



BANCNOTES

Third Quarter, 2017



Dear Shareholder:

Third quarter 2017 net income was \$0.32 per share, as compared to \$0.34 in the second quarter 2017 and \$0.34 in the third quarter 2016. For the nine months ended September 30, 2017, net income per share was \$0.94 as compared to \$0.95 for the first nine months of 2016. The return on average assets for the first nine months of 2017 was 1.23%, and the return on average equity was 8.13%. Loans, deposits, and trust assets under management continued the steady growth we have experienced over the past several years. This ongoing progress is the result of our focus on building relationships and delivering value to customers across the C&N franchise and was the driver of solid revenue growth during the quarter.

Net interest income increased \$279,000 (2.7%) in the third quarter of 2017 compared to the second quarter, and by \$454,000 (4.5%) compared to the third quarter of 2016. Through the first nine months of 2017, net interest income was \$943,000 (3.1%) higher than in the same period in 2016. Growth in average loans outstanding of approximately \$17 million during the quarter and \$55 million compared to the third quarter of 2016 is the primary driver of these increases. We also experienced solid growth in core deposits and ongoing reductions in higher cost borrowings, improving C&N's funding mix. The yield on earning assets was 4.16% during the third quarter of 2017 compared to 4.07% in 2016 while the overall cost of funds increased by .02% during the same period. As a result, the net interest margin increased .09%, to 3.83% during the third quarter of 2017 from 3.74% a year earlier. Recall that the Federal Reserve raised the federal funds rate by .25% in June to a target of 1.25%, resulting in a flattening of the yield curve throughout most of the third quarter.

The provision for loan losses was \$322,000 during the third quarter of 2017 compared to \$538,000 in 2016. Through the first nine months of 2017, the provision was \$778,000 compared to \$1.224 million for the same period in 2016. The lower provision amounts for both the current quarter and the first nine 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 September 30, 2017 compared to a year earlier.

Noninterest revenue increased by \$182,000 (4.7%) in the third quarter of 2017 compared to 2016. The most notable increases were Trust revenues reflecting growth in assets under management as well as a recent fee increase, interchange revenue on debit cards, and gains from the sale of mortgage loans, while service charges on deposit accounts declined due to lower volumes of overdrafts. These same factors contributed to an increase of \$556,000 (4.8%) during the first nine months of 2017 compared to the same period in 2016, with the exception of gains from the sale of mortgage loans which decreased \$48,000.

Noninterest expenses increased \$613,000 (7.1%) in the third 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, software subscriptions related to investments in technology, and increased fees for outsourcing internal audit activities. Overall salaries and wages increased 2%, while FDIC premiums declined. These same factors produced a \$1.38 million (5.3%) increase in noninterest expenses for the first nine months of 2017 compared to the same period in 2016.

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 third quarter remained at \$.26 per share producing a yield of 4.23% based on the September 30, 2017 market price of \$24.56. 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.

We hope you enjoy this edition of banCNotes and, as always, thank you for your investment and ongoing support.

J. Bradley Scovill
President and CEO

"We just couldn't be more appreciative to C&N employees for donating their time and effort to make sure the children are comfortable when they're brought here."

-Katy VanDewark,
The Children's House
Director, Sayre, PA



Commitment to Community

Our 2017 **Giving Back, Giving Together** campaign benefiting children in need is in its final stretch. Through the hard work of our employees, friends and neighbors, we have raised **\$49,898** in monetary donations, donated **3,741** food, clothing and hygiene items & our team members have volunteered their own time on **84** occasions.

This program has had an impact throughout our footprint and we've seen numerous instances where our teams have gone the extra mile to help local children in need. Our Bradford County team is a great example. Their team is supporting "The Children's House." During a tour of the facility, they noticed the center needed some updating. The team has since taken it upon themselves to raise money to remodel the interview room and are doing the work themselves throughout October.

We are proud of our teams and their dedication. Although we've come a long way toward reaching our **\$60,000** goal for this year's campaign, we need your help.

Here are a few of the ways that you can get involved in our campaign again this year:

- We'll donate \$1 for every like or share on our Facebook posts with **#givingbackgivingtogether**.
- Visit us **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 working together, we can make a difference in their lives.



Cyber Security Tips

Whether you own or work for a small business or large company, technology has certainly had an impact on the efficiency of your operations in one way or another. While technology saves businesses a lot of hassle in the form of time and money, it also poses a unique set of risks. According to the Kroll Global Fraud Report*, nearly 75% of U.S. companies report that they have fallen victim to a fraud incident in the last year, with 69% of those businesses suffering a financial loss as a result. Fortunately, we have six steps to help protect you and your business against cyber crime and fraud.

1. Evaluate Your Current Security Tools - With all of the recent cyber attacks, businesses need to assess the tools they have in place that can limit exposure to cyber attacks. In our latest [Security Matters Newsletter](#), you'll find a risk assessment evaluation & questionnaire that helps you identify and protect against potential risks.

2. Encryption Is Your Friend - When it comes to the web, any information that you store or share (such as storing information on cloud based technology or sent through email) should be encrypted, meaning with a code that requires a key to open.

3. Create cOmplic@t3d Passwords - The idea here is simple: don't be predictable with your passwords. Avoid birthdays, pet names and simple passwords like 12345. It is also important to change passwords at least three times a year.

4. Leverage Your Bank's Technology to Reduce Fraud Risks - Business bank accounts remain the least protected accounts by the law, and therefore are a popular target for hackers. For this reason, competitive banks will stay on the forefront of technology to offer their business account holders the products and services that best suits their security needs.

5. Make it a Habit to Monitor Your Accounts - You should have Internet Banking for your bank accounts. Internet Banking allows you to safely monitor your accounts any time you choose because it's available 24/7. Detection of fraud shortly after it happens is the best way to guard against financial losses.

How will you respond to the increasing threat of cyber attacks? Instead of telling yourself that it won't happen to you or your company, it's important to be proactive. What steps will you take? Learn more by visiting our C&N Library at www.cnbankpa.com, calling 1-877-838-2517 or visiting your local C&N office.

* http://anticorruzione.eu/wp-content/uploads/2015/09/Kroll_Global_Fraud_Report_2015low-copia.pdf



Your Financial
Literacy Resource

Learn more about
Cyber Security & other
financial topics that
impact daily life. Visit
the C&N Library on
our website for trusted
advice from your local
C&N experts.



Earnings Statement

Additional details on our Third Quarter Earnings can be found on the Investor Relations section at www.cnbankpa.com.

CONDENSED, CONSOLIDATED EARNINGS STATEMENT INFORMATION (Dollars in Thousands, Except Per Share Data) (Unaudited)	Q-3, 2017 (Current)	Q-3, 2016 (Prior Year)	\$ Increase (Decrease)	% Increase (Decrease)
Interest and Dividend Income	\$11,626	\$11,131	\$495	4.45%
Interest Expense	985	944	41	4.34%
Net Interest Income	10,641	10,187	454	4.46%
Provision for Loan Losses	322	538	(216)	-40.15%
Net Interest Income After Provision for Loan Losses	10,319	9,649	670	6.94%
Noninterest Revenue	4,066	3,884	182	4.69%
Net Gains on Available-for-sale Securities	5	584	(579)	-99.14%
Noninterest Expenses	9,192	8,579	613	7.15%
Income Before Income Tax Provision	5,198	5,538	(340)	-6.14%
Income Tax Provision	1,262	1,451	(189)	-13.03%
Net Income	\$3,936	\$4,087	(\$151)	-3.69%
Net Income Attributable to Common Shares (1)	\$3,916	\$4,065	(\$149)	-3.67%

PER COMMON SHARE DATA:

Net Income - Basic	\$0.32	\$0.34	(\$0.02)	-5.88%
Net Income - Diluted	\$0.32	\$0.34	(\$0.02)	-5.88%
Dividend Per Share	\$0.26	\$0.26	\$0.00	0.00%
Number of Shares Used in Computation - Basic	12,124,854	12,014,267		
Number of Shares Used in Computation - Diluted	12,162,263	12,044,066		

CONDENSED, CONSOLIDATED EARNINGS STATEMENT INFORMATION (Dollars in Thousands Except Per Share Data) (Unaudited)	9 Months Ended Sept. 30, 2017 (Current)	9 Months Ended Sept. 30, 2016 (Prior Year)	\$ Increase (Decrease)	% Increase (Decrease)
Interest and Dividend Income	\$34,078	\$32,992	\$1,086	3.29%
Interest Expense	2,916	2,773	143	5.16%
Net Interest Income	31,162	30,219	943	3.12%
Provision for Loan Losses	778	1,224	(446)	-36.44%
Net Interest Income After Provision for Loan Losses	30,384	28,995	1,389	4.79%
Noninterest Revenue	12,036	11,480	556	4.84%
Net Gains on Available-for-sale Securities	257	1,089	(832)	-76.40%
Noninterest Expenses	27,566	26,186	1,380	5.27%
Income Before Income Tax Provision	15,111	15,378	(267)	-1.74%
Income Tax Provision	3,620	3,847	(227)	-5.90%
Net Income	\$11,491	\$11,531	(\$40)	-0.35%
Net Income Attributable to Common Shares (1)	\$11,432	\$11,468	(\$36)	-0.31%

PER COMMON SHARE DATA:

Net Income - Basic	\$0.94	\$0.95	(\$0.01)	-1.05%
Net Income - Diluted	\$0.94	\$0.95	(\$0.01)	-1.05%
Dividend Per Share	\$0.78	\$0.78	\$0.00	0.00%
Number of Shares Used in Computation - Basic	12,105,673	12,032,619		
Number of Shares Used in Computation - Diluted	12,146,297	12,056,639		

(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)	September 30, 2017 (Current)	September 30, 2016 (Prior Year)	September 30, 2017 vs 2016 \$ Increase (Decrease)	% Increase (Decrease)
ASSETS				
Cash & Due from Banks	\$32,850	\$34,070	(\$1,220)	-3.58%
Available-for-sale Securities	365,086	409,800	(44,714)	-10.91%
Loans Held for Sale	437	621	(184)	-29.63%
Loans, Net	792,112	733,917	58,195	7.93%
Intangible Assets	11,956	11,963	(7)	-0.06%
Other Assets	57,480	54,962	2,518	4.58%
TOTAL ASSETS	\$1,259,921	\$1,245,333	\$14,588	1.17%

LIABILITIES				
Deposits	\$1,021,625	\$991,880	\$29,745	3.00%
Repo Sweep Accounts	4,739	6,320	(1,581)	-25.02%
Total Deposits and Repo Sweeps	1,026,364	998,200	28,164	2.82%
Borrowed Funds	34,256	46,808	(12,552)	-26.82%
Other Liabilities	8,288	9,722	(1,434)	-14.75%
TOTAL LIABILITIES	1,068,908	1,054,730	14,178	1.34%

SHAREHOLDERS' EQUITY

Common Shareholders' Equity, Excluding Accumulated				
Other Comprehensive Income	190,639	185,173	5,466	2.95%
Accumulated Other Comprehensive Income:				
Net Unrealized Gains/Losses on				
Available-for-sale Securities	227	5,388	(5,161)	-95.79%
Defined Benefit Plans	147	42	105	250.00%
TOTAL SHAREHOLDERS' EQUITY	191,013	190,603	410	0.22%
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY	\$1,259,921	\$1,245,333	\$14,588	1.17%



CITIZENS & NORTHERN
CORPORATION
c/o American Stock Transfer
& Trust Company, LLC
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📞 Connect With Us

CZNC

\$24.56 (as of 9/30/2017)

American Stock Transfer & Trust Company
Phone: 1-800-937-5449
Email: info@amstock.com
Web: 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



BANCNOTES

Third Quarter, 2017

👤 Employee Connection



C&N's TOP Award winners pictured from left: Bruce Smithgall, Kelly Fasse, Matt Landis, Ben Howe, Ginger Reap & Lisa Milne.

On October 18, C&N came together for a casino themed event at Mansfield University to celebrate our teammates recent successes, introduce a new service standard and have some fun and friendly competition! Congratulations to our six employees who were presented with a TOP award for leading their areas in the second & third quarter of 2017.

Bruce Smithgall - TOP Commercial Lender, based on loan growth

Kelly Fasse - TOP Mortgage Lender, based on production

Matt Landis - TOP Brokerage/Insurance Employee, based on new business

Ben Howe - TOP Trust & Wealth Management Employee, based on new business

Ginger Reap - TOP Branch Lender

Lisa Milne - TOP Cross Sales/New Account Ratio