

 **CITIZENS & NORTHERN CORPORATION**

90-92 Main Street, P.O. Box 58

Wellsboro, PA 16901

Phone: (570) 724-3411 Fax: (570) 723-8097

E-Mail: cnemail@cnbankpa.com Web Page: <http://www.cnbankpa.com>

Stock Symbol: CZNC

Chartered 1864

FEDERAL DEPOSIT INSURANCE CORP

March 31, 2015

QUARTERLY REPORT

Dear Shareholder:

It is with great pride that I extend greetings to you as your new CEO with this Quarterly Report. Our first six weeks as part of the C&N Team have been productive and insightful as we have engaged in all aspects of our Company. Your Board and Management Team have been open and welcoming and I am very impressed with our people and the organization. We have a great history and strong foundation to continue building on and, after meeting virtually every member of our team and a number of key customers, I have developed an appreciation for the real commitment to our franchise throughout the communities that we serve. This commitment, combined with our ability to engage the C&N Team in delivering value to our customers and communities, provides the platform for generating profitable growth to our shareholders. While we are operating in a challenging economic and regulatory environment, I am confident in our ability to deliver on this objective in the years ahead.

During the first quarter of 2015, diluted earnings per share were \$.31 compared to \$.35 for the fourth quarter of 2014, and \$.34 for the same period in 2014. Net interest income decreased \$261,000 from the fourth quarter, although the net interest margin improved to 3.74% from 3.73% in Q4 2015. A flatter yield curve and lack of loan growth have put pressure on the margin, although it remains well above peer levels. Noninterest income declined \$315,000 from the prior quarter primarily due to a reduction in the value of mortgage servicing rights, lower deposit service charges and net overdraft fees, and gains from the sale of mortgage loans. Noninterest expenses increased \$214,000 as a result of increased benefits costs, occupancy expenses, and charitable contributions which were partially offset by reductions in expense in a number of other expense categories. It is notable that credit quality remains strong as evidenced by the minimal loan loss provision of \$3,000 during the first quarter.

Total assets, loans, and deposits all remained relatively stable as of March 31, 2015 compared to year-end 2014. As we approached the end of the quarter, after very difficult winter weather, we experienced some increase in lending activity and are cautiously optimistic about the local economy and that our business development activities are gaining traction. The Trust and Financial Management business had \$833 million in assets under management as of March 31, and growing customer relationships and revenues from this division will be a continued focus moving forward. C&N's capital position remains very strong. Total shareholders' equity was \$189.1 million at March 31, as compared to \$188.4 million at the end of 2014. All capital ratios remain well in excess of regulatory standards. Management is focused on implementing strategies to leverage our capital position through loan growth. We are also committed to maintaining an attractive cash dividend, continuing the stock repurchase program announced in July 2014, and assessing other strategies that will grow the company and support shareholder value.

In closing, it is great to be on board at C&N to pursue our many opportunities. I look forward to engaging with you as we continue to build this outstanding franchise.



J. Bradley Scovill
President and CEO

**CITIZENS & NORTHERN CORPORATION
BOARD OF DIRECTORS**

Dennis F. Beardslee
Jan E. Fisher
R. Bruce Haner
Susan E. Hartley
Leo F. Lambert, Chairman

Edward H. Owlett, III
J. Bradley Scovill
Leonard Simpson
James E. Towner
Ann M. Tyler

CITIZENS & NORTHERN BANK

1-877-838-2517

OFFICES

428 S. Main Street, **ATHENS**, PA 18810
3 Main Street, **CANISTEO**, NY 14823
10 N Main Street, **COUDERSPORT**, PA 16915
111 Main Street, **DUSHORE**, PA 18614
563 Main Street, **EAST SMITHFIELD**, PA 18817
104 Main Street, **ELKLAND**, PA 16920
135 East Fourth Street, **EMPORIUM**, PA 15834
6250 County Route 64, **HORNELL**, NY 14843
230-232 Railroad Street, **JERSEY SHORE**, PA 17740
102 E. Main Street, **KNOXVILLE**, PA 16928
514 Main Street, **LAPORTE**, PA 18626
4534 Williamson Trail **LIBERTY**, PA 16930
1085 S. Main Street, **MANSFIELD**, PA 16933
612 James Monroe Avenue, **MONROETON**, PA 18832
3461 Rte.405 Highway, **MUNCY**, PA 17756
100 Maple Street, **PORT ALLEGANY**, PA 16743
24 Thompson Street, **RALSTON**, PA 17763
1827 Elmira Street, **SAYRE**, PA 18840
2 E. Mountain Ave., **SO. WILLIAMSPORT**, PA 17702
41 Main Street, **TIOGA**, PA 16946
428 Main Street, **TOWANDA**, PA18848
Court House Square, **TROY**, PA 16947
90-92 Main Street, **WELLSBORO**, PA 16901
130 Court Street, **WILLIAMSPORT**, PA 17701
1510 Dewey Ave., **WILLIAMSPORT**, PA 17702
Route 6, **WYSOX**, PA 18854

TRUST & FINANCIAL MANAGEMENT GROUP

3 Main Street, Canisteeo , NY 14823	607-698-4295
10 N Main Street, Coudersport , PA 16915	800-921-9150
1827 Elmira Street, Sayre , PA 18840	888-760-8192
428 Main Street, Towanda , PA 18848	888-987-8784
90-92 Main Street, Wellsboro , PA 16901	888-487-8784
130 Court Street, Williamsport , PA 17701	866-732-7213

DEPOSIT OPERATIONS - 90-92 Main St., Wellsboro, PA 16901

BANKCARD SERVICES - 90-92 Main St., Wellsboro PA 16901

ELECTRONIC BANKING – 90-92 Main St., Wellsboro, PA 16901

www.cnbankpa.com

800-577-8001

877-838-2517

C&N FINANCIAL SERVICES CORPORATION – 90-92 Main Street, Wellsboro, PA

www.cnfinancialservices.com

866-ASK-CNFS

CONDENSED, CONSOLIDATED EARNINGS INFORMATION

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

	1ST QUARTER 2015 (Current)	4TH QUARTER 2014 (Prior Qtr)	1ST QUARTER 2014 (Prior Yr)
Interest and Dividend Income	\$11,163	\$11,468	\$11,406
Interest Expense	1,213	1,257	1,288
Net Interest Income	9,950	10,211	10,118
Provision (Credit) for Loan Losses	3	123	(311)
Net Interest Income After Provision (Credit) for Loan Losses	9,947	10,088	10,429
Other Income	3,487	3,802	3,751
Net Gains on Available-for-sale Securities	74	210	31
Other Noninterest Expenses	8,464	8,250	8,524
Income Before Income Tax Provision	5,044	5,850	5,687
Income Tax Provision	1,229	1,482	1,399
Net Income	\$3,815	\$4,368	\$4,288

PER COMMON SHARE DATA:

Net Income – Basic	\$0.31	\$0.36	\$0.35
Net Income – Diluted	\$0.31	\$0.35	\$0.34
Dividend Per Share	\$0.26	\$0.26	\$0.26
Number Shares Used in Computation - Basic	12,268,306	12,302,646	12,417,627
Number Shares Used in Computation - Diluted	12,289,139	12,325,409	12,444,797

CONDENSED, CONSOLIDATED BALANCE SHEET DATA

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

	MARCH 31, 2015	DEC. 31, 2014	MARCH 31, 2014
ASSETS			
Cash & Due from Banks	\$36,430	\$36,047	\$61,087
Available-for-sale Securities	527,814	516,807	484,014
Loans Held for Sale	214	0	133
Loans, Net	621,211	623,209	617,475
Intangible Assets	11,989	11,994	12,020
Other Assets	54,300	53,906	60,410
TOTAL ASSETS	\$1,251,958	\$1,241,963	\$1,235,139

LIABILITIES

Deposits	\$976,634	\$967,989	\$961,833
Repo Sweep Accounts	5,840	5,537	4,730
Total Deposits and Repo Sweeps	982,474	973,526	966,563
Borrowed Funds	72,988	73,060	73,270
Other Liabilities	7,393	7,015	10,544
TOTAL LIABILITIES	1,062,855	1,053,601	1,050,377

SHAREHOLDERS' EQUITY

Common Shareholders' Equity, Excluding Accumulated Other Comprehensive Income	181,437	183,002	182,220
Accumulated Other Comprehensive Income:			
Net Unrealized Gains/Losses on Available-for-sale Securities	7,654	5,281	2,442
Defined Benefit Plans	12	79	100
TOTAL SHAREHOLDERS' EQUITY	189,103	188,362	184,762
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY	\$1,251,958	\$1,241,963	\$1,235,139

CONDENSED, CONSOLIDATED FINANCIAL HIGHLIGHTS

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

	3 MONTHS ENDED		% INCREASE (DECREASE)
	MARCH 31,		
	<u>2015</u>	<u>2014</u>	
EARNINGS PERFORMANCE			
Net Income	\$3,815	\$4,288	-11.03%
Return on Average Assets	1.23%	1.41%	-12.77%
Return on Average Equity	8.08%	9.41%	-14.13%
BALANCE SHEET HIGHLIGHTS			
Total Assets	\$1,251,958	\$1,235,139	1.36%
Available-for-Sale Securities	527,814	484,014	9.05%
Loans (Net)	621,211	617,475	0.61%
Allowance for Loan Losses	7,134	8,343	-14.49%
Deposits and Repo Sweep Accounts	982,474	966,563	1.65%
OFF-BALANCE SHEET			
Outstanding Balance of Mortgage Loans Sold with Servicing Retained	151,272	147,391	2.63%
Trust Assets Under Management	832,550	797,833	4.35%
SHAREHOLDERS' VALUE (PER COMMON SHARE)			
Net Income - Basic	\$0.31	\$0.35	-11.43%
Net Income - Diluted	\$0.31	\$0.34	-8.82%
Dividends	\$0.26	\$0.26	0.00%
Common Book Value	\$15.51	\$14.87	4.30%
Tangible Common Book Value	\$14.53	\$13.90	4.53%
Market Value (Last Trade)	\$20.18	\$19.71	2.38%
Market Value / Common Book Value	130.11%	132.55%	-1.84%
Market Value / Tangible Common Book Value	138.89%	141.80%	-2.05%
Price Earnings Multiple	16.27	14.08	15.55%
Dividend Yield	5.15%	5.28%	-2.46%
Common Shares Outstanding, End of Period	12,193,184	12,429,000	-1.90%
SAFETY AND SOUNDNESS			
Tangible Common Equity / Tangible Assets	14.28%	14.12%	1.13%
Nonperforming Assets / Total Assets	1.33%	1.44%	-7.64%
Allowance for Loan Losses / Total Loans	1.14%	1.33%	-14.29%
Total Risk Based Capital Ratio (a)	25.86%	27.71%	-6.68%
Tier 1 Risk Based Capital Ratio (a)	24.63%	26.26%	-6.21%
Common Equity Tier 1 Risk Based Capital Ratio (a)	24.63%		
Leverage Ratio (a)	13.86%	14.11%	-1.77%
AVERAGE BALANCES			
Average Assets	\$1,242,025	\$1,218,992	1.89%
Average Equity	\$188,841	\$182,307	3.58%

(a) Capital ratios for the most recent period are estimated. The Common Equity Tier 1 Risk Based Capital Ratio became applicable to the Corporation in the first quarter 2015.

EXHIBIT 99.3 – Supplemental, Unaudited Financial Information



AVAILABLE-FOR-SALE SECURITIES (In Thousands)	March 31, 2015		December 31, 2014	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Obligations of U.S. Government agencies	\$27,205	\$27,025	\$27,221	\$26,676
Obligations of states and political subdivisions:				
Tax-exempt	117,378	122,502	120,086	124,839
Taxable	36,861	37,417	33,637	33,878
Mortgage-backed securities	90,130	92,088	82,479	83,903
Collateralized mortgage obligations, Issued by U.S. Government agencies	238,794	240,077	239,620	238,823
Other collateralized debt obligations	34	34	34	34
Total debt securities	510,402	519,143	503,077	508,153
Marketable equity securities	5,636	8,671	5,605	8,654
Total	\$516,038	\$527,814	\$508,682	\$516,807

Summary of Loans by Type (Excludes Loans Held for Sale) (In Thousands)	March 31, 2015	Dec. 31, 2014	March 31, 2014
Residential mortgage:			
Residential mortgage loans - first liens	\$291,612	\$291,882	\$295,869
Residential mortgage loans - junior liens	20,896	21,166	23,048
Home equity lines of credit	37,049	36,629	34,755
1-4 Family residential construction	16,217	16,739	12,635
Total residential mortgage	365,774	366,416	366,307
Commercial:			
Commercial loans secured by real estate	140,851	145,878	146,569
Commercial and industrial	51,563	50,157	40,477
Political subdivisions	19,479	17,534	10,436
Commercial construction and land	7,249	6,938	14,692
Loans secured by farmland	7,789	7,916	8,602
Multi-family (5 or more) residential	8,673	8,917	10,906
Agricultural loans	3,158	3,221	3,159
Other commercial loans	13,187	13,334	14,343
Total commercial	251,949	253,895	249,184
Consumer	10,622	10,234	10,327
Total	628,345	630,545	625,818
Less: allowance for loan losses	(7,134)	(7,336)	(8,343)
Loans, net	\$621,211	\$623,209	\$617,475

Loans Held for Sale (In Thousands)	March 31, 2015	Dec. 31, 2014	March 31, 2014
Residential mortgage loans originated and serviced - outstanding balance	\$151,486	\$152,505	\$147,524
Less: outstanding balance of loans sold	(151,272)	(152,505)	(147,391)
Loans held for sale, net	\$214	\$0	\$133

ANALYSIS OF THE ALLOWANCE FOR LOAN LOSSES
(In Thousands)

	3 Months Ended March 31, 2015	3 Months Ended Dec. 31, 2014	Year Ended Dec. 31, 2014	3 Months Ended March 31, 2014
Balance, beginning of period	\$7,336	\$7,449	\$8,663	\$8,663
Charge-offs	(222)	(258)	(2,139)	(274)
Recoveries	17	22	336	265
Net charge-offs	(205)	(236)	(1,803)	(9)
Provision (credit) for loan losses	3	123	476	(311)
Balance, end of period	\$7,134	\$7,336	\$7,336	\$8,343

**PAST DUE AND IMPAIRED LOANS, NONPERFORMING ASSETS
AND TROUBLED DEBT RESTRUCTURINGS (TDRs)**
(In Thousands)

	March 31, 2015	Dec 31, 2014	March 31, 2014
Impaired loans with a valuation allowance	\$4,312	\$3,241	\$9,576
Impaired loans without a valuation allowance	8,851	9,075	5,430
Total impaired loans	\$13,163	\$12,316	\$15,006
Total loans past due 30-89 days and still accruing	\$5,722	\$7,121	\$7,650
Nonperforming assets:			
Total nonaccrual loans	\$11,944	\$12,610	\$14,257
Total loans past due 90 days or more and still accruing	3,086	2,843	2,160
Total nonperforming loans	15,030	15,453	16,417
Foreclosed assets held for sale (real estate)	1,583	1,189	1,321
Total nonperforming assets	\$16,613	\$16,642	\$17,738
Loans subject to troubled debt restructurings (TDRs):			
Performing	\$1,872	\$1,807	\$3,020
Nonperforming	5,252	5,388	112
Total TDRs	\$7,124	\$7,195	\$3,132
Total nonperforming loans as a % of loans	2.39%	2.45%	2.62%
Total nonperforming assets as a % of assets	1.33%	1.34%	1.44%
Allowance for loan losses as a % of total loans	1.14%	1.16%	1.33%
Allowance for loan losses as a % of nonperforming loans	47.47%	47.47%	50.82%

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

	3 Months Ended 3/31/2015 Average Balance	Rate of Return/ Cost of Funds %	3 Months Ended 12/31/2014 Average Balance	Rate of Return/ Cost of Funds %	3 Months Ended 3/31/2014 Average Balance	Rate of Return/ Cost of Funds %
EARNING ASSETS						
Available-for-sale securities, at amortized cost:						
Taxable	\$388,104	2.15%	\$383,802	2.10%	\$345,663	2.22%
Tax-exempt	\$117,674	5.35%	121,735	5.22%	126,030	5.45%
Total available-for-sale securities	505,778	2.90%	505,537	2.85%	471,693	3.08%
Interest-bearing due from banks	26,994	0.39%	31,655	0.39%	30,099	0.40%
Loans held for sale	89	9.11%	151	7.88%	119	10.22%
Loans receivable:						
Taxable	582,498	5.37%	587,675	5.40%	595,514	5.45%
Tax-exempt	41,925	5.15%	39,909	5.28%	39,662	5.82%
Total loans receivable	624,423	5.35%	627,584	5.40%	635,176	5.47%
Total Earning Assets	1,157,284	4.16%	1,164,927	4.16%	1,137,087	4.35%
Cash	16,127		16,310		16,299	
Unrealized gain/loss on securities	10,626		8,222		2,752	
Allowance for loan losses	(7,391)		(7,476)		(8,780)	
Bank premises and equipment	16,252		16,415		17,283	
Intangible Asset - Core Deposit Intangible	50		58		83	
Intangible Asset - Goodwill	11,942		11,942		11,942	
Other assets	37,135		38,442		42,326	
Total Assets	\$1,242,025		\$1,248,840		\$1,218,992	
INTEREST-BEARING LIABILITIES						
Interest-bearing deposits:						
Interest checking	\$191,705	0.12%	\$190,681	0.11%	\$179,617	0.12%
Money market	194,834	0.15%	198,999	0.14%	195,596	0.14%
Savings	127,853	0.10%	122,955	0.10%	118,529	0.10%
Certificates of deposit	122,007	0.71%	128,750	0.73%	134,833	0.87%
Individual Retirement Accounts	113,806	0.40%	116,672	0.40%	122,389	0.38%
Other time deposits	803	0.00%	677	0.59%	812	0.00%
Total interest-bearing deposits	751,008	0.26%	758,734	0.27%	751,776	0.30%
Borrowed funds:						
Short-term	6,017	0.07%	6,886	0.12%	10,049	0.20%
Long-term	73,020	4.03%	73,092	4.03%	73,300	4.03%
Total borrowed funds	79,037	3.73%	79,978	3.69%	83,349	3.57%
Total Interest-bearing Liabilities	830,045	0.59%	838,712	0.59%	835,125	0.63%
Demand deposits	215,019		213,230		193,402	
Other liabilities	8,120		9,144		8,158	
Total Liabilities	1,053,184		1,061,086		1,036,685	
Stockholders' equity, excluding accumulated other comprehensive income/loss						
Accumulated other comprehensive income/loss	181,944		182,336		180,440	
Accumulated other comprehensive income/loss	6,897		5,418		1,867	
Total Stockholders' Equity	188,841		187,754		182,307	
Total Liabilities and Stockholders' Equity	\$1,242,025		\$1,248,840		\$1,218,992	
Interest Rate Spread		3.57%		3.57%		3.72%
Net Interest Income/Earning Assets		3.74%		3.73%		3.89%
Total Deposits (Interest-bearing and Demand)	\$966,027		\$971,964		\$945,178	

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

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

COMPARISON OF NONINTEREST INCOME**(In Thousands)****Three Months Ended**

	March 31, 2015	Dec. 31, 2014	March 31, 2014
Service charges on deposit accounts	\$1,022	\$1,213	\$1,223
Service charges and fees	113	133	127
Trust and financial management revenue	1,114	1,165	1,047
Brokerage revenue	219	219	227
Insurance commissions, fees and premiums	40	15	32
Interchange revenue from debit card transactions	474	485	453
Net gains from sales of loans	147	211	151
(Decrease) increase in fair value of servicing rights	(117)	(62)	105
Increase in cash surrender value of life insurance	97	98	88
Other operating income	378	325	298
Total noninterest income, before realized gains on available-for-sale securities, net	\$3,487	\$3,802	\$3,751

COMPARISON OF NONINTEREST EXPENSE**(In Thousands)****Three Months Ended**

	March 31, 2015	Dec. 31, 2014	March 31, 2014
Salaries and wages	\$3,487	\$3,562	\$3,565
Pensions and other employee benefits	1,385	1,206	1,319
Occupancy expense, net	722	626	715
Furniture and equipment expense	454	460	472
FDIC assessments	151	156	147
Pennsylvania shares tax	249	336	341
Professional fees	122	272	148
Automated teller machine and interchange expense	246	256	211
Software subscriptions	197	209	190
Other operating expense	1,451	1,167	1,416
Total noninterest expense	\$8,464	\$8,250	\$8,524