



Committed to our communities, our local families and businesses, our employees and our shareholders

# banCNotes

## Third Quarter, 2016



## CITIZENS & NORTHERN BANK

Your Bank for a Lifetime

Dear Shareholder:

C&N continues to make steady progress in driving growth while managing risk and building capacity for the future. Loans, deposits, and trust assets under management all showed solid increases over the past 12 months and during the third quarter of 2016. Our focus on business development and expanding relationships continues to gain traction across all lines of business, and across our footprint. Growth in the Lycoming County, PA market has been particularly strong during 2016, reflecting the addition of lending staff in that region in 2015 as well as the Team's commitment to growing that region. We have recently added a commercial lender in the Chemung County (Elmira), New York area and will be making application to establish a loan production office there to enhance our existing presence in southern New York. Over time, we expect to add mortgage lending and trust services to the team to deliver the complete C&N experience in the Chemung County market. Management continues to seek opportunities for growth and expansion that will leverage our capital and recent investments in capacity.

Earnings were \$.95 per share for the nine months ended September 30, 2016 as compared to \$1.01 (diluted) in the first nine months of 2015. Third quarter 2016 earnings per share were \$0.34 in comparison to \$0.35 for the third quarter 2015. Return on average assets (ROAA) for the nine months ended September 30, 2016 was 1.25% and return on average equity (ROAE) was 8.16%. Both of these measures showed improvement from year-to-date performance through June 30, 2016.

For the first nine months of 2016, net interest income of \$30.2 million was .84% higher than the comparable total for the first nine months of 2015. The net interest margin was 3.77%, which was 0.08% higher than the margin for the first nine months of 2015. The improvement in the margin reflected a lower cost of borrowed funds and a more favorable mix of earning assets. Average total loans outstanding were higher by \$68.9 million (10.7%) in the first nine months of 2016 as compared to the first nine months of 2015, while average total available-for-sale securities were lower by \$87.6 million. The average balance of earning assets was \$20.6 million lower in the nine-month period ended September 30, 2016 as compared to the first nine months of 2015, reflecting a reduction in funding available for investment, as average total deposits decreased \$9.3 million (1.0%).

The provision for loan losses for the nine months ended September 30, 2016 exceeded the corresponding amount for the first nine months of 2015 by \$698,000. The provision in 2016 included an increase of \$418,000 as compared to the first nine months of 2015 from changes in specific allowances on loans individually identified as impaired, net of related charge offs. The remainder of the increase was due to continued effects of loan growth and slight increases in net charge-off experience and qualitative factors used in determining the collectively evaluated portion of the allowance.

Noninterest revenue was flat in the first nine months of 2016 as compared to the total for the first nine months

of 2015. While there was solid growth in net gains from sales of loans and trust revenues, they were offset by decreases in the value of mortgage servicing rights, service charges on deposit accounts, and brokerage revenue.

In the first nine months of 2016, realized gains from securities totaled \$1.1 million, including gains from sales of bank stocks of \$837,000. In the first nine months of 2015, C&N generated gains from sales of securities totaling \$1.1 million, including gains from sales of bank stocks of \$476,000, and also incurred a loss of \$910,000 from a prepayment of principal on a borrowing.

Noninterest expenses, excluding loss on prepayment of borrowings, in the first nine months of 2016 exceeded the amount for the first nine months of 2015 by \$1.6 million (6.4%). Salaries and wages expense increased \$867,000 (8.0%). Several new positions were established in the latter portion of 2015 and early 2016, including new positions established for lending, lending support, information technology, training, human resources and marketing functions. Professional fees expense increased \$379,000, including increases related to employee sales and service training, information technology, marketing and outsourced commercial loan credit review.

C&N remains well positioned to pursue growth and expansion by virtue of its very strong capital base. As discussed earlier, we are continuously evaluating appropriate opportunities to enhance our franchise and earnings performance. At the same time, we continue to support shareholder value through cash dividends and a stock repurchase program. Dividends declared were \$.26 per share in each of the first three quarters of 2016, consistent with the levels in the previous year, producing an annualized yield of 4.73% based on the September 30, 2016 closing market price of \$21.97. In the second quarter 2016, we completed the 2014 repurchase program of 622,500 shares. In April 2016, the Board announced a new common stock repurchase program for the acquisition of up to 600,000 shares. There have been no repurchases of stock under the new program.

In closing, I want to thank the C&N Team for its commitment to our mission of "Creating Value Through Lifelong Relationships". This commitment was recently recognized when C&N received awards from the Institute for Extraordinary Banking™ in the categories of *Thought Leader*, *Culture*, and *Money Smarts* for excellence in unique and cutting edge practices, high levels of employee engagement, and delivering financial literacy education to our customers. Congratulations to everyone at C&N for these well-deserved honors!

And, thank you to all of our shareholders for your investment and ongoing support.



J. Bradley Scovill  
President and CEO



# Earnings Statement

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

## CONDENSED, CONSOLIDATED EARNINGS INFORMATION

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

	Q-3, 2016 (Current)	Q-3, 2015 (Prior Year)	\$ Increase (Decrease)	% Increase (Decrease)
Interest and Dividend Income	\$11,131	\$11,134	(\$3)	-0.03%
Interest Expense	944	1,126	(182)	-16.16%
Net Interest Income	10,187	10,008	179	1.79%
Provision for Loan Losses	538	302	236	78.15%
Net Interest Income After Provision for Loan Losses	9,649	9,706	(57)	-0.59%
Other Income	3,884	3,961	(77)	-1.94%
Net Gains on Available-for-sale Securities	584	79	505	639.24%
Other Noninterest Expenses	8,579	8,117	462	5.69%
Income Before Income Tax Provision	5,538	5,629	(91)	-1.62%
Income Tax Provision	1,451	1,395	56	4.01%
<b>Net Income</b>	<b>\$4,087</b>	<b>\$4,234</b>	<b>(\$147)</b>	<b>-3.47%</b>

## PER COMMON SHARE DATA:

Net Income – Basic	\$0.34	\$0.35	(\$0.01)	-2.86%
Net Income – Diluted	\$0.34	\$0.35	(\$0.01)	-2.86%
Cash Dividend Declared Per Share	\$0.26	\$0.26	\$0.00	0.00%
Number Shares Used in Computation – Basic	12,078,397	12,200,129		
Number Shares Used in Computation – Diluted	12,108,196	12,220,330		

9 MONTHS ENDED SEPTEMBER 30, 2016 & 2015	2016 (Current)	2015 (Prior Year)	\$ Increase (Decrease)	% Increase (Decrease)
Interest and Dividend Income	\$32,992	\$33,483	(\$491)	-1.47%
Interest Expense	2,773	3,515	(742)	-21.11%
Net Interest Income	30,219	29,968	251	0.84%
Provision for Loan Losses	1,224	526	698	132.70%
Net Interest Income After Provision for Loan Losses	28,995	29,442	(447)	-1.52%
Other Income	11,480	11,479	1	0.01%
Net Gains on Available-for-sale Securities	1,089	1,085	4	0.37%
Loss on Prepayment of Borrowings	0	910	(910)	-100.00%
Other Noninterest Expenses	26,186	24,614	1,572	6.39%
Income Before Income Tax Provision	15,378	16,482	(1,104)	-6.70%
Income Tax Provision	3,847	4,076	(229)	-5.62%
Net Income	\$11,531	\$12,406	(\$875)	-7.05%

## PER COMMON SHARE DATA

Net Income – Basic	\$0.95	\$1.02	(\$0.07)	-6.86%
Net Income – Diluted	\$0.95	\$1.01	(\$0.06)	-5.94%
Cash Dividends Declared Per Share	\$0.78	\$0.78	\$0.00	0.00%
Number Shares Used in Computation – Basic	12,098,554	12,222,557		
Number Shares Used in Computation – Diluted	12,122,574	12,243,746		

## CONDENSED, CONSOLIDATED BALANCE SHEET DATA

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

ASSETS	9/30/2016 (Current)	9/30/2015 (Prior Year)	\$ Increase (Decrease)	% Increase (Decrease)
Cash & Due from Banks	\$34,070	\$32,221	\$1,849	5.74%
Available-for-sale Securities	409,800	461,713	(51,913)	-11.24%
Loans Held for Sale	621	76	545	717.11%
Loans, Net	733,917	672,449	61,468	9.14%
Intangible Assets	11,963	11,978	(15)	-0.13%
Other Assets	54,962	54,094	868	1.60%
<b>TOTAL ASSETS</b>	<b>\$1,245,333</b>	<b>\$1,232,531</b>	<b>\$12,802</b>	<b>1.04%</b>

## LIABILITIES

Deposits	\$991,880	\$961,112	\$30,768	3.20%
Repo Sweep Accounts	6,320	5,744	576	10.03%
Total Deposits and Repo Sweeps	998,200	966,856	31,344	3.24%
Borrowed Funds	46,808	67,342	(20,534)	-30.49%
Other Liabilities	9,722	8,233	1,489	18.09%
<b>TOTAL LIABILITIES</b>	<b>1,054,730</b>	<b>1,042,431</b>	<b>12,299</b>	<b>1.18%</b>

## SHAREHOLDERS' EQUITY

Common Shareholders' Equity, Excluding Accumulated				
Other Comprehensive Income	185,173	183,978	1,195	0.65%
Accumulated Other Comprehensive Income:				
Net Unrealized Gains/Losses on				
Available-for-sale Securities	5,388	6,116	(728)	-11.90%
Defined Benefit Plans	42	6	36	600.00%
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>190,603</b>	<b>190,100</b>	<b>503</b>	<b>0.26%</b>
<b>TOTAL LIABILITIES &amp; SHAREHOLDERS' EQUITY</b>	<b>\$1,245,333</b>	<b>\$1,232,531</b>	<b>\$12,802</b>	<b>1.04%</b>

## Trophy Room



Roxanne Emmerich with Brad Scovill and the rest of the leadership team at the Extraordinary Banking Awards. L-R: Stan Dunsmore, Shelley D'Haene, John Reber, Brad Scovill, Roxanne Emmerich, Tom Rudy, Hal Hoose, III

### Extraordinary Banking™ Awards

Citizens & Northern Bank was named one of the top 18 extraordinary banks in the U.S. by The Institute for Extraordinary Banking™.

C&N was recognized as the winner among banks with more than \$1 billion in assets in the Institute's *Thought Leader Banky® Award*, *Thank God It's Monday® Culture*

*Banky Award*, and *Money Smarts Banky Award*. The awards were earned for excellence in unique and cutting-edge practices, high levels of employee engagement, and Financial Literacy Education through extraordinary service to our customers.

This year, the awards recognized the top 1 percent, just 60 of the 6000 community banks in America. For more information, and to see videos and downloadable photos from the awards, go to [BankyAwards.com](http://BankyAwards.com).

### 2016 WebAwards

Citizens & Northern Bank's newly redesigned website was presented with a WebAward by the Web Marketing Association for *Outstanding Achievement in Web Development*. Web designer, ZAG Interactive, submitted

C&N's entry to the Web Marketing Association for consideration.

C&N partnered with ZAG Interactive to fully redesign our website and deliver an industry-leading online experience for our customers. WebAwards are given by the Web Marketing Association each year in several different categories. For more information visit <http://www.webaward.org>.

### Wellsboro Gazette Reader's Choice Award

In a section called the "Best of the Best," the readers of the Wellsboro and Mansfield Gazettes were given the opportunity to vote for their favorite local businesses. The votes were tallied and the community elected Citizens & Northern Bank as the area's "Best Bank." In the October 7th edition of the weekly publication, C&N can be found featured amongst the rest of the "Best of the Best" winners.

## Tech Knowledge



Penny Barr, Regional Community Office Manager, stated it best, "Citizens & Northern Bank stays ahead of change. We are always looking to see what else we can do to create the best banking experience for our customers." A prime example of C&N's relentless pursuit for improvement is the evolution of payments technologies. With several new services and technologies introduced within the last year and several more on the horizon, customers have come to expect a level of convenience they've never had the luxury of before now.

### C&N Visa Check Card with EMV Chip Technology

A Citizens & Northern Visa® Check Card is the essence of convenience, so much so that customers won't know how they completed daily financial tasks without it. It's their direct link to their C&N Checking and Key Savings accounts, providing immediate access to their money. It's available free to qualifying customers to make purchases at more than 11 million Visa® locations worldwide and provides fee-free access at C&N ATMs.

Better yet, the flat design prohibits a manual card reproduction and combats fraud. And probably most importantly, new cards come with built-in EMV chip technology, giving customers greater fraud protection when used at a chip-activated terminal. No matter how they choose to pay, they'll be protected against unauthorized use with Visa's Zero Liability Policy.



**Apple Pay** is a contactless payment technology compatible with the latest Apple products and provides an easy and secure way to pay for physical goods and services, such as groceries, clothing, tickets and reservations on iOS apps. The Near Field Communication antenna in Apple products allows for in-store payment by holding the iPhone near the contactless reader. Instead of using actual credit or debit card numbers, a unique Device Account Number is assigned, encrypted and securely stored in the Secure Element, a dedicated chip in iPhone, iPad and Apple Watch. When making a purchase, the Device Account Number, along with a transaction-specific dynamic security code is used to process the payment. No private payment information is ever shared by Apple with merchants or transmitted with the payment. Also, on iPhone and iPad, every payment requires Touch ID or a passcode and with

Apple Watch, the device must be unlocked - so nobody else can make payments from the customer's device.

### VISA Checkout

Who knew shopping online could be this convenient AND secure? With **Visa Checkout**, customers can eliminate checkout hassle and complete their purchase with ease. By paying with a single login from any device, anywhere Visa Checkout is offered, there's no need to waste precious time completing those annoying forms. Once their C&N Visa Check Card is enrolled in Visa Checkout, they just enter their login credentials and in just three clicks their purchase is complete - no need to reenter their card number or shipping information time after time. Visa keeps all account information safe and secure with tokenization so that paying online is a snap. Tokenization is the process of replacing your personal card number with a completely different unique identification number that retains all the essential information about your data without compromising your security.

Keep checking [www.cnbankpa.com](http://www.cnbankpa.com) to find more new ways C&N is making it easier and more convenient for our customers to use our products and services every day.

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Third Quarter, 2016

## Employee Connection



Tammy Pabis has recently accepted the position of Senior Commercial Loan Sales Officer and will be based in our planned Loan Production Office in Chemung County.

**Q: What compelled you to join the C&N team?**

**A:** After carefully considering my options, I concluded that C&N would be the best place for me to most effectively serve my clients and their families. I'm honored to join a company that has always taken pride in building trusted, lifelong relationships with their clients over the years.

**Q: What do you like to do in your free time?**

**A:** Running, boating, gardening, and spending time with my family, I also enjoy being involved in my community. I have been actively volunteering in my community for over 20 years. I take pride in my community and think it's important to do my part to help make it a great place for people to live and work.

**Q: What's one thing you want people to know about you?**

**A:** I believe that strong partnerships are always based on trust and mutual respect. Trust can only be earned over time and by demonstrating accountability - holding one another accountable leads to creating success together.

## SPOTLIGHT AWARD



The Spotlight Award was initiated to recognize Customer Transaction Specialists who go above and beyond to ensure that C&N is the only bank their customers need.

Anna Phelps of our Liberty Branch was chosen as our most recent winner.

## Connect With Us

### CZNC

**\$21.97 (as of 09/30/2016)**

**American Stock Transfer & Trust Company**

Phone: - 449

Email: [info@amstock.com](mailto:info@amstock.com)

Website: <http://www.amstock.com>

Dividend Reinvestment Plan Administered by American

Stock Transfer & Trust Company

Phone: -

### 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)

