

 **CITIZENS & NORTHERN CORPORATION**

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Stock Symbol: CZNC

Chartered 1864

FEDERAL DEPOSIT INSURANCE CORP

September 30, 2014

QUARTERLY REPORT

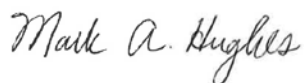
Dear Shareholder:

Since 2000, it has been my privilege to serve C&N and our shareholders as Chief Financial Officer, and on August 12, 2014, the Board appointed me Interim President and CEO. It is truly an honor to serve you in this role. I would also like to express my deep gratitude for the help and support I have received from so many of our employees who have worked hard to make sure our transition is as smooth as possible.

Third quarter 2014 earnings of \$0.34 per share were very consistent with results for the first two quarters of the year. For the first nine months of 2014, earnings per share of \$1.02 is down 12.1% from 2013, reflecting margin compression resulting from declining yields on loans and securities and a reduction in the average total amount of loans outstanding. Results for 2014 have also been impacted by a reduction in gains from sales of residential mortgage loans, consistent with the reduction in volume of mortgage originations attributable to less refinancing activity as well as other factors that has been the trend in most of the country. Third quarter 2014 results included realized gains on securities of \$760,000, which approximately offset the total cost of severance expenses incurred during the period. On an encouraging note, average loans outstanding was \$4.3 million higher in the third quarter 2014 than in the second quarter, and the balance of total loans outstanding at September 30 was up \$8.8 million as compared to the balance at June 30.

In July 2014, we announced a common stock repurchase plan for the repurchase of up to 622,500 shares, or 5% of the total shares outstanding on July 16, 2014. Through September 30, 2014, 129,000 shares had been repurchased for a total cost of \$2,464,000, at an average price of \$19.10 per share. Our ability to repurchase shares results from our very strong capital position. Dividends of \$0.78 per share have been paid through the first three quarters of the year, representing an annualized return of 5.47% based on the quarter-end closing stock price of \$19.00.

Please do not hesitate to contact me if you have questions or concerns.



Mark A. Hughes
Interim President and CEO

**CITIZENS & NORTHERN CORPORATION
BOARD OF DIRECTORS**

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

Raymond R. Mattie
Edward H. Owlett, III
Leonard Simpson
James E. Towner
Ann M. Tyler

CITIZENS & NORTHERN BANK
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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
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C&N FINANCIAL SERVICES CORPORATION – 90-92 Main Street, Wellsboro, PA
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CONDENSED, CONSOLIDATED EARNINGS INFORMATION

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

	3RD QUARTER 2014 <u>(Current)</u>	2ND QUARTER 2014 <u>(Prior Qtr)</u>	3RD QUARTER 2013 <u>(Prior Yr)</u>	9 MONTHS ENDED SEPT. 30, 2014 2013 <u>(Current)</u> <u>(Prior Yr)</u>	
Interest and Dividend Income	\$11,572	\$11,563	\$12,027	\$34,541	\$37,029
Interest Expense	1,287	1,290	1,396	3,865	4,411
Net Interest Income	10,285	10,273	10,631	30,676	32,618
Provision for Loan Losses	218	446	239	353	488
Net Interest Income After Provision for Loan Losses	10,067	9,827	10,392	30,323	32,130
Other Income	3,887	3,980	4,293	11,618	12,327
Net Gains on Available-for-sale Securities	760	103	193	894	1,452
Loss on Prepayment of Borrowings	0	0	0	0	1,023
Other Noninterest Expenses	9,036	8,347	8,610	25,907	25,683
Income Before Income Tax Provision	5,678	5,563	6,268	16,928	19,203
Income Tax Provision	1,411	1,400	1,579	4,210	4,834
Net Income	\$4,267	\$4,163	\$4,689	\$12,718	\$14,369

PER COMMON SHARE DATA:

Net Income – Basic	\$0.34	\$0.33	\$0.38	\$1.02	\$1.16
Net Income – Diluted	\$0.34	\$0.33	\$0.38	\$1.02	\$1.16
Dividend Per Share	\$0.26	\$0.26	\$0.25	\$0.78	\$0.75
Number Shares Used in Computation – Basic	12,399,482	12,441,679	12,363,887	12,419,538	12,342,706
Number Shares Used in Computation – Diluted	12,420,000	12,459,384	12,396,902	12,440,917	12,371,927

CONDENSED, CONSOLIDATED BALANCE SHEET DATA

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

	SEPT. 30, 2014	JUNE 30, 2014	SEPT. 30, 2013
ASSETS			
Cash & Due from Banks	\$55,439	\$59,948	\$43,247
Available-for-sale Securities	508,253	512,748	475,650
Loans Held for Sale	418	0	801
Loans, Net	621,960	614,347	641,345
Intangible Assets	12,003	12,012	12,042
Other Assets	58,460	57,150	59,867
TOTAL ASSETS	\$1,256,533	\$1,256,205	\$1,232,952
LIABILITIES			
Deposits	\$981,529	\$979,239	\$963,465
Repo Sweep Accounts	6,765	4,637	4,833
Total Deposits and Repo Sweeps	988,294	983,876	968,298
Borrowed Funds	73,131	73,201	73,405
Other Liabilities	8,234	9,955	10,043
TOTAL LIABILITIES	1,069,659	1,067,032	1,051,746
SHAREHOLDERS' EQUITY			
Common Shareholders' Equity, Excluding Accumulated			
Other Comprehensive Income (Loss)	182,837	183,757	178,838
Accumulated Other Comprehensive Income (Loss):			
Net Unrealized Gains/Losses on			
Available-for-sale Securities	3,940	5,316	2,520
Defined Benefit Plans	97	100	(152)
TOTAL SHAREHOLDERS' EQUITY	186,874	189,173	181,206
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY	\$1,256,533	\$1,256,205	\$1,232,952

CONDENSED, CONSOLIDATED FINANCIAL HIGHLIGHTS

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

	9 MONTHS ENDED		%
	SEPT. 30,		INCREASE
	2014	2013	(DECREASE)
EARNINGS PERFORMANCE			
Net Income	\$12,718	\$14,369	-11.49%
Return on Average Assets	1.37%	1.55%	-11.61%
Return on Average Equity	9.18%	10.57%	-13.15%
BALANCE SHEET HIGHLIGHTS			
Total Assets	\$1,256,533	\$1,232,952	1.91%
Available-for-Sale Securities	508,253	475,650	6.85%
Loans (Net)	621,960	641,345	-3.02%
Allowance for Loan Losses	7,449	7,130	4.47%
Deposits and Repo Sweep Accounts	988,294	968,298	2.07%
OFF-BALANCE SHEET			
Outstanding Balance of Mortgage Loans Sold with Servicing Retained	150,695	138,074	9.14%
Trust Assets Under Management	812,376	760,964	6.76%
SHAREHOLDERS' VALUE (PER COMMON SHARE)			
Net Income - Basic	\$1.02	\$1.16	-12.07%
Net Income - Diluted	\$1.02	\$1.16	-12.07%
Dividends	\$0.78	\$0.75	4.00%
Common Book Value	\$15.14	\$14.65	3.34%
Tangible Common Book Value	\$14.17	\$13.67	3.66%
Market Value (Last Trade)	\$19.00	\$19.94	-4.71%
Market Value / Common Book Value	125.50%	136.11%	-7.80%
Market Value / Tangible Common Book Value	134.09%	145.87%	-8.08%
Price Earnings Multiple	13.97	12.89	8.38%
Dividend Yield	5.47%	5.02%	8.96%
Common Shares Outstanding, End of Period	12,339,120	12,372,133	-0.27%
SAFETY AND SOUNDNESS			
Tangible Common Equity / Tangible Assets	14.05%	13.86%	1.37%
Nonperforming Assets / Total Assets	1.45%	0.83%	74.70%
Allowance for Loan Losses / Total Loans	1.18%	1.10%	7.27%
Total Risk Based Capital Ratio (a)	27.39%	26.17%	4.66%
Tier 1 Risk Based Capital Ratio (a)	26.06%	24.90%	4.66%
Leverage Ratio (a)	13.80%	13.71%	0.66%
AVERAGE BALANCES			
Average Assets	\$1,236,883	\$1,238,213	-0.11%
Average Equity	\$184,699	\$181,293	1.88%

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

EXHIBIT 99.3 – Supplemental, Unaudited Financial Information

 **CITIZENS & NORTHERN CORPORATION**

AVAILABLE-FOR-SALE SECURITIES (In Thousands)	September 30, 2014		June 30, 2014		December 31, 2013	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Obligations of U.S. Government agencies	\$27,237	\$26,416	\$29,162	\$28,452	\$47,382	\$45,877
Obligations of states and political subdivisions:						
Tax-exempt	123,336	128,292	123,140	127,593	127,748	128,426
Taxable	34,136	34,203	34,577	34,717	35,154	34,471
Mortgage-backed securities	74,278	75,513	91,051	93,613	84,849	86,208
Collateralized mortgage obligations, Issued by U.S. Government agencies	236,940	234,816	219,858	218,506	182,372	178,092
Other collateralized debt obligations	660	660	660	660	660	660
Total debt securities	496,587	499,900	498,448	503,541	478,165	473,734
Marketable equity securities	5,605	8,353	6,122	9,207	6,038	8,924
Total	\$502,192	\$508,253	\$504,570	\$512,748	\$484,203	\$482,658

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

	Sept. 30, 2014	June 30, 2014	Dec. 31, 2013	Sept. 30, 2013
Residential mortgage:				
Residential mortgage loans - first liens	\$290,943	\$291,690	\$299,831	\$301,794
Residential mortgage loans - junior liens	21,843	22,401	23,040	24,079
Home equity lines of credit	35,975	34,633	34,530	34,360
1-4 Family residential construction	16,895	13,948	13,909	15,746
Total residential mortgage	365,656	362,672	371,310	375,979
Commercial:				
Commercial loans secured by real estate	144,410	145,934	147,215	151,602
Commercial and industrial	50,615	46,778	42,387	44,312
Political subdivisions	14,823	11,617	16,291	13,905
Commercial construction and land	9,069	8,550	17,003	21,630
Loans secured by farmland	8,542	8,380	10,468	10,711
Multi-family (5 or more) residential	9,092	10,548	10,985	5,994
Agricultural loans	3,284	3,116	3,251	3,085
Other commercial loans	13,620	13,816	14,631	9,858
Total commercial	253,455	248,739	262,231	261,097
Consumer	10,298	10,203	10,762	11,399
Total	629,409	621,614	644,303	648,475
Less: allowance for loan losses	(7,449)	(7,267)	(8,663)	(7,130)
Loans, net	\$621,960	\$614,347	\$635,640	\$641,345

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

	Sept. 30, 2014	June 30, 2014	Dec. 31, 2013	Sept. 30, 2013
Residential mortgage loans originated and serviced - outstanding balance	\$151,113	\$150,725	\$146,008	\$138,875
Less: outstanding balance of loans sold	(150,695)	(150,725)	(145,954)	(138,074)
Loans held for sale, net	\$418	\$0	\$54	\$801

ANALYSIS OF THE ALLOWANCE FOR LOAN LOSSES
(In Thousands)

	3 Months Ended Sept. 30, 2014	3 Months Ended June 30, 2014	9 Months Ended Sept. 30, 2014	9 Months Ended Sept. 30, 2013
Balance, beginning of period	\$7,267	\$8,343	\$8,663	\$6,857
Charge-offs	(61)	(1,546)	(1,881)	(619)
Recoveries	25	24	314	404
Net charge-offs	(36)	(1,522)	(1,567)	(215)
Provision for loan losses	218	446	353	488
Balance, end of period	\$7,449	\$7,267	\$7,449	\$7,130

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

	Sept. 30, 2014	June 30, 2014	Dec 31, 2013	Sept. 30, 2013
Impaired loans with a valuation allowance	\$4,059	\$3,804	\$9,889	\$4,553
Impaired loans without a valuation allowance	10,035	10,258	6,432	5,703
Total impaired loans	\$14,094	\$14,062	\$16,321	\$10,256
Total loans past due 30-89 days and still accruing	\$5,458	\$4,837	\$8,305	\$7,260
Nonperforming assets:				
Total nonaccrual loans	\$13,722	\$13,598	\$14,934	\$6,760
Total loans past due 90 days or more and still accruing	2,602	3,050	3,131	2,668
Total nonperforming loans	16,324	16,648	18,065	9,428
Foreclosed assets held for sale (real estate)	1,888	1,419	892	776
Total nonperforming assets	\$18,212	\$18,067	\$18,957	\$10,204
Loans subject to troubled debt restructurings (TDRs):				
Performing	\$1,834	\$2,069	\$3,267	\$2,160
Nonperforming	6,172	6,038	908	926
Total TDRs	\$8,006	\$8,107	\$4,175	\$3,086
Total nonperforming loans as a % of loans	2.59%	2.68%	2.80%	1.45%
Total nonperforming assets as a % of assets	1.45%	1.44%	1.53%	0.83%
Allowance for loan losses as a % of total loans	1.18%	1.17%	1.34%	1.10%
Allowance for loan losses as a % of nonperforming loans	45.63%	43.65%	47.95%	75.63%

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

	3 Months Ended 9/30/2014 Average Balance	Rate of Return/ Cost of Funds %	3 Months Ended 6/30/2014 Average Balance	Rate of Return/ Cost of Funds %	3 Months Ended 9/30/2013 Average Balance	Rate of Return/ Cost of Funds %
EARNING ASSETS						
Available-for-sale securities, at amortized cost:						
Taxable	\$381,833	2.16%	\$372,666	2.18%	\$335,439	2.04%
Tax-exempt	123,949	5.22%	123,568	5.35%	130,831	5.48%
Total available-for-sale securities	505,782	2.91%	496,234	2.97%	466,270	3.00%
Interest-bearing due from banks	35,133	0.37%	33,106	0.39%	24,795	0.40%
Federal funds sold	0	0.00%	0	0.00%	0	0.00%
Loans held for sale	263	7.54%	282	7.11%	1,032	5.38%
Loans receivable:						
Taxable	587,799	5.43%	585,593	5.54%	615,318	5.64%
Tax-exempt	38,537	5.48%	36,422	5.62%	34,712	5.87%
Total loans receivable	626,336	5.43%	622,015	5.54%	650,030	5.65%
Total Earning Assets	1,167,514	4.19%	1,151,637	4.29%	1,142,127	4.46%
Cash	17,361		17,484		17,698	
Unrealized gain/loss on securities	7,810		6,539		1,688	
Allowance for loan losses	(7,332)		(8,402)		(7,258)	
Bank premises and equipment	16,581		16,889		17,950	
Intangible Asset - Core Deposit Intangible	64		75		105	
Intangible Asset - Goodwill	11,942		11,942		11,942	
Other assets	40,201		40,965		43,690	
Total Assets	\$1,254,141		\$1,237,129		\$1,227,942	
INTEREST-BEARING LIABILITIES						
Interest-bearing deposits:						
Interest checking	\$186,034	0.12%	\$179,018	0.12%	\$172,010	0.12%
Money market	202,536	0.14%	198,753	0.15%	205,168	0.14%
Savings	123,447	0.10%	121,741	0.10%	116,474	0.10%
Certificates of deposit	137,136	0.76%	138,250	0.81%	144,689	0.99%
Individual Retirement Accounts	120,079	0.40%	120,987	0.39%	127,526	0.40%
Other time deposits	1,525	0.00%	1,138	0.00%	1,556	0.25%
Total interest-bearing deposits	770,757	0.28%	759,887	0.29%	767,423	0.33%
Borrowed funds:						
Short-term	5,325	0.07%	4,766	0.08%	7,944	0.15%
Long-term	73,162	4.03%	73,232	4.03%	73,436	4.03%
Total borrowed funds	78,487	3.76%	77,998	3.79%	81,380	3.65%
Total Interest-bearing Liabilities	849,244	0.60%	837,885	0.62%	848,803	0.65%
Demand deposits	208,773		204,664		191,393	
Other liabilities	10,975		7,971		10,030	
Total Liabilities	1,068,992		1,050,520		1,050,226	
Stockholders' equity, excluding other comprehensive income/loss	180,042		182,258		176,772	
Other comprehensive income/loss	5,107		4,351		944	
Total Stockholders' Equity	185,149		186,609		177,716	
Total Liabilities and Stockholders' Equity	\$1,254,141		\$1,237,129		\$1,227,942	
Interest Rate Spread		3.59%		3.67%		3.81%
Net Interest Income/Earning Assets		3.75%		3.84%		3.97%
Total Deposits (Interest-bearing and Demand)	\$979,530		\$964,551		\$958,816	

(1) Rates of return on tax-exempt securities and loans are presented on a fully taxable-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)

	9 Months Ended 9/30/2014 Average Balance	Rate of Return/ Cost of Funds %	9 Months Ended 9/30/2013 Average Balance	Rate of Return/ Cost of Funds %
EARNING ASSETS				
Available-for-sale securities, at amortized cost:				
Taxable	\$366,853	2.18%	\$324,839	2.16%
Tax-exempt	124,508	5.34%	131,053	5.66%
Total available-for-sale securities	491,361	2.98%	455,892	3.17%
Interest-bearing due from banks	32,798	0.39%	25,808	0.39%
Federal funds sold	0	0.00%	6	0.00%
Loans held for sale	222	7.83%	1,333	4.71%
Loans receivable:				
Taxable	589,607	5.47%	625,527	5.77%
Tax-exempt	38,203	5.64%	35,617	5.85%
Total loans receivable	627,810	5.48%	661,144	5.77%
Total Earning Assets	1,152,191	4.27%	1,144,183	4.61%
Cash	17,052		16,919	
Unrealized gain/loss on securities	5,719		10,539	
Allowance for loan losses	(8,166)		(7,205)	
Bank premises and equipment	16,915		18,316	
Intangible Asset - Core Deposit Intangible	74		119	
Intangible Asset - Goodwill	11,942		11,942	
Other assets	41,156		43,400	
Total Assets	\$1,236,883		\$1,238,213	
INTEREST-BEARING LIABILITIES				
Interest-bearing deposits:				
Interest checking	\$181,580	0.12%	\$171,180	0.12%
Money market	198,987	0.14%	203,925	0.14%
Savings	121,257	0.10%	116,745	0.10%
Certificates of deposit	136,748	0.81%	151,630	1.06%
Individual Retirement Accounts	121,143	0.39%	130,633	0.45%
Other time deposits	1,161	0.00%	1,190	0.11%
Total interest-bearing deposits	760,876	0.29%	775,303	0.36%
Borrowed funds:				
Short-term	6,696	0.14%	5,963	0.13%
Long-term	73,231	4.03%	76,761	4.02%
Total borrowed funds	79,927	3.71%	82,724	3.74%
Total Interest-bearing Liabilities	840,803	0.61%	858,027	0.69%
Demand deposits	202,336		189,823	
Other liabilities	9,045		9,070	
Total Liabilities	1,052,184		1,056,920	
Stockholders' equity, excluding other comprehensive income/loss				
Other comprehensive income/loss	180,912		174,726	
Other comprehensive income/loss	3,787		6,567	
Total Stockholders' Equity	184,699		181,293	
Total Liabilities and Stockholders' Equity	\$1,236,883		\$1,238,213	
Interest Rate Spread		3.66%		3.92%
Net Interest Income/Earning Assets		3.82%		4.10%
Total Deposits (Interest-bearing and Demand)				
	\$963,212		\$965,126	

(1) Rates of return on tax-exempt securities and loans are presented on a fully taxable-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			Nine Months Ended	
	Sept. 30, 2014	June 30, 2014	Sept. 30, 2013	Sept. 30, 2014	Sept. 30, 2013
Service charges on deposit accounts	\$1,275	\$1,314	\$1,357	\$3,812	\$3,825
Service charges and fees	144	134	165	405	444
Trust and financial management revenue	1,140	1,138	1,033	3,325	3,022
Brokerage revenue	213	242	205	682	586
Insurance commissions, fees and premiums	44	27	32	103	136
Interchange revenue from debit card transactions	504	517	484	1,474	1,453
Net gains from sales of loans	141	265	504	557	1,560
(Decrease) increase in fair value of servicing rights	(17)	(53)	79	35	84
Increase in cash surrender value of life insurance	99	91	109	278	301
Net gain (loss) from premises and equipment	9	(1)	14	8	14
Other operating income	335	306	311	939	902
Total other operating income, before realized gains on available-for-sale securities, net	\$3,887	\$3,980	\$4,293	\$11,618	\$12,327

COMPARISON OF NONINTEREST EXPENSE
(In Thousands)

	Three Months Ended			Nine Months Ended	
	Sept. 30, 2014	June 30, 2014	Sept. 30, 2013	Sept. 30, 2014	Sept. 30, 2013
Salaries and wages	\$4,348	\$3,646	\$3,536	\$11,559	\$10,771
Pensions and other employee benefits	1,091	1,153	876	3,563	3,165
Occupancy expense, net	646	641	626	2,002	1,859
Furniture and equipment expense	461	466	487	1,399	1,464
FDIC Assessments	151	146	151	444	450
Pennsylvania shares tax	336	337	350	1,014	1,051
Professional fees	135	144	806	427	1,424
Automated teller machine and interchange expense	239	218	218	668	802
Software subscriptions	184	201	209	575	641
Other operating expense	1,445	1,395	1,351	4,256	4,056
Total noninterest expense, before loss on prepayment of borrowings	9,036	8,347	8,610	25,907	25,683
Loss on prepayment of borrowings	0	0	0	0	1,023
Total noninterest expense	\$9,036	\$8,347	\$8,610	\$25,907	\$26,706