

CITIZENS & NORTHERN CORP
Form DEF 14A
March 06, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities

Exchange Act of 1934 (Amendment No.)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

CONFIDENTIAL, FOR USE OF THE COMMISSION ONLY (AS PERMITTED BY RULE 14A-6(E) (2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to Section 240.14a-11(c) or Section 240.14a-12

CITIZENS & NORTHERN CORPORATION
(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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(1) Title of each class of securities to which transaction applies:

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(3) Filing Party:

(4) Date Filed:

90-92 Main Street

Wellsboro, Pennsylvania 16901

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

TO BE HELD TUESDAY, APRIL 16, 2013

TO OUR SHAREHOLDERS:

Notice is hereby given that the Annual Meeting of Shareholders of Citizens & Northern Corporation (the "Corporation") will be held at the Arcadia Theatre, located at 50 Main Street, Wellsboro, Pennsylvania, on Tuesday, April 16, 2013 at 2:00 P.M., local time, for the following purposes:

1. To elect four Class II directors to serve for a term of 3 years;
2. To ratify the appointment of ParenteBeard LLC as the Corporation's independent registered public accounting firm for the year ending December 31, 2013; and
3. To transact such other business as may properly be brought before the meeting or any adjournment thereof.

The Board of Directors recommends that you vote "FOR" the election of each of the nominees for director listed in the enclosed proxy statement and "FOR" the ratification of the appointment of ParenteBeard LLC as the Corporation's independent registered public accounting firm for the year ending December 31, 2013.

We have elected to provide access to our proxy materials over the Internet using the Securities and Exchange Commission's "notice and access" rules. Details regarding the business to be conducted are described in the Notice of Internet Availability of Proxy Materials ("Notice") you received in the mail and in this proxy statement. We have also made available a copy of our 2012 Annual Report on Form 10-K with this proxy statement. We encourage you to read our Annual Report. It includes our audited financial statements and provides information about our business.

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Your vote is important regardless of the number of shares you own. Whether or not you plan to attend the Annual Meeting, the Board of Directors encourages you to vote your shares. You may vote over the Internet, as well as by telephone, or, if you requested to receive printed proxy materials, by mailing a proxy or voting instruction card. Please review the instructions described in this proxy statement, as well as in the Notice you received in the mail. This will not prevent you from voting in person at the meeting, but will assure that your vote is counted if you are unable to attend. If you are a shareholder whose shares are registered in "street name," you will need additional documentation from your broker in order to vote in person at the meeting.

Only shareholders of record at the close of business on February 19, 2013, the record date for Annual Meeting, are entitled to notice of, and to vote at, the Annual Meeting.

By Order of the Board of Directors,

Jessica R. Brown
Corporate Secretary

Wellsboro, Pennsylvania

March 7, 2013

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90-92 Main Street

Wellsboro, Pennsylvania 16901

PROXY STATEMENT

Annual Meeting of Shareholders – April 16, 2013

Annual Meeting Information

This proxy statement is furnished in connection with the solicitation of proxies by the Board of Directors of Citizens & Northern Corporation (the “Corporation”) to be used at the Annual Meeting of Shareholders of the Corporation to be held on Tuesday, April 16, 2013, at 2:00 P.M., at the Arcadia Theatre located at 50 Main Street, Wellsboro, Pennsylvania, and at any adjournments or postponements thereof. This proxy statement was first made available to shareholders on March 7, 2013.

Who is entitled to vote?

Shareholders owning Corporation common stock on February 19, 2013 are entitled to vote at the Annual Meeting or any adjournment or postponement of the meeting. Each shareholder has one vote per share on all matters to be voted on. On February 19, 2013, there were 12,331,554 shares of Corporation common stock outstanding.

On what am I voting?

You will be asked to elect four (4) Class II directors for three-year terms expiring in 2016 and to ratify the appointment of ParenteBeard LLC as the Corporation’s independent registered public accounting firm for the year ending December 31, 2013. The Board of Directors is not aware of any other matters to be presented for action at the Annual Meeting. If any other matter requiring a vote of the shareholders would be presented at the meeting, the proxies will vote according to the directions of the Corporation’s management.

How does the Board of Directors recommend I vote on the proposals?

The Board of Directors recommends that you vote “FOR” the election of each of the nominees for director listed in this proxy statement and “FOR” ratification of the appointment of ParenteBeard LLC as the Corporation’s independent registered public accounting firm for the year ending December 31, 2013.

How are proxy materials being disseminated?

In accordance with rules adopted by the Securities and Exchange Commission (“SEC”), we have elected to furnish proxy materials, including this proxy statement and our 2012 Annual Report on Form 10-K, to our shareholders by providing access to such documents on the Internet instead of mailing printed copies. Most shareholders will not receive printed copies of the proxy materials unless they request them. Instead, the Notice, which was mailed to most of our shareholders, provides instructions as to how you may access and review all of the proxy materials on the Internet. The Notice also instructs you as to how you may submit your proxy via the Internet. If you would like to receive a paper or email copy of our proxy materials, you should follow the instructions for requesting such materials in the Notice.

If you received more than one Notice, it means that your shares are registered differently and are held in more than one account. To ensure that all shares are voted, please either vote each account over the Internet or by telephone, or sign and return by mail all proxy cards or voting instruction forms requested in paper format.

How do I vote?

As described in the Notice, you may vote by any of the following methods:

Internet. Go to www.voteproxy.com 24 hours a day, seven days a week, and follow the instructions. You will need the control number that is included in the Notice, proxy card or voting instructions form that is sent to you. The Internet voting system allows you to confirm that the system has properly recorded your votes. This method of voting will be available until 11:59 p.m., Eastern Time, on April 15, 2013.

Telephone. Call toll-free 1-800-PROXIES 24 hours a day, seven days a week, and follow the instructions. You will need the control number that is included in the Notice, proxy card or voting instructions form that is sent to you. As with Internet voting, you will be able to confirm that the system has properly recorded your votes. This method of voting will be available until 11:59 p.m., Eastern Time, on April 15, 2013.

Mail. If you are a shareholder of record and you elect to receive your proxy materials by mail, you can vote by marking, dating and signing your proxy card exactly as your name appears on the card and returning it by mail in the postage-paid envelope that will be provided to you. If you hold your shares in street name and you elect to receive your proxy materials by mail, you can vote by completing and mailing the voting instructions form that will be provided by your bank, broker or other holder of record. You should mail the proxy card or voting instruction form in plenty of time to allow delivery prior to the meeting. Do not mail the proxy card or voting instruction form if you are voting over the Internet or by telephone.

At the Annual Meeting. You may vote your shares at the annual meeting if you attend in person. Even if you plan to attend the annual meeting, we encourage you to vote over the Internet or by telephone prior to the meeting. It is fast and convenient, your vote is recorded immediately, and there is no risk that postal delays will cause your vote to arrive late and therefore not be counted.

How do I change my vote?

If you give the proxy we are soliciting, you may revoke it at any time before it is exercised:

by signing and returning a later-dated proxy; or

by giving written notice to Citizens & Northern Corporation, 90-92 Main Street, Wellsboro, PA 16901, Attention: Jessica R. Brown, Corporate Secretary; or

by voting in person at the Annual Meeting.

A shareholder whose shares are held in "street name" should follow the instructions of his or her broker regarding revocation of proxies. You should note that your presence at the meeting without voting in person will not revoke an otherwise valid proxy.

What is a quorum?

A “quorum” is the presence at the meeting, in person or by proxy, of the holders of a majority of the outstanding shares. There must be a quorum for the meeting to be held. Abstentions are counted for purposes of determining the presence or absence of a quorum, but are not considered a vote cast under Pennsylvania law. Brokers holding shares in “street name” for their customers generally are not entitled to vote on certain matters unless they receive voting instructions from their customers. Such shares for which brokers have not received voting instructions from their customers are called “broker non-votes.” Under Pennsylvania law, broker non-votes will be counted to determine if a quorum is present with respect to any matter to be voted upon by shareholders at the meeting only if such shares have been voted at the meeting on a matter other than a procedural motion.

What vote is required to approve the proposals?

The four (4) nominees for election to the Board of Directors receiving the highest number of votes cast by shareholders entitled to vote at the meeting will be elected. “Withhold” votes will have the effect of a vote against the election of directors. Abstentions and broker non-votes will have no effect on the election of directors.

Approval of the appointment of ParenteBeard LLC as the Corporation’s independent registered public accounting firm for the year ending December 31, 2013 requires the affirmative vote of a majority of the votes cast at the meeting, in person or by proxy. Abstentions and broker non-votes will have no effect in calculating the votes on this matter.

Who will count the vote?

The Judges of Election appointed by the Board of Directors will count the votes cast in person or by proxy at the meeting.

How are proxies being solicited?

The Corporation will bear its own cost of solicitation of proxies for the meeting. In addition to solicitation by mail, the company’s directors, officers and employees may solicit proxies personally or by telephone, facsimile transmission or otherwise. These directors, officers and employees will not be additionally compensated for their solicitation efforts, but may be reimbursed for out-of-pocket expenses incurred in connection with these efforts. The Corporation will reimburse brokerage firms, fiduciaries, nominees and others for their out-of-pocket expenses incurred in forwarding proxy materials to beneficial owners of shares of common stock held in their names.

What is the deadline for shareholder proposals at next year's Annual Meeting?

Any shareholder who, in accordance with and subject to the provisions of the proxy rules of the SEC, wishes to submit a proposal for inclusion in the Corporation's proxy statement for its 2014 Annual Meeting of Shareholders must deliver the proposal in writing to the Secretary of Citizens & Northern Corporation at the Corporation's principal executive offices at 90-92 Main Street, Wellsboro, Pennsylvania, not later than November 6, 2013.

For any proposal that is not submitted for inclusion in next year's proxy statement (as described in the preceding paragraph), but is instead sought to be presented directly at the next Annual Meeting, the Corporation's Articles of Incorporation require shareholders to give advance notice of such proposals. The required notice, which must include the information and documents set forth in the Articles of Incorporation, must be given no more than 50 days and no less than 14 days prior to the Annual Meeting. If notice is not received by the Corporation within this time frame, the Corporation will consider such notice untimely.

Under Rule 14a-4(c)(1) of the Securities Exchange Act of 1934, as amended, if any shareholder proposal intended to be presented at the Annual Meeting without inclusion in our proxy statement is received within the required time frame and is properly presented, then a proxy will have the ability to confer discretionary authority to vote on the proposal.

Internet Availability of Proxy Materials

Important Notice About the Availability of Proxy Materials for the Annual Meeting of Shareholders to be Held on April 16, 2013: This proxy statement, proxy card and the Corporation's annual report to shareholders are available at: www.amstock.com/proxyservices/viewmaterials.asp?conumber=11697.

Cautionary Statement Regarding Forward-Looking Statements

This proxy statement and the documents that have been incorporated herein by reference may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. In some cases, these statements can be identified by the use of words such as "anticipate," "believe," "can," "could," "estimate," "expect," "intend," "may," "plan," "potential," "predict," "should," "would" and similar expressions. Actual results and trends could differ materially from those set forth in such statements due to various risks, uncertainties and other factors. Such risks, uncertainties and other factors that could cause actual results and experience to differ from those projected include, but are not limited to, the following: ineffectiveness of

our business strategy due to changes in current or future market conditions; the effects of competition, and of changes in laws and regulations, including industry consolidation and development of competing financial products and services; interest rate movements; changes in credit quality; volatilities in the securities markets; and deteriorating economic conditions, and other risks and uncertainties, including those detailed in our filings with the SEC.

Although forward-looking statements help provide additional information about us, investors should keep in mind that forward-looking statements are only predictions, at a point in time, and are inherently less reliable than historical information. You are urged not to place undue reliance on these forward-looking statements, which speak only as of the date of this proxy statement. We assume no obligation to update any forward-looking statement in order to reflect any event or circumstance that may arise after the date of this proxy statement, other than as may be required by applicable law or regulation.

PROPOSAL 1 — ELECTION OF DIRECTORS

Board of Directors

Our Articles of Incorporation provide that the Board of Directors shall consist of not less than five (5) nor more than twenty-five (25) directors and that within these limits the number of directors shall be as established by the Board of Directors. The Articles further provide that the Board shall be classified into three classes, as nearly equal in number as possible. One class of directors is elected annually, and the term for each class is three (3) years. Any vacancy occurring on the Board of Directors, for any reason, may be filled by a majority of directors then in office to serve until the expiration of the term of the vacancy.

In 2012, there were initially twelve (12) members of the Corporation's Board of Directors. Edward Learn resigned effective July 1, 2012, and the Board has elected not to fill the vacancy created by his resignation, but rather, reduce the size of the Board to eleven (11). Mr. Learn's decision to resign was not the result of a disagreement with the Corporation on any matter relating to the Corporation's operations, policies or practices.

At the 2013 Annual Meeting, four (4) Class II directors are to be elected to serve for a three-year term.

Nominees for Election

The Board of Directors proposes the following four (4) nominees be elected as Class II directors for terms expiring at the 2016 Annual Meeting of Shareholders: R. Bruce Haner, Susan E. Hartley, Leo F. Lambert and Leonard Simpson. Each of the nominees currently serves as a director of the Corporation.

The four (4) nominees for directors receiving the highest number of votes cast by shareholders entitled to vote for the election of directors shall be elected. Unless otherwise instructed, proxies received from shareholders will be voted for the nominees named in this proxy statement. If a nominee should become unavailable for any reason, proxies will be voted for a substitute nominee determined by the Board of Directors. The Board of Directors has no reason to believe that the nominees will be unable to serve if elected.

Cumulative voting does not exist in the election of directors. Each share of Corporation common stock is entitled to cast one vote for each nominee. For example, if a shareholder owns ten shares of common stock, he or she may cast up to ten votes for each of the four nominees to be elected.

The Board of Directors recommends a vote “FOR” the election of the nominees identified above, each of whom has consented to be named as a nominee and to serve if elected.

Director Qualifications

We provide below information as of the date of this proxy statement about each nominee and director of the Corporation. The information includes information each director has given us about his/her age, all positions held, principal occupation and business experience for the past five years, and the names of other publicly-held companies of which he currently serves as a director or has served as a director during the past five years. In addition to the information presented below regarding each nominee’s specific experience, qualifications, attributes and skills that led the Board of Directors to conclude that he should serve as a director, we also believe that all of our directors and nominees have demonstrated good judgment, strength of character, and an independent mind, as well as a reputation for integrity and the highest personal and professional ethics.

Nominees as Class II Directors for a term expiring at the 2016 Annual Meeting

R. Bruce Haner

Director since: 1998

Age: 65

Mr. Haner owned and operated an auto dealership for over 30 years. Mr. Haner has attended various Pennsylvania Bankers Association, American Bankers Association, and Federal Reserve seminars and workshops. We believe that Mr. Haner's qualifications to serve as a director of the Corporation include his over 30 years of experience as a local business owner and entrepreneur and his 14 years of experience as a director of the Corporation.

Susan E. Hartley

Director since: 1998

Age: 55

Ms. Hartley has been an attorney since 1984. She received her Bachelor of Arts from Elmira College, Master of Arts from State University of New York at Buffalo, and Doctorate of Jurisprudence from State University of New York at Buffalo School of Law. We believe that Ms. Hartley's qualifications to serve as a director of the Corporation include her experience as an attorney and her 14 years of experience as a director of the Corporation.

Leo F. Lambert

Director since: 2001

Age: 59

Mr. Lambert has been the President and General Manager of Fitzpatrick & Lambert, Inc. since 1978. Mr. Lambert received his Bachelor of Science from St. Francis College Loretto. Mr. Lambert has served and continues to serve on the boards of many nonprofits within his community. We believe that Mr. Lambert's qualifications to serve as a director of the Corporation include his over 30 years of experience as a local business owner and entrepreneur and community leader.

Leonard Simpson

Director since: 1989

Age: 64

Mr. Simpson has been an attorney since 1975, having served as Sullivan County District Attorney from 1977 through 1993 and from 2008 until present. He received his Bachelor of Science from Gettysburg College and his Doctorate of Jurisprudence from Cumberland School of Law, Sanford University. Mr. Simpson has served and continues to serve on the boards of various nonprofits within his local community. We believe that Mr. Simpson's qualifications to serve as a director of the Corporation include his experience as an attorney, his 23 years of experience as a director of the Corporation and his professional leadership experience.

Continuing as Class III Directors for a term expiring at the 2014 Annual Meeting

Dennis F. Beardslee

Director since: 1999

Age: 62

Mr. Beardslee has owned and operated Terrace Lanes Bowling Center since 1984. He received his Bachelor of Arts from Mansfield University. He serves on several boards of nonprofits within his local community. We believe that Mr. Beardslee's qualifications to serve as a director of the Corporation include his over 25 years of experience as a local business owner and entrepreneur and his 13 years of experience as a director of the Corporation.

Jan E. Fisher

Director since: 2002

Age: 58

Ms. Fisher is the Executive Vice President & Chief Operating Officer of Susquehanna Health, Williamsport, PA; formerly the Executive Vice President & Chief Operating Officer of Laurel Health System and President & Chief Executive Officer of Soldiers & Sailors Memorial Hospital, Wellsboro, PA. She received her Bachelor of Science from Purdue University and Master of Business Administration from the University of Miami. Ms. Fisher has served and continues to serve on boards of many nonprofits within her local community and industry. We believe that Ms. Fisher's qualifications to serve as a director of the Corporation include her over 20 years of executive management experience.

Ann M. Tyler

Director since: 2002

Age: 68

Ms. Tyler is a retired certified public accountant from her firm Ann M. Tyler CPA, PC, which she owned and operated for over 15 years. Prior to starting her own firm, Ms. Tyler was a certified public accountant with Brodart Company and Parente Randolph LLC for over 9 years. She received her Bachelor of Arts from Lycoming College. Ms. Tyler has served and continues to serve on various boards of nonprofits within her community. We believe that Ms. Tyler's qualifications to serve as a director of the Corporation include her experience as a certified public accountant and financial expertise.

Continuing as Class I Directors for a term expiring at the 2015 Annual Meeting

Raymond R. Mattie

Director since: 2007

Age: 49

Mr. Mattie has been the President of M&S Conversion Co. Inc. since 1992 and has held various positions within M&S Conversion Co. Inc. since 1979. Mr. Mattie received his Associates Degree from Williamsport Area Community College. He serves on the board of various nonprofits within his community. We believe that Mr. Mattie's qualifications to serve as a director of the Corporation include his 20 years of executive leadership experience and community leadership experience.

Edward H. Owlett, III

Director since: 1994

Age: 58

Mr. Owlett has been the President & Chief Executive Officer of Putnam Company since 1995. Mr. Owlett was an attorney at Owlett & Lewis, PC from 1981 to 2001. He received his Bachelor of Science from Wharton School of Business and his Doctorate of Jurisprudence from University of Pittsburgh. He serves on various organizations within his local community. We believe that Mr. Owlett's qualifications to serve as a director of the Corporation include his experience as an attorney, as well as his executive leadership experiences at Putnam Company.

James E. Towner

Director since: 2000

Age: 66

Mr. Towner is retired with over 30 years of experience with Times Shamrock Communications, including over 20 years as publisher. He has served on the board of several nonprofits within his local community. He received his Bachelor of Science from Elmira College. We believe that Mr. Towner's qualifications to serve as a director of the Corporation include his 12 years of experience as a director of the Corporation and reputation as a respected business leader in the community.

Charles H. Updegraff, Jr.

Director since: 2007

Age: 60

Mr. Updegraff has been the Chairman of Citizens & Northern Corporation and Citizens & Northern Bank since September 2010, and President and Chief Executive Officer of Citizens & Northern Corporation and Citizens & Northern Bank since January 2010; formerly President and Chief Executive Officer of Canisteo Valley Corporation and First State Bank from May 2008 to September 2010; formerly Executive Vice President and Chief Operating Officer of C&N Bank from May 2007 to January 2010; formerly Chairman, President & Chief Executive Officer of Citizens Bancorp, Inc. and Citizens Trust Company from 1980 to May 2007. He received his Bachelor of Science from Bloomsburg University and has attended numerous banking schools. He has served and continues to serve on the board of various nonprofits in his local community. We believe that Mr. Updegraff's qualifications to serve as a director of the Corporation include his over 30 years of banking experience in northern Pennsylvania, as well as his strategic, executive leadership and management experience.

EXECUTIVE OFFICERS

The following table identifies each of the executive officers of the Corporation and Citizens & Northern Bank (the "Bank"), their age as of February 19, 2013, the position they currently hold and their professional experience during the prior five years.

Charles H. Updegraff, Jr.

Age: 60

Chairman of the Corporation and Bank since September 2010, and President and Chief Executive Officer of the Corporation and the Bank since January 2010; formerly President and Chief Executive Officer of Canisteo Valley Corporation and First State Bank from May 2008 to September 2010; formerly Executive Vice President and Chief Operating Officer of the Bank from May 2007 to January 2010; formerly Chairman, President & Chief Executive Officer of Citizens Bancorp, Inc. and Citizens Trust Company from 1980 to May 2007.

Dawn A. Besse

Age: 61

Executive Vice President and Chief Credit Officer of the Bank since August 2008; formerly Executive Vice President and Director of Sales, Service and Employee Development of the Bank since August 2000.

Shelley L. D'Haene

Age: 52

Executive Vice President and Director of Alternate Delivery Channels of the Bank since January, 2013; formerly Vice President and Cash Management Coordinator of the Bank since February 2006.

Harold F. Hoose, III

Age: 46

Executive Vice President and Director of Lending of the Bank since March 2005.

Mark A. Hughes

Age: 51

Treasurer of the Corporation since November 2000; Executive Vice President and Chief Financial Officer of the Bank since August 2000.

George M. Raup

Age: 59

Executive Vice President and Chief Information Officer of the Bank since April 2008; formerly Vice President of Citizens Trust Company.

John M. Reber

Age: 46

Executive Vice President and Director of Risk Management of the Bank since January 2011; formerly Vice President and Director of Risk Management of the Bank since June 2004.

Thomas L. Rudy, Jr.

Age: 48

Executive Vice President and Director of Branch Delivery of the Bank since February 2004; President of C&N Financial Services Corporation since January 2000.

Deborah E. Scott

Age: 53

Executive Vice President and Director of Trust Department of the Bank since September 1999.

CORPORATE GOVERNANCE

Members of the Corporation's Board of Directors are elected by the shareholders. In selecting nominees for the shareholders' consideration, the Board attempts to identify individuals with appropriate business, financial, legal and other skills and knowledge that are essential to providing oversight of the Corporation's affairs, and who demonstrate a passion for promoting and enhancing the Corporation's financial performance and its service to the communities within our marketplace. In evaluating candidates, the Board considers diversity of educational and business background and experiences, taking into account the experience "mix" of current directors, as well as that of the candidates. The nominating process is described in more detail in the section titled "Governance and Nominating Committee" below.

Director Independence

During 2012 through the date of this proxy statement, all directors and nominees are and were independent, except for Charles H. Updegraff, Jr., as determined in accordance with the independence standards of the NASDAQ Stock Market, including Mr. Learn who resigned in July 2012. In determining the directors' independence, in addition to

matters disclosed under “Related Person Transactions and Policies” on page 12 of this proxy statement, the Board of Directors considered each director’s beneficial ownership of Corporation common stock and loan transactions between the Bank and the directors, their family members and businesses with whom they are associated, as well as any contributions made by the Bank to non-profit organizations with whom such persons are associated. In each case, the Board determined that none of the transactions above impaired the independence of the director.

Leadership Structure of the Board; Lead Independent Director

In September 2010, the Board appointed Charles H. Updegraff, Jr., President and Chief Executive Officer, to the additional position of Chairman, believing that his history of working in executive roles within the banking industry uniquely qualified him for this role. This decision was made after much deliberation, with the Board finding that it would be advantageous to have an individual with extensive banking industry experience fill the dual roles of Chief Executive Officer and Chairman of the Board.

The Board attempts to ensure that thorough, open and honest discussions take place at all Board and committee meetings, and that all of the directors are sufficiently informed about each matter that arises so as to make informed decisions concerning each such matter, by designating a “Lead Director.” The Lead Director is required to be an independent director and also serves as chair of the Executive Committee of the Board. The Lead Director presides over executive sessions and meetings of the independent directors, and is responsible for communicating the thoughts or concerns of the independent directors to the Chief Executive Officer. In order to ensure an open dialogue at such executive sessions and meetings, no member of management attends an executive session or meeting of the independent directors. James E. Towner has been designated by the independent directors to serve as Lead Director, and also served in that role throughout 2012.

Meetings and Committees of the Board of Directors

Board of Directors. During 2012, the Board of Directors of the Corporation met thirteen (13) times, the Board of Directors of the Bank met fifteen (15) times, and the independent directors met in executive session and held meetings of the independent directors seven (7) times. All of the directors attended at least 75% or more of the meetings of the Board of Directors of the Corporation and of the Board committees on which he or she served, with the exception of Mr. Learn.

Although the Corporation does not have a formal policy with respect to director attendance at the Annual Meeting of Shareholders, each director is encouraged to attend the Annual Meeting. All Directors attended the 2012 Annual Meeting of Shareholders.

Executive Committee of the Corporation. The Corporation has an Executive Committee, whose purpose is to monitor and oversee the Corporation's management succession plan and leadership development processes; review and provide advice and counsel to the CEO regarding the Corporation's strategic plan, mission, goals and objectives and action plans, as well as various other matters; and to act on behalf of and with full authority of the Board of Directors in matters that may arise between the regular monthly meetings of the Board which require immediate Board level action. The members of the Executive Committee are: Jan E. Fisher, R. Bruce Haner, Leo F. Lambert, Edward H. Owlett, III, Leonard Simpson, James E. Towner, and Charles H. Updegraff, Jr. During 2012, the Executive Committee held ten (10) meetings.

Audit Committee. The primary function of the Audit Committee is to review the internal audit program as performed by the internal auditors; recommend to the Board of Directors the engagement of the independent registered public accounting firm for the year; review the examinations and reports from those persons; and review the annual financial statements of the Corporation. The members of the Audit Committee of the Corporation are: R. Bruce Haner, Leo F. Lambert, Edward H. Owlett, III, James E. Towner and Ann M. Tyler. The Audit Committee held four (4) meetings in 2012. All of the members of the Audit Committee are and were independent under the independence standards of the NASDAQ Stock Market.

At present, none of the members of the Audit Committee meets the definition of "audit committee financial expert" as defined in the rules adopted by the SEC. However, the Board of Directors has determined that each of the members of the Audit Committee has sufficient knowledge and experience in financial matters to effectively perform their duties as members of the Audit Committee.

The Board of Directors of the Corporation has adopted a written charter for the Audit Committee, a copy of which is available on our website at www.cnbankpa.com by clicking on "Investor Relations", then "Corporate Governance", then "Audit Committee Charter of C&N Corp". The policies and procedures for pre-approval of engagements for non-audit services are included in the Charter.

Compensation Committee of the Corporation. The purpose of the Compensation Committee is to discharge the responsibilities of the Board of Directors relating to compensation of the executive officers and to provide oversight of the Bank's compensation, benefit, perquisite and employee equity incentive programs. The members of the Compensation Committee are: Jan E. Fisher, R. Bruce Haner, Leo F. Lambert, Edward H. Owlett, III, Leonard Simpson and James E. Towner. The Compensation Committee held seven (7) meetings in 2012. All of the members of the Audit Committee are and were independent under the independence standards of the NASDAQ Stock Market.

The Board of Directors of the Corporation has adopted a written charter for the Compensation Committee, which is available on our website at www.cnbankpa.com by clicking on "Investor Relations", then "Corporate Governance", then "Compensation Committee Charter of C&N Corp."

Governance and Nominating Committee. The purpose of the Governance and Nominating Committee is to establish criteria for Board member selection and retention; identify individuals qualified to become Board members; and recommend to the Board the individuals to be nominated and re-nominated for election as directors. This committee is also responsible for reviewing and reporting to the Board periodically on matters of corporate governance. The members of the Governance and Nominating Committee are: Dennis F. Beardslee, Jan E. Fisher, Susan E. Hartley, Edward H. Owlett, III, and Leonard Simpson. During 2012, the Governance and Nominating Committee held three (3) meetings. All members of the Governance and Nominating Committee are and were independent under the independence standards of the NASDAQ Stock Market.

The Board of Directors of the Corporation has adopted a written charter for the Governance and Nominating Committee, which is available on our website at www.cnbankpa.com by clicking on “Investor Relations”, then “Corporate Governance”, then “Governance and Nominating Charter”.

Qualifications considered by the Governance and Nominating Committee in assessing director candidates include, but are not limited to, the following:

- An understanding of the business and financial affairs and the complexities of a business organization. A career in business is not essential, but the candidate should have a proven record of competence and accomplishments and should be willing to commit the time and energy necessary to fulfill the role as an effective director;

- A genuine interest in representing all of the Corporation’s stakeholders, including the long-term interest of the shareholders;

- A willingness to support the values, mission and vision of the Corporation;

- An open-mindedness and resolve to independently analyze issues presented for consideration;

· A reputation for honesty and integrity;

A high level of financial literacy (i.e., the ability to read financial statements and financial ratios, and a working knowledge and familiarity with basic finance and accounting practices);

A mature confidence and ability to approach others with self-assurance, responsibly and supportively. Candidates should value Board and team performance over individual performance and should be able to raise tough questions in a manner that encourages open discussions. Additionally, a candidate should be inquisitive and curious and feel a duty to ask questions of management;

· The ability, capacity, and willingness to serve as a conduit of business referrals to the organization;

· Independence in accordance with the independence standards of the NASDAQ Stock Market; and

· Experience with a business of size similar or larger than the Corporation.

Other than the foregoing, there are no stated minimum criteria for director nominees, although the Governance and Nominating Committee may also consider such other factors as it may deem are in the best interests of the Corporation and its shareholders, and such factors may change from time to time. The Governance and Nominating Committee does, however, require that a majority of the directors be independent under the independence standards of the NASDAQ Stock Market.