

 **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, 2012

QUARTERLY REPORT

Dear Shareholder:

I am proud to report net income of \$5,587,000 for the first quarter of 2012 which is a \$46,000 increase over the first quarter of 2011. On the surface the net income increase appears minimal; however 2011 net income was positively impacted by \$1,839,000 of securities gains which was partially offset by a \$948,000 impairment charge resulting in \$891,000 additional pre-tax income. Return on Average Assets (ROAA) for the quarter was 1.72% with Return on Average Equity (ROAE) of 13.15%. These results place C&N in the elite class of its peer group.

As reported in previous quarters, total assets remain relatively unchanged as we continue to de-leverage the balance sheet due to low investment yield opportunities. Since late 2009, C&N has originated a significant amount of residential mortgages for sale to third parties while maintaining the servicing rights. The balance of residential mortgage loans originated for sale was \$64,569,000 at March 31, 2012, an increase of \$29,076,000 over one year earlier. The originations and servicing rights have produced a significant amount of non-interest income while not incurring the interest rate risk. Non-performing assets to total assets remain relatively modest at .70% which is very good by industry standards.

Assets under management by C&N's Trust and Financial Management Group amounted to \$678,693,000 at the end of the quarter, up 6.8% from a year earlier. The Group generated revenue of \$929,000 during the first quarter which represents 24.7% of our Other Income.

The economy and regulatory environment continue to provide challenges for the Board of Directors and management. C&N has a dedicated group of employees to work through these challenges in pursuit of superior financial results.

We solicit your continued support as the Board of Directors, management and employees strive to enhance shareholder value.

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
Edward L. Learn

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

DIRECTOR EMERITUS

R. Robert DeCamp

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

ELECTRONIC BANKING – 10 Nichols 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 2012 (Current)	4TH QUARTER 2011 (Prior Qtr)	1ST QUARTER 2011 (Prior Yr)
Interest and Dividend Income	\$ 14,776	\$ 15,198	\$ 15,298
Interest Expense	2,502	2,804	4,016
Net Interest Income	12,274	12,394	11,282
(Credit) Provision for Loan Losses	(182)	(87)	(192)
Net Interest Income After (Credit) Provision for Loan Losses	12,456	12,481	11,474
Other Income	3,759	3,711	2,555
Net (Losses) Gains on Available-for-sale Securities	(2)	188	1,839
Noninterest Expenses	8,517	7,948	8,263
Income Before Income Tax Provision	7,696	8,432	7,605
Income Tax Provision	2,109	2,291	2,064
Net Income	\$ 5,587	\$ 6,141	\$ 5,541

PER COMMON SHARE DATA:

Net Income – Basic	\$0.46	\$0.51	\$0.46
Net Income – Diluted	\$0.46	\$0.51	\$0.45
Dividend Per Share	\$0.18	\$0.16	\$0.13
Number Shares Used in Computation - Basic	12,206,870	12,145,666	12,174,935
Number Shares Used in Computation - Diluted	12,245,752	12,154,971	12,178,099

CONDENSED, CONSOLIDATED BALANCE SHEET DATA

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

	MAR. 31, 2012	DEC. 31, 2011	MAR. 31, 2011
ASSETS			
Cash & Due from Banks	\$ 56,498	\$ 60,575	\$ 59,278
Available-for-sale Securities	486,664	481,685	452,974
Loans Held for Sale	2,223	939	135
Loans, Net	690,218	700,610	710,113
Intangible Assets	12,135	12,154	12,239
Other Assets	69,026	67,772	81,470
TOTAL ASSETS	\$ 1,316,764	\$ 1,323,735	\$ 1,316,209
LIABILITIES			
Deposits	\$ 1,016,801	\$ 1,018,206	\$ 1,010,001
Repo Sweep Accounts	4,030	4,950	16,068
Total Deposits and Repo Sweeps	1,020,831	1,023,156	1,026,069
Borrowed Funds	115,202	125,363	138,340
Other Liabilities	9,117	7,831	5,747
TOTAL LIABILITIES	1,145,150	1,156,350	1,170,156
SHAREHOLDERS' EQUITY			
Common Shareholders' Equity, Excluding Accumulated Other Comprehensive Income (Loss)	161,240	157,225	144,895
Accumulated Other Comprehensive Income (Loss):			
Net Unrealized Gains/Losses on Available-for-sale Securities	10,852	10,791	1,478
Defined Benefit Plans	(478)	(631)	(320)
TOTAL SHAREHOLDERS' EQUITY	171,614	167,385	146,053
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY	\$ 1,316,764	\$ 1,323,735	\$ 1,316,209

CONDENSED, CONSOLIDATED FINANCIAL HIGHLIGHTS

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

	3 MONTHS ENDED		% INCREASE (DECREASE)
	MARCH 31,		
	<u>2012</u>	<u>2011</u>	
EARNINGS PERFORMANCE			
Net Income	\$ 5,587	\$ 5,541	0.83%
Return on Average Assets	1.72%	1.69%	1.78%
Return on Average Equity	13.15%	15.67%	-16.08%
BALANCE SHEET HIGHLIGHTS			
Total Assets	\$ 1,316,764	\$ 1,316,209	0.04%
Available-for-Sale Securities	486,664	452,974	7.44%
Loans (Net)	690,218	710,113	-2.80%
Allowance for Loan Losses	7,370	8,846	-16.69%
Deposits and Repo Sweep Accounts	1,020,831	1,026,069	-0.51%
Trust Assets Under Management	678,693	635,497	6.80%
SHAREHOLDERS' VALUE (PER COMMON SHARE)			
Net Income - Basic	\$0.46	\$0.46	0.00%
Net Income - Diluted	\$0.46	\$0.45	2.22%
Dividends	\$0.18	\$0.13	38.46%
Common Book Value	\$14.05	\$11.99	17.18%
Tangible Common Book Value	\$13.06	\$10.99	18.84%
Market Value (Last Trade)	\$20.00	\$16.81	18.98%
Market Value / Common Book Value	142.35%	140.20%	1.53%
Market Value / Tangible Common Book Value	153.14%	152.96%	0.12%
Price Earnings Multiple	10.87	9.14	18.93%
Dividend Yield	3.60%	3.09%	16.50%
SAFETY AND SOUNDNESS			
Tangible Common Equity / Tangible Assets	12.22%	10.26%	19.10%
Nonperforming Assets / Total Assets	0.70%	0.88%	-20.45%
Allowance for Loan Losses / Total Loans	1.06%	1.23%	-13.82%
Total Risk Based Capital Ratio (a)	21.88%	18.49%	18.32%
Tier 1 Risk Based Capital Ratio (a)	20.67%	17.17%	20.40%
Leverage Ratio (a)	11.45%	9.72%	17.80%
AVERAGE BALANCES			
Average Assets	\$1,302,682	\$1,312,560	-0.75%
Average Equity	169,897	141,415	20.14%

(a) Capital ratios are estimated.

EXHIBIT 99.3 – Supplemental, Unaudited Financial Information



AVAILABLE-FOR-SALE SECURITIES (In Thousands)	March 31, 2012		December 31, 2011		March 31, 2011	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Obligations of U.S. Government agencies	\$24,810	\$25,488	\$24,877	\$25,587	\$36,963	\$37,129
Obligations of states and political subdivisions:						
Tax-exempt	128,628	133,337	129,401	132,962	127,107	121,789
Taxable	16,846	17,206	14,004	14,334	11,676	11,507
Mortgage-backed securities	117,251	121,943	116,602	121,769	99,220	103,627
Collateralized mortgage obligations,						
Issued by U.S. Government agencies	162,846	165,764	161,818	165,131	152,718	153,558
Corporate bonds	0	0	0	0	1,000	1,019
Trust preferred securities issued by individual institutions	7,783	8,147	7,334	8,146	6,640	8,040
Collateralized debt obligations:						
Pooled trust preferred securities - senior tranches	4,993	4,638	4,996	4,638	9,937	9,038
Pooled trust preferred securities - mezzanine tranches	0	782	0	730	0	0
Other collateralized debt obligations	660	660	660	660	681	681
Total debt securities	463,817	477,965	459,692	473,957	445,942	446,388
Marketable equity securities	6,151	8,699	5,643	7,728	4,789	6,586
Total	\$469,968	\$486,664	\$465,335	\$481,685	\$450,731	\$452,974

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

(In Thousands)

	Mar. 31, 2012	Dec. 31, 2011	Mar. 31, 2011
Residential mortgage:			
Residential mortgage loans - first liens	\$326,343	\$331,015	\$335,362
Residential mortgage loans - junior liens	27,590	28,851	30,403
Home equity lines of credit	30,534	30,037	26,887
1-4 Family residential construction	8,409	9,959	7,666
Total residential mortgage	392,876	399,862	400,318
Commercial:			
Commercial loans secured by real estate	158,323	156,388	164,201
Commercial and industrial	54,370	57,191	57,494
Political subdivisions	36,517	37,620	36,226
Commercial construction and land	23,577	23,518	23,340
Loans secured by farmland	10,334	10,949	11,715
Multi-family (5 or more) residential	6,326	6,583	7,600
Agricultural loans	2,982	2,987	3,199
Other commercial loans	323	552	862
Total commercial	292,752	295,788	304,637
Consumer	11,960	12,665	14,004
Total	697,588	708,315	718,959
Less: allowance for loan losses	(7,370)	(7,705)	(8,846)
Loans, net	\$690,218	\$700,610	\$710,113

Loans Held for Sale

(In Thousands)

	Mar. 31, 2012	Dec. 31, 2011	Mar. 31, 2011
Residential mortgage loans originated and serviced - outstanding balance	\$64,569	\$57,577	\$35,493
Less: outstanding balance of loans sold	(62,346)	(56,638)	(35,358)
Loans held for sale, net	\$2,223	\$939	\$135

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

	3 Months Ended Mar. 31, 2012	3 Months Ended Dec. 31, 2011	Year Ended Dec. 31, 2011	3 Months Ended Mar. 31, 2011
Balance, beginning of period	\$7,705	\$8,177	\$9,107	\$9,107
Charge-offs	(176)	(479)	(1,446)	(97)
Recoveries	23	94	329	28
Net charge-offs	(153)	(385)	(1,117)	(69)
(Credit) provision for loan losses	(182)	(87)	(285)	(192)
Balance, end of period	<u>\$7,370</u>	<u>\$7,705</u>	<u>\$7,705</u>	<u>\$8,846</u>

PAST DUE AND NONPERFORMING ASSETS**(In Thousands)**

	Mar. 31, 2012	Dec. 31, 2011	Mar. 31, 2011
Total loans past due 30-89 days and still accruing	<u>\$5,827</u>	<u>\$7,898</u>	<u>\$5,291</u>
Nonperforming assets:			
Total loans past due 90 days or more and still accruing	\$1,252	\$1,267	\$453
Total nonaccrual loans	6,961	7,197	10,371
Foreclosed assets held for sale (real estate)	977	1,235	707
Total nonperforming assets	<u>\$9,190</u>	<u>\$9,699</u>	<u>\$11,531</u>
Total nonperforming assets as a % of assets	<u>0.70%</u>	<u>0.73%</u>	<u>0.88%</u>

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

	3 Months Ended 3/31/2012 Average Balance	Rate of Return/ Cost of Funds %	3 Months Ended 12/31/2011 Average Balance	Rate of Return/ Cost of Funds %	3 Months Ended 3/31/2011 Average Balance	Rate of Return/ Cost of Funds %
EARNING ASSETS						
Available-for-sale securities, at amortized cost:						
Taxable	\$331,007	3.32%	\$337,405	3.27%	\$327,104	3.42%
Tax-exempt	127,729	6.03%	130,819	5.87%	126,973	6.08%
Total available-for-sale securities	458,736	4.08%	468,224	4.00%	454,077	4.16%
Interest-bearing due from banks	34,334	0.33%	36,404	0.31%	31,750	0.20%
Loans held for sale	1,057	3.42%	953	7.08%	1,722	4.95%
Loans receivable:						
Taxable	665,936	6.26%	669,755	6.33%	687,253	6.40%
Tax-exempt	36,218	6.36%	35,744	6.29%	35,073	6.44%
Total loans receivable	702,154	6.27%	705,499	6.33%	722,326	6.40%
Total Earning Assets	1,196,281	5.25%	1,211,080	5.25%	1,209,875	5.40%
Cash	16,891		17,812		16,985	
Unrealized gain/loss on securities	17,923		12,710		(588)	
Allowance for loan losses	(7,739)		(8,255)		(9,201)	
Bank premises and equipment	18,898		19,286		22,474	
Intangible Asset - Core Deposit Intangible	204		230		315	
Intangible Asset - Goodwill	11,942		11,942		11,942	
Other assets	48,282		50,743		60,758	
Total Assets	\$1,302,682		\$1,315,548		\$1,312,560	
INTEREST-BEARING LIABILITIES						
Interest-bearing deposits:						
Interest checking	\$161,524	0.13%	\$161,274	0.15%	\$163,479	0.32%
Money market	205,866	0.19%	208,855	0.18%	203,439	0.30%
Savings	104,532	0.10%	101,405	0.10%	92,625	0.25%
Certificates of deposit	191,924	1.73%	195,774	1.81%	212,133	1.99%
Individual Retirement Accounts	146,241	0.96%	149,219	1.12%	161,174	2.99%
Other time deposits	942	0.00%	801	0.50%	956	0.42%
Total interest-bearing deposits	811,029	0.67%	817,328	0.73%	833,806	1.25%
Borrowed funds:						
Short-term	7,422	0.16%	12,673	0.09%	16,865	0.14%
Long-term	115,607	4.00%	127,692	4.04%	145,802	4.01%
Total borrowed funds	123,029	3.77%	140,365	3.68%	162,667	3.61%
Total Interest-bearing Liabilities	934,058	1.08%	957,693	1.16%	996,473	1.63%
Demand deposits	189,275		186,562		168,211	
Other liabilities	9,452		8,721		6,461	
Total Liabilities	1,132,785		1,152,976		1,171,145	
Stockholders' equity, excluding other comprehensive income/loss	158,801		154,484		142,054	
Other comprehensive income/loss	11,096		8,088		(639)	
Total Stockholders' Equity	169,897		162,572		141,415	
Total Liabilities and Stockholders' Equity	\$1,302,682		\$1,315,548		\$1,312,560	
Interest Rate Spread		4.17%		4.09%		3.77%
Net Interest Income/Earning Assets		4.41%		4.33%		4.05%
 Total Deposits (Interest-bearing and Demand)	 \$1,000,304		 \$1,003,890		 \$1,002,017	

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

The income tax rate used was 35% for the 3 months ended March 31, 2012 and 34% for the 2011 tables.

(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, 2012	Dec. 31, 2011	Mar. 31, 2011
Service charges on deposit accounts	\$1,161	\$1,187	\$1,131
Service charges and fees	220	206	218
Trust and financial management revenue	929	864	877
Brokerage revenue	168	89	123
Insurance commissions, fees and premiums	34	65	68
Interchange revenue from debit card transactions	495	495	452
Net gains from sales of loans	265	430	259
Increase in cash surrender value of life insurance	119	127	122
Net gain (loss) from other real estate	104	33	(19)
Impairment loss on limited partnership investment	0	0	(948)
Other operating income	264	215	272
Total other operating income, before realized gains on available-for-sale securities, net	\$3,759	\$3,711	\$2,555

COMPARISON OF NONINTEREST EXPENSE
(In Thousands)

	Three Months Ended		
	Mar. 31, 2012	Dec. 31, 2011	Mar. 31, 2011
Salaries and wages	\$3,575	\$3,545	\$3,401
Pensions and other employee benefits	1,366	1,063	1,306
Occupancy expense, net	636	600	732
Furniture and equipment expense	482	497	484
FDIC Assessments	146	144	325
Pennsylvania shares tax	332	322	319
Other operating expense	1,980	1,777	1,696
Total Noninterest Expense	\$8,517	\$7,948	\$8,263