344

NONINTEREST EXPENSE
2007/ 2006/ 2005

Total noninterest expense increased $1,669,000, or 5.3%, in 2007 over 2006, and $2,652,000, or 9.2%, in 2006 over 2005. In 2007, total noninterest expense increased primarily as a result of the May 2007 acquisition of Citizens Trust Company with three branch locations and a Trust department operation. Noninterest expenses also increased in 2006 due to the expansion of operations in 2005 associated with opened or acquired new offices in Jersey Shore, PA (August 2005), Canisteo and South Hornell, NY (August 2005) and Old Lycoming Township, PA (March 2006). Also, the Corporation built a new administrative office in Wellsboro, PA, which opened in March 2006.

2007 vs. 2006

Salaries and wages reflect a net increase of $597,000, or 4.4%, in 2007 over 2006. Increases of $856,000 are associated with expanded operations, primarily at locations associated with the acquisition of Citizens Trust Company. As described in the “stock-based compensation plans” section of Note 15 to the consolidated financial statements, the Corporation made awards of stock options and restricted stock in 2007, with no awards in 2006. Stock option expense has been recognized over the six-month vesting period for the 2007 awards. The Corporation also incurred $139,000 of severance costs in connection with a reduction in workforce initiated during the second half of 2007. In 2007, based on performance results, the Corporation did not incur incentive bonus expense, as compared to $750,000 in 2006.

Total pensions and other employee benefits expense decreased $75,000, or 1.8%. Total contributions to the Employee Stock Ownership Plan (ESOP) were $238,000 lower in 2007 than in 2006. In 2007, ESOP contributions were made at the required level provided for in the Plan (2% of compensation, as defined in the Plan), while in 2006 total ESOP contributions were based on 4% of compensation (including the required 2%, plus an additional discretionary 2%). The Corporation also received a refund in 2007 on its health insurance based on favorable claims experience from a prior year. The health insurance refund reduced 2007 health care costs by $225,000 from 2006. Excluding the impact of the reduced ESOP expense and the health insurance refund, the cost of pensions and other employee benefits is 9.1% higher in 2007 than in 2006. The increases in this category primarily relate to the additional costs of benefits for employees associated with the Citizens Trust Company locations. Note 15 to the consolidated financial statements provides information concerning some of more significant elements of this category, including the defined benefit pension and postretirement health plans, the 401(k)/ESOP and the supplemental executive retirement plan.

Occupancy costs increased $325,000, or 14.1%, in 2007 over 2006. The primary increase in this category is associated with the Citizens Trust Company locations with $259,000 of such costs in 2007, and a full year of operation of the Corporation’s new administration building.

Furniture and equipment expense increased $182,000, or 7.0%, including $225,000 attributed to Citizens Trust Company operations.

Other operating expense increased $674,000, or 8.7%. This category includes many varieties of expenses, with significant increases and decreases in some of the individual expenses, as follows:

- Increase of $705,000 from the acquisition of Citizens Trust Company, including $360,000 for amortization of the core deposit intangible, and excluding computer system conversion costs.
- Increase of $240,000 from professional and other fees associated with converting First State Bank and Citizens Trust Company locations to the same core computer system used by C&N Bank.
- Increase of $172,000 in cash-based Director fees, Director stock options and restricted stock.
- Incurred $145,000 in 2007 associated with a loss on the disposition of telephone equipment that was disposed in conjunction with efforts to provide improved, compatible communications at all locations.
- Increase in computer-related services of $152,000, including services related to a new internet banking platform, branch deposit capture software and an employee time and attendance system.
- Decrease in certain expense categories for which management has some discretion over spending, including a total reduction of $354,000 in education and training, public relations and donations, office supplies and advertising.
- Decrease in comparative 2007 expense because results for 2006 included a $168,000 impairment write-down related to a leased building which management decided to vacate.
- Decrease in expenses associated with other real estate properties of $101,000.
- Decrease of $100,000 in Bucktail Life Insurance Company expenses associated with loss experience.

2006 vs. 2005

Salaries and wages increased $1,322,000, or 10.7%, in 2006 over 2005. The increase in salaries expense relates primarily to the increase in the number of full-time equivalent employees, which averaged 10% higher since August of 2005. For 2006, new branch operations at Jersey Shore, Old Lycoming Township and New York State added $612,000 to salaries expense.

Pension and other employee benefits increased $527,000, or 14.0%, in 2006 over 2005. The increase in number of people and covered compensation is the primary reason for the increase. In the aggregate, total pensions and other employee benefits expense, as a percentage of salaries and wages, was 31.2% in 2006, up from 30.3% in 2005.

Occupancy expense increased $444,000, or 23.8%, in 2006 compared to 2005. The increase in total occupancy costs in 2006 includes $288,000 for the Jersey Shore, Old Lycoming and New York State locations, and $213,000 for the new administration building in Wellsboro.

Other operating expense increased $253,000 or 3.4% in 2006 compared to 2005. The increase in other expenses includes an increase of $420,000 for the New York State locations in 2006, including $128,000 for the amortization of the core deposit intangible. In addition, in the second quarter 2006, other expense included a one-time charge of $168,000 for impairment of leasehold improvements from early termination of a property lease. Included in the 2005 total is $462,000 for non-payroll related expenses associated with the credit card operation, which was sold in the fourth quarter 2005.

TABLE V — COMPARISON OF NONINTEREST EXPENSE
(In Thousands)

	2007	% Change	2006	% Change	2005
Salaries and wages	$14,302	4.4	$13,705	10.7	$12,383
Pensions and other employee benefits	4,204	(1.8)	4,279	14.0	3,752
Occupancy expense, net	2,634	14.1	2,309	23.8	1,865
Furniture and equipment expense	2,789	7.0	2,607	(2.5)	2,673
Pennsylvania shares tax	942	(3.5)	976	21.4	804
Other operating expense	8,412	8.7	7,738	3.4	7,485
Total Other Expense	$33,283	5.3	$31,614	9.2	$28,962

INCOME TAXES

The income tax provision was $2,643,000, or 20.2% of pre-tax income, in 2007, as compared to 18.8% in 2006 and 17.7% in 2005. The increases in the tax provision/pre-tax income rate in 2007 and 2006 reflected lower average holdings of tax-exempt securities. Management decided to reduce the Corporation's investment in municipal bonds in order to reduce or eliminate the alternative minimum tax liability. A more complete analysis of income taxes is presented in Note 16 to the consolidated financial statements.

FINANCIAL CONDITION

Significant changes in the average balances of the Corporation's earning assets and interest-bearing liabilities are described in the Net Interest Margin section of Management's Discussion and Analysis. That discussion provides useful information regarding changes in the Corporation's balance sheet over the 2-year period ended December 31, 2007, including discussions of available-for-sale securities, loans, deposits and borrowings. The acquisition of Citizens Bancorp, Inc. on May 1, 2007 was funded approximately 50% with cash and 50% with stock, increasing the Corporation's assets $136,618,000, liabilities $124,550,000 and stockholders' equity $14,068,000 at the date of acquisition. Other significant balance sheet items — the allowance for loan losses and stockholders' equity — are discussed in separate sections of Management's Discussion and Analysis.

Table VI shows the composition of the investment portfolio at December 31, 2007, 2006 and 2005. Comparison of the amortized cost totals of available-for-sale securities at each year-end presented reflects a reduction from $420,185,000 at December 31, 2005 to $353,954,000 at December 31, 2006, then an increase to $442,835,000 at December 31, 2007. The increase in the investment portfolio in 2007 resulted mainly from a leveraged investment purchase of securities in December 2007, as discussed in more detail in the Outlook for 2008 section of Management's Discussion and Analysis. Prior to the yield curve changing to a more positive shape in the latter part of 2007, management had been "shrinking the balance sheet," meaning that proceeds from principal payments on the investment portfolio were not being reinvested; instead, proceeds were used mainly to pay off borrowings or to fund loans. At December 31, 2007, the amortized cost of the available-for-sale securities portfolio exceeded the estimated fair value by $10,080,000. As discussed in more detail in Note 7 to the financial statements, the Corporation has significant unrealized losses on its holdings of municipal bonds and trust-preferred securities as of December 31, 2007. In the fourth quarter 2007, management has discussed the Corporation's individual holdings of municipal bonds and trust-preferred securities with its investment advisors, and has concluded that no downgrades or deterioration in the credit quality of the securities has occurred that would warrant an other-that-temporarily impairment charge to the income statement. Management will continue to closely monitor the status of the municipal bonds, trust-preferred issues and other debt securities in 2008.

The balance of loans outstanding (without consideration of the allowance for loan losses) has grown $211,044,000 from the balance at December 31, 2003 to the total outstanding of $735,941,000 at December 31, 2007. Of the total increase, $83,693,000 came from balances acquired from Citizens Bancorp, Inc. (2007) and First State Bank (2005). Excluding the effects of acquisitions, total loans fell slightly (1.7%) in 2007, and grew 5.2% in 2006, 8.7% in 2005 and 10.4% in 2004. Loan volumes are heavily dependent on economic conditions in the Corporation's market area, and are significantly influenced by interest rates. Overall, the Corporation has experienced growth in commercial and consumer mortgage lending over the past 4 years. The Corporation has not originated interest only mortgages, loans without documentation of the borrowers' sources of income or net worth, or other types of exotic mortgage loans that have made headlines in recent months, and which have led some lenders and investors to realize significant losses from these types of instruments. Table VIII presents a table of loan maturities, based on data as of November 30, 2007 (the last date in 2007 for which the Corporation ran the interest rate simulation model used to generate the loan maturities information included in Table VIII). Fixed rate loans are included in Table VIII based on their contractually scheduled principal repayments, while variable rate loans are included based on contractual principal repayments, with the remaining balance reflected in the Table as of the date of the next change in rate. Table VIII shows that approximately 51% of the loan portfolio is fixed rate. Of the 49% of the portfolio made up of variable rate loans, a significant portion (29%) 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 loans. The Corporation's substantial investment in long-term, fixed rate loans and variable rate loans with extended until re-pricing is one of the major 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 capital purchases for 2008 are estimated at approximately $1 million -$1.5 million. In light of the Corporation's strong capital position and ample sources of liquidity, management does not expect capital expenditures to have a material, detrimental effect on the Corporation's financial condition in 2008.

TABLE VI — INVESTMENT SECURITIES
(In Thousands)

	As of December 31, 2007 Amortized Cost	2007 Fair Value	2006 Amortized Cost	2006 Fair Value	2005 Amortized Cost	2005 Fair Value
AVAILABLE-FOR-SALE SECURITIES:						
Obligations of the U.S. Treasury	$ —	$ —	$ —	$ —	$ 501	$ 500
Obligations of other U.S. Government agencies	32,199	32,723	26,000	25,568	43,999	43,339
Obligations of states and political subdivisions	63,340	60,449	70,027	70,478	116,241	117,709
Mortgage-backed securities	149,796	150,416	110,049	107,331	140,562	137,327
Collateralized mortgage obligations	70,080	69,505	39,178	38,244	31,008	30,386
Other securities	104,975	96,915	84,670	84,332	63,841	64,771
Total debt securities	420,390	410,008	329,924	325,953	396,152	394,032
Marketable equity securities	22,445	22,747	24,030	30,712	24,033	33,266
Total	$442,835	$432,755	$353,954	$356,665	$420,185	$427,298
HELD-TO-MATURITY SECURITIES:						
Obligations of the U.S. Treasury	$ 307	$ 321	$ 310	$ 315	$ 313	$ 324
Obligations of other U.S. Government agencies	99	105	99	104	98	106
Mortgage-backed securities	3	3	5	5	11	11
Total	$ 409	$ 429	$ 414	$ 424	$ 422	$ 441

TABLE VII — FIVE-YEAR SUMMARY OF LOANS BY TYPE
(In Thousands)

	2007	%	2006	%	2005	%	2004	%	2003	%
Real estate — construction	$ 22,497	3.06	$ 10,365	1.51	$ 5,552	0.85	$ 4,178	0.72	$ 2,856	0.54
Real estate — residential mortgage	441,692	60.02	387,410	56.35	361,857	55.39	347,705	59.98	330,807	63.03
Real estate — commercial mortgage	144,742	19.67	178,260	25.93	153,661	23.52	128,073	22.10	100,240	19.10
Consumer	37,193	5.05	35,992	5.24	31,559	4.83	31,702	5.47	33,977	6.47
Agricultural	3,553	0.48	2,705	0.39	2,340	0.36	2,872	0.50	2,948	0.56
Commercial	52,241	7.10	39,135	5.69	69,396	10.62	43,566	7.52	34,967	6.66
Other	1,010	0.14	1,227	0.18	1,871	0.29	1,804	0.31	1,183	0.23
Political subdivisions	33,013	4.48	32,407	4.71	27,063	4.14	19,713	3.40	17,854	3.40
Lease receivables	—	0.00	—	0.00	—	0.00	—	0.00	65	0.01
Total	735,941	100.00	687,501	100.00	653,299	100.00	579,613	100.00	524,897	100.00
Less: allowance for loan losses	(8,859)		(8,201)		(8,361)		(6,787)		(6,097)	
Loans, net	$727,082		$679,300		$644,938		$572,826		$518,800	

TABLE VIII — LOAN MATURITY DISTRIBUTION
(In Thousands)

	As of November 30, 2007 Fixed Rate Loans: 1 Year or			Variable or Adjustable Rate Loans: 1 Year or		

	Less	1-5 Years	>5 Years	Total	Less	1-5 Years	>5 Years	Total
Real Estate	$ 67,625	$152,041	$83,939	$303,605	$ 85,714	$187,740	$1,423	$274,877
Commercial	19,559	18,884	6,626	45,069	67,090	25,443	705	93,238
Consumer	13,324	14,301	2,993	30,618	930	—	—	930
	$100,508	$185,226	$93,558	$379,292	$153,734	$213,183	$2,128	$369,045

PROVISION AND ALLOWANCE FOR LOAN LOSSES

The allowance for loan losses is maintained at a level which, in management's judgment, is adequate to absorb credit losses inherent in the loan portfolio. The amount of the allowance is based on management's evaluation of the collectibility of the loan portfolio. In evaluating collectibility, management considers a number of factors, including the status of specific impaired loans, trends in historical loss experience, delinquency trends, credit concentrations, and economic conditions within the Corporation's market area. Allowances for impaired loans are determined based on collateral values or the present value of estimated cash flows. The allowance is increased by a provision for loan losses, which is charged to expense, and reduced by charge-offs, net of recoveries.

There are two major components of the allowance — (1) Statement of Financial Accounting Standards (SFAS) 114 allowances — on larger loans, mainly commercial purpose, determined on a loan-by-loan basis; and (2) SFAS 5 allowances — estimates of losses incurred on the remainder of the portfolio, determined based on collective evaluation of impairment for various categories of loans. SFAS 5 allowances include a portion based on historical net charge-off experience, and a portion based on evaluation of qualitative factors.

Each quarter, management performs a detailed assessment of the allowance and provision for loan losses. A management committee called the Watch List Committee performs this assessment. Quarterly, the Watch List Committee and the applicable Lenders discuss each loan relationship under review, and reach a consensus on the appropriate SFAS 114 estimated loss amount for the quarter. The Watch List Committee's focus is on ensuring that all pertinent facts have been considered, and that the SFAS 114 loss amounts are reasonable. The assessment process includes review of certain loans reported on the "Watch List." All loans, which Lenders or the Credit Administration staff has assigned a risk rating of Special Mention, Substandard, Doubtful or Loss, are included in the Watch List. The scope of loans evaluated individually for impairment (SFAS 114 evaluation) include all loan relationships greater than $200,000 for C&N Bank loans, and $50,000 for First State Bank, for which there is at least one extension of credit graded Special Mention, Substandard, Doubtful or Loss. Also, loan relationships less than $200,000 in the aggregate, but with an estimated loss of $100,000 or more, are individually evaluated for impairment.

Currently, the Banks' Risk Management and Credit Administration personnel perform annual, independent credit reviews of large credit relationships. In prior years, outside consulting firms were retained to perform such functions. Management gives substantial consideration to the classifications and recommendations of the credit reviewers in determining the allowance for loan losses.

The SFAS 5 component of the allowance includes estimates of losses incurred on loans that have not been individually evaluated for impairment. Management uses loan categories included in the Call Report (a quarterly report filed by FDIC-insured banks) to identify categories of loans with similar risk characteristics, and multiplies the loan balances for each category as of each quarter-end by two different factors to determine the SFAS 5 allowance amounts. These two factors are based on: (1) historical net charge-off experience, and (2) qualitative factors. The sum of the allowance amounts calculated for each risk category, including both the amount based on historical net charge-off experience and the amount based on evaluation of qualitative factors, is equal to the total SFAS 5 component of the allowance.

The historical net charge-off portion of the SFAS 5 allowance component is calculated by the Accounting Department as of the end of the applicable quarter. For each loan classification category used in the Call Report, the Accounting Department multiplies the outstanding balance as of the quarter-end (excluding loans individually evaluated for impairment) by the ratio of net charge-offs to average quarterly loan balances for the previous three calendar years. Prior to the fourth quarter 2005, C&N Bank had utilized the ratio of net charge-offs to average balances over a five-year period in calculating the historical loan loss experience portion of the allowance portfolio. Management made the change to the three-year assumption, which had very little effect on the allowance valuation as of December 31, 2005, mainly because management believes net charge-off experience over a 3-year period may be more representative of losses existing in the portfolio as of the balance sheet date.

Effective in the second quarter 2005, management began to calculate the effects of specific qualitative factors criteria to determine a percentage increase or decrease in the SFAS 5 allowance, in relation to the historical net charge-off percentage. The qualitative factors analysis involves assessment of changes in factors affecting the portfolio, to provide for estimated differences between losses currently inherent in the portfolio and the amounts determined based on recent historical loss rates and from identification of losses on specific individual loans. A management committee called the Qualitative Factors Committee meets quarterly, near the end of the final month of each quarter. The Qualitative Factors Committee discusses several qualitative factors, including economic conditions, lending policies, changes in the portfolio, risk profile of the portfolio, competition and regulatory requirements, and other factors, with consideration given to how the factors affect three distinct parts of the loan portfolio: Commercial, Mortgage and Consumer. During or soon after completion of the meeting, each member of the Committee prepares an update to his or her recommended percentage adjustment for each qualitative factor, and average qualitative factor adjustments are calculated for Commercial, Mortgage and Consumer loans. The Accounting Department multiplies the outstanding balance as of the quarter-end (excluding loans individually evaluated for impairment) by the applicable qualitative factor percentages, to determine the portion of the SFAS 5 allowance attributable to qualitative factors. Average qualitative factors used in calculating the SFAS 5 portion of the allowance did not change significantly (by more than a few basis points) for any category over the course of 2007.

The allocation of the allowance for loan losses table (Table X) includes the SFAS 114 component of the allowance on the line item called “Impaired Loans.” SFAS 5 estimated losses, including both the portion determined based on historical net charge-off results, as well as the portion based on management’s assessment of qualitative factors, are allocated in Table X to the applicable categories of commercial, consumer mortgage and consumer loans. Table X reflects a significant increase in the allowance on consumer mortgages to $4,201,000 at December 31, 2007 from $3,556,000 at December 31, 2006, mainly because of growth in outstanding mortgage loans. In periods prior to 2005, the portion of the allowance determined by management’s subjective assessment of economic conditions and other factors (which is now calculated using the qualitative factors criteria described above) was reflected completely in the unallocated component of the allowance. Primarily as a result of this change in process, Table X shows a reduction in the unallocated portion of the allowance to $0 at December 31, 2007, $24,000 at December 31, 2006 and $0 at December 31, 2005 from $2,578,000 at December 31, 2004.

The allowance for loan losses was $8,859,000 at December 31, 2007, up from the balances of $8,201,000 at December 31, 2006 and $8,361,000 at December 31, 2005. As shown in Table IX, the allowance for loan losses recorded as a result of the Citizens Trust Company acquisition was $587,000, and was based on Citizens Trust Company’s SFAS 5 allowance at the time of acquisition. As shown in Table IX, net charge-offs in 2007 of $458,000 were substantially lower by comparison than the recent historical levels of $832,000 in 2006 and $829,000 in 2005. Table IX also shows the provision for loan losses totaled $529,000 in 2007, down from $672,000 in 2006 and $2,026,000 in 2005. In 2006, settlements were reached related to two large commercial loan relationships that had previously been classified as impaired. Total 2006 charge-offs related to these two relationships were $568,000, or approximately $450,000 less than the estimated valuation allowance amounts that had been previously recorded. Lower-than-anticipated charge-off levels have contributed to a reduction in the provision for loan losses in the last two years. The total amount of the provision for loan losses for each year is determined based on the amount required to maintain an appropriate allowance in light of all of the factors described above.

Table XI presents information related to past due and impaired loans. As of December 31, 2007, total impaired loans amounted to $6,218,000, down substantially from $8,011,000 at December 31, 2006, $8,216,000 at December 31, 2005 and $8,261,000 at December 31, 2004. Nonaccrual loans totaled $6,955,000 at December 31, 2007 down from $8,506,000 at December 31, 2006, but increased from $6,365,000 at December 31, 2005. Over the period 2004-2007, there have been a few large commercial relationships that have required significant monitoring and workout efforts. The primary reduction in impaired and nonaccrual loans during 2007 resulted from the removal of loans for two unrelated commercial relationships from impaired and nonaccrual status during the second and third quarters. In 2006, management identified three unrelated commercial loan relationships with outstanding balances totaling approximately $3,300,000 that were moved to nonaccrual status and classified as impaired, and offset the settlements of two other large commercial loan relationships. As of December 31, 2007, the SFAS 114 valuation allowance on impaired loans includes $1,550,000 related to three unrelated commercial relationships. 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, 2007. 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,				
	2007	2006	2005	2004	2003
Balance, beginning of year	$8,201	$8,361	$6,787	$6,097	$5,789
Charge-offs:					
Real estate loans	196	611	264	375	168
Installment loans	216	259	224	217	326
Credit cards and related plans	5	22	198	178	171
Commercial and other loans	127	200	298	16	303
Total charge-offs	544	1,092	984	786	968
Recoveries:					
Real estate loans	8	27	14	3	75
Installment loans	41	65	61	32	52
Credit cards and related plans	9	25	30	23	17
Commercial and other loans	28	143	50	18	32
Total recoveries	86	260	155	76	176
Net charge-offs	458	832	829	710	792
Allowance for loan losses recorded in acquisition	587	—	377	—	—
Provision for loan losses	529	672	2,026	1,400	1,100
Balance, end of year	$8,859	$8,201	$8,361	$6,787	$6,097

TABLE X — ALLOCATION OF THE ALLOWANCE FOR LOAN LOSSES BY TYPE
(In Thousands)

	2007	2006	2005	2004	2003
Commercial	$1,870	$2,372	$2,705	$1,909	$1,578
Consumer mortgage	4,201	3,556	2,806	513	456
Impaired loans	2,255	1,726	2,374	1,378	1,542
Consumer	533	523	476	409	404
Unallocated	—	24	—	2,578	2,117
Total Allowance	$8,859	$8,201	$8,361	$6,787	$6,097

The above allocation is based on estimates and subjective judgments and is not necessarily indicative of the specific amounts or loan categories in which losses may occur.

TABLE XI — PAST DUE AND IMPAIRED LOANS
(In Thousands)

	2007	2006	2005	2004	2003
Impaired loans without a valuation allowance	$ 857	$2,674	$ 910	$3,552	$ 114
Impaired loans with a valuation allowance	5,361	5,337	7,306	4,709	4,507
Total impaired loans	$6,218	$8,011	$8,216	$8,261	$4,621
Valuation allowance related to impaired loans	$2,255	$1,726	$2,374	$1,378	$1,542
Total nonaccrual loans	$6,955	$8,506	$6,365	$7,796	$1,145
Total loans past due 90 days or more and still accruing	$1,200	$1,559	$1,369	$1,307	$2,546

TABLE XII — FIVE-YEAR HISTORY OF LOAN LOSSES (In Thousands)

	2007	2006	2005	2004	2003	Average
Average gross loans	$729,269	$662,714	$618,344	$551,352	$485,150	$609,366
Year-end gross loans	735,941	687,501	653,299	579,613	524,897	636,250
Year-end allowance for loan losses	8,859	8,201	8,361	6,787	6,097	7,661
Year-end nonaccrual loans	6,955	8,506	6,365	7,796	1,145	6,153
Year-end loans 90 days or more past due and still accruing	1,200	1,559	1,369	1,307	2,546	1,596
Net charge-offs	458	832	829	710	792	724
Provision for loan losses	529	672	2,026	1,400	1,100	1,145
Earnings coverage of charge-offs	22.8	14.4	15.7	20.9	20.5	18.4
Allowance coverage of charge-offs	19.3	9.9	10.1	9.6	7.7	10.6
Net charge-offs as a % of provision for loan losses	86.58%	123.81%	40.92%	50.71%	72.00%	63.23%
Net charge-offs as a % of average gross loans	0.06%	0.13%	0.13%	0.13%	0.16%	0.12%

CONTRACTUAL OBLIGATIONS AND OFF-BALANCE SHEET ARRANGEMENTS

Table XIII presents the Corporation's significant fixed and determinable contractual obligations as of December 31, 2007 by payment date. The payment amounts represent the principal amounts of time deposits and borrowings, and do not include interest. Operating leases and software maintenance commitments are presented at the amounts due to the recipients, and are not discounted to present value.

TABLE XIII — CONTRACTUAL OBLIGATIONS (In Thousands)

Contractual Obligations	1 Year or Less	1-3 Years	3-5 Years	Over 5 Years	Total
Time deposits	$253,037	$ 96,868	$27,333	$ 9	$377,247
Short-term borrowings, Repurchase agreements	5,000	—	—	—	5,000
Long-term borrowings:					
Federal Home Loan Bank of Pittsburgh	38,500	83,529	28,583	14,342	164,954
Repurchase agreements	12,000	—	2,500	80,000	94,500
Operating leases	97	10	—	—	107
Software maintenance	400	340	—	—	740
Total	$309,034	$180,747	$58,416	$94,351	$642,548

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 $461,256,000 at December 31, 2007. The Corporation also has obligations related to overnight customer repurchase agreements with principal balances totaling $35,678,000 at December 31, 2007.

As described more fully in Note 19 to the consolidated financial statements, the Corporation has a contingent obligation to pay additional licensing fees, based on the Bank's asset size, through October 2009.

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 18 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. The Corporation maintains overnight borrowing facilities with several correspondent banks that provide a source of day-to-day liquidity. Also, the Corporation maintains borrowing facilities with FHLB — Pittsburgh, secured by various securities and mortgage loans. At December 31, 2007, the Corporation had unused borrowing availability with correspondent banks and FHLB — Pittsburgh totaling approximately $236,000,000. Additionally, the Corporation uses repurchase agreements placed with brokers to borrow funds secured by investment assets, and uses "RepoSweep" arrangements to borrow funds from commercial banking customers on an overnight basis. If required to raise cash in an emergency situation, the Corporation could sell non-pledged investment securities to meet its obligations. At December 31, 2007, the carrying value of non-pledged securities was $105,908,000.

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

STOCKHOLDERS' EQUITY AND CAPITAL ADEQUACY

The Corporation and the Banks are subject to various regulatory capital requirements administered by the federal banking agencies. For many years, the Corporation and C&N Bank have maintained extremely strong capital positions, and First State Bank is also well capitalized. Details concerning the Corporation's and the Banks' regulatory capital amounts and ratios are presented in Note 21 to the consolidated financial statements. As reflected in Note 21, at December 31, 2007 and 2006, 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.

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 (Loss) Income" within stockholders' equity. The balance in Accumulated Other Comprehensive (Loss) Income related to unrealized gains or losses on available-for-sale securities, net of deferred income tax, amounted to ($6,654,000) at December 31, 2007 and $1,794,000 at December 31, 2006. Changes in accumulated other comprehensive income are excluded from earnings and directly increase or decrease stockholders' equity.

Effective December 31, 2006, the Corporation applied SFAS No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans. SFAS No. 158 requires the Corporation to recognize the underfunded or overfunded status of defined benefit pension and postretirement plans as a liability or asset in the balance sheet. The balance in Accumulated Other Comprehensive (Loss) Income related to SFAS No. 158 was ($403,000) at December 31, 2007 and $(1,181,000) at December 31, 2006.

COMPREHENSIVE INCOME

Comprehensive income is a measure of the change in equity of a corporation, excluding transactions with owners in their capacity as owners (such as proceeds from issuances of stock and dividends). The difference between net income and comprehensive income is termed "Other Comprehensive Income". Comprehensive income should not be construed to be a measure of net income. For the Corporation, other comprehensive income includes unrealized gains and losses on available-for-sale securities, net of deferred income tax. The amount of unrealized gains or losses reflected in comprehensive income may vary widely from period-to-period, depending on the financial markets as a whole and how the portfolio of available-for-sale securities is affected by interest rate movements. Beginning in 2007, the change in accumulated other comprehensive income attributable to the impact of SFAS No. 158 on defined benefit plans is also included in other comprehensive income. Total comprehensive income was $2,754,000 in 2007, $9,082,000 in 2006 and $7,147,000 in 2005. Other comprehensive (loss) amounted to ($7,670,000) in 2007, ($2,904,000) in 2006 and ($5,837,000) in 2005.

INFLATION

The Corporation is significantly affected by the Federal Reserve Board's efforts to control inflation through changes in short-term interest rates. Over the period 2004 through 2006, the Federal Reserve increased the fed funds target rate 17 times, from a low of 1% to 5.25%. The Fed Funds target rate stayed at 5.25% until August 2007. During that time period, long-term interest rates did not increase as much as short-term rates, which hurt the Corporation's profitability by "squeezing" the net interest margin. From August 2007 through late February 2008, in response to concerns about weakness in the U.S. economy, the Federal Reserve has lowered the fed funds target rate several times, to its current level of 3%, and long-term rates are now higher than short-term rates. There are many signs of inflationary pressures looming over the U.S. economy as of late February 2008, including a decline in value of the U.S. dollar against many of the world's currencies over the last year or so. While the Federal Reserve has recently lowered the fed funds target rate, which has lowered short-term rates and therefore the Corporation's cost of funds, inflationary pressures may force the Fed to change course and begin raising rates in the 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

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements ("SFAS No.157"), to establish a consistent framework for measuring fair value and expand disclosures on fair value measurements. The provisions of SFAS No. 157 are effective beginning in 2008 and will affect the Corporation's disclosures of information regarding fair values of financial instruments, but are currently not expected to have a material effect on the Corporation's financial statements.

In February 2007, FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statement No. 115 ("SFAS No. 159"). SFAS No. 159 permits entities to choose to measure many financial instruments at fair value that are not currently required to be measured at fair value. It also establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. SFAS No. 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007 (the Corporation's 2008 fiscal year). The Corporation does not currently anticipate making an election to measure any financial instruments at fair value (other than instruments that are already measured at fair value), and therefore does not expect SFAS No. 159 to have a material effect on the Corporation's financial statements.

In December 2007 the FASB issued SFAS No. 141R, Business Combinations ("SFAS No. 141R"). SFAS No. 141R establishes principles and requirements for how the acquirer of a business recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree. The statement also provides guidance for recognizing and measuring the goodwill acquired in the business combination and determines what information to disclose to enable users of the financial statement to evaluate the nature and financial effects of the business combination. SFAS No. 141R is effective for financial statements issued for fiscal years beginning after December 15, 2008. Accordingly, SFAS No. 141R will apply to any business combinations the Corporation engages in, starting in 2009.

In December 2007 the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB 51 ("SFAS No. 160"). SFAS No. 160 changes the accounting and reporting for minority interests. SFAS No. 160 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years, except for the presentation and disclosure requirements, which will apply retrospectively. Currently, the provisions of SFAS No. 160 would not apply to the Corporation, because the Corporation owns and controls 100% of the entities within its consolidated group.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

MARKET RISK

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. The 2006 information in the table below was based on only the assets and liabilities of C&N Bank. C&N Bank makes up more than 90% of the Corporation's total assets and liabilities, and is the source of the most volatile interest rate risk. In 2007, management began to run the model on a consolidated basis, as well as for each of the individual Banks. The consolidated 2007 information included in the table below was prepared based on data as of November 30, 2007, with pro forma adjustment to include the significant leveraged investment purchase transaction (discussed below) that occurred in December 2007. In 2007, the Corporation's Asset Liability Committee changed its schedule for regular meetings to a quarterly schedule of meetings held shortly after month-ends of February, May, August and November. Accordingly, management ran the simulation model for the last time in 2007 using November 2007 data. For purposes of these calculations, the market value of portfolio equity includes the fair values of financial instruments, such as securities, loans, deposits and borrowed funds, and the book values of nonfinancial assets and liabilities, such as premises and equipment and accrued expenses. The model measures and projects potential changes in net interest income, and calculates the discounted present value of anticipated cash flows of financial instruments, assuming an immediate increase or decrease in interest rates. Management ordinarily runs a variety of scenarios within a range of plus or minus 50-300 basis points of current rates.

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 provides limits at +/- 100, 200 and 300 basis points from current rates for fluctuations in net interest income from the baseline (flat rates) one-year scenario. The policy also limits acceptable market value variances from the baseline values based on current rates. As indicated in the table, the Corporation is liability sensitive, and therefore net interest income and market value increase when interest rates fall and decrease when interest rates rise. The table shows that as of November 30, 2007, the changes in net interest income and market value were within the policy limits in all scenarios, while at December 31, 2006, the decline in net interest income and market value exceeded the policy threshold marks if interest rates were to immediately rise 200 or 300 basis points. As discussed in the "Outlook for 2008" section of Management's Discussion and Analysis, in December 2007, the Corporation entered into repurchase agreements (borrowings) totaling $80 million to fund the purchase of investment securities. In addition to generating positive earnings from the spread of the return on the investment securities over the current cost of the borrowings, the transaction reduces the magnitude of the Corporation's overall liability sensitive position. Specifically, the borrowings include embedded caps providing that, if 3-month LIBOR were to exceed 5.15%, the interest rate payable on the repurchase agreements would fall, down to a minimum of 0%, based on parameters included in the repurchase agreements. The embedded caps feature was a major reason the Corporation moved from being "out of policy" (which had been the case throughout the first three quarters of 2007, as well as at December 31, 2006) to its current position of operating within policy limits.

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

TABLE XIV — THE EFFECT OF HYPOTHETICAL CHANGES IN INTEREST RATES
November 30, 2007 Data
(In Thousands)

	Period Ending November 30, 2008				
Basis Point Change in Rates	Interest Income	Interest Expense	Net Interest Income (NII)	NII % Change	NII Risk Limit
+300	$82,751	$50,168	$32,583	-16.7%	20.0%
+200	80,606	44,823	35,783	-8.5%	15.0%
+100	78,352	40,696	37,656	-3.7%	10.0%
0	75,869	36,776	39,093	0.0%	0.0%
-100	72,910	31,608	41,302	5.7%	10.0%
-200	69,244	27,524	41,720	6.7%	15.0%
-300	65,322	23,907	41,415	5.9%	20.0%

Market Value of Portfolio Equity
at November 30, 2007

Basis Point Change in Rates	Present Value Equity	Present Value % Change	Present Value Risk Limit
+300	$ 97,288	-34.0%	45.0%
+200	117,811	-20.1%	35.0%
+100	133,434	-9.5%	25.0%
0	147,388	0.0%	0.0%
-100	159,195	8.0%	25.0%
-200	161,102	9.3%	35.0%
-300	162,845	10.5%	45.0%

December 31, 2006 Data
(In Thousands)

	Period Ending December 31, 2007				
Basis Point Change in Rates	Interest Income	Interest Expense	Net Interest Income (NII)	NII % Change	NII Risk Limit
+300	$69,054	$47,384	$21,670	-27.6%	20.0%
+200	67,143	42,650	24,493	-18.1%	15.0%
+100	65,185	37,917	27,268	-8.9%	10.0%
0	63,105	33,184	29,921	0.0%	0.0%
-100	60,376	28,552	31,824	6.4%	10.0%
-200	57,077	24,438	32,639	9.1%	15.0%
-300	53,469	20,935	32,534	8.7%	20.0%

Market Value of Portfolio Equity
at December 31, 2006

Basis Point Change in Rates	Present Value Equity	Present Value % Change	Present Value Risk Limit
+300	$ 49,927	-58.2%	45.0%
+200	72,979	-38.9%	35.0%
+100	96,660	-19.1%	25.0%
0	119,522	0.0%	0.0%
-100	136,579	14.3%	25.0%
-200	146,645	22.7%	35.0%
-300	156,384	30.8%	45.0%

EQUITY SECURITIES RISK

The Corporation's equity securities portfolio consists primarily of investments in stocks of banks and bank holding companies, mainly based in Pennsylvania. The Corporation also owns some other stocks and mutual funds.

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

The Corporation's management monitors its risk associated with its equity securities holdings by reviewing its holdings on a detailed, individual security basis, at least monthly, considering all of the factors described above.

Equity securities held as of December 31, 2007 and 2006 are as follows:

TABLE XV — EQUITY SECURITIES RISK
(In Thousands)

At December 31, 2007	Cost	Fair Value	Hypothetical 10% Decline In Market Value	Hypothetical 20% Decline In Market Value
Banks and bank holding companies	$19,868	$19,797	$(1,980)	$(3,959)
Other equity securities	2,577	2,950	(295)	(590)
Total	$22,445	$22,747	$(2,275)	$(4,549)

At December 31, 2006	Cost	Fair Value	Hypothetical 10% Decline In Market Value	Hypothetical 20% Decline In Market Value
Banks and bank holding companies	$19,884	$26,008	$(2,601)	$(5,202)
Other equity securities	4,146	4,704	(470)	(941)
Total	$24,030	$30,712	$(3,071)	$(6,143)

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Consolidated Balance Sheet

(In Thousands Except Share Data)

	December 31, 2007	December 31, 2006
ASSETS		
Cash and due from banks:		
Noninterest-bearing	$ 21,892	$ 18,676
Interest-bearing	9,769	8,483
Total cash and cash equivalents	31,661	27,159
Trading securities	2,980	—
Available-for-sale securities	432,755	356,665
Held-to-maturity securities	409	414
Loans, net	727,082	679,300
Bank-owned life insurance	21,539	16,388
Accrued interest receivable	5,714	5,046
Bank premises and equipment, net	27,796	23,129
Foreclosed assets held for sale	258	264
Intangible asset — Core deposit intangibles	1,378	336
Intangible asset — Goodwill	12,032	2,809
Other assets	20,142	15,858
TOTAL ASSETS	$1,283,746	$1,127,368
LIABILITIES		
Deposits:		
Noninterest-bearing	$ 125,485	$ 105,675
Interest-bearing	713,018	654,674
Total deposits	838,503	760,349
Dividends payable	2,134	1,969
Short-term borrowings	40,678	49,258
Long-term borrowings	259,454	179,182
Accrued interest and other liabilities	5,196	6,722
TOTAL LIABILITIES	1,145,965	997,480
STOCKHOLDERS' EQUITY		
Common stock, par value $1.00 per share; authorized 20,000,000 shares in 2007 and 2006; issued 9,193,192 in 2007 and 8,472,382 in 2006	9,193	8,472
Stock dividend distributable	1,571	1,806
Paid-in capital	42,494	27,077
Retained earnings	96,628	96,077
Unamortized stock compensation	(56)	(11)
Treasury stock, at cost; 303,058 shares at December 31, 2007 and 262,598 shares at December 31, 2006	(4,992)	(4,146)
Sub-total	144,838	129,275
Accumulated other comprehensive (loss) income:		
Unrealized (losses) gains on available-for-sale securities	(6,654)	1,794
Defined benefit plans	(403)	(1,181)
Total accumulated other comprehensive (loss) income	(7,057)	613
TOTAL STOCKHOLDERS' EQUITY	137,781	129,888
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	$1,283,746	$1,127,368

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

Consolidated Statement of Income
(In Thousands Except Per Share Data)

	Years Ended December 31, 2007	2006	2005
INTEREST INCOME			
Interest and fees on loans	$49,670	$43,247	$38,768
Interest on balances with depository institutions	87	91	34
Interest on loans to political subdivisions	1,453	1,312	1,118
Interest on federal funds sold	211	251	97
Interest on trading securities	68	—	—
Income from available-for-sale and held-to-maturity securities:			
Taxable	15,061	14,485	14,351
Tax-exempt	2,754	4,033	5,659
Dividends	917	1,043	1,081
Total interest and dividend income	70,221	64,462	61,108
INTEREST EXPENSE			
Interest on deposits	24,890	21,708	15,604
Interest on short-term borrowings	1,923	2,318	1,239
Interest on long-term borrowings	7,096	6,748	8,844
Total interest expense	33,909	30,774	25,687
Net interest margin	36,312	33,688	35,421
Provision for loan losses	529	672	2,026
Net interest margin after provision for loan losses	35,783	33,016	33,395
OTHER INCOME			
Service charges on deposit accounts	2,559	2,034	1,689
Service charges and fees	704	446	367
Trust and financial management revenue	3,440	2,409	2,088
Insurance commissions, fees and premiums	446	468	491
Increase in cash surrender value of life insurance	719	630	560
Fees related to credit card operation	—	—	806
Gain from sale of credit card loans	—	340	1,906
Other operating income	2,572	1,983	1,635
Total other income before realized gains on securities, net	10,440	8,310	9,542
Realized gains on available-for-sale securities, net	127	5,046	1,802
Total other income	10,567	13,356	11,344
OTHER EXPENSES			
Salaries and wages	14,302	13,705	12,383
Pensions and other employee benefits	4,204	4,279	3,752
Occupancy expense, net	2,634	2,309	1,865
Furniture and equipment expense	2,789	2,607	2,673
Pennsylvania shares tax	942	976	804
Other operating expense	8,412	7,738	7,485
Total other expenses	33,283	31,614	28,962
Income before income tax provision	13,067	14,758	15,777
Income tax provision	2,643	2,772	2,793
NET INCOME	$10,424	$11,986	$12,984
NET INCOME PER SHARE — BASIC	$ 1.19	$ 1.42	$ 1.53
NET INCOME PER SHARE — DILUTED	$ 1.19	$ 1.42	$ 1.52

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

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

	Common Stock	Stock Dividend Distributable	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Unamortized Stock Compensation	Treasury Stock	Total
Balance, December 31, 2004	**$8,307**	**$ 2,188**	**$22,456**	**$90,484**	**$ 10,535**	**$ (46)**	**$(2,339)**	**$131,585**
Comprehensive income:								
Net income				12,984				12,984
Unrealized loss on securities, net of reclassification adjustment and tax effects					(5,837)			(5,837)
Total comprehensive income								7,147
Cash dividends declared, $.93 per share				(7,641)				(7,641)
Treasury stock purchased							(59)	(59)
Shares issued from treasury related to exercise of stock options			244				412	656
Amortization of restricted stock						93		93
Tax benefit from employee benefit plan				84				84
Tax benefit from stock-based compensation			129					129
Stock dividend issued	82	(2,188)	2,080					(26)
Stock dividend declared, 1%		2,183		(2,183)				—
Restricted stock granted			64			(111)	47	—
Forfeiture of restricted stock			(9)			14	(5)	—
Balance, December 31, 2005	**8,389**	**2,183**	**24,964**	**93,728**	**4,698**	**(50)**	**(1,944)**	**131,968**
Comprehensive income:								
Net income				11,986				11,986
Unrealized loss on securities, net of reclassification adjustment and tax effects					(2,904)			(2,904)
Total comprehensive income								9,082
Adjustment to initially apply FASB Statement No. 158, net of tax					(1,181)			(1,181)

Cash dividends declared, $.96 per share				(7,916)				(7,916)
Treasury stock purchased							(2,274)	(2,274)
Shares issued from treasury related to exercise of stock options			17				72	89
Amortization of restricted stock						39		39
Tax benefit from employee benefit plan				85				85
Tax benefit from stock-based compensation			21					21
Stock dividend issued	83	(2,183)	2,075					(25)
Stock dividend declared, 1%		1,806		(1,806)				—
Balance, December 31, 2006	**8,472**	**1,806**	**27,077**	**96,077**	**613**	**(11)**	**(4,146)**	**129,888**
Comprehensive income:								
Net income				10,424				10,424
Unrealized loss on securities, net of reclassification adjustment and tax effects					(8,448)			(8,448)
Change in value of FASB 158 adjustment to equity					778			778
Total comprehensive income								2,754
Shares issued for acquisition, net	637		13,507				(76)	14,068
Cash dividends declared, $.96 per share				(8,394)				(8,394)
Treasury stock purchased							(949)	(949)
Shares issued from treasury related to exercise of stock options			11				78	89
Restricted stock granted			43			(145)	102	—
Forfeiture of restricted stock						1	(1)	—
Stock-based compensation expense			156			99		255
Tax benefit from employee benefit plan				92				92
Tax charge from stock-based compensation			(3)					(3)
Stock dividend issued	84	(1,806)	1,703					(19)
Stock dividend declared, 1%		1,571		(1,571)				—

Balance, December 31, 2007	**$9,193**	**$ 1,571**	**$42,494**	**$96,628**	**$ (7,057)**	**$ (56)**	**$(4,992)**	**$137,781**

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

Consolidated Statement of Cash Flows
(In Thousands)

	Years Ended December 31, 2007	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 10,424	$ 11,986	$ 12,984
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	529	672	2,026
Realized gains on available-for-sale securities, net	(127)	(5,046)	(1,802)
Gain on sale of foreclosed assets, net	(83)	(42)	(126)
Depreciation expense	2,847	2,608	2,301
Loss (gain) on disposition of premises and equipment	145	(30)	—
Loss from writedown of impaired premises and equipment	—	168	—
Accretion and amortization on securities, net	363	403	417
Accretion and amortization on deposits and borrowings, net	(254)	—	—
Increase in cash surrender value of life insurance	(719)	(630)	(560)
Stock-based compensation	255	39	93
Amortization of core deposit intangibles	445	128	83
Deferred income taxes	(21)	(311)	(665)
Net increase in trading securities	(2,980)	—	—
Decrease (increase) in accrued interest receivable and other assets	59	(76)	(971)
(Decrease) increase in accrued interest payable and other liabilities	(937)	262	335
Net Cash Provided by Operating Activities	9,946	10,131	14,115
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from acquisitions, net	29,942	—	202
Proceeds from maturity of held-to-maturity securities	5	8	8
Proceeds from sales of available-for-sale securities	104,797	117,566	187,029
Proceeds from calls and maturities of available-for-sale securities	36,107	36,489	56,909
Purchase of available-for-sale securities	(203,608)	(83,181)	(194,332)
Purchase of Federal Home Loan Bank of Pittsburgh stock	(5,977)	(3,112)	(4,672)
Redemption of Federal Home Loan Bank of Pittsburgh stock	6,152	4,748	7,369
Net decrease (increase) in loans	11,521	(35,806)	(50,943)
Redemption of bank-owned life insurance	—	2,885	—
Purchase of premises and equipment	(2,416)	(3,517)	(6,712)
Proceeds from sale of premises and equipment	—	247	—
Purchase of investment in limited partnership	—	(1,250)	—
Return of principal on limited partnership investment	252	—	—
Proceeds from sale of foreclosed assets	653	744	822
Net Cash (Used in) Provided by Investing Activities	(22,572)	35,821	(4,320)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net (decrease) increase in deposits	(21,512)	3,284	42,512
Net (decrease) increase in short-term borrowings	(10,006)	14,524	556
Proceeds from long-term borrowings	165,000	26,100	18,163
Repayments of long-term borrowings	(107,335)	(79,123)	(56,785)
Purchase of treasury stock	(949)	(2,274)	(59)
Sale of treasury stock	89	89	656
Tax benefit from compensation plans	89	106	213
Dividends paid	(8,248)	(7,945)	(7,558)
Net Cash Provided by (Used in) Financing Activities	17,128	(45,239)	(2,302)
INCREASE IN CASH AND CASH EQUIVALENTS	4,502	713	7,493
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	27,159	26,446	18,953
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 31,661	$ 27,159	$ 26,446

Consolidated Statement of Cash Flows
(In Thousands) (Continued)

	Years Ended December 31, 2007	2006	2005
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Assets acquired through foreclosure of real estate loans	$ 457	$ 772	$ 347
Interest paid	$ 33,976	$30,858	$26,260
Income taxes paid	$ 2,077	$ 2,807	$ 2,959
ACQUISITIONS:			
Cash and cash equivalents received	$ 44,265	$ —	$ 7,136
Cash paid for acquisition	(14,323)	—	(6,934)
Net cash received on acquisition	$ 29,942	$ —	$ 202
NONCASH ASSETS RECEIVED, LIABILITIES ASSUMED AND EQUITY ISSUED FROM ACQUISITIONS:			
Assets received:			
Available for sale securities	$ 26,426	$ —	$ 9,439
Loans	60,151	—	23,542
Bank-owned life insurance	4,432	—	—
Premises and equipment	5,243	—	1,469
Foreclosed assets	107	—	46
Intangible asset — core deposit intangible	1,487	—	547
Intangible asset — goodwill	9,263	—	2,944
Other assets	1,567	—	446
Total noncash assets received	$108,676	$ —	$38,433
Liabilities assumed and equity issued:			
Deposits	$ 99,636	$ —	$38,008
Short-term borrowings	1,426	—	—
Long-term borrowings	22,753	—	—
Other liabilities	735	—	627
Equity issued, net	14,068	—	—
Total noncash liabilities assumed and equity issued	$138,618	$ —	$38,635

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"), Canisteo Valley Corporation, Bucktail Life Insurance Company and Citizens & Northern Investment Corporation (collectively, "Corporation"). The consolidated financial statements also include the accounts of Canisteo Valley Corporation's wholly-owned subsidiary, First State Bank, and 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 Northcentral 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 "Repo Sweep" 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 has a broker-dealer division, which offers mutual funds, annuities, educational savings accounts and other investment products through registered agents.

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.

USE OF ESTIMATES — The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts and disclosures. Actual results could differ from these estimates.

A material estimate that is particularly susceptible to significant change is the determination of the allowance for loan losses. Management believes that the allowance for loan losses is adequate and reasonable. 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.

INVESTMENT SECURITIES — Investment securities are accounted for as follows:

TRADING SECURITIES — includes municipal bonds, carried at their fair values. Realized and unrealized gains and losses on trading securities are recognized in the consolidated statement of income as they occur. Quoted market prices are used to determine the fair value of trading instruments.

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.

HELD-TO-MATURITY SECURITIES — includes debt securities that the Corporation has the positive intent and ability to hold to maturity. These securities are reported at cost adjusted for amortization of premiums and accretion of discounts, computed using the level-yield method.

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 — Loans are stated at unpaid principal balances, less the allowance for loan losses and net deferred loan fees. 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. Amortization of deferred loan fees is discontinued when a loan is placed on nonaccrual status.

Loans are placed on nonaccrual status 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.

The allowance for loan losses is maintained at a level which, in management's judgment, is adequate to absorb credit losses inherent in the loan portfolio. The amount of the allowance is based on management's evaluation of the collectibility of the loan portfolio, based on factors such as credit concentrations, past due or delinquency status, trends in historical loss experience, specific impaired loans, and economic conditions. Past due or delinquency status of loans is computed based on the contractual terms of the loans. Allowances for impaired loans are determined based on collateral values or the present value of estimated cash flows. The allowance is increased by a provision for loan losses, which is charged to expense, and reduced by charge-offs, net of recoveries. Loan balances are charged off when it becomes evident that such balances are not fully collectible.

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.

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 2007, 2006 and 2005 was not significant.

FORECLOSED ASSETS HELD FOR SALE — Foreclosed assets held for sale consist of real estate acquired by foreclosure and are carried at estimated fair value, less selling cost.

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. 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.

INCOME TAXES — Provisions for deferred income taxes are made as a result of temporary differences in financial and income tax methods of accounting. These differences relate principally to loan losses, securities gains or losses, depreciation, pension and other postretirement benefits, alternative minimum tax, investments in limited partnerships, loan origination fees and costs and differences arising from acquisitions.

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 — Effective in 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 123R, which replaced SFAS No. 123 and superseded Accounting Principles Board (APB) Opinion 25. SFAS No. 123R requires the Corporation to record stock option expense based on estimated fair value calculated using an option valuation model. The provisions of SFAS 123R must be applied to any new awards granted, and to any modifications of existing awards. Since the Corporation neither modified, nor issued, any new options in 2006, and all options issued prior to December 31, 2005 were fully vested, the provisions of SFAS No. 123R had no impact on net income in 2006. The Corporation applied the provisions of SFAS No. 123R to awards in 2007.

Prior to 2006, the Corporation used the intrinsic value method of accounting for stock compensation plans, with compensation cost measured by the excess of the quoted market price of the stock as of the grant date (or other measurement date) over the amount an employee or director must pay to acquire the stock. Stock options issued under the Corporation's stock option plans have had no intrinsic value as of the grant date; therefore, no compensation cost was recorded for them.

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

The following table illustrates the effect on net income and earnings per share if the Corporation had applied the fair value provisions of SFAS No. 123 to stock options in 2005.

(Net Income in Thousands)

	2005
Net income, as reported	$12,984
Deduct: Total stock option compensation expense determined under fair value method for all awards, net of tax effects	(69)
Pro forma net income	$12,915
Earnings per share-basic	
As reported	$ 1.53
Pro forma	$ 1.53
Earnings per share-diluted	
As reported	$ 1.52
Pro forma	$ 1.52

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. The Corporation considers all cash and amounts due from depository institutions, interest-bearing deposits in other banks, and federal funds sold to be cash equivalents.

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. COMPREHENSIVE INCOME

U.S. generally accepted accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Although unrealized gains and losses on available-for-sale securities are reported as a separate component of the equity section of the balance sheet, changes in unrealized gains and losses on available-for-sale securities, along with net income, are components of comprehensive income. Also, effective December 31, 2006, the Corporation applied SFAS No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans. As a result of implementing SFAS No. 158, on December 31, 2006, the Corporation recorded a reduction in stockholders' equity (accumulated other comprehensive income) of $1,181,000. Beginning in 2007, changes in accumulated other comprehensive income attributable to the impact of SFAS No. 158 on defined benefit plans are included in other comprehensive income.

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

(In Thousands)	2007	Years Ended December 31, 2006	2005
Net income	$ 10,424	$11,986	$12,984
Available-for-sale securities:			
Unrealized holding (losses) gains on available-for-sale securities	(12,673)	646	(7,042)
Reclassification adjustment for gains realized in income	(127)	(5,046)	(1,802)
Other comprehensive loss before income tax	(12,800)	(4,400)	(8,844)
Income tax related to other comprehensive loss	4,352	1,496	3,007
Other comprehensive loss on available-for-sale securities	(8,448)	(2,904)	(5,837)
Unfunded pension and postretirement obligations:			
Change in items from defined benefit plans included in accumulated other comprehensive loss	1,037	—	—
Amortization of net transition obligation, prior service cost and net actuarial loss included in net periodic benefit cost	146	—	—
Other comprehensive gain before income tax	1,183	—	—
Income tax related to other comprehensive gain	405	—	—
Other comprehensive gain on unfunded retirement obligations	778	—	—
Net other comprehensive loss	(7,670)	(2,904)	(5,837)
Comprehensive income	$ 2,754	$ 9,082	$ 7,147

3. PER SHARE DATA

Net income per share is based on the weighted-average number of shares of common stock outstanding. The number of shares used in calculating net income and cash dividends per share reflect the retroactive effect of 1% stock dividends declared in the fourth quarter of each year presented, payable in the first quarter of the following year. 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
2007			
Earnings per share — basic	$10,424,000	8,784,134	$1.19
Dilutive effect of potential common stock arising from stock options:			
Exercise of outstanding stock options		108,701	
Hypothetical share repurchase at $20.03		(97,469)	
Earnings per share — diluted	$10,424,000	8,795,366	$1.19
2006			
Earnings per share — basic	$11,986,000	8,422,495	$1.42
Dilutive effect of potential common stock arising from stock options:			
Exercise of outstanding stock options		120,989	
Hypothetical share repurchase at $23.41		(95,315)	
Earnings per share — diluted	$11,986,000	8,448,169	$1.42
2005			
Earnings per share — basic	$12,984,000	8,458,813	$1.53
Dilutive effect of potential common stock arising from stock options:			
Exercise of outstanding stock options		212,323	
Hypothetical share repurchase at $29.62		(153,538)	
Earnings per share — diluted	$12,984,000	8,517,598	$1.52

4. ACQUISITIONS

On May 1, 2007, the Corporation completed its acquisition of 100% of the outstanding voting stock of Citizens Bancorp, Inc. ("Citizens.") Accordingly, the results of operations for the former Citizens have been included in the accompanying consolidated financial statements from that date forward. In connection with the transaction, Citizens Trust Company, the banking subsidiary of Citizens, has merged with and into C&N Bank. The Corporation's management believes the acquisition of Citizens provides two significant benefits: (1) extension of its geographic market for banking services, which should provide growth opportunities, and (2) addition of management personnel with background and skills complementary to the Corporation's management personnel.

The aggregate acquisition price was $28,391,000, which included cash of $14,323,000 and 636,967 shares of the Corporation's common stock valued at $14,068,000. The value of the stock issued was determined based on the average market price of the shares over the seven days before and after the date the terms of the acquisition agreement were negotiated and publicly announced, adjusted for the values of Citizens shares held prior to the merger announcement and Corporation shares that were held by Citizens.

Following is a condensed balance sheet showing the fair values of the assets acquired and the liabilities assumed as of the date of acquisition:
(In Thousands)

Assets received:	
Cash and cash equivalents	$ 29,942
Available for sale securities	26,426
Loans	60,151
Bank-owned life insurance	4,432
Premises and equipment	5,243
Foreclosed assets	107
Intangible asset — core deposit intangible	1,487
Intangible asset — goodwill	9,263
Other assets	1,567
Total assets received	138,618
Liabilities assumed:	
Deposits	99,636
Short-term borrowings	1,426
Long-term borrowings	22,753
Other liabilities	735
Total liabilities assumed	124,550
Net assets acquired	$ 14,068

The core deposit intangible is being amortized over the weighted-average useful life of 2.8 years, with no estimated residual value. None of the goodwill arising from the acquisition is deductible for income tax purposes.

Following are pro forma income statement amounts, without adjustment for the material nonrecurring items described below, assuming the acquisition was made on January 1, 2006:
(In Thousands)

	2007	2006
Net interest income	$37,673	$37,672
Net income	$ 9,972	$13,274
Net income per share — basic	$ 1.11	$ 1.47
Net income per share — diluted	$ 1.11	$ 1.46

Citizens recorded material, nonrecurring expenses and losses which reduced pro forma net income (included in the table immediately above) by $698,000 in 2007. These nonrecurring items included merger-related professional fees expense and realized losses from sales of securities. Excluding the effect of these nonrecurring items, pro forma income statement amounts (assuming the acquisition was made on January 1, 2006) are as follows:

(In Thousands)	2007	2006
Net income	$10,670	$13,274
Net income per share — basic	$ 1.19	$ 1.47
Net income per share — diluted	$ 1.18	$ 1.46

In 2005, the Corporation acquired 100% of Canisteo Valley Corporation, and its wholly-owned subsidiary, First State Bank, in an all-cash merger transaction for a total purchase price of $6,934,000. The acquisition of Canisteo Valley Corporation and First State Bank permits expansion of the Corporation's banking operations into communities located in the southern tier of New York State, in close proximity to many of the northern Pennsylvania branch locations.

5. SALE OF CREDIT CARD LOANS

Gains related to sales of credit card loans totaled $340,000 in 2006 and $1,906,000 in 2005. In the fourth quarter 2005, the Corporation sold C&N Bank credit card receivables with a book value of $8.3 million. After the sale, the Corporation continued to provide servicing of credit cards for a portion of 2006, and was subject to possible losses associated with credit card receivables sold with recourse. The gain in 2005 of $1,906,000 was net of estimated liabilities of $280,000 for servicing expenses and $175,000 for losses on receivables sold with recourse. In the fourth quarter 2006, the Corporation recorded an additional gain of $325,000 for the difference between the initial estimates of post-sale servicing expenses and recourse losses, and the actual amounts incurred. Also in 2006, the Corporation sold First State Bank's credit card portfolio, with a book value of $71,000, for a gain of $15,000.

6. CASH AND DUE FROM BANKS

Banks are required to maintain reserves consisting of vault cash and deposit balances with the Federal Reserve Bank in their district. The reserves are based on deposit levels during the year and account activity and other services provided by the Federal Reserve Bank. Average daily currency, coin, and cash balances with the Federal Reserve Bank needed to cover reserves against deposits for 2007 ranged from $3,133,000 to $11,636,000. For 2006, these balances ranged from $4,022,000 to $7,688,000. Average daily cash balances with the Federal Reserve Bank required for services provided to the Banks were $2,600,000 throughout 2007 and 2006. Total balances restricted amounted to $8,410,000 at December 31, 2007 and $7,210,000 at December 31, 2006.

Deposits with one financial institution are insured up to $100,000. The Corporation maintains cash and cash equivalents with certain financial institutions in excess of the insured amount.

7. SECURITIES

Amortized cost and fair value of securities at December 31, 2007 and 2006 are summarized as follows:

	December 31, 2007			
(In Thousands)	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
AVAILABLE-FOR-SALE SECURITIES:				
Obligations of other U.S. Government agencies	$ 32,199	$ 534	$ (10)	$ 32,723
Obligations of states and political subdivisions	63,340	290	(3,181)	60,449
Mortgage-backed securities	149,796	1,028	(408)	150,416
Collateralized mortgage obligations	70,080	210	(785)	69,505
Other securities	104,975	499	(8,559)	96,915
Total debt securities	420,390	2,561	(12,943)	410,008
Marketable equity securities	22,445	2,928	(2,626)	22,747
Total	$442,835	$5,489	$(15,569)	$432,755
HELD-TO-MATURITY SECURITIES:				
Obligations of the U.S. Treasury	$ 307	$ 14	$ —	$ 321
Obligations of other U.S. Government agencies	99	6	—	105
Mortgage-backed securities	3	—	—	3
Total	$ 409	$ 20	$ —	$ 429

	December 31, 2006			
(In Thousands)	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
AVAILABLE-FOR-SALE SECURITIES:				
Obligations of other U.S. Government agencies	$ 26,000	$ —	$ (432)	$ 25,568
Obligations of states and political subdivisions	70,027	878	(427)	70,478
Mortgage-backed securities	110,049	107	(2,825)	107,331
Collateralized mortgage obligations	39,178	12	(946)	38,244
Other securities	84,670	624	(962)	84,332
Total debt securities	329,924	1,621	(5,592)	325,953
Marketable equity securities	24,030	6,895	(213)	30,712
Total	$353,954	$8,516	$(5,805)	$356,665
HELD-TO-MATURITY SECURITIES:				
Obligations of the U.S. Treasury	$ 310	$ 5	$ —	$ 315
Obligations of other U.S. Government agencies	99	5	—	104
Mortgage-backed securities	5	—	—	5
Total	$ 414	$ 10	$ —	$ 424

The following table presents gross unrealized losses and fair value of investments 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, 2007 and 2006:

December 31, 2007
(In Thousands)

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
AVAILABLE-FOR-SALE SECURITIES:						
Obligations of other U.S. Government agencies	$ —	$ —	$ 3,990	$ (10)	$ 3,990	$ (10)
Obligations of states and political subdivisions	26,676	(2,112)	12,866	(1,069)	39,542	(3,181)
Mortgage-backed securities	497	(1)	34,565	(407)	35,062	(408)
Collateralized mortgage obligations	21,739	(173)	22,553	(612)	44,292	(785)
Other securities	54,081	(6,352)	29,207	(2,207)	83,288	(8,559)
Total debt securities	102,993	(8,638)	103,181	(4,305)	206,174	(12,943)
Marketable equity securities	10,677	(1,972)	1,532	(654)	12,209	(2,626)
Total temporarily impaired available-for-sale Securities	$113,670	$(10,610)	$104,713	$(4,959)	$218,383	$(15,569)

December 31, 2006
(In Thousands)

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
AVAILABLE-FOR-SALE SECURITIES:						
Obligations of other U.S. Government agencies	$ 3,907	$ (93)	$ 21,661	$ (339)	$ 25,568	$ (432)
Obligations of states and political subdivisions	16,775	(270)	12,536	(157)	29,311	(427)
Mortgage-backed securities	7,164	(64)	93,911	(2,761)	101,075	(2,825)
Collateralized mortgage obligations	187	(3)	32,317	(943)	32,504	(946)
Other securities	23,076	(457)	24,005	(505)	47,081	(962)
Total debt securities	51,109	(887)	184,430	(4,705)	235,539	(5,592)
Marketable equity securities	2,495	(92)	1,417	(121)	3,912	(213)
Total temporarily impaired available-for-sale Securities	$53,604	$ (979)	$185,847	$(4,826)	$239,451	$(5,805)

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Corporation to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

In addition to the effects of volatility in interest rates on individual debt securities, management believes valuations of debt securities at December 31, 2007 have been negatively affected by events of the last 3-4 months of 2007 impacting market prices for municipal bonds and trust-preferred securities (which comprise most of the balance in “Other securities” in the table above). Management believes municipal bond valuations have been negatively impacted by reported financial problems by some of the largest companies that insure municipal bond offerings. Trust-preferred securities are very long-term (usually 30-year maturity) instruments with characteristics of both debt and equity, mainly issued by banks. Most of the Corporation’s investments in trust-preferred securities are of pooled issues, each made up of 30 or more companies with geographic and size diversification. Almost all of the Corporation’s trust-preferred securities are issued by banking companies, with lesser amounts issued by insurance companies and real estate investment trusts. Management believes trust-preferred valuations have been negatively affected by concerns that the underlying banks and other companies may have significant exposure to losses from sub-prime mortgages, defaulted collateralized debt obligations or other concerns. In the fourth quarter 2007, management has discussed the Corporation's individual holdings of municipal bonds and trust-preferred securities with its investment advisors, and has concluded that no downgrades or deterioration in the credit quality of the securities has occurred that would warrant an other-than-temporarily impairment charge to the income statement. Based on the Corporation's ability and intent to hold its debt securities for the foreseeable future, and management's assessment of the creditworthiness of the issuers, management believes the Corporation's debt securities at December 31, 2007 were not other-than-temporarily impaired.

Unrealized losses on marketable equity securities are mainly from investments in common stocks of banking corporations. Management believes that recent declines in market prices of many bank stocks have been caused by media reports regarding sub-prime mortgage losses and similar events that have mainly affected mortgage banking operations and very large financial institutions. Accordingly, as of December 31, 2007, management believes the impairment of the Corporation's marketable equity securities to be temporary.

The amortized cost and fair value of investment debt securities at December 31, 2007 are presented in the following table. Maturities of debt securities (including mortgage-backed securities) are presented based on contractual maturities. Expected maturities differ from contractual maturities because monthly principal payments are received from mortgage-backed securities, and because borrowers may have the right to prepay obligations with or without prepayment penalties.

	December 31, 2007	
(In Thousands)	Amortized Cost	Fair Value
AVAILABLE-FOR-SALE SECURITIES:		
Due in one year or less	$ 1,105	$ 1,104
Due after one year through five years	8,344	8,557
Due after five years through ten years	23,705	24,311
Due after ten years	387,236	376,036
Total	$420,390	$410,008
HELD-TO-MATURITY SECURITIES:		
Due in one year or less	$ —	$ —
Due after one year through five years	406	426
Due after five years through ten years	—	—
Due after ten years	3	3
Total	$ 409	$ 429

The following table shows the amortized cost and maturity distribution of the available-for-sale debt securities portfolio at December 31, 2007:

(In Thousands, Except for Percentages)

	Within One Year	Yield	One-Five Years	Yield	Five-Ten Years	Yield	After Ten Years	Yield	Total	Yield
AVAILABLE-FOR-SALE SECURITIES:										
Obligations of other U.S. Government agencies	$ —	0.00%	$2,699	5.53%	$15,500	5.84%	$ 14,000	5.11%	$ 32,199	5.50%
Obligations of states and political subdivisions	602	3.83%	356	3.77%	2,617	4.40%	59,765	4.49%	63,340	4.47%
Mortgage-backed securities	—	0.00%	275	3.59%	3,775	5.14%	145,746	5.38%	149,796	5.37%
Collateralized mortgage obligations	—	0.00%	—	0.00%	847	4.47%	69,233	5.22%	70,080	5.21%
Other securities	503	3.04%	5,014	8.26%	966	5.96%	98,492	6.54%	104,975	6.60%
Total	$1,105	3.47%	$8,344	7.03%	$23,705	5.52%	$387,236	5.50%	$420,390	5.52%
HELD-TO-MATURITY SECURITIES:										
Obligations of the U.S. Treasury	$ —	0.00%	$ 307	5.28%	$ —	0.00%	$ —	—	$ 307	5.28%
Obligations of other U.S. Government agencies	—	0.00%	99	7.16%	—	0.00%	—	—	99	7.16%

Mortgage-backed securities		—	0.00%		—	0.00%		—	0.00%		3	7.01%	3	7.01%
Total	$	—	0.00%	$	406	5.74%	$	—	0.00%	$	3	7.01%	$ 409	5.75%

Investment securities carried at $165,159,000 at December 31, 2007 and $97,566,000 at December 31, 2006 were pledged as collateral for public deposits, trusts and certain other deposits as provided by law. Also, the Federal Home Loan Bank of Pittsburgh (FHLB-Pittsburgh) issued a $40,000,000 letter of credit on the Corporation's behalf for security on certain public deposits as of December 31, 2006. No such letters of credit were outstanding at December 31, 2007. See Note 12 for information concerning securities pledged to secure borrowing arrangements.

Gross realized gains and losses from the sales of available-for-sale securities, and the income tax provision related to net realized gains, for 2007, 2006 and 2005 were as follows:

(In Thousands)

	2007	2006	2005
Gross realized gains	$ 2,325	$5,930	$ 4,683
Gross realized losses	(2,198)	(884)	(2,881)
Net realized gains	$ 127	$5,046	$ 1,802
Income tax provision related to net realized gains	$ 43	$1,716	$ 613

The Corporation had no trading securities in 2006 and 2005. Gross realized gains and losses from the sales of trading securities, the net change in unrealized gains and losses, and the income tax provision related to net trading gains, for 2007 was as follows:

(In Thousands)

	2007
Gross realized gains	$ 60
Gross realized losses	—
Net change in unrealized gains/losses	(36)
Net gains	$ 24
Income tax provision related to net gains	$ 8

8. LOANS

Major categories of loans and leases included in the loan portfolio are as follows:
(In Thousands)

	December 31, 2007	% of Total	December 31, 2006	% of Total
Real estate — construction	$ 22,497	3.06%	$ 10,365	1.51%
Real estate — residential mortgage	441,692	60.02%	387,410	56.35%
Real estate — commercial mortgage	144,742	19.67%	178,260	25.93%
Consumer	37,193	5.05%	35,992	5.24%
Agricultural	3,553	0.48%	2,705	0.39%
Commercial	52,241	7.10%	39,135	5.69%
Other	1,010	0.14%	1,227	0.18%
Political subdivisions	33,013	4.48%	32,407	4.71%
Total	735,941	100.00%	687,501	100.00%
Less: allowance for loan losses	(8,859)		(8,201)	
Loans, net	$ 727,082		$ 679,300	

Net unamortized loan fees of $1,887,000 at December 31, 2007 and $1,582,000 at December 31, 2006 have been offset against the carrying value of loans.

There is no concentration of loans to borrowers engaged in similar businesses or activities that exceed 10% of total loans at December 31, 2007.

The Corporation grants commercial, residential and personal loans to customers primarily in the Pennsylvania Counties of Tioga, Bradford, Sullivan, Lycoming, Potter, Cameron, 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.

Transactions in the allowance for loan losses were as follows:
(In Thousands)

	2007	2006	2005
Balance at beginning of year	$8,201	$ 8,361	$6,787
Allowance for loan losses recorded in acquisition	587	—	377
Provision charged to operations	529	672	2,026
Loans charged off	(544)	(1,092)	(984)
Recoveries	86	260	155
Balance at end of year	$8,859	$ 8,201	$8,361

Information related to impaired and nonaccrual loans, and loans past due 90 days or more, as of December 31, 2007 and 2006 is as follows:

(In Thousands)

	2007	2006
Impaired loans without a valuation allowance	$ 857	$2,674
Impaired loans with a valuation allowance	5,361	5,337
Total impaired loans	$6,218	$8,011
Valuation allowance related to impaired loans	$2,255	$1,726
Total nonaccrual loans	$6,955	$8,506
Total loans past due 90 days or more and still accruing	$1,200	$1,559

The following is a summary of information related to impaired loans for 2007, 2006, and 2005:

(In Thousands)

	2007	2006	2005
Average investment in impaired loans	$6,932	$7,908	$8,282
Interest income recognized on impaired loans	$ 242	$ 318	$ 291
Interest income recognized on a cash basis on impaired loans	$ 242	$ 318	$ 291

No additional funds are committed to be advanced in connection with impaired loans.

9. BANK PREMISES AND EQUIPMENT

Bank premises and equipment are summarized as follows:
(In Thousands)

	December 31, 2007	December 31, 2006
Land	$ 2,100	$ 1,825
Buildings and improvements	29,544	25,032
Furniture and equipment	17,975	17,062
Construction in progress	236	152
Total	49,855	44,071
Less: accumulated depreciation	(22,059)	(20,942)
Net	$ 27,796	$ 23,129

Depreciation expense included in occupancy expense and furniture and equipment expense was as follows:
(In Thousands)

	2007	2006	2005
Occupancy expense	$1,137	$ 973	$ 700
Furniture and equipment expense	1,710	1,631	1,601
Total	$2,847	$2,604	$2,301

10. INTANGIBLE ASSETS

Information related to the core deposit intangibles are as follows:
(In Thousands)

	December 31, 2007	December 31, 2006
Gross amount	$2,034	$ 547
Less: accumulated amortization	(656)	(211)
Net	$1,378	$ 336

Amortization expense was $445,000 in 2007, $128,000 in 2006 and $83,000 in 2005. Estimated amortization expense for each of the ensuing five years is as follows:
(In Thousands)

2008	$552
2009	325
2010	176
2011	115
2012	74

Changes in the carrying amount of goodwill in 2007 and 2006 are summarized in the following table:
(In Thousands)

	2007	2006
Balance, beginning of year	$ 2,809	$2,919
Goodwill arising in business combination	9,263	—
Reduction in total purchase price for difference in estimated and actual accrued expenses and legal and professional costs	(40)	(27)
Reduction in valuation allowance on deferred tax asset related to net operating loss	—	(83)
Balance, end of year	$12,032	$2,809

11. DEPOSITS

At December 31, 2007, the scheduled maturities of time deposits are as follows:
(In Thousands)

2008	$253,037
2009	77,740
2010	19,128
2011	11,486
2012	15,847
Thereafter	9
	$377,247

Included in interest-bearing deposits are time deposits in the amount of $100,000 or more. As of December 31, 2007, the remaining maturities or repricing frequency of time deposits of $100,000 or more are as follows:
(In Thousands)

Three months or less	$ 51,792
Over 3 months through 12 months	31,583
Over 1 year through 3 years	12,228
Over 3 years	9,185
Total	$104,788

Interest expense from deposits of $100,000 or more amounted to $4,141,000 in 2007, $3,267,000 in 2006 and $2,975,000 in 2005.

12. BORROWED FUNDS

SHORT-TERM BORROWINGS

Short-term borrowings include the following:
(In Thousands)

	At December 31,	
	2007	**2006**
Customer repurchase agreements (a)	$35,678	$29,258
Other repurchase agreements (b)	5,000	20,000
Total short-term borrowings	$40,678	$49,258

The weighted average interest rate on total short-term borrowings outstanding was 3.90% at December 31, 2007 and 3.93% at December 31, 2006. The maximum amount of total short-term borrowings outstanding at any month-end was $74,815,000 in 2007 and $74,514,000 in 2006.

(a) Customer repurchase agreements mature overnight, and are collateralized by securities with a carrying value of $52,603,000 at December 31, 2007 and $35,551,000 at December 31, 2006.

(b) Other repurchase agreements included in short-term borrowings at December 31, 2007 consisted of an adjustable-rate repurchase agreement with a maturity of April 26, 2010. The rate adjusts quarterly to the three-month LIBOR less 50 basis points; at December 31, 2007, the rate was 4.57%. On April 26, 2008, the issuer may put the repurchase agreement. If the agreement is not put, the issuer will convert it to a fixed rate of 4.74% and may put it quarterly thereafter.

Other repurchase agreements included in short-term borrowings at December 31, 2006 consisted of an adjustable-rate repurchase agreement with a rate of 4.87% and a maturity of February 22, 2009. On February 22, 2007, and quarterly thereafter, the issuer had the option to put the repurchase agreement or convert it to a fixed rate of 4.915%. The issuer exercised its put option in May 2007, and the agreement was terminated.

The terms and collateral related to repurchase agreements are described under the “Long-term Borrowings” section of this note.

LONG-TERM BORROWINGS

Long-term borrowings are as follows:
(In Thousands)

	At December 31, 2007	2006
FHLB — Pittsburgh borrowings (c)	$164,954	$152,682
Repurchase agreements (d)	94,500	26,500
Total long-term borrowings	$259,454	$179,182

(c) Long-term borrowings from FHLB — Pittsburgh are as follows:
(In Thousands)

	At December 31, 2007	2006
Loans matured in 2007 with rates ranging from 2.33% to 5.43%	$ —	$ 79,067
Loans maturing in 2008 with rates ranging from 2.97% to 5.09%	38,500	38,500
Loans maturing in 2009 with rates ranging from 3.60% to 4.96%	40,922	14,446
Loans assumed in acquisition maturing in 2010 with rates ranging from 4.87% to 4.95%	22,607	—
Other loans maturing in 2010 with rates ranging from 4.00% to 4.72%	20,000	—
Loan maturing in 2011 with a rate of 4.98%	5,000	5,000
Loans maturing in 2012 with rates ranging from 3.66% to 4.82%	23,583	11,100
Loan maturing in 2016 with a rate of 6.86%	373	401
Loans maturing in 2017 with rates ranging from 3.81% to 6.83%	10,048	52
Loans maturing in 2020 with rates ranging from 4.67% to 4.79%	2,561	2,709
Loan maturing in 2025 with a rate of 4.91%	1,360	1,407
Total long-term FHLB — Pittsburgh borrowings	$164,954	$152,682

The FHLB — Pittsburgh loan facilities are collateralized by qualifying securities and mortgage loans. The FHLB — Pittsburgh determines C&N Bank's maximum borrowing capacity quarterly, based on Call Report data. The book value of pledged assets was $366,022,000 as of September 30, 2007, the most recent data used by the FHLB — Pittsburgh.

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 were $9,628,000 at December 31, 2007 and $8,492,000 at December 31, 2006.

Included in long-term borrowings are advances from FHLB — Pittsburgh, which were assumed in the acquisition of Citizens Bancorp, Inc., with a book value of $22,607,000 as of December 31, 2007. These advances mature in 2010, have a notional amount totaling $22,000,000, and based on interest rates in effect at the acquisition date, were recorded at fair value of $22,753,000. The weighted-average contractual interest rate on these advances was 6.04% at December 31, 2007. The weighted-average effective interest rate used to record interest expense on these advances in 2007, which is reflected in the table above, was 4.91%.

(d) Repurchase agreements included in long-term borrowings are as follows:
(In Thousands)

	At December 31, 2007	2006
Agreements matured in 2007 with rates ranging from 2.53% to 3.23%	$ —	$14,500
Agreements maturing in 2008 with rates ranging from 3.00% to 3.60%	12,000	12,000
Agreement maturing in 2011 with a rate of 4.09%	2,500	—
Agreements with embedded caps maturing in 2017 with rates ranging from 3.60% to 4.27%	80,000	—
Total long-term repurchase agreements	$94,500	$26,500

In December 2007, the Corporation entered into two repurchase agreements of $40,000,000 each with embedded caps. These repurchase agreements mature in 2017. One of these borrowings has an interest rate of 3.60% and is putable by the issuer at quarterly intervals starting in December 2010. The other borrowing has an interest rate of 4.27% and is putable by the issuer at quarterly intervals starting in December 2012. Each of these borrowings contain an embedded cap, providing that on the quarterly anniversary of the transaction settlement date, if the three-month LIBOR is higher than 5.15%, the Corporation's interest rate payable will decrease by twice the amount of the excess, down to a minimum rate of 0%. The embedded caps expire on the initial put dates in 2010 and 2012.

Securities sold under repurchase agreements were delivered to the broker-dealers who arranged the transactions. The broker-dealers may have sold, loaned or otherwise disposed of such securities to other parties in the normal course of their operations, and have agreed to resell to the Corporation substantially identical securities at the maturities of the agreements. The carrying value of the underlying securities was $109,085,000 at December 31, 2007 and $55,902,000 at December 31, 2006. Average daily repurchase agreement borrowings amounted to $31,040,000 in 2007, $50,839,000 in 2006 and $51,022,000 in 2005. The maximum amounts of outstanding borrowings under repurchase agreements with broker-dealers were $99,500,000 in 2007, $56,900,000 in 2006 and $67,386,000 in 2005. The weighted average interest rate on repurchase agreements was 3.84% in 2006, 3.49% in 2006 and 2.92% in 2005.

13. DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

The impact to the income statement for 2007, 2006 and 2005 from IPCDs is not significant. Balance sheet amounts recorded related to IPCDs are as follows (in thousands):

	At December 31,	
	2007	**2006**
Contractual amount of IPCDs (equal to notional amount of Swap contracts)	$ 984	$2,516
Carrying value of IPCDs	963	2,444
Carrying value of embedded derivative liabilities	347	610
Carrying value of Swap contract (assets) liabilities	(322)	(528)

14. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

SECURITIES — Fair values for securities, excluding restricted equity securities, are based on quoted market prices. The carrying value of restricted equity securities approximates fair value based on applicable redemption provisions.

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

DEPOSITS — The fair value of deposits with no stated maturity, such as noninterest-bearing demand deposits, savings, money market and interest checking accounts, is (by definition) equal to the amount payable on demand at December 31, 2007 and 2006. The fair value of all other deposit categories is based on the discounted value of contractual cash flows. The discount rate is estimated using the rates currently offered for deposits of similar remaining maturities. The fair value estimates of deposits do not include the benefit that results from the low-cost funding provided by the deposit liabilities compared to the cost of borrowing funds in the market, commonly referred to as the core deposit intangible.

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

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

EMBEDDED DERIVATIVE LIABILITIES — IPCDs - The fair values of embedded derivatives are calculated by a third party. Factors that affect the fair value of embedded derivatives include term to maturity, market interest rates and other market factors that affect the present value of the Corporation's obligation to pay each IPCD depositor a return based on appreciation in the S&P 500 index.

EMBEDDED DERIVATIVE LIABILITIES — EQUITY OPTION SWAP CONTRACTS — The fair values of equity option Swap contracts are calculated by a third party. Factors that affect the fair value of equity option Swap contracts include: (1) the negotiated rate associated with the Corporation's obligation to make quarterly payments to the FHLB-Pittsburgh over the term of each IPCD; and (2) term to maturity, market interest rates and other market factors that affect the present value of the FHLB-Pittsburgh's obligation to pay the Corporation a return based on appreciation in the S&P 500 index.

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

	December 31, 2007		December 31, 2006	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	$ 31,661	$ 31,661	$ 27,159	$ 27,159
Trading securities	2,980	2,980	—	—
Available-for-sale securities	432,755	432,755	356,665	356,665
Held-to-maturity securities	409	429	414	424
Restricted equity securities	10,001	10,001	8,729	8,729
Loans, net	727,082	714,812	679,300	669,695
Accrued interest receivable	5,714	5,714	5,046	5,046
Equity option Swap contracts — IPCDs	322	322	528	528
Financial liabilities:				
Deposits	838,503	839,763	760,349	761,145
Short-term borrowings	40,678	39,541	49,258	48,414
Long-term borrowings	259,454	261,115	179,182	176,825
Accrued interest payable	1,085	1,085	1,036	1,036
Embedded derivative liabilities — IPCDs	347	347	610	610

15. EMPLOYEE AND POSTRETIREMENT BENEFIT PLANS

DEFINED BENEFIT PLANS

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

On October 18, 2007, the Corporation's Board of Directors adopted amendments to the defined benefit pension plan to freeze and terminate the Plan, effective December 31, 2007. The Corporation expects to fund and settle its obligations under the Plan sometime in 2008. In the tables that follow, it is assumed that final settlement (funding) will occur on December 31, 2008. In connection with freezing and terminating the Plan, the Corporation has also amended the Plan to make lump sum distributions available to all active participants and vested former employees. The decision to freeze and terminate the Plan resulted in the following significant changes in the Corporation's accounting for the defined benefit pension plan:

- **Discount rates** — As of December 31, 2006, the Corporation determined its discount rate for purposes of valuing the accumulated benefit obligation (ABO) and projected benefit obligation (PBO) using the Moody's Long-term AA corporate bond yield. As a result of terminating the Plan, the Corporation modified its methodology so that, for purposes of valuing the ABO and PBO as of December 31, 2007, the discount rate was based on a blend of rates determined from the estimated timing and manner of funding the settlement of the final Plan obligations. The discount rates used at December 31, 2007 were determined as follows: (1) for retired members, estimated rates implicit in the cost of purchasing annuities to fund payments identical to their current benefits, and (2) for active and vested former employees, the average 30-year U.S. Treasury note yield for the month of October 2007, which is the discount rate specified in the Plan for 2008 lump sum distributions, was used to estimate the present value of amounts to be paid by the Plan on an estimated settlement date of December 31, 2008. The estimated payment on December 31, 2008 was further discounted to present value at December 31, 2007, using a one-year, high quality corporate bond rate. The discount rates are provided in the assumptions table below.
- **Benefit obligation** — The change in methodology for determining the discount rates, as described above, resulted in lower discount rates than the Corporation would have used for an ongoing plan. The change to use of lower discount rates was the main cause of the increase in the PBO from the deferred actuarial loss of $1,612,000

reflected in the benefit obligation table below. As a result of the decision to freeze the Plan, it is no longer appropriate to include in the PBO any effects of future compensation levels. This change resulted in the reduction in the PBO of $2,543,000 described as “Reduction from pension plan curtailment” in the benefit obligation table.

- **Loss on effects of curtailment of pension plan** — Included in total pension expense in 2007 was a $77,000 loss from curtailment of the Plan. This loss resulted from accelerated recognition of unamortized prior service cost.

- **Settlement of pension plan** — The Corporation will record a realized loss from settlement of the defined benefit pension plan at the time it funds the final amounts necessary to extinguish its obligations under the Plan. The amount of settlement loss, which management expects will be incurred in 2008, has not yet been determined.

Also, the Corporation sponsors a defined benefit health care plan that provides postretirement medical benefits and life insurance to employees who meet certain age and length of service requirements. This plan contains a cost-sharing feature, which causes participants to pay for all future increases in costs related to benefit coverage. Accordingly, actuarial assumptions related to health care cost trend rates do not affect the liability balance at December 31, 2007 and 2006, and will not affect the Corporation’s future expenses.

The Corporation uses a December 31 measurement date for the plans described above. As a result of the acquisition of Citizens Bancorp, Inc. (see Note 4), the Corporation assumed the Citizens Trust Company Retirement Plan, a defined benefit pension plan for which benefit accruals and participation were frozen in 2002. The Corporation used a September 30 measurement date for this plan in 2007, and will change to a December 31 measurement date in 2008. The Citizens Trust Company Retirement Plan is not significant in comparison to the other defined benefit plans, and information related to that plan is not included in the tables that follow.

The following table shows the funded status of the defined benefit plans:
(In Thousands)

	Pension Benefits		Postretirement Benefits	
	2007	2006	2007	2006
CHANGE IN BENEFIT OBLIGATION:				
Benefit obligation at beginning of year	$12,147	$11,668	$ 1,185	$ 1,202
Service cost	683	609	73	64
Interest cost	700	629	69	61
Plan participants’ contributions	—	—	242	222
Medicare Prescription Drug Subsidy receipts	—	—	24	—
Actuarial loss (gain)	1,612	(277)	(1)	(109)
Benefits paid	(564)	(482)	(301)	(255)
Reduction from pension plan curtailment	(2,543)	—	—	—
Benefit obligation at end of year	$12,035	$12,147	$ 1,291	$ 1,185
CHANGE IN PLAN ASSETS:				
Fair value of plan assets at beginning of year	$10,969	$ 9,755	$ —	$ —
Actual return on plan assets	1,023	1,056	—	—
Employer contribution	—	640	59	33
Plan participants’ contributions	—	—	242	222
Benefits paid	(564)	(482)	(301)	(255)
Fair value of plan assets at end of year	$11,428	$10,969	$ —	$ —
Funded status at end of year	$ (607)	$ (1,178)	$(1,291)	$(1,185)

At December 31, 2007 and 2006, the following pension plan and postretirement plan asset and liability amounts were recognized in the consolidated balance sheet:
(In Thousands)

	Pension: 2007	2006	Postretirement: 2007	2006
Other assets	$ —	$ 385	$ —	$ —
Accrued interest and other liabilities	$(607)	$(1,563)	$(1,291)	$(1,185)

At December 31, 2007 and 2006, the following items included in accumulated other comprehensive (loss) income had not been recognized as components of expense:
(In Thousands)

	Pension: 2007	2006	Postretirement: 2007	2006
Net transition (asset) obligation	$ (68)	$ (91)	$182	$219
Prior service cost	—	85	30	32
Net actuarial loss (gain)	489	1,570	(20)	(19)
Total	$421	$1,564	$192	$232

For the defined benefit pension plan, assuming final settlement of the plan occurs in 2008, the net actuarial loss and the net transition asset will be amortized from accumulated other comprehensive loss into net periodic benefit cost in 2008 for a net expense of $421,000. For the postretirement plan, there is no amortization of the net actuarial gain expected in 2008, and the estimated amount of transition obligation and prior service cost that will be amortized from accumulated other comprehensive loss into net periodic benefit cost in 2008 are $36,000 and $2,000, respectively.

The accumulated benefit obligation for the defined benefit pension plan was $12,035,000 at December 31, 2007 and $9,764,000 at December 31, 2006.

The components of net periodic benefit costs from these defined benefit plans are as follows:
(In Thousands)

	Pension Benefits			Postretirement Benefits		
	2007	2006	2005	2007	2006	2005
Service cost	$ 683	$ 609	$ 475	$ 73	$ 64	$ 43
Interest cost	700	629	618	69	61	63
Expected return on plan assets	(918)	(831)	(793)	—	—	—
Amortization of transition (asset) obligation	(23)	(23)	(23)	37	36	36
Amortization of prior service cost	8	8	8	2	2	2
Recognized net actuarial loss	45	70	30	—	—	—
Net periodic benefit cost, excluding effects of Pension plan curtailment	495	462	315	181	163	144
Loss on effects of curtailment of pension plan	77	—	—	—	—	—
Total net periodic benefit cost	$ 572	$ 462	$ 315	$181	$163	$144

The weighted-average assumptions used to determine benefit obligations as of December 31, 2007 and 2006 are as follows:

	Pension Benefits		Postretirement Benefits	
	2007	2006	2007	2006
WEIGHTED-AVERAGE ASSUMPTIONS:				
Discount rates used:				
For all payment obligations, unless specified	N/A	5.75%	6.00%	5.75%
Retired members — 1st 20 years	5.42%	N/A	N/A	N/A
Retired members — after 20 years	4.49%	N/A	N/A	N/A
Active and vested former members	4.77%	N/A	N/A	N/A
Discount from estimated settlement date of December 31, 2008 to December 31, 2007	4.21%	N/A	N/A	N/A
Expected return on plan assets	8.50%	8.50%	N/A	N/A
Rate of compensation increase	3.50%	4.25%	N/A	N/A

The expected return on pension 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. Management believes the assumed 8.50% return on plan assets, which was used for net periodic benefit cost calculations in 2007, 2006 and 2005, was reasonable in light of historical returns on plan assets.

C&N Bank's Trust and Financial Management Department manages the investment of pension plan assets. For the past several years, the targeted asset allocation for the pension plan was 60% equity securities, 35% debt securities and 5% cash. This targeted asset allocation reflected a balanced approach, considering the need for growth of plan assets to meet future demand, as well as the need for ongoing liquidity to fund benefit payments. Specifically, the Trust Department attempted to match the maturities of zero-coupon bonds with the estimated amounts of benefit payments over the ensuing 10-year period. Within the equity portion of pension plan investments, the Trust Department employed a strategy of diversification. Holdings included large capitalization stocks from many different industries and market sectors, as well as mid-cap and foreign mutual funds. The pension plan's assets have not included the Corporation's common stock.

In the fourth quarter 2007, pension plan assets were restructured so that all holdings were invested in a money market fund (cash equivalent). This restructuring was completed to minimize the risk of loss of principal in 2008, as a result of the decision to terminate the plan.

The Corporation's pension plan weighted-average asset allocations at December 31, 2007 and 2006 are as follows:

	2007	2006
Cash and cash equivalents	100%	8%
Debt securities	0%	31%
Equity securities	0%	61%
Total	100%	100%

The Corporation's contribution to the defined benefit pension plan in 2008 will depend on the timing and amount required to fund its final obligations under the terminated plan. At this time, the Corporation cannot estimate the amount of contribution required for the defined benefit pension plan in 2008. The estimated total contribution to the postretirement benefit plan in 2008 is $51,000.

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

	Pension Benefits	Postretirement Benefits
2008	$502	$ 51
2009	—	52
2010	—	68
2011	—	83
2012	—	88
2013-2017	—	523

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 $514,000 in 2007, $453,000 in 2006 and $401,000 in 2005.

Through December 31, 2006, the profit sharing/401(k) Plan included an Employee Stock Ownership Plan (ESOP). As of January 1, 2007, the Corporation established an ESOP, with essentially all of the same features as the previous ESOP, except that it was removed from the profit sharing/401(k) Plan. The value of participants' ESOP accounts, which were 100% vested as of December 31, 2006, were transferred from the profit sharing/401(k) Plan to the new ESOP. The Corporation makes contributions to the ESOP, and the ESOP uses these funds 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, 2007 and 2006, 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 281,931 shares of Corporation stock at December 31, 2007 and 263,248 shares at December 31, 2006, all of which had been allocated to Plan participants. The Corporation's contributions to the ESOP (including contributions for 2006 and 2005 to the ESOP portion of the profit sharing/401(k) Plan) totaled $266,000 in 2007, $504,000 in 2006 and $433,000 in 2005.

The Corporation also has a nonqualified supplemental deferred compensation arrangement with its key officers. Charges to expense for officers' supplemental deferred compensation were $68,000 in 2007, $60,000 in 2006 and $32,000 in 2005.

STOCK-BASED COMPENSATION PLANS

The Corporation has a Stock Incentive Plan for a selected group of senior officers. A total of 400,000 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. Through 1999, all awards under the Stock Incentive Plan were Incentive Stock Options, with exercise prices equal to the market price of the stock at the date of grant, ratable vesting over 5 years and a contractual expiration of 10 years. In 2000, 2002, 2003, 2004, 2005 and 2007, there were awards of Incentive Stock Options and restricted stock. The Incentive Stock Options granted in 2000 and thereafter 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. The restricted stock awards vest ratably over 3 years. There are 102,873 shares are available for issuance under the Stock Incentive Plan as of December 31, 2007.

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 75,000 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 23,601 shares available for issuance under the Independent Directors Stock Incentive Plan as of December 31, 2007.

As discussed in Note 1, through December 31, 2005, the Corporation applied APB Opinion 25 and related interpretations in accounting for stock options. As permitted by APB Opinion 25, the Corporation used the intrinsic value method of accounting for stock compensation plans, with compensation cost measured by the excess of the quoted market price of the stock as of the grant date (or other measurement date) over the amount an employee or director must pay to acquire the stock. Stock options issued under the Corporation's stock option plans have had no intrinsic value at the date of grant; therefore, no compensation cost was recorded for them.

Effective in 2006, SFAS No. 123R required the Corporation to record stock option expense based on estimated fair value calculated using an option valuation model. The provisions of SFAS 123R must be applied to any new awards granted, and to any modifications of existing awards. Since the Corporation neither modified, nor issued, any new options in 2006, and all options issued prior to December 31, 2005 were fully vested, the provisions of SFAS No. 123R had no impact on net income in 2006.

In 2005, if compensation cost for stock options had been determined based on the fair value at the grant dates for awards consistent with the method of SFAS No. 123, the effect on the Corporation's net income and earnings per share would have been adjusted to the pro forma amounts indicated in the following table.

(Net Income in Thousands)

	2005
Net income	
As reported	$12,984
Pro forma	$12,915
Earnings per share-basic	
As reported	$ 1.53
Pro forma	$ 1.53
Earnings per share-diluted	
As reported	$ 1.52
Pro forma	$ 1.52

In 2007, the Corporation recorded stock option expense based on estimated fair value calculated using an option valuation model. In calculating fair value in 2007, and for purposes of the pro forma calculations of SFAS No. 123 in 2005, the Corporation used the Black-Scholes option-pricing model with the following assumptions:

	2007	2006	2005
Volatility	23%	N/A	15%
Expected option lives	8 Years	N/A	6 Years
Risk-free interest rate	4.69%	N/A	3.93%
Dividend yield	3.61%	N/A	4.73%

In calculating stock option expense for the 2007 awards, 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. The risk-free interest rate was based on the published yield of zero-coupon U.S. Treasury strips with an 8-year maturity as of the grant date. The 8-year term was based on management's estimate of the average term for all options issued under both plans. In calculating the estimated fair value of stock option awards made in 2005, the Corporation utilized its historical volatility and dividend yield over the immediately prior 6-year periods to estimate future levels of volatility and dividend yield. In calculating dividend yield in 2005, the Corporation included an assumed 1% stock dividend annually, consistent with its practice for many years. In 2005, the risk-free interest rate was based on the published yield of zero-coupon U.S. Treasury strips with 6-year maturities as of the grant date, and the 6-year term was based on management's estimate of the average term for all options issued under both plans.

Total stock-based compensation expense is as follows:

(In Thousands)

	2007	2006	2005
Stock options	$156	$—	$—
Restricted stock	99	39	93
Total	$255	$39	$93

A summary of stock option activity is presented below:

	2007		2006		2005	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding, beginning of year	197,182	$21.62	203,993	$21.51	212,463	$20.03
Granted	43,385	$22.33	—	$ —	37,176	$27.00
Exercised	(4,958)	$18.02	(5,341)	$17.91	(38,814)	$18.72
Forfeited	(4,439)	$24.67	(420)	$27.00	(6,832)	$21.85
Expired	(9,216)	$22.08	(1,050)	$17.00	—	$ —
Outstanding, end of year	221,954	$21.76	197,182	$21.62	203,993	$21.51
Options exercisable at year-end	221,954	$21.76	197,182	$21.62	203,993	$21.51
Weighted-average fair value of options granted		$ 4.46		N/A		$ 2.45
Weighted-average fair value of options forfeited		$ 3.24		2.45		N/A

The weighted-average remaining contractual term of outstanding stock options at December 31, 2007 was 5.3 years. The aggregate intrinsic value of stock options outstanding at December 31, 2007 (excluding options issued at exercise prices greater than the final closing price of the Corporation's stock in 2007) was $72,000. The total intrinsic value of options exercised was $19,000 in 2007, $30,000 in 2006 and $460,000 in 2005.

The following summarizes nonvested stock options and restricted stock activity as of and for the year ended December 31, 2007:

	Stock Options Weighted Average		Restricted Stock
	Number	Fair Value	Number of Shares
Outstanding, December 31, 2006	—	$ —	3,648
Granted	43,385	$4.46	6,529
Vested	(43,125)	$4.46	(2,376)
Forfeited	(260)	$4.46	(55)
Outstanding, December 31, 2007	—	$ —	7,746

Compensation cost related to restricted stock is recognized based on the market price of the stock at the grant date over the vesting period. As of December 31, 2007, there was $56,000 total unrecognized compensation costs related to restricted stock, which is expected to be recognized over a weighted average period of 1.3 years.

Effective January 3, 2008, the Corporation granted options to purchase a total of 83,907 shares of common stock through the Stock Incentive and Independent Directors Stock Incentive Plans. The exercise price for these options is $17.50 per share, which was the market price at the date of grant, as determined under the Plans. The Corporation has not yet determined the amount of stock option-related compensation expense expected to be recognized in 2008 from these awards; however, based on a preliminary estimated fair value of $3.35 per share, total compensation expense in 2008 would be approximately $281,000. Management expects to use the Black-Scholes option-pricing model to measure compensation cost for these options. Also, effective January 3, 2008, the Corporation awarded a total of 5,137 shares of restricted stock under the Stock

Incentive and Independent Directors Stock Incentive Plans. Total estimated restricted stock expense for 2008 is $80,000. The stock options and restricted stock awards made in January 2008 are not included in the tables above.

The Corporation has issued shares from treasury stock for all stock option exercises through December 31, 2007. Management expects the Corporation to repurchase shares of its common stock in 2008 for a number of reasons, including possible future stock-based compensation awards and other corporate purposes; however, management cannot estimate the number of shares that will be repurchased. Based on historical volumes of stock options exercised, management does not anticipate that stock repurchases will be necessary to accommodate stock option exercises in 2008.

16. INCOME TAXES

The following temporary differences gave rise to the net deferred tax asset at December 31, 2007 and 2006:

(In Thousands)

	2007	2006
Deferred tax liabilities:		
Unrealized holding gains on securities	$ —	$ 916
Bank premises and equipment	2,127	1,354
Core deposit intangibles	498	139
Realized gains on securities	200	136
Loan fees and costs	128	82
Pension plans	—	136
Other deferred tax liabilities	60	32
Total	3,013	2,795
Deferred tax assets:		
Unrealized holding losses on securities	(3,426)	—
Defined benefit plans — FASB 158	(214)	(615)
Allowance for loan losses	(3,050)	(2,851)
Credit for alternative minimum tax paid	(679)	(527)
Pension plans	(145)	—
Postretirement benefits	(376)	(346)
Supplemental executive retirement plan	(259)	(210)
Net operating loss carryforward	(57)	(63)
Valuation allowance on net operating loss carryforward	57	63
Investments in limited partnerships	(107)	(282)
Fair value discount on purchased loans	(252)	(62)
Fair value discount on borrowings	(212)	—
Other deferred tax assets	(224)	(189)
Total	(8,944)	(5,082)
Deferred tax asset, net	$(5,931)	$(2,287)

The provision for income taxes includes the following (in thousands):

	2007	2006	2005
Currently payable	$2,471	$2,793	$3,125
Tax expense resulting from allocations of certain tax benefits to equity or as a reduction in goodwill or other assets	193	290	333
Deferred	(21)	(311)	(665)
Total provision	$2,643	$2,772	$2,793

A reconciliation of income tax at the statutory rate to the Corporation's effective rate is as follows:

	2007 Amount	%	2006 Amount	%	2005 Amount	%
Expected provision	$ 4,573	35.00%	$ 5,165	35.00%	$ 5,522	35.00%
Tax-exempt interest income	(1,443)	(11.05)	(1,821)	(12.34)	(2,301)	(14.58)
Nondeductible interest expense	182	1.39	220	1.49	223	1.41
Dividends received deduction	(221)	(1.69)	(253)	(1.71)	(254)	(1.61)
Increase in cash surrender value of life insurance	(252)	(1.93)	(221)	(1.50)	(196)	(1.24)
Surtax exemption	(79)	(0.60)	(98)	(0.66)	(83)	(0.53)
Employee stock option compensation	44	0.34	—	—	—	—
Other, net	(161)	(1.23)	(220)	(1.49)	(118)	(0.75)
Effective income tax provision	$ 2,643	20.23%	$ 2,772	18.78%	$ 2,793	17.70%

In 2005, the Corporation assumed an unused operating loss carryforward related to the acquisition of Canisteo Valley Corporation. As of December 31, 2007, the remaining unused operating loss carryforward totaled approximately $137,000. This operating loss carryforward may be applied against future taxable income through its expiration in 2024; however, the amount that may be utilized in any year is limited to the amount of taxable income generated by Canisteo Valley Corporation. Goodwill was reduced by $83,000 in 2006 and $25,000 in 2005 as a result of a portion of the deferred tax asset related to the operating loss being realized. If in the future more of the deferred tax asset related to the operating loss is realized, the associated valuation allowance will be allocated to reduce goodwill.

The Corporation has no unrecognized tax benefits nor pending examination issues related to tax positions taken in preparation of its income tax returns.

17. RELATED PARTY TRANSACTIONS

Loans to executive officers, directors of the Corporation and its subsidiaries and any associates of the foregoing persons are as follows:

(In Thousands)

	Beginning Balance	New Loans	Repayments	Other Changes	Ending Balance
15 directors, 5 executive officers 2007	$10,958	$ 353	$(2,271)	$5,185	$14,225
13 directors, 5 executive officers 2006	9,235	544	(2,651)	3,830	10,958
13 directors, 5 executive officers 2005	7,695	3,220	(2,513)	833	9,235

The above transactions were made in the ordinary course of business on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons and do not involve more than normal risks of collectibility. Other changes represent net increases in existing lines of credit and transfers in and out of the related party category.

Deposits from related parties held by the Corporation amounted to $3,797,000 at December 31, 2007 and $3,379,000 at December 31, 2006.

18. OFF-BALANCE SHEET RISK

The Corporation is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financial needs of its customers. These financial instruments include commitments to extend credit and financial standby letters of credit. These instruments involve, to varying degrees, elements of credit, interest rate or liquidity risk in excess of the amount recognized in the consolidated balance sheet. The contract amounts of these instruments express the extent of involvement the Corporation has in particular classes of financial instruments.

The Corporation's exposure to credit loss from nonperformance by the other party to the financial instruments for commitments to extend credit and financial standby letters of credit is represented by the contractual amount of these instruments. The Corporation uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

Financial instruments whose contract amounts represent credit risk at December 31, 2007 and 2006 are as follows:

(In Thousands)

	2007	**2006**
Commitments to extend credit	$135,479	$122,161
Standby letters of credit	32,398	22,440

Commitments to extend credit are legally binding agreements to lend to customers. Commitments generally have fixed expiration dates or other termination clauses and may require payment of fees. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future liquidity requirements. The Corporation evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Corporation, for extensions of credit is based on management's credit assessment of the counterparty.

Financial standby letters of credit are conditional commitments issued by the Corporation guaranteeing performance by a customer to a third party. Those guarantees are issued primarily to support public and private borrowing arrangements, including commercial paper, bond financing and similar transactions. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. Some of the financial standby letters of credit are collateralized by real estate or other assets, while others are unsecured. The extent to which proceeds from liquidation of collateral would be expected to cover the maximum potential amount of future payments related to financial standby letters of credit is not estimable. The Corporation has recorded no liability associated with financial standby letters of credit as of December 31, 2007 and 2006.

Financial standby letters of credit as of December 31, 2007 expire as follows:
(In Thousands)

Year of Expiration	Amount
2008	$29,167
2009	2,880
2010	351
Total	$32,398

19. OPERATING LEASES AND OTHER PURCHASE COMMITMENTS

The Corporation leases facilities and office equipment under operating leases expiring through 2009. Rental expense under operating leases totaled approximately $164,000 in 2007, $215,000 in 2006 and $213,000 in 2005. Minimum future rental payments under non-cancelable operating leases having remaining terms in excess of 1 year as of December 31, 2007 are as follows:

(In Thousands)

2008	$97
2009	10
2010	—
2011	—
2012	—
Thereafter	—

In 2004, the Corporation purchased the license to utilize banking software, and entered into contractual commitments to pay annual maintenance fees associated with the software. Maintenance expense amounted to $400,000 in 2007, $393,000 in 2006 and $360,000 in 2005, and assuming the Corporation continues to utilize the system, maintenance fees payable will be approximately $400,000 in 2008 and $340,000 in 2009. Through October 2009, the Corporation would also be required to pay additional software license fees, based on the Bank's asset size, determined based on the following schedule:

Asset Size	Additional Licensing Fee (in thousands)
$1.75 billion to $2 billion	$250
$2 billion to $2.25 billion	150 In addition to the $250 noted above
$2.25 billion to $2.5 billion	250 In addition to the $400 noted above
Above $2.5 billion	Based on the vendor's then-current fee schedule

The Corporation has the right to terminate its contractual commitment to the software vendor, subject to payment of 25% of any remaining annual maintenance fees.

The agreement between the software vendor and the Corporation contains options for an unlimited number of additional 5-year renewals. The agreement includes formulas to determine the amounts of maintenance fees and additional licensing fees, if the Corporation exercises the renewal options.

20. CONTINGENCIES

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

21. REGULATORY MATTERS

The Corporation (on a consolidated basis) and the subsidiary Banks are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory — and possibly additional discretionary — actions by regulators that, if undertaken, could have a direct material effect on the Corporation's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Corporation and the Banks must meet specific capital guidelines that involve quantitative measures of their assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. Prompt corrective action provisions are not applicable to bank holding companies.

Quantitative measures established by regulation to ensure capital adequacy require the Corporation and the Banks to maintain minimum amounts and ratios (set forth in the following table) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined) and of Tier I capital (as defined) to average assets (as defined). Management believes, as of December 31, 2007 and 2006, that the Corporation and the Banks meet all capital adequacy requirements to which they are subject.

To be categorized as well capitalized, an institution must maintain minimum total risk based, Tier I risk based and Tier I leverage ratios as set forth in the following table. The Corporation's and the Banks' actual capital amounts and ratios are also presented in the following table.

(Dollars in Thousands)	Actual Amount	Ratio	Minimum Capital Requirement Amount	Ratio	Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions Amount	Ratio
December 31, 2007:						
Total capital to risk-weighted assets:						
Consolidated	$140,423	16.52%	$68,020	≥8%	n/a	n/a
C&N Bank	112,965	13.90%	65,017	≥8%	$81,272	≥10%
First State Bank	4,417	19.82%	1,783	≥8%	2,229	≥10%
Tier 1 capital to risk-weighted assets:						
Consolidated	131,428	15.46%	34,010	≥4%	n/a	n/a
C&N Bank	104,297	12.83%	32,509	≥4%	48,763	≥6%
First State Bank	4,138	18.57%	892	≥4%	1,337	≥6%
Tier 1 capital to average assets:						
Consolidated	131,428	10.91%	48,164	≥4%	n/a	n/a
C&N Bank	104,297	9.08%	45,927	≥4%	57,409	≥5%
First State Bank	4,138	9.54%	1,734	≥4%	2,168	≥5%
December 31, 2006:						
Total capital to risk-weighted assets:						
Consolidated	$137,337	17.97%	$61,127	≥8%	n/a	n/a
C&N Bank	106,258	14.67%	57,951	≥8%	$72,438	≥10%
First State Bank	4,300	19.28%	1,785	≥8%	2,231	≥10%
Tier 1 capital to risk-weighted assets:						
Consolidated	126,131	16.51%	30,564	≥4%	n/a	n/a
C&N Bank	97,250	13.43%	28,975	≥4%	43,463	≥6%
First State Bank	4,020	18.02%	892	≥4%	1,338	≥6%
Tier 1 capital to average assets:						
Consolidated	126,131	11.22%	44,975	≥4%	n/a	n/a
C&N Bank	97,250	9.16%	42,470	≥4%	53,087	≥5%
First State Bank	4,020	10.03%	1,604	≥4%	2,004	≥5%

Restrictions imposed by Federal Reserve Regulation H limit dividend payments in any year to the current year's net income plus the retained net income of the prior two years without approval of the Federal Reserve Board. Accordingly, the Corporation's dividends in 2008 may not exceed $6,100,000, plus consolidated net income for 2008. Additionally, banking regulators limit the amount of dividends that may be paid by the Banks to the Corporation. Retained earnings against which dividends may be paid without prior approval of the banking regulators amounted to approximately $90,296,000 at December 31, 2007, subject to the minimum capital ratio requirements noted above.

Restrictions imposed by federal law prohibit the Corporation from borrowing from the Banks unless the loans are secured in specific amounts. Such secured loans to the Corporation are generally limited to 10% of the Banks' tangible stockholder's equity (excluding accumulated other comprehensive income) or $10,844,000 at December 31, 2007.

22. PARENT COMPANY ONLY

The following is condensed financial information for Citizens & Northern Corporation.

CONDENSED BALANCE SHEET
(In Thousands)

	December 31, 2007	December 31, 2006
ASSETS		
Cash	$ 330	$ 576
Investment in subsidiaries:		
Citizens & Northern Bank	107,705	95,184
Citizens & Northern Investment Corporation	22,013	26,410
Canisteo Valley Corporation	7,172	7,106
Bucktail Life Insurance Company	2,668	2,498
Other assets	38	83
TOTAL ASSETS	$139,926	$131,857
LIABILITIES AND STOCKHOLDERS' EQUITY		
Dividends payable	$ 2,134	$ 1,969
Other liabilities	11	—
Stockholders' equity	137,781	129,888
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$139,926	$131,857

CONDENSED INCOME STATEMENT
(In Thousands)

	2007	2006	2005
Dividends from Citizens & Northern Bank	$ 5,885	$ 8,832	$13,805
Dividends from non-bank subsidiaries	3,417	1,105	—
Other dividend income and security gains	—	1	6
Expenses	(121)	(131)	(162)
Income before equity in undistributed income of subsidiaries	9,181	9,807	13,649
Equity in undistributed income of subsidiaries	1,243	2,179	(665)
NET INCOME	$10,424	$11,986	$12,984

CONDENSED STATEMENT OF CASH FLOWS
(In Thousands)

	2007	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$10,424	$ 11,986	$12,984
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in undistributed net income of subsidiaries	(1,243)	(2,179)	665
Dividend of security from nonbank subsidiary	(471)	—	—
Amortization of restricted stock	11	39	93
Decrease (increase) in other assets	45	(2)	18
Increase (decrease) in other liabilities	11	27	(6)
Net Cash Provided by Operating Activities	8,777	9,871	13,754
CASH FLOWS FROM INVESTING ACTIVITIES,			
Investment in subsidiary	—	—	(7,002)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from sale of treasury stock	89	89	656
Tax benefit from compensation plans, net	89	106	213
Stock issuance costs	(4)	—	—
Purchase of treasury stock	(949)	(2,274)	(59)
Dividends paid	(8,248)	(7,945)	(7,558)
Net Cash Used in Financing Activities	(9,023)	(10,024)	(6,748)
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(246)	(153)	4
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	576	729	725
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 330	$ 576	$ 729

23. SUMMARY OF QUARTERLY CONSOLIDATED FINANCIAL DATA (Unaudited)

The following table presents summarized quarterly financial data for 2007 and 2006:

(In Thousands, Except Per Share Data)

	2007 Quarter Ended			
	Mar. 31,	June 30,	Sept. 30,	Dec. 31,
Interest income	$16,243	$17,692	$18,058	$18,228
Interest expense	8,000	8,679	8,551	8,679
Interest margin	8,243	9,013	9,507	9,549
Provision for loan losses	229	—	—	300
Interest margin after provision for loan losses	8,014	9,013	9,507	9,249
Other income	2,088	2,644	2,877	2,831
Net gains (losses) on available-for-sale securities	1,161	(1,172)	(68)	206
Other expenses	8,247	8,189	8,691	8,156
Income before income tax provision	3,016	2,296	3,625	4,130
Income tax provision	558	360	777	948
Net income	$ 2,458	$ 1,936	$ 2,848	$ 3,182
Net income per share — basic	$ 0.29	$ 0.22	$ 0.32	$ 0.35
Net income per share — diluted	$ 0.29	$ 0.22	$ 0.32	$ 0.35

(In Thousands, Except Per Share Data)

	2006 Quarter Ended			
	Mar. 31,	June 30,	Sept. 30,	Dec. 31,
Interest income	$15,863	$15,984	$16,152	$16,463
Interest expense	7,278	7,566	7,833	8,097
Interest margin	8,585	8,418	8,319	8,366
Provision for loan losses	600	(300)	191	181
Interest margin after provision for loan losses	7,985	8,718	8,128	8,185
Other income	1,789	1,937	2,199	2,045
Gain from sale of credit card loans	—	—	—	340
Net gains on available-for-sale securities	1,315	1,333	1,602	796
Other expenses	7,843	7,976	7,640	8,155
Income before income tax provision	3,246	4,012	4,289	3,211
Income tax provision	426	813	1,016	517
Net income	$ 2,820	$ 3,199	$ 3,273	$ 2,694
Net income per share — basic	$ 0.33	$ 0.38	$ 0.39	$ 0.32
Net income per share — diluted	$ 0.33	$ 0.38	$ 0.39	$ 0.32

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Stockholders and Board of Directors of Citizens & Northern Corporation:

We have audited the accompanying consolidated balance sheet of Citizens & Northern Corporation and subsidiaries as of December 31, 2007 and 2006 and the related consolidated statements of income, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2007. Citizens & Northern Corporation's management is responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Citizens & Northern Corporation and subsidiaries as of December 31, 2007 and 2006, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2007 in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Citizens & Northern Corporation's internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control-Integrated Framework* issued by the Committee on Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 28, 2008 expressed an unqualified opinion.

/s/ Parente Randolph, LLC

Williamsport, Pennsylvania
February 28, 2008

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

ITEM 9A. CONTROLS AND PROCEDURES

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

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

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

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The Corporation's management is responsible for establishing and maintaining adequate internal control over financial reporting, as that term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). The Corporation's system of internal control over financial reporting has been designed to provide reasonable assurance to the Corporation's management and board of directors regarding the reliability of financial reporting and the preparation and fair presentation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

Any system of internal control over financial reporting, no matter how well designed, has inherent limitations, including the possibility that a control can be circumvented or overridden and misstatements due to error or fraud may occur and not be detected. Also, because of changes in conditions, internal control effectiveness may vary over time. Accordingly, even an effective system of internal control will provide only reasonable assurance with respect to financial statement preparation and presentation.

The Corporation's management has assessed the effectiveness of the Corporation's internal control over financial reporting as of December 31, 2007. To make this assessment, we used the criteria for effective internal control over financial reporting described in Internal Control — Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our assessment and based on such criteria, we believe that, as of December 31, 2007, the Corporation's internal control over financial reporting was effective.

Parente Randolph, LLC, the independent registered public accounting firm that audited the Corporation's consolidated financial statements, has issued an audit report on the Corporation's internal control over financial reporting as of December 31, 2007. That report appears below.

February 28, 2008 Date	By: /s/ Craig G. Litchfield Chairman, President and Chief Executive Officer
February 28, 2008 Date	By: /s/ Mark A. Hughes Treasurer and Chief Financial Officer

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Stockholders and Board of Directors of Citizens & Northern Corporation:

We have audited Citizens & Northern Corporation and subsidiaries' internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Citizens & Northern Corporation's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Citizens and Northern Corporation and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet and the related consolidated statements of income, changes in stockholders' equity, and cash flows of Citizens & Northern Corporation, and our report dated February 28, 2008 expressed an unqualified opinion.

/s/ Parente Randolph, LLC

Williamsport, Pennsylvania
February 28, 2008

ITEM 9B. OTHER INFORMATION

There was no information the Corporation was required to disclose in a report on Form 8-K during the fourth quarter 2007 that was not disclosed.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information concerning Directors and Executive Officers is incorporated herein by reference to disclosure under the captions “Proposal 1 — Election of Directors,” “Corporation’s and C&N Bank’s Executive Officers,” “Section 16(a) Beneficial Ownership Reporting Compliance,” “Board of Director Committees and Attendance, “Director Compensation,” and “Stockholder Proposals” of the Corporation’s proxy statement dated March 18, 2008 for the annual meeting of stockholders to be held on April 15, 2008.

The Corporation’s Board of Directors has adopted a Code of Ethics, available on the Corporation’s web site at www.cnbankpa.com for the Corporation’s employees, officers and directors. (The provisions of the Code of Ethics are also included in the Corporation’s employee handbook.)

ITEM 11. EXECUTIVE COMPENSATION

Information concerning executive compensation is incorporated herein by reference to disclosure under the captions “Compensation Discussion and Analysis,” “Executive Compensation,” “Outstanding Equity Awards at Fiscal Year-end,” “Options Exercised and Stock Vested,” “Pension Benefits,” “401(k) Savings Plan/ESOP,” and “Change in Control Agreements” of the Corporation’s proxy statement dated March 18, 2008 for the annual meeting of stockholders to be held on April 15, 2008.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Information concerning security ownership of certain beneficial owners and management is incorporated herein by reference to disclosure under the caption “Security Ownership of Management” of the Corporation’s proxy statement dated March 18, 2008 for the annual meeting of stockholders to be held on April 15, 2008.

“Equity Compensation Plan Information” as required by Item 201(d) of Regulation S-K is incorporated by reference herein from Item 5 (Market for Registrant’s Common Equity and Related Stockholder Matters) of this Form 10-K.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Information concerning loans and deposits with Directors and Executive Officers is provided in Note 17 to the Consolidated Financial Statements, which is included in Part II, Item 8 of this Annual Report on Form 10-K. Additional information, including information concerning director independence, is incorporated herein by reference to disclosure appearing under the caption “Certain Transactions,” “Proposal 1 — Election of Directors” and “Board of Director Committees and Attendance” of the Corporation’s proxy statement dated March 18, 2008 for the annual meeting of stockholders to be held on April 15, 2008.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information concerning services provided by the Corporation’s independent auditors, Parente Randolph, LLC, the audit committee’s pre-approval policies and procedures for such services, and fees paid by the Corporation to that firm, is incorporated herein by reference to disclosure under the caption “Audit Committee” of the Corporation’s proxy statement dated March 18, 2008 for the annual meeting of stockholders to be held on April 15, 2008.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) (1). The following consolidated financial statements are set forth in Part II, Item 8:

(a)(2) Financial statement schedules are not applicable or included in the financial statements or related notes.

(a)(3) Exhibits (numbered as in Item 601 of Regulation S-K):

2. Plan of acquisition, reorganization, arrangement, liquidation or succession	Not applicable
3. (i) Articles of Incorporation	Incorporated by reference to Exhibit 4.1 to the Corporation's Form S-8 registration statement filed November 3, 2006
3. (ii) By-laws	Incorporated by reference to Exhibit 3.1 of the Corporation's Form 8-K filed August 25, 2004
4. Instruments defining the rights of security holders, including indentures	Not applicable
9. Voting trust agreement	Not applicable
10. Material contracts:	
10.1 Form of Stock Option agreement dated January 3, 2007 between the Corporation and certain officers pursuant to the Citizens & Northern Corporation Stock Incentive Plan	Filed herewith
10.2 Form of Restricted Stock agreement dated January 3, 2007 between the Corporation and certain officers pursuant to the Citizens & Northern Corporation Stock Incentive Plan	Filed herewith
10.3 Employment agreement dated December 30, 2002 between Citizens Bancorp, Inc. and Charles H. Updegraff, Jr. (assumed by the Corporation in the merger between the Corporation and Citizens Bancorp, Inc. effective May 1, 2007)	Filed herewith

10.4 Notice of termination of automatic renewal of employment agreement between the Corporation and Charles H. Updegraff, Jr. dated October 9, 2007	Filed herewith
10.5 Change in Control Agreement dated July 21, 2005 between the Corporation and Harold F. Hoose, III	Incorporated by reference to Exhibit 10.1 filed with the Corporation's Form 10-K on March 3, 2006
10.6 Form of Indemnification Agreements dated May 2004 between the Corporation and the Directors and certain officers	Incorporated by reference to Exhibit 10.1 filed with the Corporation's Form 10-K on March 11, 2005
10.7 Change in Control Agreement dated December 31, 2003 between the Corporation and Thomas L. Rudy, Jr.	Incorporated by reference to Exhibit 10.2 filed with the Corporation's Form 10-K on March 11, 2005
10.8 Change in Control Agreement dated December 31, 2003 between the Corporation and Craig G. Litchfield	Incorporated by reference to Exhibit 10.1 filed with the Corporation's Form 10-K on March 10, 2004
10.9 Change in Control Agreement dated December 31, 2003 between the Corporation and Mark A. Hughes	Incorporated by reference to Exhibit 10.2 filed with the Corporation's Form 10-K on March 10, 2004
10.10 Change in Control Agreement dated December 31, 2003 between the Corporation and Deborah E. Scott	Incorporated by reference to Exhibit 10.4 filed with the Corporation's Form 10-K on March 10, 2004
10.11 Second Amendment to Citizens & Northern Corporation Stock Incentive Plan	Incorporated by reference to Exhibit 10.5 filed with the Corporation's Form 10-K on March 10, 2004
10.12 First Amendment to Citizens & Northern Corporation Stock Incentive Plan	Incorporated by reference to Exhibit 10.6 filed with the Corporation's Form 10-K on March 10, 2004
10.13 Citizens & Northern Corporation Stock Incentive Plan	Incorporated by reference to Exhibit 10.7 filed with the Corporation's Form 10-K on March 10, 2004
10.14 Citizens & Northern Corporation Independent Directors Stock Incentive Plan	Incorporated by reference to Exhibit A to the Corporation's proxy statement dated March 19, 2001 for the annual meeting of stockholders held on April 17, 2001.
10.15 Amendment #1 to Citizens & Northern Bank Supplemental Executive Retirement Plan	Incorporated by reference to Exhibit 10.2(b) filed with the Corporation's Form 10-K on March 19, 2001

10.16 Amendment #2 to Citizens & Northern Bank Supplemental Executive Retirement Plan	Incorporated by reference to Exhibit 10.2(a) filed with the Corporation's Form 10-K on March 19, 2001
10.17 Citizens & Northern Bank Supplemental Executive Retirement Plan	Incorporated by reference to Exhibit 10.2 filed with the Corporation's Form 10-K on March 19, 2001
11. Statement re: computation of per share earnings	Information concerning the computation of earnings per share is provided in Note 3 to the Consolidated Financial Statements, which is included in Part II, Item 8 of Form 10-K.
12. Statements re: computation of ratios	Not applicable
13. Annual report to security holders, Form 10-Q or quarterly report to security holders	Not applicable
14. Code of ethics	The Code of Ethics is available through the Corporation's website at www.cnbankpa.com. To access the Code of Ethics, click on "Shareholder News," followed by "Corporate Governance" and "Code of Ethics."
16. Letter re: change in certifying accountant	Not applicable
18. Letter re: change in accounting principles	Not applicable
21. Subsidiaries of the registrant	Filed herewith
22. Published report regarding matters submitted to vote of security holders	Not applicable
23. Consents of experts and counsel	Not applicable
24. Power of attorney	Not applicable
31. Rule 13a-14(a)/15d-14(a) certifications:	
31.1 Certification of Chief Executive Officer	Filed herewith
31.2 Certification of Chief Financial Officer	Filed herewith
32. Section 1350 certifications	Filed herewith
33. Report on assessment of compliance with servicing criteria for asset-backed securities	Not applicable
34. Attestation report on assessment of compliance with servicing criteria for asset-backed securities	Not applicable
35. Service compliance statement	Not applicable

99. Additional exhibits:

99.1 Additional information mailed to stockholders with proxy statement and Form 10-K on March 18, 2008	Filed herewith
100. XBRL-related documents	Not applicable

(b) Exhibits — The required exhibits are listed under Part IV, Item 15(a)(3) of Form 10-K.

(c) Financial statement schedules are omitted because the required information is not applicable or is included elsewhere in Form 10-K.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, Citizens & Northern Corporation has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized:

By: /s/ Craig G. Litchfield
Craig G. Litchfield
Chairman, President and Chief Executive Officer

Date: February 28, 2008

By: /s/ Mark A. Hughes
Treasurer and Principal Accounting Officer

Date: February 28, 2008

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

BOARD OF DIRECTORS

/s/ Dennis F. Beardslee
Dennis F. Beardslee
Date: February 28, 2008

/s/ R. Robert DeCamp
R. Robert DeCamp
Date: February 28, 2008

/s/ Jan E. Fisher
Jan E. Fisher
Date: February 28, 2008

/s/ R. Bruce Haner
R. Bruce Haner
Date: February 28, 2008

/s/ Susan E. Hartley
Susan E. Hartley
Date: February 28, 2008

/s/ Karl W. Kroeck
Karl W. Kroeck
Date: February 28, 2008

/s/ Leo F. Lambert
Leo F. Lambert
Date: February 28, 2008

/s/ Edward L. Learn
Edward L. Learn

Date: February 28, 2008

/s/ Craig G. Litchfield
Craig G. Litchfield
Date: February 28, 2008

/s/ Raymond R. Mattie
Raymond R. Mattie
Date: February 28, 2008

/s/ Edward H. Owlett, III
Edward H. Owlett, III
Date: February 28, 2008

/s/ Leonard Simpson
Leonard Simpson
Date: February 28, 2008

/s/ James E. Towner
James E. Towner
Date: February 28, 2008

/s/ Ann M. Tyler
Ann M. Tyler
Date: February 28, 2008

/s/ Charles H. Updegraff, Jr.
Charles H. Updegraff, Jr.
Date: February 28, 2008

EXHIBIT 10.1

INCENTIVE STOCK OPTION AGREEMENT

OPTION AGREEMENT dated as of the 3rd day of January 2007, by and between Citizens & Northern Corporation (the “Corporation”) and «name», an employee of the Corporation or of a subsidiary (the “Optionee”).

Pursuant to the Citizens & Northern Corporation 1995 Stock Incentive Plan (the “Plan”), as amended, the Salary and Pension Committee of the Board of Directors of the Corporation (the “Committee”) has determined that the Optionee is to be granted, on the terms and conditions set forth herein, an option (the “Option”) to purchase shares of the Corporation’s common stock and hereby grants such Option. It is intended that the Option qualify as an “Incentive Stock Option” within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended (the “Code”).

1. Number of Shares and Option Price. The Option is to purchase «Options_» shares of the Corporation’s common stock (the “Option Shares”) at a price (the “Option Price”) of $22.325 per share, which is not less than the fair market value of the Option Shares of the date hereof as determined in accordance with the Plan rules.

2. Period of Option and Conditions of Exercise.

a. Period of Option. Unless the option is previously terminated pursuant to this Option Agreement, the term of the Option and of this Option Agreement shall commence on the date hereof (the “Date of Grant”) and terminate upon the expiration of ten (10) years from the Date of Grant. Upon the termination of the Option, all rights of the Optionee hereunder shall cease.

b. Conditions of Exercise. The Option shall not be exercisable during the six months following the Date of Grant. Thereafter, subject to the following provisions of this paragraph and section 3 of this Agreement, the Option shall become exercisable as follows: one hundred percent (100%) of the shares optioned hereunder may be exercised, provided, however, that the Option may be exercised only to purchase whole shares, and in no case may a fraction of a share be purchased. The right of the Optionee to purchase shares with respect to which this Option has become exercisable as herein provided may be exercised in whole or in part at any time or from time to time, prior to the tenth anniversary of the Date of Grant.

3. Termination of Employment.

a. Except as provided in this Section 3, the Option may not be exercised after the holder thereof has ceased to be employed by the Corporation or a subsidiary thereof.

b. If the Optionee ceases to be employed by the Corporation or a subsidiary thereof for any reason other than death, disability, or termination of employment by the Corporation or a subsidiary for cause, (as determined by the Committee), the Optionee or his or her legal representative may exercise the Option at any time within three (3) months after such cessation of employment to the extent that the Option was then and remains exercisable.

c. If the Optionee ceases to be employed by the Corporation or a subsidiary thereof by reason of death or disability as defined by in Section 22(e)(3) of the Code, the Optionee or his or her legal representative may exercise the Option at any time within one year after such cessation of employment to the extent that that the Option was then and remains exercisable.

d. Notwithstanding anything to the contrary in this Section 3, the option shall not be exercisable later than ten years from the Date of Grant.

e. For the purposes of this agreement, “cessation of employment” or “ceases to be employed” will mean, in the case of termination of employment other than for cause, death or disability, the last day the Optionee actively performed his or her job for the Corporation or a subsidiary of the Corporation. In the event of the Optionee’s death,“cessation of employment” or “ceases to be employed” will mean the last day the employee actively performed work for the Corporation or a subsidiary of the Corporation. In the event of disability, as defined by in Section 22(e)(3) of the Code, “cessation of employment” or “ceases to be employed” will mean the last business day for which the Corporation’s short-term disability benefit is paid.

4. Non Transferability of Option. The Option and this Option Agreement shall not be transferable otherwise than by will or by the laws of descent and distribution; and the Option may be exercised, during the lifetime of the Optionee, only by the Optionee or, in the event of the Optionee’s death, by his or her legal representative.

5. Exercise of Option. The Option shall be exercised in the following manner: the Optionee, or the person(s) having the right to exercise the Option upon the death of the Optionee, shall deliver to the Corporation written notice, in substantially the form of the notice attached hereto, specifying the number of Option Shares which he or she elects to purchase, together with either:

i. Cash;

ii. A number of shares of the Corporation’s common stock having a fair market value (as of the date of exercise) equal to the price to be paid upon the exercise of the Option; or

iii. Any combination of cash and shares of the Corporation’s common stock, the sum of which equals the total price to be paid upon the exercise of the Option, and the stock purchased shall thereupon be promptly delivered; provided, however, that the Corporation may, in its discretion, require that the Optionee pay to the Corporation, at the time of exercise, any such additional amount as the Corporation deems necessary to satisfy its liability to withhold Federal, state, or local income or other taxes incurred by reason of the exercise or the transfer of shares thereupon. The Optionee will not be deemed to be a holder of any shares pursuant to exercise of the Option until the date of the issuance of a stock certificate to him or her for such shares and until the shares are paid for in full.

6 Notices. Any notice required or permitted under this Option Agreement shall be deemed given when delivered personally, or when deposited in a United States Post Office, postage prepaid, addressed, as appropriate, to the Optionee either at his address herein above set forth or such other address as he or she may designate in writing to the Corporation.

7. Failure to Enforce Not a Waiver. The failure of the Corporation to enforce at any time any provision of this Option Agreement shall in no way be construed to be a waiver of such provision or of any other provision hereof.

8. Governing Law. This Option Agreement shall be governed by and construed according to the laws of the State of Pennsylvania.

9. Incorporation of Plan. The Plan is hereby incorporated by reference and made a part hereof, and the Option and this Option Agreement are subject to all terms and conditions of the Plan.

10. Amendments. This Option Agreement may be amended or modified at any time by an instrument in writing signed by the parties hereto, provided that no such amendment or modification shall be made which would cause the option to fail to continue to qualify as an “incentive stock option.”

IN WITNESS WHEREOF, the parties have executed this Option Agreement on the day and year first above written.

By ____________________________________
Craig G. Litchfield, Chairman, President & CEO

The undersigned hereby accepts and agrees to all the terms and provisions of the foregoing Option Agreement and to all the terms and provisions of the Citizens & Northern Corporation 1995 Stock Incentive Plan herein incorporated by reference.

____
Optionee — «name»

EXHIBIT 10.2

RESTRICTED STOCK AGREEMENT

OPTION AGREEMENT dated as of the 3rd day of January 2007, by and between Citizens & Northern Corporation (the "Corporation") and «name», an employee of the Corporation or of a subsidiary (the "Recipient").

Pursuant to the Citizens & Northern Corporation 1995 Stock Incentive Plan (the "Plan"), as amended, the Salary and Pension Committee of the Board of Directors of the Corporation (the "Committee") has determined that the Recipient is to be granted, on the terms and conditions set forth herein, Restricted Shares of the Corporation's common stock and hereby grants such Restricted Shares. It is intended that the Restricted Shares qualify as an "Incentive Stock Option" within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended (the "Code").

1. **Number of Shares and Price.** Restricted Stock shall consist of shares of Stock that will be acquired by and issued to the Recipient at a designated time approved by the board of directors, for no purchase price, and under and subject to such transfer, forfeiture and other restrictions, conditions or terms as shall be determined by the Committee, including but not limited to prohibitions against transfer, substantial risks of forfeiture within the meaning of Section 83 of the Code,

2. **Rights of Recipient.** Except as otherwise provided in the Plan or the Restricted Stock Award, a Recipient of share of Restricted Stock shall have all the rights as does a holder of Stock, including without limitation the right to vote such shares and receive dividends with respect thereto; however, during the time period of any restrictions, conditions or terms applicable to such Restricted Stock, the shares thereof and the right to vote the same and receive dividends thereon shall not be sold, assigned, transferred, exchanged, pledged, hypothecated, encumbered or otherwise disposed of except as permitted by the Plan or the Restricted Stock Award

3. **Holding of Restricted Shares.** Each certificate for shares of Restricted Stock shall be deposited with the Secretary of the Corporation, or the office thereof, and shall bear a legend in substantially the following form and content:

   This Certificate and the shares of Stock hereby represented are subject to the provisions of the Corporation's Stock Incentive Plan and a certain agreement entered into between the owner and the Corporation pursuant to said Plan. The release of the Certificate and the shares of Stock hereby represented from such provision shall occur only as provided by said Plan and Agreement, a copy of which are on file in the office of the Secretary of the Corporation.

   Upon the lapse or satisfaction of the restrictions, conditions and terms applicable to such Restricted Stock, a certificate for the shares of Stock free thereof with such legend shall be issued to the Recipient.

4. **Release and Lapse of Restricted Shares.** Each year for three (3) from the date of this Agreement, and the Recipient's satisfactory performance of his or her job, one-third of the beginning Restricted Shares awarded under this Agreement shall be released to the Recipient free of restrictions at a fair market value as determined by the Code. No partial shares may be released, thus an amount equal to the next whole share amount will be released at each anniversary. The shares released may be in certificate form, or may be directed to be held in a custodial account designated by the Recipient.

5. **Terms of Forfeiture.** If a Recipient's employment with the Corporation, or a subsidiary, ceases for any reason prior to the lapse of the restrictions, conditions or terms applicable to his or her Restricted Stock, all of the Recipient's Restricted Stock still subject to unexpired restrictions, conditions or terms shall be forfeited absolutely by the Recipient to the Corporation without payment or delivery of any consideration

or other thing of value by the Corporation or its affiliates, and thereupon and thereafter neither the Recipient nor his or her heirs, personal or legal representatives, successors, assigns, beneficiaries, or any claimants under the Recipient's Last Will or laws of descent and distribution, shall have any rights or claims to or interests in the forfeited Restricted Stock or any certificates representing shares thereof, or claims against the Corporation or its affiliates with respect thereto. Except in the case of disability, employment ceases with the Corporation, or its Subsidiary, on the day the Recipient's employment is terminated with or without cause, or on their date of death. In the event of disability, the Recipient's employment is considered terminated on the date for which the Recipient receives the final payment of the Corporation's, or Subsidiary's, short-term disability.

6. **Non-Transferability of Restricted Stock.** The Restricted Stock and this Restricted Stock Agreement shall not be transferable.

7. **Notices.** Any notice required or permitted under this Restricted Stock Agreement shall be deemed given when delivered personally, or when deposited in a United States Post Office, postage prepaid, addressed, as appropriate, to the Recipient either at his or her address herein above set forth or such other address as he or she may designate in writing to the Corporation.

8. **Failure to Enforce Not a Waiver.** The failure of the Corporation to enforce at any time any provision of this Restricted Stock Agreement shall in no way be construed to be a waiver of such provision or of any other provision hereof.

9. **Governing Law.** This Restricted Stock Agreement shall be governed by and construed according to the laws of the State of Pennsylvania.

10. **Incorporation of Plan.** The Plan is hereby incorporated by reference and made a part hereof, and the Restricted Stock and this Restricted Stock Agreement are subject to all terms and conditions of the Plan.

11. **Amendments.** This Option Agreement may be amended or modified at any time by an instrument in writing signed by the parties hereto, provided that no such amendment or modification shall be made which would cause the Restricted Stock to fail to continue to qualify as "incentive restricted stock."

IN WITNESS WHEREOF, the parties have executed this Option Agreement on the day and year first above written.

By ______________________________________
Craig G. Litchfield, Chairman, President & CEO

The undersigned hereby accepts and agrees to all the terms and provisions of the foregoing Restricted Stock Agreement and to all the terms and provisions of the Citizens & Northern Corporation 1995 Stock Incentive Plan herein incorporated by reference.

____
Recipient

EXHIBIT 10.3

CITIZENS BANCORP, INC.

Employment Agreement dated

December 30,2002

With

CHARLES H. UPDEGRAFF, JR.

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<u>Section Headings</u>

EMPLOYMENT AGREEMENT

THIS AGREEMENT, entered into this 30th day of December, 2002, by and between **CHARLES H. UPDEGRAFF, JR.,** an individual residing in Potter County, Pennsylvania ("Executive"), and **CITIZENS BANCORP, INC.**, a Pennsylvania corporation (the "Company"),

WITNESSETH THAT:

WHEREAS, Executive has served the Company as a senior executive officer and as a member of its Board of Directors for many years; and

WHEREAS, the Company desires to assure itself of the benefit of Executive's services and experience, and to that end has authorized this Agreement; and

WHEREAS, Executive is willing to remain in the employ of the Company upon the terms and conditions herein set forth;

NOW, THEREFORE, in consideration of the premises and covenants herein contained, and intending to be legally bound, the parties hereto agree as follows:

Section 1. Term of Employment.

(a) Base Term. The term of employment of Executive under this Agreement shall be the period commencing January I , 2003 and ending on December 31, 2005.

(b) Automatic Renewal. At December 31, 2003 and December 31 of each succeeding calendar year to and including December 31, 201 5, the term of employment of Executive under this Agreement shall be automatically extended to December 31 of the third calendar year thereafter. However, each of the parties shall have the right, exercisable by written notice to the other, to terminate the automatic renewal and thereby fix the expiration of the term of employment under this Section 1. In order to exercise its right to terminate the automatic renewal, the electing party shall deliver such notice no earlier than October 1 nor later than November 30 in any calendar year, commencing in 2003. Notice of termination of automatic renewal having been given as aforesaid, the term of employment of Executive under this Section 1 shall continue until December 31 of the third calendar year after the year in which such notice is so given, but not thereafter. The term shall not continue after December 31, 2018 whether or not such notice shall have been given.

(c) Early Termination. Notwithstanding paragraphs (a) and (b) of this Section, the term of employment of Executive under this Agreement shall be subject to
earlier termination upon:

(i) dismissal of Executive from his position as Chief Executive Officer pursuant to resolution of a majority of the full Board of Directors; or

(ii) determination of disability of Executive pursuant to Section 4 hereof; or

(iii) death of Executive.

In the event of termination pursuant to clause (i), the Company shall thereafter be obligated to pay to Executive the compensation and benefits provided for under Section 3(e) hereof. In the event of termination pursuant to clause (ii) the provisions of Section 4 hereof shall apply. In the event of termination pursuant to clause (iii), the Company shall be obligated to pay Executive's estate or designated beneficiary the compensation reserved under Section 3(a) hereof until the end of the twelfth calendar month following his death, plus pro-rata portions of annual and long-term incentive bonus awards described in Section 3(b) hereof (when and if payable) under any plan or program in which Executive was then a participant.

Section 2. Services to be Rendered.

The Company hereby agrees to employ Executive as the Company's Chief Executive Officer at the headquarters office located in Potter County. Pennsylvania, subject to the terms, conditions and provisions of this Agreement. Executive hereby accepts such employment, and agrees (i) to perform all senior executive and managerial duties as may be required of him by the Company (ii) to serve as a member of the Board of Directors of the Company and as the Chief Executive Officer and a member of the Board of Directors of any majority-owned subsidiary of the Company based in Potter County, Pennsylvania, and (iii) that he shall apply his efforts on a full-time basis and with substantially the same degree of skill and diligence as he has applied during his past employment with the Company. In connection therewith, Executive shall report to and be subject to the direction of the Company's Board of Directors. Notwithstanding the foregoing, Executive may devote a reasonable amount of his time to his personal investments and business affairs (including service as a director of unaffiliated companies) and to civic and charitable activities, within the limits of and subject to the Company's policies in effect from time to time.

Section 3. Compensation.

In consideration for services rendered to the Company (and any and all subsidiaries to which he may be assigned) under this Agreement, the Company shall pay and provide to Executive the following compensation and benefits.

(a) Salary. The Company shall pay Executive a base salary at an annual rate equal to his current base salary rate during the base and each renewal term (if any) provided for in paragraphs (a) and (b) of Section 1, to be paid in accordance with the Company's normal payroll practice. Such base salary rate shall be increased or decreased from time to time at such intervals and by the same percentages as may be authorized by the Board of Directors generally with respect to base salary increases or decreases for executive officers of the Company.

(b) Incentive Programs. In addition to base salary under paragraph (a), Executive shall also be entitled to participate in such annual bonus plans, long- term incentive bonus plans and stock option and restricted stock plans as may be adopted by the Company, in each case at such levels and in such amounts as the Board of Directors determines to be fair, equitable and consistent with the purposes of such plans.

(c) Insurance. Executive shall be entitled to participation in all

Company-sponsored group life, health and disability insurance coverage plans and programs, consistent with the compensation and benefits policies and practices of the Company from time to time prevailing with respect to executive officers of the Company.

(d) Retirement Benefits. Executive shall be entitled to participate in all retirement benefit plans and programs sponsored by the Company upon the same terms and conditions as are made available to executive officers of the Company generally. If, however, Executive does not receive any one or more of the maximum matching contributions under the Company-sponsored “401 (k) plan” (or plans) by reason of the anti-discrimination requirements of §401 (m) of the Internal Revenue Code, the Company shall make Executive whole by means of a credit (or credits) in equivalent amounts under a non-qualified deferred compensation plan to be established by the Company.

(e) Continuation After Termination.

(i) If the employment of Executive is terminated pursuant to Section 1 (c)(i) hereof without proper cause (as defined in Section 5 hereof), the Company shall continue to be obligated, for the remainder of the base or renewal term (as the case may be) then in effect, to pay to Executive the base salary and bonus amounts to which he otherwise would have been entitled under paragraphs (a) and (b) of this Section 3 but for such early termination, and also to continue his participation in the other benefit plans and programs referred to in paragraphs (c) and (d) of this Section 3, if and to the extent permitted by the terms of such plans and programs (or, if and to the extent not so permitted, to pay or reimburse to Executive an amount equal to the cost that would have been incurred by the Company in providing such benefits but for such early termination).

(ii) If the employment of Executive is terminated pursuant to Section (1)(c)(i) hereof for proper cause (as defined in Section 5 hereof) or as a result of his voluntary resignation from his position as Chief Executive Officer and member of the Board of Directors of the Company, the Company shall thereupon be relieved of its obligations to pay all compensation and benefits under this Agreement (except for accrued and unpaid base salary). The Company’s election to terminate for proper cause shall not be deemed to modify or abrogate any vested rights of Executive under any deferred compensation or retirement plan of the Company except as expressly set forth therein.

(f) Emoluments. The Company shall make no reduction or downward adjustment in Executive current emoluments of employment (including vacation time, automobile and office location/furnishings) without his written consent.

Section 4. Disability.

The term of employment of Executive may be terminated at the election of the Company upon a determination by the Board of Directors of the Company, made in its sole discretion, that Executive will be unable, by reason of physical or mental incapacity, to perform his reasonably expected or customary duties under this Agreement on a substantially full-time basis for a period longer than six consecutive months or more than nine months in any consecutive twelve-month period. In the exercise of its discretion, the Board of Directors may give due consideration to, among such other factors as it deems appropriate to the best interests of the Company, the opinion of Executive's personal physician or physicians and to the opinion of any physician or physicians selected by the Board of Directors for these purposes. Executive shall submit to examination by any physician or physicians so selected by the Board of Directors, and to otherwise cooperate with the Board of Directors in making the determination contemplated hereunder (such cooperation to include, without limitation, consenting to the release of information by any such physicians to the Board of Directors). In the event of such termination, the Company shall thereupon be relieved of its obligations to pay compensation and benefits under Section 3 hereof (except for accrued and unpaid items, including a pro rata portion of the cash bonuses described in Section 3(b) hereof) but shall be obligated to pay to (or for the benefit of) Executive the following:

(a) From and after the date such termination is effective, a monthly disability income benefit in an amount equal to the monthly disability income benefit allowed by the group disability income insurance policy maintained by the Company for its executives at the time of such determination. It is understood and agreed that the Company will procure and maintain, at its sole cost and expense, throughout the term of this Agreement, one or more such policies with rights and benefits to the covered executives no less than those provided for by the policy in effect on the date of this Agreement. Executive's rights under this paragraph (a) shall terminate upon the earlier of his death or attainment of normal retirement age under the Company's retirement plan.

(b) The life insurance benefits referred to in Section 3(c) hereof unless and until Executive shall have accepted other employment.

(c) Health insurance premiums for comparable coverages and with comparable contributory features provided from time to time by the Company for its executive officers, unless and until Executive shall have accepted other employment in which health insurance is available to him.

Section 5. Termination for Proper Cause.

The occurrence of any of the following events shall constitute "proper cause" for termination, at the election of a majority of the full Board of Directors of the Company, of the term of employment of Executive under this Agreement, to wit:

(a) Executive shall voluntarily resign as a director, officer or employee of the Company or any of its subsidiaries or affiliates without approval of the Board of Directors of the Company;

(b) Executive shall breach this Agreement in any material respect and, if curable, shall fail to cure such breach within 30 calendar days after receiving written notice of such breach from the Company;

(c) the perpetration of defalcations, fraud or theft by Executive involving the Company or any of its subsidiaries or affiliates, or any other substantial violation by Executive of any provision of the laws, rules, regulations or orders of any governmental agency applicable to the Company or any of its subsidiaries, which violation is deemed by a majority of the full Board sf Directors materially injurious to the Company's business or reputation; or

(d) the willful and repeated failure of Executive to comply with reasonable policies or directives of the Board of Directors;

provided, however the inability of Executive to achieve performance goals and/or favorable results of operations for reasons essentially unrelated to those set forth in paragraphs (a), (b), (c) and (d) of this Section 5 shall not be deemed to constitute proper cause for termination hereunder.

Section 6. Non-Competition.

Executive agrees that during the term of his employment hereunder and for the Restricted Period (hereinafter defined) after his employment hereunder terminates or is terminated, he will not, directly or indirectly, hold more than 4.9% of the equity securities or any debt securities of, nor directly or indirectly manage, operate, control, accept employment or a consulting position with or otherwise advise or assist, any Competitive Enterprise (hereinafter defined) at any time during the Restricted Period. For purposes of this Section 6:

(a) "Restricted Period" means the greater of (i) the period of two years next following the termination of Executive's employment for proper cause, or (ii) the period of time during which Executive is entitled to receive payments from the Company pursuant to Section 3(e) or 4 hereof (as the case may be); and

(b) "Competitive Enterprise" means any person, firm or corporation that directly or indirectly (i) is engaged in consumer and/or commercial banking, or (ii) renders personal and/or corporate trust services, and (iii) conducts such banking or trust activities described in clause (i) or (ii) above in the Pennsylvania counties of Potter, McKean, Cameron and/or Tioga, or in any county (within or without Pennsylvania) in which the Company or any of its present or future subsidiaries, during the Restricted Period, maintains a branch, trust office and/or loan production office.

Without limitation of the Company's rights and remedies under this Agreement or as otherwise provided by law or in equity, it is understood and agreed between the parties that the right of Executive to receive any payments otherwise due to him under this Agreement and any deferred compensation plan shall be suspended and canceled if and for so long as he shall be in violation of the foregoing covenant not to compete If and when Executive cures such violation, such right shall be automatically reinstated but only for the remainder of the period during which such payments are due him.

Section 7. Confidentiality. For purposes of this Agreement, "proprietary information shall mean any material information relating to the business of the Company and its subsidiaries that has not previously been publicly released by duly authorized representatives of the Company and shall include (but shall not be limited to) information encompassed in all marketing and sates plans, financial information, costs, pricing information, and all methods, concepts, or ideas in or reasonably related to the business of the Company and its subsidiaries and not in the public domain.

Executive agrees to regard and preserve as confidential all proprietary information pertaining to the business of the Company and its subsidiaries that has been or may hereafter be obtained by Executive in the course of his employment with the Company, whether he has such information in his memory or in writing or other physical form. Executive shall not, without written authority from the Company to do so, use for his benefit or purposes, nor disclose to others, either during the term of his employment or thereafter, except as required by the conditions of his employment with the Company (or any subsidiary), any proprietary information connected with the business or development of the Company and its subsidiaries. This provision shall not apply after the proprietary information has been voluntarily disclosed to the public, independently developed and disclosed by others, or otherwise enters the public domain through lawful means.

Section 8. Removal of Documents or Objects.

Executive agrees not to remove from the premises of the Company, except as an employee of the Company in pursuit of the business of the Company or any of its subsidiaries, or except as specifically permitted in writing by the Company, any document or object containing or reflecting any proprietary information of the Company. Executive recognizes that all such documents and objects, whether developed by him or by someone else, are the exclusive property of the Company.

Section 9. Injunctive Relief.

It is understood and agreed by and between the parties hereto that the services to be rendered by Executive hereunder are of a special, unique, extraordinary and intellectual character, which gives them a peculiar value, the loss of which may not be reasonably or adequately compensated in damages and additionally that a breach by Executive of the covenants set out in Sections 6, 7 and 8 of this Agreement will cause the Company great and irreparable injury and damage. Executive hereby expressly agrees that the Company shall be entitled to the remedies of injunction, specific performance and other equitable relief to prevent a breach of Sections 6, 7 and 8 of this Agreement by Executive. This provision shall not, however, be construed as a waiver of any of the rights which the Company may have for damages or otherwise.

Section 10. Merger or Consolidation.

In the event of the merger or consolidation of the Company with any unrelated corporation or corporations, or of the sale by the Company of a major portion of its assets or of its business and good will to an unrelated third party, this Agreement shall remain in effect and be assigned and transferred to the Company's successor in interest as an asset of the Company, and the Company shall cause such assignee to assume the Company's obligations hereunder; and in such event Executive hereby confirms his agreement to continue to perform his duties and obligations according to the terms and conditions hereof for such assignee or transferee of this Agreement. It is understood and agreed, however, that the scope of Executive's services under Section 2 hereof may be appropriately modified, at the election of such successor, to cover the segment of such successor's enterprise represented by the assets and operations in which Executive is involved at the time of such aforementioned transaction.

If such successor, assignee or transferee imposes or threatens to impose, without Executive's written consent, (i) a material reduction in Executive's authority or responsibilities beyond that expressly permitted by the preceding sentence, or (ii) any other substantial modification of his working conditions, Executive shall then have the right to declare a material breach of this Agreement and to resign his employment hereunder, in which case such successor, assignee or transferee shall be obligated to pay and provide to Executive the compensation and benefits described in Section 3(e)(i) hereof.

Section 11. Notices.

All notices and other communications which are required or may be given under this Agreement shall be in writing and shall be deemed to have been given if delivered personally or sent by registered or certified mail, return receipt requested, postage prepaid:

(a) If to the Company, to it at the following address:

Citizens Bancorp, Inc.
10 North Main St.
Coudersport, PA 16915
Attention: Chairman of the Compensation Committee of the Board of Directors

(b) If to Executive, to him at the following address:

Charles H. Updegraff, Jr.
28 Prosser Hollow Road
Coudersport, PA 16915

or to such other place as either party shall have specified by notice in writing to the other.

Section 12. Governmental Regulation.

Nothing contained in this Agreement shall be construed so as to require the commission of any act contrary to law and whenever there is any conflict between any provision of this Agreement and any statute, law, ordinance, order or regulation, the latter shall prevail, but in such event any such provision of this Agreement shall be curtailed and limited only to the extent necessary to bring it within the legal requirements.

Section 13. Arbitration.

Any claim, controversy or dispute arising with respect to this Agreement between or among any of the parties hereto (a "Dispute"), other than a Dispute to which Section 9 hereof applies, shall be submitted to final and binding arbitration in accordance with the following:

Any party to an unresolved Dispute may file a written Demand for Arbitration pursuant to this Section 13 with the Pittsburgh Office of the American Arbitration Association, and shall simultaneously send a copy of such Demand to the other party or parties to such Dispute.

Arbitration proceedings under this Section 13 shall be conducted in accordance with the Commercial Arbitration Rules of the American Arbitration Association, except that all decisions and awards rendered shall be accompanied by a written opinion setting forth the rationale for such decisions and awards.

Venue for all evidentiary hearings conducted in such proceedings shall be in Allegheny County, Pennsylvania.

Unless otherwise agreed by the parties thereto, arbitration proceedings under this Section 13 shall be conducted before one impartial arbitrator selected through the procedures of the American Arbitration Association. On all matters, the decisions and awards of the arbitrator shall be determinative.

To the extent practicable, the arbitration proceedings under this Section 13 shall be conducted in such manner as will enable completion within sixty (60) days after the filing of the Demand for Arbitration hereunder.

The arbitrator may award attorney's fees and costs of arbitration to the substantially prevailing party. Unless and except to the extent so awarded, the costs of arbitration shall be shared equally by the parties, and each party shall bear the fees and expenses of its own attorney. Punitive damages shall not be allowed by the arbitrator. The award may be enforced in such manner as allowed by law.

Section 14. Governing Law.

This Agreement shall be governed by and construed in accordance with the laws of the Commonwealth of Pennsylvania.

Section 15. Divisability.

Should a court or arbitrator declare any provision hereof to be invalid, such declaration shall not affect the validity of the Agreement as a whole or any part thereof, other than the specific portion declared to be invalid.

Section 16. Headings.

The headings to the Sections and paragraphs hereof are placed herein for convenience of reference only and in case of any conflict the text of this Agreement, rather than the headings, shall control.

Section 17. Entire Agreement, Amendment; Successors and Assigns.

This Agreement sets forth the entire understanding of the parties in respect of the subject matter contained herein and supersedes all prior agreements, arrangements and understandings relating to the subject matter and may only be amended by a written agreement signed by both parties hereto or their duly authorized representatives. This Agreement shall bind and inure to the benefit of the undersigned parties and their respective heirs, administrators, successors and assigns.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first above written.

EXECUTIVE

/s/ Charles H. Updegraff, Jr.
Charles H. Updegraff, Jr.

CITIZENS BANCORP, INC.

By: /s/ Robert C. Smith
Title: CHAIRMAN PERSONNEL/COMPENSATION COM.

EXHIBIT 10.4

October 9, 2007

Mr. Charles H. Updegraff, Jr.
28 Prosser Hollow Road
Coudersport, PA 16915

Re: Termination of Automatic Renewal of Employment Agreement Dated December 30, 2002

Dear Chuck:

Pursuant to the terms of Section 1 (b) of your Employment Agreement dated December 30, 2002, and as per our agreement prior to the merger of Citizens Bancorp and Citizens & Northern Corporation and Citizens & Northern Bank; and pursuant to the Addendum to Employment Agreement dated December 14, 2007 , we are exercising our right to terminate the automatic renewal of said Agreement and to fix the remaining term of employment under said section. **You are hereby given notice that we are terminating the automatic renewal provision of said Agreement and fixing the remaining term of employment to expire on December 31, 2009.**

Upon termination of the Employment Agreement dated December 30, 2002, you will be eligible for a Change of Control Agreement, which currently extends to each of the executive officers. We will address the issuance of the Change of Control Agreement upon the expiration of your current employment agreement.

Please execute and date the acknowledgement on one of the originals and return it to me by no later than November 1, 2007. If you have any questions, please contact me.

Sincerely,

/s/ Craig G. Litchfield
Craig G. Litchfield
Chairman, President & CEO

Acknowledgement:

/s/ Charles H. Updegraff, Jr.
Charles H. Updegraff, Jr.

Date: 10/22/07

EXHIBIT 21

Name	Jurisdiction or State of Incorporation
Citizens & Northern Bank (A)	Pennsylvania
Canisteo Valley Corporation (A)	New York
Bucktail Life Insurance Company (A)	Arizona
Citizens & Northern Investment Corporation (A)	Delaware
C&N Financial Services Corporation (B)	Pennsylvania
First State Bank (C)	New York

(A) Wholly-owned subsidiary of Citizens & Northern Corporation

(B) Wholly-owned subsidiary of Citizens & Northern Bank

(C) Wholly-owned subsidiary of Canisteo Valley Corporation

EXHIBIT 31.1

CERTIFICATION

I, Craig G. Litchfield, Chairman, Chief Executive Officer and President of Citizens & Northern Corporation, certify that:

1. I have reviewed this annual report on Form 10-K of Citizens & Northern Corporation;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:

    a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

    a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

February 28, 2008
Date

By: /s/ Craig G. Litchfield
Chairman, President and Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION

I, Mark A. Hughes, Treasurer and Chief Financial Officer of Citizens & Northern Corporation, certify that:

1. I have reviewed this annual report on Form 10-K of Citizens & Northern Corporation;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   e) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

February 28, 2008
Date

By: /s/ Mark A. Hughes
Treasurer and Chief Financial Officer

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EXHIBIT 32

SECTION 1350 CERTIFICATIONS

In connection with the Annual Report of Citizens & Northern Corporation (the Corporation) on Form 10-K for the year ended December 31, 2007, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned hereby certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that to each of the undersigned's best knowledge and belief:

(a) the Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(b) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Corporation.

CITIZENS & NORTHERN CORPORATION

February 28, 2008
Date

By: /s/ Craig G. Litchfield
Chairman, President and Chief Executive Officer

February 28, 2008
Date

By: /s/ Mark A. Hughes
Treasurer and Chief Financial Officer

These certifications accompany this report on Form 10-K pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by such Act, be deemed filed by the Corporation for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Such certifications will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent that the Corporation specifically incorporates them by reference.

A signed original of this written statement required by Section 906 has been provided to the Corporation and will be retained by the Corporation and furnished to the Securities and Exchange Commission or its staff upon request.