

 **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, 2014

QUARTERLY REPORT

Dear Shareholder:

Net income of \$4,288,000 during the first quarter of 2014 remained strong as evidenced by a Return on Average Assets (ROAA) 1.41%. First quarter 2014 net income was 8.88% less than the first quarter of 2013, but 1.49% higher than the fourth quarter of 2013. Our first quarter 2014 earnings include the benefit of a credit for loan losses of \$311,000 resulting from a reduction in estimated allowances required on impaired loans as well as lower total loans outstanding, but also include the negative effect of lower gains from sales of mortgage loans (down \$164,000 from the fourth quarter 2013 and \$353,000 from the first quarter 2013). The lower volume of mortgage loans sold in the first quarter resulted from challenging market conditions, including higher long-term interest rates and difficult winter weather throughout our market area. Earnings continue to be challenged by margin compression, regulatory pressure on non-interest income and increased compliance costs as a result of the Dodd-Frank legislation.

Over the past year the balance sheet remained relatively flat as the continued low interest rate environment and weak loan demand provided few opportunities to expand the balance sheet without taking undue risk. Net loans have declined \$42,153,000 over the past year; however the outstanding balance of mortgage loans sold with servicing retained increased \$33,257,000. Total deposits and repo sweep accounts decreased by \$6,048,000 or 0.62% over the last twelve months. Trust Assets Under Management (TAUM) grew to \$797,833,000 or 8.21% over the past year. The growth was a combination of market appreciation and new business development.

All of our capital ratios remain above the regulatory defined “well capitalized” levels. Our strong earnings performance and capital position has allowed us to steadily increase the dividend over the past several years. During the first quarter we paid a dividend of 26 cents per share which represents a 4.00% increase over the first quarter of 2013. Our challenge remains finding suitable investments to leverage our excess capital.

As shareholders, we continue to solicit your support and stand willing to answer any concern you may have.

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

**CITIZENS & NORTHERN CORPORATION
BOARD OF DIRECTORS**

Dennis F. Beardslee

Charles H. Updegraff, Jr. - Chairman

Raymond R. Mattie

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

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	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

ACCOUNT SERVICES - 90-92 Main St., Wellsboro, PA 16901	
BANKCARD SERVICES - 90-92 Main St., Wellsboro PA 16901	800-577-8001
ELECTRONIC BANKING – 10 Nichols St., Wellsboro, PA 16901	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)

	1ST QUARTER 2014 <u>(Current)</u>	4TH QUARTER 2013 <u>(Prior Qtr)</u>	1ST QUARTER 2013 <u>(Prior Yr)</u>
Interest and Dividend Income	\$11,406	\$11,885	\$12,647

Interest Expense	1,288	1,354	1,600
Net Interest Income	10,118	10,531	11,047
(Credit) Provision for Loan Losses	(311)	1,559	183
Net Interest Income After Provision (Credit) for Loan Losses	10,429	8,972	10,864
Other Income	3,751	4,124	3,843
Net Gains on Available-for-sale Securities	31	266	1,159
Loss on Prepayment of Borrowings	0	0	1,023
Other Noninterest Expenses	8,524	7,788	8,553
Income Before Income Tax Provision	5,687	5,574	6,290
Income Tax Provision	1,399	1,349	1,584
Net Income	\$4,288	\$4,225	\$4,706

PER COMMON SHARE DATA:

Net Income – Basic	\$0.35	\$0.34	\$0.38
Net Income – Diluted	\$0.34	\$0.34	\$0.38
Dividend Per Share	\$0.26	\$0.25	\$0.25
Number Shares Used in Computation - Basic	12,417,627	12,381,093	12,321,014
Number Shares Used in Computation - Diluted	12,444,797	12,415,745	12,349,264

CONDENSED, CONSOLIDATED BALANCE SHEET DATA

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

	MAR. 31, 2014	DEC. 31, 2013	MAR. 31, 2013
ASSETS			
Cash & Due from Banks	\$61,087	\$44,619	\$45,069
Available-for-sale Securities	484,014	482,658	459,855
Loans Held for Sale	133	54	799
Loans, Net	617,475	635,640	659,628
Intangible Assets	12,020	12,029	12,067
Other Assets	60,410	62,695	62,903
TOTAL ASSETS	\$1,235,139	\$1,237,695	\$1,240,321
LIABILITIES			
Deposits	\$961,833	\$954,516	\$967,974
Repo Sweep Accounts	4,730	3,385	4,637
Total Deposits and Repo Sweeps	966,563	957,901	972,611
Borrowed Funds	73,270	93,338	76,661
Other Liabilities	10,544	6,984	7,841
TOTAL LIABILITIES	1,050,377	1,058,223	1,057,113
SHAREHOLDERS' EQUITY			
Common Shareholders' Equity, Excluding Accumulated Other Comprehensive Income (Loss)	182,220	180,465	174,137
Accumulated Other Comprehensive Income (Loss):			
Net Unrealized Gains/Losses on Available-for-sale Securities	2,442	(1,004)	9,223
Defined Benefit Plans	100	11	(152)
TOTAL SHAREHOLDERS' EQUITY	184,762	179,472	183,208
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY	\$1,235,139	\$1,237,695	\$1,240,321

CONDENSED, CONSOLIDATED FINANCIAL HIGHLIGHTS

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

	3 MONTHS ENDED MARCH 31,		%
	2014	2013	INCREASE (DECREASE)
EARNINGS PERFORMANCE			
Net Income	\$4,288	\$4,706	-8.88%

Return on Average Assets	1.41%	1.50%	-6.00%
Return on Average Equity	9.41%	10.31%	-8.73%

BALANCE SHEET HIGHLIGHTS

Total Assets	\$1,235,139	\$1,240,321	-0.42%
Available-for-Sale Securities	484,014	459,855	5.25%
Loans (Net)	617,475	659,628	-6.39%
Allowance for Loan Losses	8,343	7,118	17.21%
Deposits and Repo Sweep Accounts	966,563	972,611	-0.62%

OFF-BALANCE SHEET

Outstanding Balance of Mortgage Loans Sold with Servicing Retained	147,391	114,134	29.14%
Trust Assets Under Management	797,833	737,298	8.21%

SHAREHOLDERS' VALUE (PER COMMON SHARE)

Net Income - Basic	\$0.35	\$0.38	-7.89%
Net Income - Diluted	\$0.34	\$0.38	-10.53%
Dividends	\$0.26	\$0.25	4.00%
Common Book Value	\$14.87	\$14.86	0.07%
Tangible Common Book Value	\$13.90	\$13.88	0.14%
Market Value (Last Trade)	\$19.71	\$19.50	1.08%
Market Value / Common Book Value	132.55%	131.22%	1.01%
Market Value / Tangible Common Book Value	141.80%	140.49%	0.93%
Price Earnings Multiple	14.08	12.83	9.74%
Dividend Yield	5.28%	5.13%	2.92%
Common Shares Outstanding, End of Period	12,429,000	12,331,654	0.79%

SAFETY AND SOUNDNESS

Tangible Common Equity / Tangible Assets	14.12%	13.93%	1.36%
Nonperforming Assets / Total Assets	1.44%	0.83%	73.49%
Allowance for Loan Losses / Total Loans	1.33%	1.07%	24.30%
Total Risk Based Capital Ratio (a)	27.40%	25.05%	9.38%
Tier 1 Risk Based Capital Ratio (a)	25.95%	23.83%	8.90%
Leverage Ratio (a)	14.11%	13.15%	7.30%

AVERAGE BALANCES

Average Assets	\$1,218,992	\$1,251,679	-2.61%
Average Equity	\$182,307	\$182,605	-0.16%

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

EXHIBIT 99.3 – Supplemental, Unaudited Financial Information



(In Thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Obligations of U.S. Government agencies	\$29,667	\$28,523	\$47,382	\$45,877
Obligations of states and political subdivisions:				
Tax-exempt	124,282	127,179	127,748	128,426
Taxable	33,833	33,624	35,153	34,471
Mortgage-backed securities	91,178	92,930	84,849	86,208
Collateralized mortgage obligations,				
Issued by U.S. Government agencies	194,508	192,066	182,373	178,092
Trust preferred securities issued by individual institutions	0	0	0	0
Collateralized debt obligations:				
Pooled trust preferred securities - senior tranches	0	0	0	0
Other collateralized debt obligations	660	660	660	660
Total debt securities	474,128	474,982	478,165	473,734
Marketable equity securities	6,128	9,032	6,038	8,924
Total	\$480,256	\$484,014	\$484,203	\$482,658

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

(In Thousands)	Mar. 31, 2014	Dec. 31, 2013	Mar. 31, 2013
Residential mortgage:			
Residential mortgage loans - first liens	\$295,869	\$299,831	\$306,754
Residential mortgage loans - junior liens	23,048	23,040	25,567
Home equity lines of credit	34,755	34,530	32,237
1-4 Family residential construction	12,635	13,909	12,032
Total residential mortgage	366,307	371,310	376,590
Commercial:			
Commercial loans secured by real estate	146,569	147,215	155,474
Commercial and industrial	40,477	42,387	47,031
Political subdivisions	10,436	16,291	27,366
Commercial construction and land	14,692	17,003	28,461
Loans secured by farmland	8,602	10,468	11,214
Multi-family (5 or more) residential	10,906	10,985	6,478
Agricultural loans	3,159	3,251	2,864
Other commercial loans	14,343	14,631	238
Total commercial	249,184	262,231	279,126
Consumer	10,327	10,762	11,030
Total	625,818	644,303	666,746
Less: allowance for loan losses	(8,343)	(8,663)	(7,118)
Loans, net	\$617,475	\$635,640	\$659,628

Loans Held for Sale

(In Thousands)	Mar. 31, 2014	Dec. 31, 2013	Mar. 31, 2013
Residential mortgage loans originated and serviced - outstanding balance	\$147,524	\$146,008	\$114,933
Less: outstanding balance of loans sold	(147,391)	(145,954)	(114,134)

Loans held for sale, net	\$133	\$54	\$799
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ANALYSIS OF THE ALLOWANCE FOR LOAN LOSSES

(In Thousands)

	3 Months Ended Mar. 31, 2014	3 Months Ended Dec. 31, 2013	Year Ended Dec. 31, 2013	3 Months Ended Mar. 31 2013
Balance, beginning of period	\$8,663	\$7,130	\$6,857	\$6,857
Charge-offs	(274)	(52)	(671)	(193)
Recoveries	265	26	430	271
Net charge-offs	(9)	(26)	(241)	78
(Credit) provision for loan losses	(311)	1,559	2,047	183
Balance, end of period	\$8,343	\$8,663	\$8,663	\$7,118

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

(In Thousands)

	Mar. 31, 2014	Dec 31, 2013	Mar. 31, 2013
Impaired loans with a valuation allowance	\$9,576	\$9,889	\$2,722
Impaired loans without a valuation allowance	5,430	6,432	4,751
Total impaired loans	\$15,006	\$16,321	\$7,473
Total loans past due 30-89 days and still accruing	\$7,650	\$8,305	\$6,366
Nonperforming assets:			
Total nonaccrual loans	\$14,257	\$14,934	\$7,090
Total loans past due 90 days or more and still accruing	2,160	3,131	2,351
Total nonperforming loans	16,417	18,065	9,441
Foreclosed assets held for sale (real estate)	1,321	892	915
Total nonperforming assets	\$17,738	\$18,957	\$10,356
Loans subject to troubled debt restructurings (TDRs):			
Performing	\$3,020	\$3,267	\$829
Nonperforming	112	908	1,338
Total TDRs	\$3,132	\$4,175	\$2,167
Total nonperforming loans as a % of loans	2.62%	2.80%	1.42%
Total nonperforming assets as a % of assets	1.44%	1.53%	0.83%
Allowance for loan losses as a % of total loans	1.33%	1.34%	1.07%
Allowance for loan losses as a % of nonperforming loans	50.82%	47.95%	75.39%

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

3 Months Ended 3/31/2014 Average Balance	Rate of Return/ Cost of Funds	3 Months Ended 12/31/2013 Average Balance	Rate of Return/ Cost of Funds	3 Months Ended 3/31/2013 Average Balance	Rate of Return/ Cost of Funds
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		%		%		%
EARNING ASSETS						
Available-for-sale securities, at amortized cost:						
Taxable	\$345,663	2.22%	\$349,203	2.11%	\$315,612	2.31%
Tax-exempt	\$126,030	5.45%	129,192	5.36%	130,123	5.75%
Total available-for-sale securities	471,693	3.08%	478,395	2.99%	445,735	3.32%
Interest-bearing due from banks	30,099	0.40%	27,201	0.42%	29,638	0.38%
Federal funds sold	0	0.00%	0	0.00%	15	0.00%
Loans held for sale	119	10.22%	480	5.79%	2,193	3.88%
Loans receivable:						
Taxable	595,514	5.45%	605,234	5.56%	636,278	5.88%
Tax-exempt	39,662	5.82%	37,466	5.78%	38,491	5.81%
Total loans receivable	635,176	5.47%	642,700	5.58%	674,769	5.88%
Total Earning Assets	1,137,087	4.35%	1,148,776	4.38%	1,152,350	4.74%
Cash	16,299		16,661		16,080	
Unrealized gain/loss on securities	2,752		3,937		16,270	
Allowance for loan losses	(8,780)		(7,201)		(7,126)	
Bank premises and equipment	17,283		17,673		18,655	
Intangible Asset - Core Deposit Intangible	83		95		132	
Intangible Asset - Goodwill	11,942		11,942		11,942	
Other assets	42,326		41,898		43,376	
Total Assets	\$1,218,992		\$1,233,781		\$1,251,679	

INTEREST-BEARING LIABILITIES

Interest-bearing deposits:

Interest checking	\$179,617	0.12%	\$185,502	0.12%	\$174,149	0.12%
Money market	195,596	0.14%	200,346	0.14%	202,129	0.14%
Savings	118,529	0.10%	117,975	0.10%	116,538	0.10%
Certificates of deposit	134,833	0.87%	139,601	0.92%	160,011	1.17%
Individual Retirement Accounts	122,389	0.38%	125,166	0.39%	134,076	0.50%
Other time deposits	812	0.00%	682	0.00%	845	0.00%
Total interest-bearing deposits	751,776	0.30%	769,272	0.31%	787,748	0.40%

Borrowed funds:

Short-term	10,049	0.20%	7,784	0.15%	4,220	0.10%
Long-term	73,300	4.03%	73,369	4.03%	83,341	4.00%
Total borrowed funds	83,349	3.57%	81,153	3.66%	87,561	3.81%

Total Interest-bearing Liabilities	835,125	0.63%	850,425	0.63%	875,309	0.74%
Demand deposits	193,402		191,509		184,890	
Other liabilities	8,158		10,082		8,875	
Total Liabilities	1,036,685		1,052,016		1,069,074	

Stockholders' equity, excluding accumulated

other comprehensive income/loss	180,440		179,356		172,578	
Accumulated other comprehensive income/loss	1,867		2,409		10,027	
Total Stockholders' Equity	182,307		181,765		182,605	

Total Liabilities and Stockholders' Equity	\$1,218,992		\$1,233,781		\$1,251,679	
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Interest Rate Spread		3.72%		3.75%		4.00%
Net Interest Income/Earning Assets		3.89%		3.91%		4.18%

Total Deposits (Interest-bearing
and Demand)

\$945,178 \$960,781 \$972,638

(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		
	Mar. 31, 2014	Dec. 31, 2013	Mar. 31, 2013
Service charges on deposit accounts	\$1,223	\$1,421	\$1,226
Service charges and fees	127	153	134
Trust and financial management revenue	1,047	1,065	944

Brokerage revenue	227	198	144
Insurance commissions, fees and premiums	32	34	45
Interchange revenue from debit card transactions	453	488	464
Net gains from sales of loans	151	315	504
Increase in cash surrender value of life insurance	88	98	93
Net (loss) gain from premises and equipment	0	(30)	0
Other operating income	403	382	289
Total other operating income, before realized gains on available-for-sale securities, net	\$3,751	\$4,124	\$3,843

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

	Three Months Ended		
	Mar. 31, 2014	Dec. 31, 2013	Mar. 31, 2013
Salaries and wages	\$3,565	\$3,435	\$3,600
Pensions and other employee benefits	1,319	985	1,255
Occupancy expense, net	715	614	634
Furniture and equipment expense	472	484	494
FDIC Assessments	147	154	152
Pennsylvania shares tax	341	351	350
Other operating expense	1,965	1,765	2,068
Total noninterest expense, before loss on prepayment of borrowings	8,524	7,788	8,553
Loss on prepayment of borrowings	0	0	1,023
Total Noninterest Expense	\$8,524	\$7,788	\$9,576