



90-92 Main Street, P.O. Box 58  
Wellsboro, PA 16901  
Phone: (570) 724-3411 Fax: (570) 723-8097  
E-Mail: [cnemail@cnbankpa.com](mailto:cnemail@cnbankpa.com) Web Page: <http://www.cnbankpa.com>  
Stock Symbol: CZNC

Chartered 1864

FEDERAL DEPOSIT INSURANCE CORP

**March 31, 2013**

## **QUARTERLY REPORT**

Dear Shareholder:

As expected, the first quarter of 2013 proved to be very challenging. We anticipated a reduction in net interest income as cash flows received from maturing investment securities and loan payments were reinvested at substantially lower rates. As a result, first quarter net income of \$4,706,000 represents a decline of 15.77% over the corresponding period of 2012. However, Return on Average Assets (ROAA) was an excellent 1.50% and Return on Average Equity (ROAE) was a respectable 10.31%. Non-interest income excluding security gains remained strong with a 5.14% increase over the corresponding period of 2012. Non-interest expenses excluding loss on prepayment of borrowings rose a modest 1.66% over the corresponding period of 2012.

The Balance Sheet remained relatively flat with modest decreases to loans and deposits. The decrease in loans is mainly the result of selling a majority of the originated residential mortgages to the secondary mortgage market to reduce interest rate risk. The outstanding balance of residential mortgages that were sold in the secondary mortgage market while maintaining the servicing rights increased \$11,757,000 during the quarter, and we generated a net gain from sale of loans of \$545,000. The majority of the deposit decrease is from time deposits that we consciously did not bid up due to the lack of prudent investment alternatives offering a commensurate return for the assumed interest rate and credit risk. We continued to reduce long-term borrowings (repurchase agreements) by pre-paying \$7,000,000 of debt while incurring a pre-payment penalty of \$1,023,000. The pre-payment penalty was offset by harvesting \$1,159,000 of security gains which were primarily the result of the sale of a previously written off trust-preferred security and the sale of bank stocks. This pre-payment of debt will slightly improve our net interest margin going forward.

The bank is committed to growing appropriately priced loans and deposits. We are currently investing considerable resources in training our employees on techniques to deepen and broaden relationships with existing and prospective customers. We have refused to compromise credit quality or take extension risk in pursuit of short-term profits. While I am disappointed in reporting earnings that are less than the corresponding period of 2012, I am pleased that the ROAA is still strong and that management is working diligently to enhance shareholder value without assuming undue credit and/or interest rate risk.

I solicit your continued support and welcome your questions and comments.

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

**CITIZENS & NORTHERN CORPORATION  
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1-877-838-2517

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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  
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[www.cnbankpa.com](http://www.cnbankpa.com)

800-577-8001  
877-838-2517

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[www.cnfinancialservices.com](http://www.cnfinancialservices.com)

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**CONDENSED, CONSOLIDATED EARNINGS INFORMATION**

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

	<b>1ST QUARTER 2013 (Current)</b>	<b>4TH QUARTER 2012 (Prior Qtr)</b>	<b>1ST QUARTER 2012 (Prior Yr)</b>
Interest and Dividend Income	\$12,647	\$13,491	\$14,776
Interest Expense	1,600	1,900	2,502
Net Interest Income	11,047	11,591	12,274
Provision (Credit) for Loan Losses	183	(133)	(182)
Net Interest Income After Provision (Credit) for Loan Losses	10,864	11,724	12,456
Other Income	3,843	4,327	3,655
Net Gains on Available-for-sale Securities	1,159	51	(2)
Loss on Prepayment of Borrowings	1,023	0	0
Other Noninterest Expenses	8,553	7,954	8,413
Income Before Income Tax Provision	6,290	8,148	7,696
Income Tax Provision	1,584	2,209	2,109
<b>Net Income</b>	<b>\$4,706</b>	<b>\$5,939</b>	<b>\$5,587</b>

**PER COMMON SHARE DATA:**

Net Income – Basic	\$0.38	\$0.48	\$0.46
Net Income – Diluted	\$0.38	\$0.48	\$0.46
Dividend Per Share	\$0.25	\$0.24	\$0.18
Number Shares Used in Computation - Basic	12,321,014	12,265,100	12,206,870
Number Shares Used in Computation - Diluted	12,349,264	12,283,702	12,245,752

**CONDENSED, CONSOLIDATED BALANCE SHEET DATA**

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

	<b>MARCH 31, 2013</b>	<b>DEC. 31, 2012</b>	<b>MARCH 31, 2012</b>
<b>ASSETS</b>			
Cash & Due from Banks	\$45,069	\$59,836	\$56,498
Available-for-sale Securities	459,855	472,577	486,664
Loans Held for Sale	799	2,545	2,223
Loans, Net	659,628	677,053	690,218
Intangible Assets	12,067	12,080	12,135
Other Assets	62,903	62,816	69,026
<b>TOTAL ASSETS</b>	<b>\$1,240,321</b>	<b>\$1,286,907</b>	<b>\$1,316,764</b>
<b>LIABILITIES</b>			
Deposits	967,974	1,006,106	1,016,801
Repo Sweep Accounts	4,637	5,567	4,030
Total Deposits and Repo Sweeps	972,611	1,011,673	1,020,831
Borrowed Funds	76,661	83,812	115,202
Other Liabilities	7,841	8,636	9,117
<b>TOTAL LIABILITIES</b>	<b>1,057,113</b>	<b>1,104,121</b>	<b>1,145,150</b>
<b>SHAREHOLDERS' EQUITY</b>			
Common Shareholders' Equity, Excluding Accumulated			
Other Comprehensive Income (Loss)	174,137	171,783	161,240
Accumulated Other Comprehensive Income (Loss):			
Net Unrealized Gains/Losses on			
Available-for-sale Securities	9,223	11,568	10,852
Defined Benefit Plans	(152)	(565)	(478)
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>183,208</b>	<b>182,786</b>	<b>171,614</b>
<b>TOTAL LIABILITIES &amp; SHAREHOLDERS' EQUITY</b>	<b>\$1,240,321</b>	<b>\$1,286,907</b>	<b>\$1,316,764</b>

**CONDENSED, CONSOLIDATED FINANCIAL HIGHLIGHTS**

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

	<b>3 MONTHS ENDED</b>		<b>%</b>
	<b>MARCH 31,</b>		<b>INCREASE</b>
	<b>2013</b>	<b>2012</b>	<b>(DECREASE)</b>
<b>EARNINGS PERFORMANCE</b>			
Net Income	\$4,706	\$5,587	-15.77%
Return on Average Assets	1.50%	1.72%	-12.79%
Return on Average Equity	10.31%	13.15%	-21.60%
<b>BALANCE SHEET HIGHLIGHTS</b>			
Total Assets	\$1,240,321	\$1,316,764	-5.81%
Available-for-Sale Securities	459,855	486,664	-5.51%
Loans (Net)	659,628	690,218	-4.43%
Allowance for Loan Losses	7,118	7,370	-3.42%
Deposits and Repo Sweep Accounts	972,611	1,020,831	-4.72%
<b>OFF-BALANCE SHEET</b>			
Outstanding Balance of Mortgage Loans Sold with Servicing Retained	114,134	62,346	83.07%
Trust Assets Under Management	737,298	678,693	8.63%
<b>SHAREHOLDERS' VALUE (PER COMMON SHARE)</b>			
Net Income - Basic	\$0.38	\$0.46	-17.39%
Net Income - Diluted	\$0.38	\$0.46	-17.39%
Dividends	\$0.25	\$0.18	38.89%
Common Book Value	\$14.86	\$14.05	5.77%
Tangible Common Book Value	\$13.88	\$13.06	6.28%
Market Value (Last Trade)	\$19.50	\$20.00	-2.50%
Market Value / Common Book Value	131.22%	142.35%	-7.81%
Market Value / Tangible Common Book Value	140.49%	153.14%	-8.26%
Price Earnings Multiple	12.83	10.87	18.03%
Dividend Yield	5.13%	3.60%	42.50%
Common Shares Outstanding, End of Period	12,331,654	12,215,750	0.95%
<b>SAFETY AND SOUNDNESS</b>			
Tangible Common Equity / Tangible Assets	13.93%	12.22%	13.99%
Nonperforming Assets / Total Assets	0.83%	0.70%	18.57%
Allowance for Loan Losses / Total Loans	1.07%	1.06%	0.94%
Total Risk Based Capital Ratio (a)	25.02%	22.01%	13.68%
Tier 1 Risk Based Capital Ratio (a)	23.81%	20.80%	14.47%
Leverage Ratio (a)	13.04%	11.50%	13.39%
<b>AVERAGE BALANCES</b>			
Average Assets	\$1,251,679	\$1,302,682	-3.92%
Average Equity	\$182,605	\$169,897	7.48%

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

EXHIBIT 99.3 – Supplemental, Unaudited Financial Information



AVAILABLE-FOR-SALE SECURITIES (In Thousands)	March 31, 2013		December 31, 2012		March 31, 2012	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Obligations of U.S. Government agencies	\$35,802	\$36,246	\$30,695	\$31,217	\$24,810	\$25,488
Obligations of states and political subdivisions:						
Tax-exempt	132,917	138,910	130,168	137,020	128,628	133,337
Taxable	27,215	27,595	24,426	24,817	16,846	17,206
Mortgage-backed securities	64,505	67,666	76,368	80,196	117,251	121,943
Collateralized mortgage obligations,						
Issued by U.S. Government agencies	172,222	173,918	179,770	183,510	162,846	165,764
Trust preferred securities issued by individual institutions	5,160	5,163	5,167	5,171	7,783	8,147
Collateralized debt obligations:						
Pooled trust preferred securities - senior tranches	1,614	1,659	1,615	1,613	4,993	4,638
Pooled trust preferred securities - mezzanine tranches	0	0	0	0	0	782
Other collateralized debt obligations	660	660	660	660	660	660
Total debt securities	440,095	451,817	448,869	464,204	463,817	477,965
Marketable equity securities	5,570	8,038	5,912	8,373	6,151	8,699
<b>Total</b>	<b>\$445,665</b>	<b>\$459,855</b>	<b>\$454,781</b>	<b>\$472,577</b>	<b>\$469,968</b>	<b>\$486,664</b>

<b>(In Thousands)</b>	<b>Mar. 31, 2013</b>	<b>Dec. 31, 2012</b>	<b>Mar. 31, 2012</b>
Residential mortgage loans - first liens	\$306,754	\$311,627	\$326,343
Residential mortgage loans - junior liens	25,567	26,748	27,590
Home equity lines of credit	32,237	33,017	30,534
1-4 Family residential construction	12,032	12,842	8,409
<b>Total residential mortgage</b>	<b>376,590</b>	<b>384,234</b>	<b>392,876</b>
<b>Commercial:</b>			
Commercial loans secured by real estate	155,474	158,413	158,323
Commercial and industrial	47,031	48,442	54,370
Political subdivisions	27,366	31,789	36,517
Commercial construction and land	28,461	28,200	23,577
Loans secured by farmland	11,214	11,403	10,334
Multi-family (5 or more) residential	6,478	6,745	6,326
Agricultural loans	2,864	3,053	2,982
Other commercial loans	238	362	323
<b>Total commercial</b>	<b>279,126</b>	<b>288,407</b>	<b>292,752</b>
<b>Consumer</b>	<b>11,030</b>	<b>11,269</b>	<b>11,960</b>
<b>Total</b>	<b>666,746</b>	<b>683,910</b>	<b>697,588</b>
<b>Less: allowance for loan losses</b>	<b>(7,118)</b>	<b>(6,857)</b>	<b>(7,370)</b>
<b>Loans, net</b>	<b>\$659,628</b>	<b>\$677,053</b>	<b>\$690,218</b>

<b>(In Thousands)</b>	<b>Mar. 31, 2013</b>	<b>Dec 31, 2012</b>	<b>Mar. 31, 2012</b>
and serviced - outstanding balance	\$114,933	\$103,176	\$64,569
<b>Less: outstanding balance of loans sold</b>	<b>(114,134)</b>	<b>(100,631)</b>	<b>(62,346)</b>
<b>Loans held for sale, net</b>	<b>\$799</b>	<b>\$2,545</b>	<b>\$2,223</b>

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

	<b>3 Months Ended Mar. 31, 2013</b>	<b>3 Months Ended Dec. 31, 2012</b>	<b>Year Ended Dec. 31 2012</b>	<b>3 Months Ended Mar. 31, 2012</b>
Balance, beginning of period	\$6,857	\$7,792	\$7,705	\$7,705
Charge-offs	(193)	(817)	(1,221)	(176)
Recoveries	271	15	85	23
Net recoveries (charge-offs)	78	(802)	(1,136)	(153)
Provision (credit) for loan losses	183	(133)	288	(182)
Balance, end of period	\$7,118	\$6,857	\$6,857	\$7,370

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

	<b>Mar. 31, 2013</b>	<b>Dec. 31, 2012</b>	<b>Mar. 31, 2012</b>
Impaired loans with a valuation allowance	\$2,722	\$2,710	\$3,299
Impaired loans without a valuation allowance	4,751	4,719	3,678
Total impaired loans	\$7,473	\$7,429	\$6,977
Total loans past due 30-89 days and still accruing	\$6,366	\$7,756	\$5,827
Nonperforming assets:			
Total nonaccrual loans	\$7,090	\$7,353	\$6,961
Total loans past due 90 days or more and still accruing	2,351	2,311	1,252
Total nonperforming loans	9,441	9,664	8,213
Foreclosed assets held for sale (real estate)	915	879	977
Total nonperforming assets	\$10,356	\$10,543	\$9,190
Loans subject to troubled debt restructurings (TDRs):			
Performing	\$829	\$906	\$960
Nonperforming	1,338	1,155	1,973
Total TDRs	\$2,167	\$2,061	\$2,933
Total nonperforming loans as a % of loans	1.42%	1.41%	1.18%
Total nonperforming assets as a % of assets	0.83%	0.82%	0.70%
Allowance for loan losses as a % of total loans	1.07%	1.00%	1.06%
Allowance for loan losses as a % of nonperforming loans	75.39%	70.95%	89.74%

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

	3 Months Ended 3/31/2013 Average Balance	Rate of Return/ Cost of Funds %	3 Months Ended 12/31/2012 Average Balance	Rate of Return/ Cost of Funds %	3 Months Ended 3/31/2012 Average Balance	Rate of Return/ Cost of Funds %
<b>EARNING ASSETS</b>						
Available-for-sale securities, at amortized cost:						
Taxable	\$315,612	2.31%	\$327,726	2.32%	\$331,007	3.32%
Tax-exempt	130,123	5.75%	132,495	5.86%	127,729	6.03%
<b>Total available-for-sale securities</b>	<b>445,735</b>	<b>3.32%</b>	<b>460,221</b>	<b>3.34%</b>	<b>458,736</b>	<b>4.08%</b>
Interest-bearing due from banks	29,638	0.38%	23,861	0.40%	34,334	0.33%
Federal funds sold	15	0.00%	0	0.00%	0	0.00%
Loans held for sale	2,193	3.88%	3,204	4.10%	1,057	3.42%
Loans receivable:						
Taxable	636,278	5.88%	656,020	5.97%	665,936	6.26%
Tax-exempt	38,491	5.81%	39,676	5.99%	36,218	6.36%
<b>Total loans receivable</b>	<b>674,769</b>	<b>5.88%</b>	<b>695,696</b>	<b>5.97%</b>	<b>702,154</b>	<b>6.27%</b>
<b>Total Earning Assets</b>	<b>1,152,350</b>	<b>4.74%</b>	<b>1,182,982</b>	<b>4.83%</b>	<b>1,196,281</b>	<b>5.25%</b>
Cash	16,080		17,482		16,891	
Unrealized gain/loss on securities	16,270		18,983		17,923	
Allowance for loan losses	(7,126)		(7,849)		(7,739)	
Bank premises and equipment	18,655		18,911		18,898	
Intangible Asset - Core Deposit Intangible	132		149		204	
Intangible Asset - Goodwill	11,942		11,942		11,942	
Other assets	43,376		44,146		48,282	
<b>Total Assets</b>	<b>\$1,251,679</b>		<b>\$1,286,746</b>		<b>\$1,302,682</b>	
<b>INTEREST-BEARING LIABILITIES</b>						
Interest-bearing deposits:						
Interest checking	\$174,149	0.12%	\$169,782	0.12%	\$161,524	0.13%
Money market	202,129	0.14%	208,463	0.15%	205,866	0.19%
Savings	116,538	0.10%	110,645	0.10%	104,532	0.10%
Certificates of deposit	160,011	1.17%	186,238	1.43%	191,924	1.73%
Individual Retirement Accounts	134,076	0.50%	137,565	0.58%	146,241	0.96%
Other time deposits	845	0.00%	738	0.00%	942	0.00%
<b>Total interest-bearing deposits</b>	<b>787,748</b>	<b>0.40%</b>	<b>813,431</b>	<b>0.50%</b>	<b>811,029</b>	<b>0.67%</b>
Borrowed funds:						
Short-term	4,220	0.10%	8,877	0.18%	7,422	0.16%
Long-term	83,341	4.00%	86,362	4.00%	115,607	4.00%
<b>Total borrowed funds</b>	<b>87,561</b>	<b>3.81%</b>	<b>95,239</b>	<b>3.64%</b>	<b>123,029</b>	<b>3.77%</b>
<b>Total Interest-bearing Liabilities</b>	<b>875,309</b>	<b>0.74%</b>	<b>908,670</b>	<b>0.83%</b>	<b>934,058</b>	<b>1.08%</b>
Demand deposits	184,890		187,748		189,275	
Other liabilities	8,875		9,086		9,452	
<b>Total Liabilities</b>	<b>1,069,074</b>		<b>1,105,504</b>		<b>1,132,785</b>	
Stockholders' equity, excluding						
other comprehensive income/loss	172,578		169,346		158,801	
Other comprehensive income/loss	10,027		11,896		11,096	
<b>Total Stockholders' Equity</b>	<b>182,605</b>		<b>181,242</b>		<b>169,897</b>	
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$1,251,679</b>		<b>\$1,286,746</b>		<b>\$1,302,682</b>	
Interest Rate Spread		4.00%		4.00%		4.17%
Net Interest Income/Earning Assets		4.18%		4.19%		4.41%
<b>Total Deposits (Interest-bearing and Demand)</b>	<b>\$972,638</b>		<b>\$1,001,179</b>		<b>\$1,000,304</b>	

(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)**

	<b>Three Months Ended</b>		
	<b>Mar. 31,</b> <b>2013</b>	<b>Dec. 31,</b> <b>2012</b>	<b>Mar. 31,</b> <b>2012</b>
Service charges on deposit accounts	\$1,159	\$1,329	\$1,161
Service charges and fees	201	235	220
Trust and financial management revenue	944	1,085	929
Brokerage revenue	144	148	168
Insurance commissions, fees and premiums	45	52	34
Interchange revenue from debit card transactions	464	478	495
Net gains from sales of loans	545	662	265
Increase in cash surrender value of life insurance	93	108	119
Net loss from premises and equipment	0	(1)	0
Other operating income	248	231	264
Total other operating income, before realized gains on available-for-sale securities, net	\$3,843	\$4,327	\$3,655

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

	<b>Three Months Ended</b>		
	<b>Mar. 31,</b> <b>2013</b>	<b>Dec. 31,</b> <b>2012</b>	<b>Mar. 31,</b> <b>2012</b>
Salaries and wages	\$3,600	\$3,615	\$3,575
Pensions and other employee benefits	1,255	1,059	1,366
Occupancy expense, net	634	602	636
Furniture and equipment expense	494	469	482
FDIC Assessments	152	165	146
Pennsylvania shares tax	350	301	332
Other operating expense	2,068	1,743	1,876
Total noninterest expense, before loss on prepayment of borrowings	8,553	7,954	8,413
Loss on prepayment of borrowings	1,023	0	0
Total Noninterest Expense	\$9,576	\$7,954	\$8,413