

## **CITIZENS & NORTHERN CORPORATION AUDIT COMMITTEE CHARTER**

### **I. Purpose**

The Audit Committee of the Board of Directors of Citizens & Northern Corporation (together with its subsidiaries; Citizens & Northern Bank (C&N Bank) and its wholly-owned subsidiaries C&N Financial Services LLC and Northern Tier Holding LLC; Bucktail Life Insurance Company; and Citizens & Northern Investment Corporation) shall be appointed by the Board to:

- A. Assist the Board in fulfilling its oversight responsibility relating to the:
- integrity of the Corporation's financial statements and related disclosure matters;
  - qualifications, independence and performance of, and the Corporation's relationship with, the independent auditor;
  - performance of the Corporation's internal audit function; and
  - Corporation's compliance with legal and regulatory requirements.
  - Corporation's systems of disclosure controls and procedures, internal controls over financial reporting, and compliance with ethical standards adopted by the Corporation.
- B. Provide the report required by the rules of the Securities and Exchange Commission to be included in the Corporation's annual proxy statement.

### **II. Membership**

The Committee shall be comprised of at least three outside directors as determined by the Board each of whom shall be independent, non-executive directors, free from any relationship that would interfere with the exercise of his or her independent judgment. The Committee members shall meet the requirements for independence, experience and expertise set forth in applicable laws, under the regulations of the Securities and Exchange Commission and NASDAQ rules. At least one member of the Committee will qualify as an "audit committee financial expert" as such term is defined under the regulations of the Securities and Exchange Commission and NASDAQ rules. (If the Committee does not have a member that qualifies as an "audit committee financial expert", the Corporation shall disclose that fact and the reasons therefore.) At least one member of the Committee shall have accounting or related financial management expertise as such terms are defined by regulations of the Securities and Exchange Commission and NASDAQ rules. The Board shall appoint the Committee members at the Board meeting held after the annual meeting or at any other Board meeting as it deems necessary or appropriate. The Board shall appoint the

Chair of the Committee. If a Chair is not designated or present, the members of the Committee may designate a Chair by majority vote of the Committee membership.

Service on the Committee requires a significant time commitment from its members. In determining whether a Committee member would be able to meet the significant time commitment, the Board will take into consideration the other obligations of such member, including full-time employment and service on other boards of directors and audit committees. Committee members may not receive any compensation from the Corporation other than directors' fees.

### **III. Meetings and Reports**

The Committee shall meet as frequently as it deems necessary and appropriate. The Chair of the Committee, or any two members of the Committee, may call meetings of the Committee as they deem necessary and appropriate. Meetings of the Committee may be held in person or by conference call.

The Chair shall preside at all sessions of the Committee at which he or she is present and shall set the agendas for Committee meetings. Members of management and the Board are free to suggest items for inclusion in the agenda for the Committee's meetings. The agenda and information concerning the business to be conducted at each Committee meeting shall, to the extent practical, be communicated to the members of the Committee sufficiently in advance of each meeting to permit meaningful review.

The Committee may meet separately in executive session when necessary with each of the following: (i) senior management, (ii) Chief Risk Management Officer (iii) Director of Internal Audit, (iv) the Compliance Manager, (v) the independent auditors, and (vi) as a Committee to discuss any matters that the Committee or each of these groups believe should be discussed.

The Committee shall report regularly to the Board with respect to such matters that are within the Committee's responsibilities and with respect to such recommendations as the Committee may deem appropriate. The report to the Board may take the form of an oral report by the Chair or by any other member designated by the Committee to make such report. The Committee shall maintain minutes or other records of meetings and activities of the Committee, including executive sessions, and make them available to the Board.

The Committee shall provide the report of the Committee to be contained in the Corporation's annual proxy statement, as required by the rules of the Securities and Exchange Commission.

### **IV. Authority and Responsibilities**

The Committee shall perform the following functions and may carry out additional functions and adopt additional policies and procedures in furtherance of the purpose of the Committee outlined in Section I of this Charter, as may be appropriate in light of changing

business, legislative, regulatory, or other conditions, or as may be delegated to the Committee by the Board from time to time.

A. Financial Statements and Disclosure Matters

1. The Committee shall review and discuss with management and the independent auditor the Corporation's annual audited and quarterly consolidated financial statements, including the disclosures contained in the Corporation's Annual Report on Form 10-K and its Quarterly Reports on Form 10-Q, under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations." After review of the annual audited consolidated financial statements and the reports and discussions required by Sections IV. A. 7. and IV. B. 5. of this Charter, the Committee shall determine whether to recommend to the Board that such financial statements be included in the Corporation's Form 10-K.
2. The Committee shall be advised of the execution by the Corporation's Chief Executive Officer and Chief Financial Officer of the certifications required to accompany the filing of the Form 10-K and the Forms 10-Q, and any other information required to be disclosed to it in connection with the filing of such certifications, including (i) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting that are reasonably likely to adversely affect the Corporation's ability to record, process, summarize and report financial information, and (ii) any fraud that involves management or other employees who have a significant role in the Corporation's internal control over financial reporting.
3. The Committee shall discuss with management and the independent auditor at least quarterly any significant financial reporting issues that arose and judgments made in connection with the preparation of the Corporation's financial statements, including any significant changes in the Corporation's selection or application of critical accounting principles, any major issues as to the adequacy and quality of the Corporation's disclosure procedures and controls and any special steps taken or changes made to respond to material control deficiencies.
4. The Committee shall review and discuss with the independent auditor the reports from the independent auditor with respect to:
  - all critical accounting policies and decisions;
  - all alternative treatments of financial information within generally accepted accounting principles that have been discussed with management, ramifications of the use of such alternative disclosures

and treatments, and the treatment recommended by the independent auditor; and

- other material written communications between the independent auditor and management, such as any management letter or schedule of adjustments.
5. The Committee shall review and discuss periodically, as necessary, with the independent auditors and the Director of Internal Audit the adequacy of the Corporation's internal accounting controls, the Corporation's financial, auditing and accounting organizations and personnel, and the Corporation's policies and compliance procedures with respect to business practices, which shall include the disclosures regarding internal controls and matters required by Sections 302 and 404 of the Sarbanes-Oxley Act of 2002 and any rules promulgated thereunder by the Securities and Exchange Commission.
  6. The Committee shall discuss with management the Corporation's earnings press releases, and financial information and earnings guidance provided to analysts and rating agencies prior to the release of the information and filing of a related Form 8-K. Additionally, the Committee shall review and discuss with management any Registration Statements to be filed with the SEC in connection with a merger, stock issuance or registration of securities, including understanding any pro forma information that may be included in the filing. Such discussions may be conducted generally (i.e., by discussing the types of information to be disclosed and the types of presentations to be made paying particular attention to any pro-forma or adjusted non-GAAP information).
  7. The Committee shall discuss with management and the independent auditor the effect of regulatory and accounting initiatives as well as off-balance sheet structures on the Corporation's financial statements.
  8. The Committee shall discuss with the independent auditor the matters required to be discussed under the standards of the PCAOB relating to the conduct of the audit, including communication of Critical Audit Matters, any difficulties encountered in the course of the audit work, any restrictions on the scope of activities or access to requested information, and any significant disagreements with management, as well as any other matters required to be disclosed by the independent auditor or of concern to the Committee.

B. Oversight of the Corporation's Relationship with the Independent Auditor

1. The Committee shall have the sole authority to appoint or replace the independent auditor. The Committee shall be directly responsible for the

compensation and oversight of the work of the independent auditor (including resolution of disagreements between management and the independent auditor regarding financial reporting) for the purposes of preparing or issuing an audit report or related work. The independent auditor shall report directly to the Committee.

2. The Committee shall review and approve in advance the annual plan and scope of work of the independent auditor and fee arrangements, including staffing of the audit, and shall review with the independent auditor any audit-related concerns and management's response. With respect to auditing services, the Committee's approval of the engagement letter with the independent auditor will constitute approval of the audit services to be provided thereunder.
3. The Committee shall pre-approve all non-audit services (including the fees and terms thereof) to be performed for the Corporation by the independent auditor, to the extent required by law, according to established procedures. The Committee may delegate to one or more Committee members the authority to pre-approve non-audit services to be performed by the independent auditor, provided that such pre-approvals shall be reported to the full Committee at its next regularly scheduled meeting. Attached hereto as Appendix A are the Committee's pre-approval policies for the approval of non-audit services.
4. The Committee shall review and evaluate the experience, qualifications and performance of the senior members of the independent auditor team on an annual basis. As part of such evaluation, to the extent required by law, the Committee shall review with the lead audit partner whether any of the audit team members receive any discretionary compensation from the audit firm with respect to procurement or performance of any services, other than audit, review or attest services, by the independent auditor.
5. The Committee shall obtain and review a report from the independent auditor at least annually addressing (i) the independent auditor's internal quality-control procedures, (ii) any material issues raised by the most recent internal quality-control review or peer review of the firm, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the firm, (iii) any steps taken to deal with any such issues, and (iv) all relationships between the independent auditor and the Corporation (in order to assess if the provision of permitted non-audit services is compatible with maintaining the auditor's independence, taking into account the opinions of management and the internal auditors).
6. The Committee shall ensure the rotation of members of the audit engagement team, as required by law, and will require that the independent

auditor provide a plan for the orderly transition of audit engagement team members.

7. The Committee shall pre-approve the Corporation's policies for the hiring by the Corporation of employees or former employees of the independent auditor who participated in any capacity in the audit of the Corporation.

### C. Oversight of the Corporation's Internal Audit Function

1. The Committee shall review the activities, organizational structure, and qualifications of Internal Audit, as needed. The Committee shall also review the adequacy of resources, budget, and staffing; and recommend changes if appropriate.
2. The Committee shall review and discuss the annual audit plan of the Internal Audit Department, including responsibilities, budget, expenses, and staffing; and, if appropriate, shall recommend changes.
3. The Committee shall review, as appropriate, the results of internal audits and shall discuss related significant internal control matters with the Director of Internal Audit, Chief Risk Management Officer, and with the Corporation's management, including significant reports to management prepared by the Internal Audit Department and management's responses.
4. The Committee shall review and discuss the annual Information Technology audit plan. The Committee shall review the results of Information Technology audits and shall discuss with the Director of Internal Audit, Chief Risk Management Officer, and the Corporation's management, any significant findings and management's response.
5. The Committee shall review management's evaluation of the adequacy of the Corporation's internal controls and discuss the results of such evaluation with the Chief Risk Management Officer and Director of Internal Audit. The Committee shall review the activities, organizational structure and qualifications of the Internal Audit Department, as needed. The Committee also shall review the adequacy of resources to support the internal audit function, and, if appropriate, recommend changes. The Committee shall review the appointment, performance and replacement of the senior staff members of the Internal Audit Department.
6. The Committee shall approve all engagements of third-party firms to provide outsourced internal audit services.

7. The Committee shall hold an executive session with the Director of Internal Audit at the request of any member of the Committee, or at the request of the Director of Internal Audit. Such executive session shall be held solely with the Director of Internal Audit and without the presence of any other employees. In the event that the Director of Internal Audit desires to meet in executive session with the Committee, the Director of Internal Audit shall contact the Chairman of the Committee in advance for approval of such executive session and shall provide the Chairman with such information as is requested by the Chairman regarding the request.

D. Oversight of the Corporation's Compliance Function

1. The Committee shall review the activities, organizational structure, and qualifications of Compliance, as needed. The Committee shall also review the adequacy of resources, budget, and staffing; and recommend changes if appropriate.
2. The Committee shall monitor the Corporation's compliance function, including compliance with the Corporation's policies and the Corporation's Code of Ethics, and shall review with the appropriate officers and/or staff of the Corporation and the Corporation's counsel, as necessary, the adequacy and effectiveness of the Corporation's procedures to ensure compliance with legal and regulatory requirements.
3. The Committee shall establish procedures for the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal controls or auditing matters, and the confidential, anonymous submissions by employees of concerns regarding questionable accounting or auditing matters, including but not limited to those received under and pursuant to the established "Reporting Suspected Fraudulent Activities Policy" (a/k/a "Whistleblower" Policy).
4. The Committee shall discuss with management, the Chief Risk Management Officer, the Compliance Manager, the Director of Internal Audit, the Corporation's counsel, and the independent auditor any correspondence with regulators or governmental agencies and any published reports that raise material issues regarding the Corporation's financial statements or accounting policies.
5. The Committee shall review and discuss with the Chief Risk Management Officer, Compliance Manager, Director of Internal Audit, and the Corporation's counsel legal matters that may have a material impact on the financial statements or the Corporation's compliance policies, including reports and disclosures of insider and affiliated party transactions and any knowledge of fraud or breach of fiduciary duties.

6. The Committee shall review all “related party transactions” as such terminology is defined under Item 404 of Regulation S-K under the Securities Act of 1933.
7. The Committee shall review the appointment, performance, and replacement of the Compliance Manager.
8. The Committee shall hold an Executive Session with the Compliance Manager at the request of any member of the Committee, or at the request of the Compliance Manager. Such executive sessions shall be held solely with the Compliance Manager and without the presence of any other employees. In the event the Compliance Manager desires to meet in executive session with the Committee, the Compliance Manager shall contact the Chairman of the Committee in advance for approval of such executive session and shall provide the Chairman with such information as is requested by the Chairman regarding the request.

**V. Clarification of Committee’s Role**

The Committee’s role is one of oversight. It is the responsibility of the Corporation’s management to plan and conduct audits and to prepare consolidated financial statements in accordance with generally accepted accounting principles, and it is the responsibility of the Corporation’s independent auditor to audit those financial statements. Therefore, each member of the Committee, in exercising his or her business judgment, shall be entitled to rely on the integrity of those persons and organizations within and outside the Corporation from whom he or she receives information, and on the accuracy of the financial and other information provided to the Committee by such persons or organizations unless he or she has reason to inquire further. The Committee does not provide any expert or other special assurance as to the Corporation’s financial statements or any expert or professional certification as to the work of the Corporation’s independent auditor.

**VI. Access to Management; Retention of Outside Advisers**

A. Access to Management

The Committee shall have full, free and unrestricted access to the Corporation’s senior management and employees, and to the Corporation’s internal and independent auditors.

B. Access to Outside Advisers

The Committee shall have the authority to retain legal counsel, consultants or other outside advisers with respect to any issue or to assist it in fulfilling its responsibilities, without consulting or obtaining the approval of any officer of the Corporation.

The Corporation shall provide for appropriate funding, as determined by the Committee, for payment of compensation to the independent auditor and to any advisers retained by the Committee.

**VII. Annual Evaluation; Charter Review**

A. Annual Self-Evaluation

The Committee shall perform an annual review and self-evaluation of the Committee's performance, including a review of the Committee's compliance with this Charter. The Committee shall conduct such evaluation and review in such manner as it deems appropriate and report the results of the evaluation to the entire Board.

B. Charter Review

The Committee shall review and assess the adequacy of this Charter on an annual basis, and, if appropriate, shall recommend changes to the Board for approval. The Committee shall submit this Charter to the Board for approval and cause this Charter to be published in accordance with applicable regulations including, but not limited to, those of the Securities and Exchange Commission.

**VIII. Delegation to Subcommittee**

The Committee, in its discretion, may delegate all or a portion of its duties and responsibilities to a subcommittee consisting of one or more members of the Committee, provided that any action taken by such subcommittee is ratified by the full Committee and provided that any such subcommittee must conduct its business in accordance with this Charter.

## **APPENDIX A**

### **STATEMENT OF POLICY OF THE AUDIT COMMITTEE OF CITIZENS & NORTHERN CORPORATION**

#### **PRE-APPROVAL OF ENGAGEMENTS FOR NON-AUDIT SERVICES**

The Sarbanes-Oxley Act of 2002 (the “Act”) vests the Audit Committee of the Board of Directors of Citizens & Northern Corporation (the “Corporation”) with the responsibility to appoint and to oversee the work of the Independent Auditor of the Corporation. Under the Act and under rules (the “SEC Rules”) that the Securities and Exchange Commission (“SEC”) has issued pursuant to the Act, that responsibility includes in particular the requirement that the Audit Committee review and pre-approve all audit and non-audit services performed by the Independent Auditor. In exercising that responsibility with respect to proposed engagements for non-audit services, it is the policy of the Audit Committee to give paramount consideration to the question of whether the engagement of the Independent Auditor to perform those services is likely to create a risk that the Independent Auditor’s independence may be compromised. To that end, the Audit Committee will endeavor to exercise its discretion in a manner that will avoid or minimize the risk of compromising the independence of the Independent Auditor.

In order to assist the Audit Committee in applying this policy, any officer or other employee of the Corporation who proposes to engage the Independent Auditor to perform non-audit services will be expected to submit such a proposal in writing to the Audit Committee accompanied by the following supporting materials:

1. A detailed description of each service proposed to be provided by the Independent Auditor.
2. An estimate of the amount of fees that the Independent Auditor is likely to be paid for performance of the non-audit services in question.

Any officer of the Corporation may contract for non-audit services without following the Audit Committee pre-approval process outlined above subject to the following constraints;

1. The total amount of the estimated fees for the non-audit services shall be less than \$5,000;

2. The action of such officer of the Corporation to engage the Independent Auditor to perform non-audit services and the payment of the related fees must be presented for ratification and approval at the next meeting of the Audit Committee;
3. None of the non-audit services are those services whose performance by the Independent Auditor is prohibited by law, including but not limited to those services that are prohibited by 15 U.S.C. §78j-1(g)), or by §210.2-01(4) of the SEC Rules (17 CFR Part 210.2-01(c)(4)), as amended;
4. Upon the engagement of the Independent Auditor, such officer shall immediately provide notice to the Chairman of the Audit Committee of the engagement.

Under no circumstances will the Audit Committee approve the engagement of the Independent Auditor for the performance of services that are prohibited by section 201(a) of the Act (15 U.S.C. §78j-1(g)), or by §210.2-01(4) of the SEC Rules (17 CFR Part 210.2-01(c)(4)).

Between meetings of the Audit Committee, the Chair of the Committee is authorized to review and, where consistent with this policy, to pre-approve non-audit services proposed to be performed by the Independent Auditor that are budgeted for fees of Five Thousand Dollars (\$5,000) or less. The Chair shall report any pre-approval decisions to the Audit Committee as soon as practicable and in any event at its next scheduled meeting.