

October 17, 2016

Contact: Charity Frantz
570-724-0225
charityf@cnbankpa.com

C&N ANNOUNCES THIRD QUARTER 2016 UNAUDITED FINANCIAL RESULTS FOR IMMEDIATE RELEASE:

Wellsboro, PA – Citizens & Northern Corporation (C&N) announced its unaudited, consolidated financial results for the three-month and nine-month periods ended September 30, 2016.

Net income was \$0.34 per basic and diluted share in the third quarter 2016, up from \$0.32 in the second quarter 2016 and down from \$0.35 in the third quarter 2015. For the nine months ended September 30, 2016, net income per basic and diluted share was \$0.95 as compared to \$1.02 per basic and \$1.01 per diluted share for the first nine months of 2015. The return on average assets for the first nine months of 2016 was 1.25%, and the return on average equity was 8.16%. Highlights related to C&N's earnings results for the comparative periods are as follows:

Third Quarter 2016 as Compared to Second Quarter 2016

- Net interest income was \$10,187,000 in the third quarter 2016, up from \$9,999,000 in the second quarter. The overall increase in net interest income in the third quarter 2016 included the benefit of an additional day. The increase also reflected an increase in average earning assets of \$12,304,000, including an increase in average loans outstanding of \$21,134,000. Average deposits increased \$14,748,000 in the third quarter 2016 as compared to the prior quarter, effectively providing funding for the increase in average earning assets. The net interest margin declined slightly to 3.74% in the third quarter 2016 from 3.76% in the second quarter. The margin reduction included a reduction in average yield on loans of 0.05% and a reduction in yield on available-for-sale securities of 0.07%, reflecting the ongoing pay-offs of assets originated or purchased in previous years when market interest yields were higher.
- The provision for loan losses was \$538,000 in the third quarter 2016, up from \$318,000 in the second quarter. The increase in the provision included the effect of an increase in specific allowances on individual impaired loans to \$685,000 at September 30, 2016 from \$253,000 at June 30, 2016. The increase in the allowances on impaired loans included the effect of recording an allowance of \$528,000 in the third quarter 2016 related to one real estate secured commercial loan relationship with loans outstanding totaling \$3,347,000 at September 30, 2016.
- Noninterest revenue totaled \$3,884,000 in the third quarter 2016, down \$22,000 (0.6%) from the second quarter total. Trust and Financial Management revenue decreased \$79,000, reflecting seasonality, and net gains from sales of residential mortgage loans were down \$59,000 from the prior quarter. Partially offsetting the decreases were an increase of \$57,000 in service charge revenue on deposit accounts and an increase of \$36,000 in brokerage revenue. Also within noninterest revenue, the fair value of mortgage servicing rights decreased \$68,000 in the third quarter 2016 as compared to a decrease in fair value of \$108,000 in the second quarter. The decreases in fair value of mortgage servicing rights resulted mainly from changes in prepayment assumptions driven by market expectations of lower interest rates at the time of the valuations.
- Realized gains from sales of securities totaled \$584,000 in the third quarter 2016, including gains of \$560,000 from sales of bank stocks. In comparison, realized gains from available-for-sale securities totaled \$122,000 in the second quarter. At September 30, 2016, C&N had one remaining bank stock investment, with an amortized cost basis of \$752,000 and a fair value of \$1,080,000. In October 2016, C&N sold the stock for a realized gain (pre-tax) of \$288,000.

- Noninterest expenses totaled \$8,579,000 in the third quarter 2016, up \$44,000 (0.5%) from the second quarter. Pensions and other employee benefits expense increased \$58,000 and occupancy expense increased \$41,000 in the third quarter 2016 as compared to the second quarter, while professional fees expense was lower by \$37,000 and Pennsylvania shares tax expense was lower by \$36,000.
- The provision for income tax increased \$148,000 to \$1,451,000, or 26.2% of pre-tax income, in the third quarter 2016. In comparison, the second quarter tax provision of \$1,303,000 was 25.2% of pre-tax income. The provision for state income tax increased \$26,000, primarily as a result of a catch-up adjustment to increase New York State taxes for the effect of changes in the tax methodology that first became effective in 2015.

Third Quarter 2016 as Compared to Third Quarter 2015

- Net interest income increased \$179,000 (1.8%), in the third quarter 2016 as compared to the third quarter 2015. The net interest margin for the third quarter 2016 was 0.08% higher than in the third quarter 2015 due to a lower cost of borrowed funds and a more favorable mix of earning assets. The average balance of total borrowed funds was \$57,226,000 at an average interest rate of 2.75% in the third quarter 2016, down from average borrowings of \$75,848,000 at an average interest rate of 3.34% in the third quarter 2015. The reduction in amount and average rate on borrowed funds reflects the impact of prepayments in the second and fourth quarters of 2015 of a long-term borrowing with an interest rate of 4.265%. Average total loans outstanding were higher by \$59.3 million (8.8%) in the third quarter 2016 as compared to the third quarter 2015, while average total available-for-sale securities were lower by \$68.7 million. Average total deposits were \$6.0 million (0.6%) higher in the third quarter 2016 as compared to the third quarter 2015.
- The third quarter 2016 provision for loan losses was \$236,000 higher than the comparative third quarter 2015 amount. As noted above, the provision in the most recent quarter included the impact of an increase in specific allowances on impaired loans.
- Noninterest revenue in the third quarter 2016 fell \$77,000 (1.9%) from the third quarter 2015 amount. Service charges on deposit accounts were \$81,000 (6.2%) lower, reflecting a reduced volume of consumer overdrafts, and the decrease in fair value of mortgage servicing rights (discussed above) of \$68,000 in the third quarter 2016 compared to an increase in fair value of \$13,000 in the third quarter 2015. Trust and Financial Management revenue increased \$49,000 (4.4%) in the third quarter 2016 as compared to the third quarter 2015. Other operating income was \$58,000 higher in the third quarter 2016 as compared to the third quarter 2015, including an increase of \$15,000 in dividend income from Federal Home Loan Bank of Pittsburgh stock.
- As described above, realized gains from securities totaled \$584,000 in the third quarter 2016, including gains from sales of bank stocks. In comparison, realized gains from securities totaled \$79,000 in the third quarter 2015.
- Noninterest expenses in the third quarter 2016 exceeded the third quarter 2015 amount by \$462,000 (5.7%). Salaries and wages expense increased \$157,000 (4.2%), reflecting an increase in number of employees, including new positions established for lending, lending support, information technology, training, human resources and marketing functions. Professional fees expense increased \$104,000 in the third quarter 2016 over the third quarter 2015 amount, including increases related to employee sales and service training, information technology, marketing and outsourced commercial loan credit review. Other operating expense increased \$164,000 (13.6%) in the third quarter 2016 over the third quarter 2015, including increases in education and training-related expense of \$29,000, net collection-related expenses of \$29,000 and expenses related to other real estate properties of \$27,000. Also, other operating expense

in the third quarter 2015 was reduced by a refund of \$69,000 from recovery of previously-paid sales tax, with no corresponding recovery in the third quarter 2016.

- The third quarter 2016 provision for income tax of \$1,451,000, or 26.2% of pre-tax income, was \$56,000 higher than the third quarter 2015 tax provision of \$1,395,000, or 24.8% of pre-tax income. The higher effective tax in the third quarter 2016 included the effects of a reduction in tax-exempt interest income of \$127,000. The reduction in tax-exempt interest income resulted from pay-offs received on municipal bonds purchased several years ago when market interest yields were higher. Also, the provision for state income tax was \$39,000 higher, primarily as a result of a catch-up adjustment to increase New York State taxes for the effect of changes in the tax methodology that first became effective in 2015.

Nine-Month Periods Ended September 30, 2016 and 2015

- Net interest income was \$251,000 (0.8%) higher than the comparable total for the first nine months of 2015. The net interest margin of 3.77% was 0.08% higher than the margin for the first nine months of 2015, reflecting a lower cost of borrowed funds resulting from prepayment in 2015 of a long-term borrowing and a more favorable mix of earning assets. The average balance of total borrowed funds was \$64,476,000 at an average interest rate of 2.53% for the first nine months of 2016, down from average borrowings of \$77,749,000 at an average interest rate of 3.55% in the first nine months of 2015. 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, including a decrease in average total deposits of \$9.3 million (1.0%).
- The provision for loan losses for the nine months ended September 30, 2016 totaled \$1,224,000, an increase of \$698,000 over the corresponding amount for the first nine months of 2015. In 2016, the provision 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, adjusted for the impact of net charge-offs. The provision in 2016 also included the impact of increasing the allowance for loan losses for the 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. In comparison, the provision in 2015 also reflected the effects of loan growth, but the qualitative factors used in determining a portion of the collectively determined allowance for loan allowances were slightly decreased during the period.
- Total noninterest revenue for the nine months ended September 30, 2016 was virtually unchanged from the corresponding amount for the first nine months of 2015. Within noninterest income, the categories with the largest increases included: (1) other operating income, which increased \$157,000, mainly due to an increase in revenue from redemption of tax credits; (2) net gains from sales of loans, which increased \$126,000 (22.0%), reflecting higher volume of sales; and (3) Trust and Financial Management revenue, which increased \$89,000 (2.6%). The categories with the largest decreases within noninterest revenue included: (1) decrease in fair value of mortgage servicing rights of \$247,000 in the first nine months of 2016 as compared to a decrease in fair value of \$137,000 in the first nine months of 2015; (2) decrease in service charges on deposit accounts of \$106,000 (2.9%), reflecting a reduction in consumer overdraft volume; and (3) reduction in brokerage revenue of \$71,000, as the volume of sales of annuities declined.
- In the first nine months of 2016, realized gains from securities totaled \$1,089,000, 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 \$1,085,000, including gains from sales of bank stocks of \$476,000, and also incurred a loss from prepayment of a borrowing of \$910,000.
- 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 \$1,572,000 (6.4%). Salaries and wages expense

increased \$867,000 (8.0%). As described above, several new positions were established in the latter portion of 2015 and early 2016. Professional fees expense increased \$379,000, including increases related to employee sales and service training, information technology, marketing and outsourced commercial loan credit review. Other operating expense increased \$311,000 (8.0%), including increases in donations and public relations-related expenses of \$90,000, education and training-related expenses of \$86,000 and other real estate expenses of \$48,000. Also, other operating expense was reduced in 2015 by \$69,000 as a result of a recovery of sales tax previously paid. Within other operating expense, net collections-related expense was \$59,000 lower in the first nine months of 2016 as compared to the corresponding period in 2015.

- The provision for income tax totaled \$3,847,000 for the nine months ended September 30, 2016, down \$229,000 from the amount for the first nine months of 2015. The lower tax provision in 2016 resulted from lower pre-tax income; however, the provision increased as a percentage of pre-tax income to 25.02% in 2016 from 24.73% in 2015. The higher effective tax rate included the impact of a \$253,000 reduction in tax-exempt interest income and an increase in the provision for state income tax of \$30,000 that resulted mainly from a catch-up adjustment to increase New York State taxes for the effect of changes in the tax methodology that first became effective in 2015.

Other Information:

Changes in other unaudited financial information are as follows:

- Total assets amounted to \$1,245,333,000 at September 30, 2016, as compared to \$1,231,018,000 at June 30, 2016 and \$1,232,531,000 at September 30, 2015.
- Net loans outstanding (excluding mortgage loans held for sale) were \$733,917,000 at September 30, 2016, up from \$719,913,000 at June 30, 2016 and up 9.1% from \$672,449,000 at September 30, 2015. In comparing outstanding balances at September 30, 2016 and 2015, total residential mortgage loans increased \$29.3 million, or 7.7%, and total commercial loans increased \$30.5 million, or 10.6%. At September 30, 2016, the outstanding balance of commercial loan participations with other financial entities was \$48.7 million, an increase of \$16.3 million over the corresponding balance at September 30, 2015.
- The outstanding balance of residential mortgages originated by C&N and sold to third parties, with servicing retained, totaled \$157,845,000 at September 30, 2016, up from \$156,417,000 at June 30, 2016 and \$152,275,000 at September 30, 2015.
- Total nonperforming assets as a percentage of assets was 1.61% at September 30, 2016 as compared to 1.40% at June 30, 2016 and 1.28% at September 30, 2015. Total outstanding loans 90 days or more past due and still accruing interest increased to \$7,539,000 at September 30, 2016 from \$4,654,000 at June 30, 2016 and \$2,833,000 at September 30, 2015. The increase in the third quarter 2016 in the balance of loans past due 90 days or more and still accruing interest included a commercial loan with a balance of \$2,697,000 that was deemed by management to be well secured and in the process of collection. At September 30, 2016, in addition to this commercial loan, there were several residential mortgage loans that were more than 90 days past due but were deemed by management to be well secured and in the process of collection.
- Deposits and repo sweep accounts totaled \$998,200,000 at September 30, 2016, up from \$973,612,000 at June 30, 2016 and up 3.2% from \$966,856,000 at September 30, 2015.
- Total shareholders' equity was \$190,603,000 at September 30, 2016 as compared to \$190,530,000 at June 30, 2016 and \$190,100,000 at September 30, 2015. Tangible common equity as a percentage of tangible assets was 14.48% at September 30, 2016 as compared to 14.59% a year earlier. In the first six months of 2016, 187,300 shares of common stock were repurchased at an average cost of \$19.88 per share for a total cost of \$3,723,000, completing the repurchases of shares authorized by the Board of Directors under the program announced in July 2014. In April 2016, the Board announced a new common stock repurchase program for the acquisition of up to

600,000 shares. There were no repurchases of stock under the new program in the second or third quarters of 2016.

- Assets under management by C&N's Trust and Financial Management Group amounted to \$867,852,000 at September 30, 2016, up from \$847,280,000 at June 30, 2016, and up 9.8% from \$790,215,000 a year earlier.

Citizens & Northern Corporation is the parent company of Citizens & Northern Bank, a local, independent community bank providing complete financial, investment and insurance services through 26 full service offices throughout Tioga, Bradford, Sullivan, Lycoming, Potter, Cameron and McKean counties in Pennsylvania and in Canisteo and South Hornell, NY. C&N can be found on the worldwide web at www.cnbankpa.com. The Company's stock is listed on NASDAQ Capital Market Securities under the symbol CZNC.

Safe Harbor Statement: Except for historical information contained herein, the matters discussed in this release are forward-looking statements. Investors are cautioned that all forward-looking statements involve risks and uncertainty, including without limitation, the following: changes in monetary and fiscal policies of the Federal Reserve Board and the U.S. Government, particularly related to changes in interest rates; changes in general economic conditions; legislative or regulatory changes; downturn in demand for loan, deposit and other financial services in the Corporation's market area; increased competition from other banks and non-bank providers of financial services; technological changes and increased technology-related costs; changes in management's assessment of realization of securities and other assets; and changes in accounting principles, or the application of generally accepted accounting principles. Citizens & Northern disclaims any intention or obligation to publicly update or revise any forward-looking statements, whether as a result of events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.



September 30, 2016

QUARTERLY REPORT

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.

A handwritten signature in cursive script, reading "J. Bradley Scovill".

J. Bradley Scovill
President and CEO

CONDENSED, CONSOLIDATED EARNINGS INFORMATION

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

	3RD QUARTER 2016 (Current)	3RD QUARTER 2015 (Prior Year)	\$ Incr. (Decr.)	% Incr. (Decr.)
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%
Net Income	\$4,087	\$4,234	(\$147)	-3.47%

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		

CONDENSED, CONSOLIDATED EARNINGS INFORMATION

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

	9 MONTHS ENDED SEPTEMBER 30,			
	2016 (Current)	2015 (Prior Year)	\$ Incr. (Decr.)	% Incr. (Decr.)
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)

	SEPT. 30, 2016	SEPT. 30, 2015	SEPT. 30, 2016 vs 2015	
			\$ Incr. (Decr.)	% Incr. (Decr.)
ASSETS				
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%
TOTAL ASSETS	\$1,245,333	\$1,232,531	\$12,802	1.04%
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%
TOTAL LIABILITIES	1,054,730	1,042,431	12,299	1.18%
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%
TOTAL SHAREHOLDERS' EQUITY	190,603	190,100	503	0.26%
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY	\$1,245,333	\$1,232,531	\$12,802	1.04%


CITIZENS & NORTHERN CORPORATION
CONDENSED, CONSOLIDATED FINANCIAL HIGHLIGHTS

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

	9 MONTHS ENDED		% INCREASE (DECREASE)
	SEPTEMBER 30, 2016	2015	
EARNINGS PERFORMANCE			
Net Income	\$11,531	\$12,406	-7.05%
Return on Average Assets	1.25%	1.32%	-5.30%
Return on Average Equity	8.16%	8.78%	-7.06%
BALANCE SHEET HIGHLIGHTS			
Total Assets	\$1,245,333	\$1,232,531	1.04%
Available-for-Sale Securities	409,800	461,713	-11.24%
Loans (Net)	733,917	672,449	9.14%
Allowance for Loan Losses	8,421	7,416	13.55%
Deposits and Repo Sweep Accounts	998,200	966,856	3.24%
OFF-BALANCE SHEET			
Outstanding Balance of Mortgage Loans Sold with Servicing Retained	157,845	152,275	3.66%
Trust Assets Under Management	867,852	790,215	9.82%
SHAREHOLDERS' VALUE (PER COMMON SHARE)			
Net Income - Basic	\$0.95	\$1.02	-6.86%
Net Income - Diluted	\$0.95	\$1.01	-5.94%
Cash Dividends Declared	\$0.78	\$0.78	0.00%
Common Book Value	\$15.77	\$15.60	1.09%
Tangible Common Book Value	\$14.78	\$14.62	1.09%
Market Value (Last Trade)	\$21.97	\$19.52	12.55%
Market Value / Common Book Value	139.32%	125.13%	11.34%
Market Value / Tangible Common Book Value	148.65%	133.52%	11.33%
Price Earnings Multiple (Annualized)	17.34	14.35	20.84%
Dividend Yield (Annualized)	4.73%	5.33%	-11.26%
Common Shares Outstanding, End of Period	12,087,223	12,187,033	-0.82%
SAFETY AND SOUNDNESS			
Tangible Common Equity / Tangible Assets	14.48%	14.59%	-0.69%
Nonperforming Assets / Total Assets	1.61%	1.28%	25.78%
Allowance for Loan Losses / Total Loans	1.13%	1.09%	3.67%
Total Risk Based Capital Ratio (a)	23.58%	24.54%	-3.91%
Tier 1 Risk Based Capital Ratio (a)	22.47%	23.39%	-3.93%
Common Equity Tier 1 Risk Based Capital Ratio (a)	22.47%	23.39%	-3.93%
Leverage Ratio (a)	14.18%	13.95%	1.65%
AVERAGE BALANCES			
Average Assets	\$1,226,733	\$1,249,156	-1.80%
Average Equity	\$188,424	\$188,305	0.06%

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

QUARTERLY CONDENSED, CONSOLIDATED INCOME STATEMENT INFORMATION

(In Thousands) (Unaudited)

For the Three Months Ended:

	Sept. 30, 2016	June 30, 2016	Mar. 31, 2016	Dec. 31, 2015	Sept. 30, 2015	June 30, 2015	Mar. 31, 2015
Interest income	\$11,131	\$10,924	\$10,937	\$11,036	\$11,134	\$11,186	\$11,163
Interest expense	944	925	904	1,087	1,126	1,176	1,213
Net interest income	10,187	9,999	10,033	9,949	10,008	10,010	9,950
Provision for loan losses	538	318	368	319	302	221	3
Net interest income after provision							
for loan losses	9,649	9,681	9,665	9,630	9,706	9,789	9,947
Other income	3,884	3,906	3,690	3,999	3,961	3,962	3,556
Net gains on available-for-sale securities	584	122	383	1,776	79	932	74
Loss on prepayment of borrowings	0	0	0	1,663	0	910	0
Other expenses	8,579	8,535	9,072	8,416	8,117	7,964	8,533
Income before income tax provision	5,538	5,174	4,666	5,326	5,629	5,809	5,044
Income tax provision	1,451	1,303	1,093	1,261	1,395	1,452	1,229
Net income	\$4,087	\$3,871	\$3,573	\$4,065	\$4,234	\$4,357	\$3,815
Net income per share – basic	\$0.34	\$0.32	\$0.29	\$0.33	\$0.35	\$0.36	\$0.31
Net income per share – diluted	\$0.34	\$0.32	\$0.29	\$0.33	\$0.35	\$0.36	\$0.31

QUARTERLY CONDENSED, CONSOLIDATED BALANCE SHEET INFORMATION

(In Thousands) (Unaudited)

As of:

	Sept. 30, 2016	June 30, 2016	Dec. 31, 2015	Sept. 30, 2015
ASSETS				
Cash & Due from Banks	\$34,070	\$27,436	\$36,061	\$32,221
Available-for-Sale Securities	409,800	417,205	420,290	461,713
Loans Held for Sale	621	381	280	76
Loans, Net	733,917	719,913	696,991	672,449
Intangible Assets	11,963	11,966	11,972	11,978
Other Assets	54,962	54,117	57,823	54,094
TOTAL ASSETS	\$1,245,333	\$1,231,018	\$1,223,417	\$1,232,531
LIABILITIES				
Deposits	\$991,880	\$967,951	\$935,615	\$961,112
Repo Sweep Accounts	6,320	5,661	4,915	5,744
Total Deposits and Repo Sweeps	998,200	973,612	940,530	966,856
Borrowed Funds	46,808	58,656	87,348	67,342
Other Liabilities	9,722	8,220	8,052	8,233
TOTAL LIABILITIES	1,054,730	1,040,488	1,035,930	1,042,431
SHAREHOLDERS' EQUITY				
Common Shareholders' Equity, Excluding				
Accumulated Other Comprehensive Income/ Loss	185,173	183,636	184,959	183,978
Accumulated Other Comprehensive Income/ Loss:				
Net Unrealized Gains/Losses on				
Available-for-sale Securities	5,388	6,849	2,493	6,116
Defined Benefit Plans Adjustment, Net	42	45	35	6
TOTAL SHAREHOLDERS' EQUITY	190,603	190,530	187,487	190,100
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY	\$1,245,333	\$1,231,018	\$1,223,417	\$1,232,531

AVAILABLE-FOR-SALE SECURITIES (In Thousands)	September 30, 2016		June 30, 2016		December 31, 2015	
	Amortized	Fair	Amortized	Fair	Amortized	Fair
	Cost	Value	Cost	Value	Cost	Value
Obligations of U.S. Government agencies	\$9,667	\$9,747	\$9,664	\$9,781	\$10,663	\$10,483
Obligations of states and political subdivisions:						
Tax-exempt	116,797	121,283	110,702	116,056	103,414	107,757
Taxable	32,764	33,672	34,015	35,132	34,317	34,597
Mortgage-backed securities issued or guaranteed by U.S. Government agencies or sponsored agencies:						
Residential pass-through securities	60,966	62,187	64,108	65,407	73,227	73,343
Residential collateralized mortgage obligations	164,508	165,719	175,889	177,980	193,145	191,715
Commercial mortgage-backed securities	16,056	16,112	11,120	11,239	0	0
Other collateralized debt obligations	0	0	1	1	9	9
Total debt securities	400,758	408,720	405,499	415,596	414,775	417,904
Marketable equity securities	752	1,080	1,171	1,609	1,680	2,386
Total	\$401,510	\$409,800	\$406,670	\$417,205	\$416,455	\$420,290

**Summary of Loans by Type
(Excludes Loans Held for Sale)
(In Thousands)**

	Sept. 30, 2016	June 30, 2016	Dec. 31, 2015	Sept. 30, 2015
Residential mortgage:				
Residential mortgage loans - first liens	\$325,533	\$315,191	\$304,783	\$298,096
Residential mortgage loans - junior liens	22,794	22,159	21,146	20,601
Home equity lines of credit	38,623	39,054	39,040	38,585
1-4 Family residential construction	23,310	22,241	21,121	23,633
Total residential mortgage	410,260	398,645	386,090	380,915
Commercial:				
Commercial loans secured by real estate	149,938	153,070	154,779	135,760
Commercial and industrial	86,969	82,390	75,196	72,011
Political subdivisions	38,653	41,026	40,007	40,186
Commercial construction and land	12,809	9,193	5,122	6,852
Loans secured by farmland	6,900	6,615	7,019	7,521
Multi-family (5 or more) residential	8,133	8,173	9,188	9,181
Agricultural loans	4,313	4,692	4,671	4,588
Other commercial loans	11,557	11,904	12,152	12,691
Total commercial	319,272	317,063	308,134	288,790
Consumer	12,806	12,134	10,656	10,160
Total	742,338	727,842	704,880	679,865
Less: allowance for loan losses	(8,421)	(7,929)	(7,889)	(7,416)
Loans, net	\$733,917	\$719,913	\$696,991	\$672,449

**Loans Held for Sale
(In Thousands)**

	Sept. 30, 2016	June 30, 2016	Dec. 31, 2015	Sept. 30, 2015
Residential mortgage loans originated and serviced - outstanding balance	\$158,466	\$156,798	\$152,728	\$152,351
Less: outstanding balance of loans sold	(157,845)	(156,417)	(152,448)	(152,275)
Loans held for sale, net	\$621	\$381	\$280	\$76

ANALYSIS OF THE ALLOWANCE FOR LOAN LOSSES
(In Thousands)

	3 Months Ended Sept. 30, 2016	3 Months Ended June 30, 2016	9 Months Ended Sept. 30, 2016	9 Months Ended Sept. 30, 2015
Balance, beginning of period	\$7,929	\$7,661	\$7,889	\$7,336
Charge-offs	(61)	(63)	(737)	(496)
Recoveries	15	13	45	50
Net charge-offs	(46)	(50)	(692)	(446)
Provision for loan losses	538	318	1,224	526
Balance, end of period	\$8,421	\$7,929	\$8,421	\$7,416

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

	Sept. 30, 2016	June 30, 2016	Dec 31, 2015	Sept. 30, 2015
Impaired loans with a valuation allowance	\$3,621	\$1,275	\$1,933	\$1,963
Impaired loans without a valuation allowance	7,514	8,055	8,041	7,812
Total impaired loans	\$11,135	\$9,330	\$9,974	\$9,775
Total loans past due 30-89 days and still accruing	\$4,040	\$6,945	\$7,057	\$4,780
Nonperforming assets:				
Total nonaccrual loans	\$10,206	\$10,504	\$11,517	\$11,632
Total loans past due 90 days or more and still accruing	7,539	4,654	3,229	2,833
Total nonperforming loans	17,745	15,158	14,746	14,465
Foreclosed assets held for sale (real estate)	2,321	2,052	1,260	1,363
Total nonperforming assets	\$20,066	\$17,210	\$16,006	\$15,828
Loans subject to troubled debt restructurings (TDRs):				
Performing	\$946	\$1,047	\$1,186	\$1,043
Nonperforming	5,032	5,102	5,178	5,182
Total TDRs	\$5,978	\$6,149	\$6,364	\$6,225
Total nonperforming loans as a % of loans	2.39%	2.08%	2.09%	2.13%
Total nonperforming assets as a % of assets	1.61%	1.40%	1.31%	1.28%
Allowance for loan losses as a % of total loans	1.13%	1.09%	1.12%	1.09%
Allowance for loan losses as a % of nonperforming loans	47.46%	52.31%	53.50%	51.27%

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

	3 Months Ended 9/30/2016 Average Balance	Rate of Return/ Cost of Funds %	3 Months Ended 6/30/2016 Average Balance	Rate of Return/ Cost of Funds %	3 Months Ended 9/30/2015 Average Balance	Rate of Return/ Cost of Funds %
EARNING ASSETS						
Available-for-sale securities, at amortized cost:						
Taxable	\$291,847	1.98%	\$297,608	2.02%	\$361,481	2.02%
Tax-exempt	112,679	4.51%	108,652	4.79%	111,735	5.14%
Total available-for-sale securities	404,526	2.69%	406,260	2.76%	473,216	2.75%
Interest-bearing due from banks	17,138	0.67%	24,250	0.60%	19,774	0.46%
Loans held for sale	556	5.01%	540	5.96%	245	8.10%
Loans receivable:						
Taxable	671,408	4.95%	650,213	5.00%	610,516	5.10%
Tax-exempt	61,608	4.50%	61,669	4.50%	63,219	4.50%
Total loans receivable	733,016	4.91%	711,882	4.96%	673,735	5.05%
Total Earning Assets	1,155,236	4.07%	1,142,932	4.09%	1,166,970	4.04%
Cash	17,523		16,522		16,961	
Unrealized gain/loss on securities	9,654		7,737		7,015	
Allowance for loan losses	(8,050)		(7,756)		(7,376)	
Bank premises and equipment	15,379		15,390		15,808	
Intangible Asset - Core Deposit Intangible	24		25		38	
Intangible Asset – Goodwill	11,942		11,942		11,942	
Other assets	38,225		38,938		38,294	
Total Assets	\$1,239,933		\$1,225,730		\$1,249,652	
INTEREST-BEARING LIABILITIES						
Interest-bearing deposits:						
Interest checking	\$200,789	0.15%	\$196,918	0.15%	\$197,189	0.11%
Money market	205,158	0.17%	200,896	0.17%	202,106	0.15%
Savings	133,269	0.10%	132,353	0.10%	128,939	0.10%
Certificates of deposit	123,475	0.77%	117,825	0.75%	125,886	0.66%
Individual Retirement Accounts	103,259	0.42%	104,030	0.42%	109,661	0.41%
Other time deposits	1,523	0.26%	1,140	0.00%	1,514	0.26%
Total interest-bearing deposits	767,473	0.28%	753,162	0.28%	765,295	0.25%
Borrowed funds:						
Short-term	18,655	0.64%	23,225	0.71%	12,972	0.28%
Long-term	38,571	3.76%	38,649	3.77%	62,876	3.98%
Total borrowed funds	57,226	2.75%	61,874	2.62%	75,848	3.34%
Total Interest-bearing Liabilities	824,699	0.46%	815,036	0.46%	841,143	0.53%
Demand deposits	215,880		215,443		212,022	
Other liabilities	9,057		8,304		8,803	
Total Liabilities	1,049,636		1,038,783		1,061,968	
Stockholders' equity, excluding other comprehensive income/loss						
Other comprehensive income/loss	183,966		181,882		183,116	
Other comprehensive income/loss	6,331		5,065		4,568	
Total Stockholders' Equity	190,297		186,947		187,684	
Total Liabilities and Stockholders' Equity	\$1,239,933		\$1,225,730		\$1,249,652	
Interest Rate Spread		3.61%		3.63%		3.51%
Net Interest Income/Earning Assets		3.74%		3.76%		3.66%
Total Deposits (Interest-bearing and Demand)	\$983,353		\$968,605		\$977,317	

(1) Annualized rates of return on tax-exempt securities and loans are presented on a fully taxable-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.

(3) Rates of return on earning assets and costs of funds are presented on an annualized basis.

Analysis of Average Daily Balances and Rates

(Dollars in Thousands)

	9 Months Ended 9/30/2016 Average Balance	Rate of Return/ Cost of Funds %	9 Months Ended 9/30/2015 Average Balance	Rate of Return/ Cost of Funds %
EARNING ASSETS				
Available-for-sale securities, at amortized cost:				
Taxable	\$298,421	2.03%	\$379,666	2.08%
Tax-exempt	108,926	4.83%	115,255	5.27%
Total available-for-sale securities	407,347	2.78%	494,921	2.82%
Interest-bearing due from banks	20,566	0.58%	22,886	0.43%
Loans held for sale	516	5.44%	160	8.36%
Loans receivable:				
Taxable	654,256	4.98%	595,170	5.24%
Tax-exempt	61,319	4.51%	51,468	4.80%
Total loans receivable	715,575	4.94%	646,638	5.20%
Total Earning Assets	1,144,004	4.09%	1,164,605	4.10%
Cash	16,548		16,723	
Unrealized gain/loss on securities	8,154		9,287	
Allowance for loan losses	(7,913)		(7,331)	
Bank premises and equipment	15,409		16,050	
Intangible Asset - Core Deposit Intangible	26		44	
Intangible Asset – Goodwill	11,942		11,942	
Other assets	38,563		37,836	
Total Assets	\$1,226,733		\$1,249,156	
INTEREST-BEARING LIABILITIES				
Interest-bearing deposits:				
Interest checking	\$197,628	0.14%	\$196,109	0.11%
Money market	199,211	0.17%	197,852	0.15%
Savings	131,880	0.10%	128,561	0.10%
Certificates of deposit	118,256	0.75%	123,523	0.68%
Individual Retirement Accounts	104,280	0.42%	111,729	0.41%
Other time deposits	1,157	0.12%	1,150	0.12%
Total interest-bearing deposits	752,412	0.28%	758,924	0.26%
Borrowed funds:				
Short-term	25,828	0.69%	9,417	0.21%
Long-term	38,648	3.77%	68,332	4.01%
Total borrowed funds	64,476	2.53%	77,749	3.55%
Total Interest-bearing Liabilities	816,888	0.45%	836,673	0.56%
Demand deposits	213,172		215,949	
Other liabilities	8,249		8,229	
Total Liabilities	1,038,309		1,060,851	
Stockholders' equity, excluding other comprehensive income/loss				
Other comprehensive income/loss	183,078		182,252	
Other comprehensive income/loss	5,346		6,053	
Total Stockholders' Equity	188,424		188,305	
Total Liabilities and Stockholders' Equity	\$1,226,733		\$1,249,156	
Interest Rate Spread		3.64%		3.54%
Net Interest Income/Earning Assets		3.77%		3.69%
Total Deposits (Interest-bearing and Demand)	\$965,584		\$974,873	

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

(3) Rates of return on earning assets and costs of funds are presented on an annualized basis.

COMPARISON OF NONINTEREST INCOME

(In Thousands)

	Three Months Ended			Nine Months Ended	
	Sept. 30, 2016	June 30, 2016	Sept. 30, 2015	Sept. 30, 2016	Sept. 30, 2015
Service charges on deposit accounts	\$1,221	\$1,164	\$1,302	\$3,523	\$3,629
Service charges and fees	118	123	137	335	373
Trust and financial management revenue	1,172	1,251	1,123	3,567	3,478
Brokerage revenue	216	180	215	569	640
Insurance commissions, fees and premiums	26	27	24	74	87
Interchange revenue from debit card transactions	481	487	482	1,431	1,456
Net gains from sales of loans	236	295	243	699	573
(Decrease) increase in fair value of servicing rights	(68)	(108)	13	(247)	(137)
Increase in cash surrender value of life insurance	97	93	95	286	294
Other operating income	385	394	327	1,243	1,086
Total other operating income, before realized gains on available-for-sale securities, net	\$3,884	\$3,906	\$3,961	\$11,480	\$11,479

COMPARISON OF NONINTEREST EXPENSE

(In Thousands)

	Three Months Ended			Nine Months Ended	
	Sept. 30, 2016	June 30, 2016	Sept. 30, 2015	Sept. 30, 2016	Sept. 30, 2015
Salaries and wages	\$3,901	\$3,913	\$3,744	\$11,701	\$10,834
Pensions and other employee benefits	1,060	1,002	1,016	3,499	3,336
Occupancy expense, net	601	560	623	1,770	1,985
Furniture and equipment expense	435	439	477	1,301	1,398
FDIC Assessments	151	155	155	448	454
Pennsylvania shares tax	287	323	311	932	946
Professional fees	245	282	141	816	437
Automated teller machine and interchange expense	291	267	234	807	735
Software subscriptions	237	251	209	729	617
Other operating expense	1,371	1,343	1,207	4,183	3,872
Total noninterest expense, before loss on prepayment of borrowings	8,579	8,535	8,117	26,186	24,614
Loss on prepayment of borrowings	0	0	0	0	910
Total noninterest expense	\$8,579	\$8,535	\$8,117	\$26,186	\$25,524