



# BANCNOTES

Second Quarter, 2017



Dear Shareholder:

Second quarter 2017 net income was \$0.34 per share, as compared to \$0.28 in the first quarter 2017 and \$0.32 in the second quarter 2016. For the six months ended June 30, 2017, net income per share was \$0.62 as compared to \$0.61 for the first six months of 2016. The return on average assets for the first six months of 2017 was 1.22%, and the return on average equity was 8.07%. Our trends of growth in loans, deposits, and trust assets under management continued during the second quarter and produced steady, if somewhat modest, revenue growth. The C&N Team continues to focus on our mission of creating value through lifelong relationships and their commitment to this philosophy is driving our results.

Net interest income increased \$203,000 (2.0%) in the second quarter of 2017 compared to the first quarter, and by \$363,000 (3.6%) compared to the second quarter of 2016. Through the first six months of 2017, net interest income was \$489,000 (2.4%) higher than the same period in 2016. Growth in average loans outstanding of approximately \$59 million compared to both the second quarter of 2016 and the first six months of 2016 is the primary driver of these increases. In addition, growth in core deposits and ongoing reductions in higher cost borrowings have improved C&N's funding mix. The yield on earning assets was 4.17% during the second quarter of 2017 compared to 4.09% in 2016 while the overall cost of funds increased by only .02% during the same period. As a result, the net interest margin increased .07%, to 3.83% during the second quarter of 2017 from 3.76% a year earlier. The Federal Reserve raised the federal funds rate by .25% in June, the third such move in the past three quarters. Despite these actions, we continue to operate with historically low interest rates and a flat yield curve, which makes it challenging to expand margins.

The provision for loan losses was \$4,000 during the second quarter of 2017 compared to \$452,000 in 2016. Through the first six months of 2017, the provision was \$456,000 compared to \$686,000 for the same period in 2016. The lower provision amounts for both the current quarter and the first six months of 2017 reflect reductions in reserves related to charge-off experience and qualitative factors used in calculating the allowance for loan losses. Management maintains a robust process to determine the adequacy of the allowance that incorporates these and other factors. C&N's overall credit quality remains strong as reflected in our past due and non-performing loan metrics at June 30, 2017 compared to a year earlier.

Noninterest revenue increased by \$200,000 (5.1%) in the second quarter of 2017 compared to 2016. Most notably, interchange revenue on debit

cards, loan servicing fees and Trust revenues produced solid gains, when comparing the second quarter of 2017 with 2016. Gains from the sale of mortgage loans declined and service charges on deposit accounts declined due to lower volumes. These same factors contributed to an increase of \$374,000 (4.9%) during the first six months of 2017 compared to the same period in 2016.

Noninterest expenses increased \$541,000 (6.3%) in the second quarter of 2017 compared to 2016. The primary drivers of this increase were collection and other real estate expenses, costs associated with health care benefits, ATM and interchange expenses, and software subscriptions related to investments in technology. Overall salaries and wages were essentially unchanged while FDIC premiums and professional fees declined. These same factors produced a \$767,000 (4.4%) increase in noninterest expenses for the first six months of 2017 compared to the same period in 2016. It should be noted that total expenses declined by \$222,000 (2.39%) during the second quarter of 2017 compared to the first quarter. This reduction reflects the impact of certain employee benefits-related expenses that typically impact the first quarter and some moderation in health care costs that were partially offset by an increase in collection and other real estate expenses. While we continue building capacity to deliver value to our customers through investments in sales and service training, employee development, information technology, and marketing, the pace of increase in the related expenses has been declining. We expect operating leverage to improve as we move through 2017 and into 2018.

C&N's strong capital position provides the ability to pursue a strategy of growth and expansion while continuing to support shareholder value. The dividend paid during the second quarter remained at \$.26 per share producing a yield of 4.47% based on the June 30, 2017 market price of \$23.26. In April 2016, the Board announced a common stock repurchase program for the acquisition of up to 600,000 shares. There have been no repurchases of stock under this program to date.

Please take a few minutes to review the remainder of this edition of banCNotes to learn more about our new credit card offerings, C&N's commitment to supporting our communities, and recognition of members of the C&N Team.

As always, thank you for your investment and ongoing support.

J. Bradley Scovill  
President and CEO



# Commitment to Community



Now that we're past the halfway mark for 2017, we can look back on the success of our fundraisers and activities to build awareness for our Giving Back, Giving Together campaign, in support of local children in need. So far, we have raised over \$47,000 for 18 local organizations that are committed to helping children facing abuse, neglect, homelessness and other unfortunate situations.

As our largest fundraising event of the year, our 2nd annual C&N Charity Classic golf event was held on Monday, June 26<sup>th</sup> at Tyoga Country Club. It was a beautiful, sunny day with good food, great prizes and fun to be had by all. 132 people turned out for the event and raised over \$20,000 that will go directly to local children in need. It couldn't have been possible without the support of our sponsors, clients, business partners and team members that turned out in full force.

Although we've come a long way toward reaching our \$60,000 goal for this year's campaign, we still have a way to go and we need your help. *Here are a few of the ways you can get involved in our campaign again this year:*

- We'll donate \$1 for every like or share on our Facebook posts with the #givingbackgivingtogether.
- Monetary donations are always welcome.
- Visit us *September 25 - September 30* or *December 11 - December 16* for on-site events, including fundraisers, clothing, supply or food drives and other activities.
- Spread the word!

Every child deserves a chance at living a good, fulfilling life. Although their stories can be heartbreaking, by giving back and giving together, we can give these children faith that there is good in this world.

TJ Howe, a local professional golfer, lended his skills to the tournament by providing participants with a drive for each team on Hole 3.

"We're raising money for the youth in our area to give them a chance at a better life."

-Brad Scovill  
President &  
CEO



## Product in Perspective



As the trend in payments has shifted from debit to credit, the team at C&N identified an opportunity to introduce a new, in-house credit card program. In addition to the income opportunity, offering a new credit card program managed internally by the C&N team will improve the customer experience and engagement with our brand.

In second quarter 2017, the brand new line of C&N Lifetime Credit Cards was launched.

### C&N Visa® Lifetime Card

This card is designed for consumers looking for simplicity and a lower rate. It's a straightforward credit card with no strings attached.

### C&N Visa Lifetime Rewards Card

Consumers earn one point for every \$1 they spend and can redeem the points for millions of items through the uChoose Rewards program. From cash to travel and everything in between, this card is packed with value and a competitive rate.

### Visa C&N Lifetime Business Rewards Card

While this card offers the same uChoose Rewards program as the consumer version, it's designed specifically for the needs of a business. Features include Diversion Accounts, which is ideal for business with employees that travel, and Restrictions, which can be set up to only allow purchases through specified merchants, like gas stations.

Applications can be submitted online or by completing a paper application in one of our local offices. Once approved, customers can access and manage their account online, as well as redeem rewards points and complete balance transfers. And, as always, our C&N team members are available to answer questions and coach our customers every step of the way.

You can learn more by visiting [www.cnbankpa.com](http://www.cnbankpa.com), calling 1-877-838-2517 or visiting your local C&N office.

# Earnings Statement

Additional details on our Second Quarter Earnings can be found on the Investor Relations section at [www.cnbankpa.com](http://www.cnbankpa.com).

CONDENSED, CONSOLIDATED EARNINGS STATEMENT (Dollars in Thousands, Except Per Share Data) (Unaudited)	Q-2, 2017 (Current)	Q-2, 2016 (Prior Year)	\$ Increase (Decrease)	% Increase (Decrease)
Interest and Dividend Income	\$11,340	\$10,924	\$416	3.81%
Interest Expense	978	925	53	5.73%
Net Interest Income	10,362	9,999	363	3.63%
Provision for Loan Losses	4	318	(314)	-98.74%
Net Interest Income After Provision for Loan Losses	10,358	9,681	677	6.99%
Other Income	4,106	3,906	200	5.12%
Net Gains on Available-for-sale Securities	107	122	(15)	-12.30%
Other Noninterest Expenses	9,076	8,535	541	6.34%
Income Before Income Tax Provision	5,495	5,174	321	6.20%
Income Tax Provision	1,374	1,303	71	5.45%
<b>Net Income</b>	<b>\$4,121</b>	<b>\$3,871</b>	<b>\$250</b>	<b>6.46%</b>
<b>Net Income Attributable to Common Shares (1)</b>	<b>\$4,100</b>	<b>\$3,850</b>	<b>\$250</b>	<b>6.49%</b>

## PER COMMON SHARE DATA:

Net Income - Basic	\$0.34	\$0.32	\$0.02	6.25%
Net Income - Diluted	\$0.34	\$0.32	\$0.02	6.25%
Dividend Per Share	\$0.26	\$0.26	\$0.00	0.00%
Number of Shares Used in Computation - Basic	12,106,008	11,996,500		
Number of Shares Used in Computation - Diluted	12,144,706	12,018,040		

CONDENSED, CONSOLIDATED EARNINGS STATEMENT (Dollars in Thousands Except Per Share Data) (Unaudited)	6 Months Ended June 30, 2017 (Current)	6 Months Ended June 30, 2016 (Prior Year)	June 30, 2017 vs 2016 \$ Increase (Decrease)	% Increase (Decrease)
Interest and Dividend Income	\$ 22,452	\$ 21,861	\$591	2.70%
Interest Expense	1,931	1,829	102	5.58%
Net Interest Income	20,521	20,032	489	2.44%
Provision for Loan Losses	456	686	(230)	-33.53%
Net Interest Income After Provision for Loan Losses	20,065	19,346	719	3.72%
Noninterest Revenue	7,970	7,596	374	4.92%
Net Gains on Available-for-sale Securities	252	505	(253)	-50.10%
Noninterest Expenses	18,374	17,607	767	4.36%
Income Before Income Tax Provision	9,913	9,840	73	0.74%
Income Tax Provision	2,358	2,396	(38)	-1.59%
<b>Net Income</b>	<b>\$7,555</b>	<b>\$7,444</b>	<b>\$111</b>	<b>1.49%</b>
<b>Net Income Attributable to Common Shares (1)</b>	<b>\$7,516</b>	<b>\$7,403</b>	<b>\$113</b>	<b>1.53%</b>

## PER COMMON SHARE DATA:

Net Income - Basic	\$0.62	\$0.61	\$0.01	1.64%
Net Income - Diluted	\$0.62	\$0.61	\$0.01	1.64%
Dividend Per Share	\$0.52	\$0.52	\$0.00	0.00%
Number of Shares Used in Computation - Basic	12,095,926	12,041,896		
Number of Shares Used in Computation - Diluted	12,138,189	12,063,054		

(1) Basic & diluted net income per common share are determined based on net income less earnings allocated to nonvested restricted shares with nonforfeitable dividends

CONDENSED, CONSOLIDATED BALANCE SHEET DATA (Dollars in Thousands Except Per Share Data) (Unaudited)	June 30, 2017 (Current)	June 30, 2016 (Prior Year)	June 30, 2017 vs 2016 \$ Increase (Decrease)	% Increase (Decrease)
<b>ASSETS</b>				
Cash & Due from Banks	\$34,643	\$27,436	\$7,207	26.27%
Available-for-sale Securities	364,753	417,205	(52,452)	-12.57%
Loans Held for Sale	1,708	381	1,327	348.29%
Loans, Net	771,057	719,913	51,144	7.10%
Intangible Assets	11,957	11,966	(9)	-0.08%
Other Assets	59,283	54,117	5,166	9.55%
<b>TOTAL ASSETS</b>	<b>\$1,243,401</b>	<b>\$1,231,018</b>	<b>\$12,383</b>	<b>1.01%</b>

<b>LIABILITIES</b>				
Deposits	\$997,262	\$967,951	\$29,311	3.03%
Repo Sweep Accounts	4,875	5,661	(786)	-13.88%
Total Deposits and Repo Sweeps	1,002,137	973,612	28,525	2.93%
Borrowed Funds	42,321	58,656	(16,335)	-27.85%
Other Liabilities	9,084	8,220	864	10.51%
<b>TOTAL LIABILITIES</b>	<b>1,053,542</b>	<b>1,040,488</b>	<b>13,054</b>	<b>1.25%</b>

## SHAREHOLDERS' EQUITY

Common Shareholders' Equity, Excluding Accumulated				
Other Comprehensive Income	189,339	183,636	5,703	3.11%
Accumulated Other Comprehensive Income:				
Net Unrealized Gains/Losses on				
Available-for-sale Securities	369	6,849	(6,480)	-94.61%
Defined Benefit Plans	151	45	106	235.56%
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>189,859</b>	<b>190,530</b>	<b>(671)</b>	<b>-0.35%</b>
<b>TOTAL LIABILITIES &amp; SHAREHOLDERS' EQUITY</b>	<b>\$1,243,401</b>	<b>\$1,231,018</b>	<b>\$12,383</b>	<b>1.01%</b>

☎ Connect With Us

**CZNC**

**\$23.26 (as of 6/30/2017)**

American Stock Transfer & Trust Company  
Phone: 1-800-937-5449  
Email: [info@amstock.com](mailto:info@amstock.com)  
Web: [www.amstock.com](http://www.amstock.com)  
Dividend Reinvestment Plan Administered by  
American Stock Transfer & Trust Company  
Phone: 1-888-200-3166

**Frequently Called Numbers:**

**Contact Center/Internet Banking:**  
1-877-838-2517

**Trust & Financial Management Group:**  
1-800-487-8784

**C&N Financial Services:**  
1-866-ASK-CNFS

**Telephone Banking:**  
1-877-622-5526

**Find us Online:**  
[www.cnbankpa.com](http://www.cnbankpa.com)



**BANCNOTES**

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## ☎ Employee Connection

Citizens & Northern Bank builds a culture that supports its team members and celebrates their achievements. In May & June, 15 C&N employees were recognized for a combined 190 years of service. Brad Scovill, C&N President & CEO presented the following Citizens & Northern Bank employees with service awards: Left to Right -



**Lori Blascak**, Trust Officer, Towanda, 30 years  
**Julie Lane**, Security Officer, Wellsboro, 10 years  
**Mary D'Ottavio**, Customer Service Rep., Dushore, 10 years  
**Tony Peluso**, Contoller, Wellsboro, 5 years  
**Jodi Lovett**, Trust Support Specialist, Wellsboro, 15 years  
**Adam Heitzenrater**, Marketing Associate, Wellsboro, 5 years  
**Janice Graybill**, Customer Service Rep., South  
Williamsport, 10 years  
**Michelle Rae**, Mortgage Loan Sales Officer, Towanda,  
5 years  
**Matt Landis**, Financial Consultant, Wellsboro, 10 years.  
(Not pictured)



**Linda Gordner**, Mortgage Loan Sales Officer,  
Muncy, 15 years  
**Melissa Dunn**, Loan Support Specialist,  
Coudersport, 15 years  
**Karen Hooks**, Customer Transaction Specialist,  
Towanda, 15 years  
**Benjamin Howe**, Trust Officer, Coudersport,  
5 years  
**Billie Hilfiger**, Trust Administrator, Coudersport,  
10 years  
**Justin Krellner**, Regional Manager - Financial  
Service Delivery, Coudersport, 30 years