



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

December 31, 2013

QUARTERLY REPORT

Dear Shareholder:

Citizens & Northern Bank completed 2013 with net income of \$18,594,000, a Return on Average Assets (ROAA) of 1.50% and Return on Average Equity of (ROAE) of 10.25%. While the financial results for the past year are lower than the prior year they remain near the top of our peer group. Fourth quarter 2013 net income of \$4,225,000 was significantly impacted by establishing an allowance of \$1,552,000 on loans to one commercial customer. As reported previously, margin compression continues to challenge our industry as have regulatory changes that affect non-interest income. We continue to aggressively control non-interest expense while pursuing opportunities for additional top-line revenue.

The balance sheet continued to remain relatively flat as the low interest rate environment provided few opportunities to expand the balance sheet without taking undue risk. Trust Assets Under Management (TAUM) increased 12.46% over the past year and the Trust and Financial Management Group revenue grew 4.8%.

Our stock (CZNC) closed the year at \$20.63, up 9.15% over the prior year. Dividends were increased to \$1.00 per share which represents an increase of 19.05% over the prior year.

Your Board of Directors, officers and employees continue our mission to deliver superior customer service while enhancing shareholder value. As shareholders, we respectfully request your continued support.

Charles H. Updegraff, Jr.
Chairman, President & CEO

**CITIZENS & NORTHERN CORPORATION
BOARD OF DIRECTORS**

Charles H. Updegraff, Jr. - Chairman

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

Raymond R. Mattie
Edward H. Owlett, III
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, **Canisteo**, NY 14823
10 N Main Street, **Coudersport**, PA 16915
1827 Elmira Street, **Sayre**, PA 18840
428 Main Street, **Towanda**, PA 18848
90-92 Main Street, **Wellsboro**, PA 16901
130 Court Street, **WilliamSPORT**, PA 17701

607-698-4295
800-921-9150
888-760-8192
888-987-8784
888-487-8784
866-732-7213

ACCOUNT SERVICES - 90-92 Main St., Wellsboro, PA 16901
BANKCARD SERVICES - 90-92 Main St., Wellsboro PA 16901
ELECTRONIC BANKING – 10 Nichols St., Wellsboro, PA 16901

800-577-8001
877-838-2517

www.cnbankpa.com

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

866-ASK-CNFS

www.cnfinancialservices.com

CONDENSED, CONSOLIDATED EARNINGS INFORMATION

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

	4TH QUARTER 2013 (Current)	3RD QUARTER 2013 (Prior Qtr)	4TH QUARTER 2012 (Prior Yr)	YEARS ENDED DECEMBER 31, 2013 (Current)	2012 (Prior Yr)
Interest and Dividend Income	\$11,885	\$12,027	\$13,491	\$48,914	\$56,632
Interest Expense	1,354	1,396	1,900	5,765	9,031
Net Interest Income	10,531	10,631	11,591	43,149	47,601
Provision (Credit) for Loan Losses	1,559	239	(133)	2,047	288
Net Interest Income After Provision (Credit) for Loan Losses	8,972	10,392	11,724	41,102	47,313
Other Income	4,124	4,293	4,327	16,451	16,383
Net Gains on Available-for-sale Securities	266	193	51	1,718	2,682
Loss on Prepayment of Borrowings	0	0	0	1,023	2,333
Other Noninterest Expenses	7,788	8,610	7,954	33,471	32,914
Income Before Income Tax Provision	5,574	6,268	8,148	24,777	31,131
Income Tax Provision	1,349	1,579	2,209	6,183	8,426
Net Income	\$4,225	\$4,689	\$5,939	\$18,594	\$22,705

PER COMMON SHARE DATA:

Net Income - Basic	\$0.34	\$0.38	\$0.48	\$1.51	\$1.86
Net Income - Diluted	\$0.34	\$0.38	\$0.48	\$1.50	\$1.85
Dividend Per Share	\$0.25	\$0.25	\$0.24	\$1.00	\$0.84
Number Shares Used in Computation - Basic	12,381,093	12,363,887	12,265,100	12,352,383	12,235,748
Number Shares Used in Computation - Diluted	12,415,745	12,396,902	12,283,702	12,382,790	12,260,208

CONDENSED, CONSOLIDATED BALANCE SHEET DATA

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

	DEC. 31, 2013	SEPT. 30, 2013	DEC. 31, 2012
ASSETS			
Cash & Due from Banks	\$44,619	\$43,247	\$59,836
Available-for-sale Securities	482,658	475,650	472,577
Loans Held for Sale	54	801	2,545
Loans, Net	635,640	641,345	677,053
Intangible Assets	12,029	12,042	12,080
Other Assets	62,695	59,867	62,816
TOTAL ASSETS	\$1,237,695	\$1,232,952	\$1,286,907

LIABILITIES

Deposits	\$954,516	\$963,465	\$1,006,106
Repo Sweep Accounts	3,385	4,833	5,567
Total Deposits and Repo Sweeps	957,901	968,298	1,011,673
Borrowed Funds	93,338	73,405	83,812
Other Liabilities	6,984	10,043	8,636
TOTAL LIABILITIES	1,058,223	1,051,746	1,104,121

SHAREHOLDERS' EQUITY

Common Shareholders' Equity, Excluding Accumulated			
Other Comprehensive Income (Loss)	180,465	178,838	171,783
Accumulated Other Comprehensive Income (Loss):			
Net Unrealized Gains/Losses on			
Available-for-sale Securities	(1,004)	2,520	11,568
Defined Benefit Plans	11	(152)	(565)
TOTAL SHAREHOLDERS' EQUITY	179,472	181,206	182,786
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY	\$1,237,695	\$1,232,952	\$1,286,907

CONDENSED, CONSOLIDATED FINANCIAL HIGHLIGHTS

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

	YEARS ENDED DECEMBER 31,		% INCREASE
	<u>2013</u>	<u>2012</u>	<u>(DECREASE)</u>
EARNINGS PERFORMANCE			
Net Income	\$18,594	\$22,705	-18.11%
Return on Average Assets	1.50%	1.74%	-13.79%
Return on Average Equity	10.25%	12.91%	-20.60%
BALANCE SHEET HIGHLIGHTS			
Total Assets	\$1,237,695	\$1,286,907	-3.82%
Available-for-Sale Securities	482,658	472,577	2.13%
Loans (Net)	635,640	677,053	-6.12%
Allowance for Loan Losses	8,663	6,857	26.34%
Deposits and Repo Sweep Accounts	957,901	1,011,673	-5.32%
OFF-BALANCE SHEET			
Outstanding Balance of Mortgage Loans Sold with Servicing Retained	145,954	100,631	45.04%
Trust Assets Under Management	796,115	707,912	12.46%
SHAREHOLDERS' VALUE (PER COMMON SHARE)			
Net Income - Basic	\$1.51	\$1.86	-18.82%
Net Income - Diluted	\$1.50	\$1.85	-18.92%
Dividends	\$1.00	\$0.84	19.05%
Common Book Value	\$14.49	\$14.89	-2.69%
Tangible Common Book Value	\$13.51	\$13.91	-2.88%
Market Value (Last Trade)	\$20.63	\$18.90	9.15%
Market Value / Common Book Value	142.37%	126.93%	12.17%
Market Value / Tangible Common Book Value	152.70%	135.87%	12.39%
Price Earnings Multiple	13.66	10.16	34.45%
Dividend Yield	4.85%	4.44%	9.23%
Common Shares Outstanding, End of Period	12,390,063	12,274,035	0.95%
SAFETY AND SOUNDNESS			
Tangible Common Equity / Tangible Assets	13.66%	13.39%	2.02%
Nonperforming Assets / Total Assets	1.53%	0.82%	86.59%
Allowance for Loan Losses / Total Loans	1.34%	1.00%	34.00%
Total Risk Based Capital Ratio (a)	26.59%	24.01%	10.75%
Tier 1 Risk Based Capital Ratio (a)	25.10%	22.86%	9.80%
Leverage Ratio (a)	13.79%	12.53%	10.06%
AVERAGE BALANCES			
Average Assets	\$1,237,096	\$1,305,163	-5.22%
Average Equity	\$181,412	\$175,822	3.18%

(a) Capital ratios for the most recent period are estimated.


CITIZENS & NORTHERN CORPORATION

AVAILABLE-FOR-SALE SECURITIES (In Thousands)	December 31, 2013		September 30, 2013		December 31, 2012	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Obligations of U.S. Government agencies	\$47,382	\$45,877	\$47,445	\$46,384	\$30,695	\$31,217
Obligations of states and political subdivisions:						
Tax-exempt	127,748	128,426	129,884	131,096	130,168	137,020
Taxable	35,153	34,471	31,582	31,211	24,426	24,817
Mortgage-backed securities	84,849	86,208	80,190	82,354	76,368	80,196
Collateralized mortgage obligations,						
Issued by U.S. Government agencies	182,373	178,092	176,208	175,078	179,770	183,510
Trust preferred securities issued by individual institutions	0	0	0	0	5,167	5,171
Collateralized debt obligations:						
Pooled trust preferred securities - senior tranches	0	0	0	0	1,615	1,613
Other collateralized debt obligations	660	660	660	660	660	660
Total debt securities	478,165	473,734	465,969	466,783	448,869	464,204
Marketable equity securities	6,038	8,924	5,802	8,867	5,912	8,373
Total	\$484,203	\$482,658	\$471,771	\$475,650	\$454,781	\$472,577

**Summary of Loans by Type
(Excludes Loans Held for Sale)**

(In Thousands)	Dec. 31, 2013	Sept. 30, 2013	Dec. 31, 2012
Residential mortgage:			
Residential mortgage loans - first liens	\$299,831	\$301,794	\$311,627
Residential mortgage loans - junior liens	23,040	24,079	26,748
Home equity lines of credit	34,530	34,360	33,017
1-4 Family residential construction	13,909	15,746	12,842
Total residential mortgage	371,310	375,979	384,234
Commercial:			
Commercial loans secured by real estate	147,215	151,602	158,413
Commercial and industrial	42,387	44,312	48,442
Political subdivisions	16,291	13,905	31,789
Commercial construction and land	17,003	21,630	28,200
Loans secured by farmland	10,468	10,711	11,403
Multi-family (5 or more) residential	10,985	5,994	6,745
Agricultural loans	3,251	3,085	3,053
Other commercial loans	14,631	9,858	362
Total commercial	262,231	261,097	288,407
Consumer	10,762	11,399	11,269
Total	644,303	648,475	683,910
Less: allowance for loan losses	(8,663)	(7,130)	(6,857)
Loans, net	\$635,640	\$641,345	\$677,053

Loans Held for Sale**(In Thousands)**

	Dec. 31, 2013	Sept. 30, 2013	Dec 31, 2012
Residential mortgage loans originated and serviced - outstanding balance	\$146,008	\$138,875	\$103,176
Less: outstanding balance of loans sold	(145,954)	(138,074)	(100,631)
Loans held for sale, net	\$54	\$801	\$2,545

ANALYSIS OF THE ALLOWANCE FOR LOAN LOSSES**(In Thousands)**

	3 Months Ended Dec. 31, 2013	3 Months Ended Sept. 30, 2013	Year Ended Dec. 31, 2013	Year Ended Dec. 31, 2012
Balance, beginning of period	\$7,130	\$7,198	\$6,857	\$7,705
Charge-offs	(52)	(374)	(671)	(1,221)
Recoveries	26	67	430	85
Net charge-offs	(26)	(307)	(241)	(1,136)
Provision for loan losses	1,559	239	2,047	288
Balance, end of period	\$8,663	\$7,130	\$8,663	\$6,857

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

	Dec 31, 2013	Sept. 30, 2013	Dec 31, 2012
Impaired loans with a valuation allowance	\$9,889	\$4,553	\$2,710
Impaired loans without a valuation allowance	6,432	5,703	4,719
Total impaired loans	\$16,321	\$10,256	\$7,429

Total loans past due 30-89 days and still accruing	\$8,305	\$7,260	\$7,756
---	----------------	----------------	----------------

Nonperforming assets:

Total nonaccrual loans	\$14,934	\$6,760	\$7,353
Total loans past due 90 days or more and still accruing	3,131	2,668	2,311
Total nonperforming loans	18,065	9,428	9,664
Foreclosed assets held for sale (real estate)	892	776	879
Total nonperforming assets	\$18,957	\$10,204	\$10,543

Loans subject to troubled debt restructurings (TDRs):

Performing	\$3,267	\$1,720	\$906
Nonperforming	908	1,366	1,155
Total TDRs	\$4,175	\$3,086	\$2,061

Total nonperforming loans as a % of loans	2.80%	1.45%	1.41%
Total nonperforming assets as a % of assets	1.53%	0.83%	0.82%
Allowance for loan losses as a % of total loans	1.34%	1.10%	1.00%
Allowance for loan losses as a % of nonperforming loans	47.95%	75.63%	70.95%

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

	3 Months Ended 12/31/2013 Average Balance	Rate of Return/ Cost of Funds %	3 Months Ended 9/30/2013 Average Balance	Rate of Return/ Cost of Funds %	3 Months Ended 12/31/2012 Average Balance	Rate of Return/ Cost of Funds %
EARNING ASSETS						
Available-for-sale securities, at amortized cost:						
Taxable	\$349,203	2.11%	\$335,439	2.04%	\$327,726	2.32%
Tax-exempt	129,192	5.36%	130,831	5.48%	132,495	5.86%
Total available-for-sale securities	478,395	2.99%	466,270	3.00%	460,221	3.34%
Interest-bearing due from banks	27,201	0.42%	24,795	0.40%	23,861	0.40%
Federal funds sold	0	0.00%	0	0.00%	0	0.00%
Loans held for sale	480	5.79%	1,032	5.38%	3,204	4.10%
Loans receivable:						
Taxable	605,234	5.56%	615,318	5.64%	656,020	5.97%
Tax-exempt	37,466	5.78%	34,712	5.87%	39,676	5.99%
Total loans receivable	642,700	5.58%	650,030	5.65%	695,696	5.97%
Total Earning Assets	1,148,776	4.38%	1,142,127	4.46%	1,182,982	4.83%
Cash	16,661		17,698		17,482	
Unrealized gain/loss on securities	3,937		1,688		18,983	
Allowance for loan losses	(7,201)		(7,258)		(7,849)	
Bank premises and equipment	17,673		17,950		18,911	
Intangible Asset - Core Deposit Intangible	95		105		149	
Intangible Asset - Goodwill	11,942		11,942		11,942	
Other assets	41,898		43,690		44,146	
Total Assets	\$1,233,781		\$1,227,942		\$1,286,746	
INTEREST-BEARING LIABILITIES						
Interest-bearing deposits:						
Interest checking	\$185,502	0.12%	\$172,010	0.12%	\$169,782	0.12%
Money market	200,346	0.14%	205,168	0.14%	208,463	0.15%
Savings	117,975	0.10%	116,474	0.10%	110,645	0.10%
Certificates of deposit	139,601	0.92%	144,689	0.99%	186,238	1.43%
Individual Retirement Accounts	125,166	0.39%	127,526	0.40%	137,565	0.58%
Other time deposits	682	0.00%	1,556	0.25%	738	0.00%
Total interest-bearing deposits	769,272	0.31%	767,423	0.33%	813,431	0.50%
Borrowed funds:						
Short-term	7,784	0.15%	7,944	0.15%	8,877	0.18%
Long-term	73,369	4.03%	73,436	4.03%	86,362	4.00%
Total borrowed funds	81,153	3.66%	81,380	3.65%	95,239	3.64%
Total Interest-bearing Liabilities	850,425	0.63%	848,803	0.65%	908,670	0.83%
Demand deposits	191,509		191,393		187,748	
Other liabilities	10,082		10,030		9,086	
Total Liabilities	1,052,016		1,050,226		1,105,504	
Stockholders' equity, excluding						
other comprehensive income/loss	179,356		176,772		169,346	
Other comprehensive income/loss	2,409		944		11,896	
Total Stockholders' Equity	181,765		177,716		181,242	
Total Liabilities and Stockholders' Equity	\$1,233,781		\$1,227,942		\$1,286,746	
Interest Rate Spread		3.75%		3.81%		4.00%
Net Interest Income/Earning Assets		3.91%		3.97%		4.19%
Total Deposits (Interest-bearing and Demand)	\$960,781		\$958,816		\$1,001,179	

(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.

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

	Year Ended 12/31/2013 Average Balance	Rate of Return/ Cost of Funds %	Year Ended 12/31/2012 Average Balance	Rate of Return/ Cost of Funds %
EARNING ASSETS				
Available-for-sale securities, at amortized cost:				
Taxable	\$330,980	2.15%	\$332,911	2.80%
Tax-exempt	130,584	5.59%	131,438	5.88%
Total available-for-sale securities	461,564	3.12%	464,349	3.67%
Interest-bearing due from banks	26,159	0.40%	32,337	0.35%
Federal funds sold	4	0.00%	0	0.00%
Loans held for sale	1,118	4.83%	2,611	4.10%
Loans receivable:				
Taxable	620,412	5.72%	662,751	6.10%
Tax-exempt	36,083	5.83%	37,490	6.24%
Total loans receivable	656,495	5.73%	700,241	6.11%
Total Earning Assets	1,145,340	4.55%	1,199,538	5.01%
Cash	16,854		17,408	
Unrealized gain/loss on securities	8,875		18,444	
Allowance for loan losses	(7,204)		(7,688)	
Bank premises and equipment	18,154		18,956	
Intangible Asset - Core Deposit Intangible	113		176	
Intangible Asset - Goodwill	11,942		11,942	
Other assets	43,022		46,387	
Total Assets	\$1,237,096		\$1,305,163	
INTEREST-BEARING LIABILITIES				
Interest-bearing deposits:				
Interest checking	\$174,790	0.12%	\$163,840	0.13%
Money market	203,023	0.14%	208,814	0.17%
Savings	117,055	0.10%	108,218	0.10%
Certificates of deposit	148,598	1.02%	194,175	1.55%
Individual Retirement Accounts	129,255	0.43%	142,315	0.80%
Other time deposits	1,062	0.09%	1,191	0.08%
Total interest-bearing deposits	773,783	0.35%	818,553	0.59%
Borrowed funds:				
Short-term	6,422	0.14%	6,831	0.15%
Long-term	75,906	4.02%	105,220	4.00%
Total borrowed funds	82,328	3.72%	112,051	3.77%
Total Interest-bearing Liabilities	856,111	0.67%	930,604	0.97%
Demand deposits	190,248		189,916	
Other liabilities	9,325		8,821	
Total Liabilities	1,055,684		1,129,341	
Stockholders' equity, excluding other comprehensive income/loss				
	175,893		164,316	
Other comprehensive income/loss	5,519		11,506	
Total Stockholders' Equity	181,412		175,822	
Total Liabilities and Stockholders' Equity	\$1,237,096		\$1,305,163	
Interest Rate Spread		3.88%		4.04%
Net Interest Income/Earning Assets		4.05%		4.26%
Total Deposits (Interest-bearing and Demand)	\$964,031		\$1,008,469	

(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			Year Ended	
	Dec. 31,	Sept. 30,	Dec. 31,	Dec. 31,	Dec. 31,
	2013	2013	2012	2013	2012
Service charges on deposit accounts	\$1,355	\$1,281	\$1,329	\$4,966	\$5,036
Service charges and fees	219	241	235	877	929
Trust and financial management revenue	1,065	1,033	1,085	4,087	3,847
Brokerage revenue	198	205	148	784	801
Insurance commissions, fees and premiums	34	32	52	170	221
Interchange revenue from debit card transactions	488	484	478	1,941	1,938
Net gains from sales of loans	435	624	662	2,191	1,925
Increase in cash surrender value of life insurance	98	109	108	399	455
Net (loss) gain from premises and equipment	(30)	14	(1)	(16)	270
Other operating income	262	270	231	1,052	961
Total other operating income, before realized gains on available-for-sale securities, net	\$4,124	\$4,293	\$4,327	\$16,451	\$16,383

COMPARISON OF NONINTEREST EXPENSE**(In Thousands)**

	Three Months Ended			Year Ended	
	Dec. 31,	Sept. 30,	Dec. 31,	Dec. 31,	Dec. 31,
	2013	2013	2012	2013	2012
Salaries and wages	\$3,435	\$3,536	\$3,615	\$14,206	\$14,370
Pensions and other employee benefits	985	876	1,059	4,150	4,497
Occupancy expense, net	614	626	602	2,473	2,476
Furniture and equipment expense	484	487	469	1,948	1,887
FDIC Assessments	154	151	165	604	633
Pennsylvania shares tax	351	350	301	1,402	1,312
Other operating expense	1,765	2,584	1,743	8,688	7,739
Total noninterest expense, before loss on prepayment of borrowings	7,788	8,610	7,954	33,471	32,914
Loss on prepayment of borrowings	0	0	0	1,023	2,333
Total Noninterest Expense	\$7,788	\$8,610	\$7,954	\$34,494	\$35,247