

# BANCNOTES

Second Quarter, 2019



Dear Shareholder:

The entire C&N Team produced at an exceptional level during Q2 as the Company turned to the future with the closing of the Monument acquisition, ramp up of the York LPO, and introduction of a refreshed brand. It is a significant moment in our long history and the Team delivered.

During the second quarter our top priority has been the systems conversion with Monument and related training efforts. The integration team did an outstanding job conversion weekend and significant on-site support has helped to smooth the transition for customers and staff in the Bucks County market. That group will remain active over the next six to twelve months to complete the integration of cultures, support ongoing customer and staff education, and build-out of C&N's relationship management model and process. Management is evaluating the overall integration process and documenting strengths and weaknesses that will improve execution on our next acquisition.

The York loan production office is off to a fast start and we are optimistic about achieving the targets that were set when we launched this effort. A strong core team is operating in the market and we continue to add talent that fits our culture and style of banking. We plan to expand our presence in the south-central PA market methodically and opportunistically in the next several years.

The branding project that has been underway since we announced the Monument acquisition launched into the public phase during the second quarter. Our objectives were to refresh and energize the Citizens & Northern brand, eliminate potential confusion with competitors, and remain

connected with our historic branding in legacy markets. We believe that the refreshed C&N branding positions us to achieve these goals and we have received positive feedback to date. This effort will continue to roll out through the remainder of 2019 and is aligned with our culture and strategy as we move to the future.

All of these efforts have energized the C&N Team and enhance the value we work to create for our customers in our legacy markets, as well. The strong core franchise built over the years enables us to pursue growth and expansion, and we remain focused on strengthening existing relationships and communities. The teams serving these markets are outstanding and are fully engaged.

Earnings growth is another ongoing priority. Although second quarter results are difficult to assess given the noise of merger expenses and related market value adjustments, core earnings remain strong. Net income in the second quarter of 2019, excluding merger related items and securities gains, increased by approximately 20% compared to the second quarter of 2018 while EPS increased just under 10%. Year-to-date, on the same basis, net income increased 21% and EPS grew 14%. The drivers include stronger net interest income, consistent overall levels of noninterest income, and managed growth in noninterest expenses. Second quarter loan loss provision was essentially \$0 which followed a \$957,000 credit in the first quarter. The reduction in provisions reflects ongoing improvement in credit quality metrics and has enhanced earnings during the first half of 2019. Third quarter results should provide more clarity on our run rate earnings and the impact of expansion activities as nearly all the merger related expenses have been captured during the first half of the year.



We've changed our look, but our people and dedication to helping customers reach their financial goals remains the same. Your hometown bank may have gotten a little makeover, but rest assured, you know us well.

# YOU&US THAT'S C&N.

Welcome to C&N. Your community friend for world class banking.

We know earning money can be hard, but we don't think trusting who protects it should be.

Trust is priceless.

But just like your money, it has to be earned. And no bank takes that more seriously than C&N.

Whether you enter through our doors or our technology, you will meet excellence.

From our complete financial services to our deep experience to our honestly caring people, we are personally invested in you no matter how much you are financially invested in us.

After all, your goals are our goals. Your success is our success. So why not make the journey together as easy as it can be?

Yes, the world can be a little cold these days. Especially where your money is concerned. But we assure you there's a place in your community where it's always warm.

# WELCOME TO C&N

(President's letter continued)

C&N's capital position enables the Company to pursue growth and expansion and it remains strong following the Monument acquisition. When coupled with our positive earnings, these capital levels support our plans for future growth and continuation of a strong cash dividend. On July 18, 2019, the Board of Directors declared a cash dividend on common stock of \$.27 per share payable on August 9, 2019 to shareholders of record on July 29, 2019. This results in an annual dividend of \$1.08 and annualized yield of 4.10% based on C&N's June 30, 2019 closing price of \$26.33.

Finally, at the Annual Shareholders meeting C&N welcomed Clark Frame to the Board. Clark was a founder and Chairman and CEO of Monument Bank for the past eleven years and has had a lengthy career in our industry. His experience, knowledge, and insights into the southeastern PA market will be invaluable as we work to build our franchise together.

Thank you to all our loyal shareholders for your continued support and interest.



J. Bradley Scovill  
President and CEO



# UNAUDITED FINANCIAL INFORMATION

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

CONDENSED, CONSOLIDATED EARNINGS INFORMATION (Dollars in Thousands, Except Per Share Data) (Unaudited)	Q-2, 2019 (Current)	Q-2, 2018 (Current)	\$ INCREASE (Decrease)	% INCREASE (Decrease)
Interest and Dividend Income	\$17,139	\$12,334	\$4,805	38.96%
Interest Expense	2,934	1,079	1,855	171.92%
Net Interest Income	14,205	11,255	2,950	26.21%
Credit for Loan Losses	(4)	(20)	16	-80.00%
Net Interest Income After Credit for Loan Losses	14,209	11,275	2,934	26.02%
Noninterest Income	4,849	4,689	160	3.41%
Gain on Restricted Equity Security	0	1,750	(1,750)	-100.00%
Net Gains (Losses) on Available-for-sale Debt Securities	7	(282)	289	-102.48%
Merger-Related Expenses	3,301	0	3,301	
Other Noninterest Expenses	11,422	9,684	1,738	17.95%
Income Before Income Tax Provision	4,342	7,748	(3,406)	-43.96%
Income Tax Provision	693	1,377	(684)	-49.67%
<b>Net Income</b>	<b>\$3,649</b>	<b>\$6,371</b>	<b>(\$2,722)</b>	<b>-42.72%</b>
<b>Net Income Attributable to Common Shares (1)</b>	<b>\$3,630</b>	<b>\$6,339</b>	<b>(\$2,709)</b>	<b>-42.74%</b>

## PER COMMON SHARE DATA:

Net Income - Basic	\$0.27	\$0.52	(\$0.25)	-48.08%
Net Income - Diluted	\$0.27	\$0.52	(\$0.25)	-48.08%
Dividend Per Share - Quarterly	\$0.27	\$0.27	\$0.00	0.00%
Number of Shares Used in Computation - Basic	13,597,848	12,210,902		
Number of Shares Used in Computation - Diluted	13,622,954	12,248,145		

CONDENSED, CONSOLIDATED EARNINGS INFORMATION (Dollars in Thousands Except Per Share Data) (Unaudited)	6 MONTHS ENDED JUNE 30, 2019 (Current)	6 MONTHS ENDED JUNE 30, 2018 (Prior Year)	\$ INCREASE (Decrease)	% INCREASE (Decrease)
Interest and Dividend Income	\$30,204	\$24,224	\$5,980	24.69%
Interest Expense	4,284	2,072	2,212	106.76%
Net Interest Income	25,920	22,152	3,768	17.01%
(Credit) Provision for Loan Losses	(961)	272	(1,233)	-453.31%
Net Interest Income After (Credit) Provision for Loan Losses	26,881	21,880	5,001	22.86%
Noninterest Income	9,255	9,095	160	1.76%
Gain on Restricted Equity Security	0	1,750	(1,750)	-100.00%
Net Gains (Losses) on Available-for-sale Debt Securities	7	(282)	289	-102.48%
Merger-Related Expenses	3,612	0	3,612	
Other Noninterest Expenses	22,118	19,579	2,539	12.97%
Income Before Income Tax Provision	10,413	12,864	(2,451)	-19.05%
Income Tax Provision	1,674	2,118	(444)	-20.96%
<b>Net Income</b>	<b>\$8,739</b>	<b>\$10,746</b>	<b>(\$2,007)</b>	<b>-18.68%</b>
<b>Net Income Attributable to Common Shares (1)</b>	<b>\$8,693</b>	<b>\$10,691</b>	<b>(\$1,998)</b>	<b>-18.69%</b>

## PER COMMON SHARE DATA:

Net Income - Basic	\$0.67	\$0.88	(\$0.21)	-23.86%
Net Income - Diluted	\$0.67	\$0.87	(\$0.20)	-22.99%
Dividend Per Share - Quarterly	\$0.54	\$0.54	\$0.00	0.00%
Dividend Per Share - Special	\$0.10	\$0.00	\$0.10	
Number of Shares Used in Computation - Basic	12,956,916	12,200,245		
Number of Shares Used in Computation - Diluted	12,982,361	12,236,518		

(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 (In Thousands) (Unaudited)	JUNE 30, 2019 (Current)	JUNE 30, 2018 (Prior Year)	JUNE 30, 2019 vs 2018 \$ Increase (Decrease)	% INCREASE (Decrease)
<b>ASSETS:</b>				
Cash & Due from Banks	\$39,505	\$51,475	(\$11,970)	-23.25%
Available-for-sale Debt Securities	363,465	348,044	15,421	4.43%
Loans Held for Sale	1,131	177	954	538.98%
Loans, Net	1,108,483	809,816	298,667	36.88%
Intangible Assets	30,013	11,952	18,061	151.11%
Other Assets	67,088	62,543	4,545	7.27%
<b>TOTAL ASSETS</b>	<b>\$1,609,685</b>	<b>\$1,284,007</b>	<b>\$325,678</b>	<b>25.36%</b>

<b>LIABILITIES</b>				
Deposits	\$1,284,143	\$1,040,899	\$243,244	23.37%
Repo Sweep Accounts	3,192	5,169	(1,977)	-38.25%
Total Deposits and Repo Sweeps	1,287,335	1,046,068	241,267	23.06%
Borrowed Funds	62,574	39,054	23,520	60.22%
Subordinated Debt	7,000	0	7,000	
Other Liabilities	13,060	9,706	3,354	34.56%
<b>TOTAL LIABILITIES</b>	<b>1,369,969</b>	<b>1,094,828</b>	<b>275,141</b>	<b>25.13%</b>

## SHAREHOLDERS' EQUITY

Common Shareholders' Equity, Excluding Accumulated				
Other Comprehensive Income (Loss)	236,284	195,518	40,766	20.85%
Accumulated Other Comprehensive Income (Loss):				
Net Unrealized Gains/Losses on				
Available-for-sale Debt Securities	3,138	(6,476)	9,614	-148.46%
Defined Benefit Plans	294	137	157	114.60%
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>239,716</b>	<b>189,179</b>	<b>50,537</b>	<b>26.71%</b>
<b>TOTAL LIABILITIES &amp; SHAREHOLDERS' EQUITY</b>	<b>\$1,609,685</b>	<b>\$1,284,007</b>	<b>\$325,678</b>	<b>25.36%</b>



c/o American Stock Transfer & Trust Company, LLC  
6201 15th Avenue  
Brooklyn, NY 11219

## COMMUNITY&COMMITMENT

We are proud to be serving those who served to protect us. In 2019, C&N team members are partnering with 13 local organizations that help veterans in our community access the care and resources they deserve.

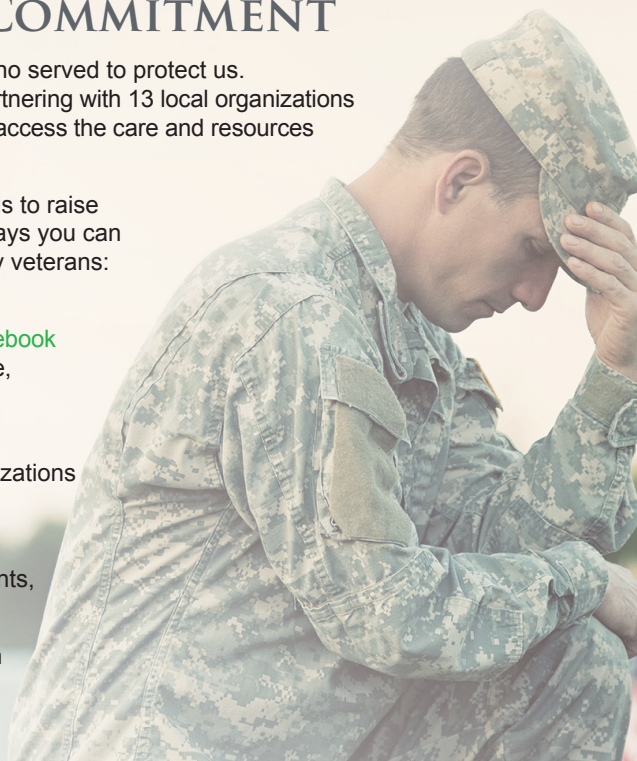
The first step in supporting a cause is to raise awareness. Here are a few of the ways you can join us in support of our local military veterans:

& **Share & Like C&N's #GivingBackGivingTogether Facebook posts.** We donate \$1 for every like, share and comment.

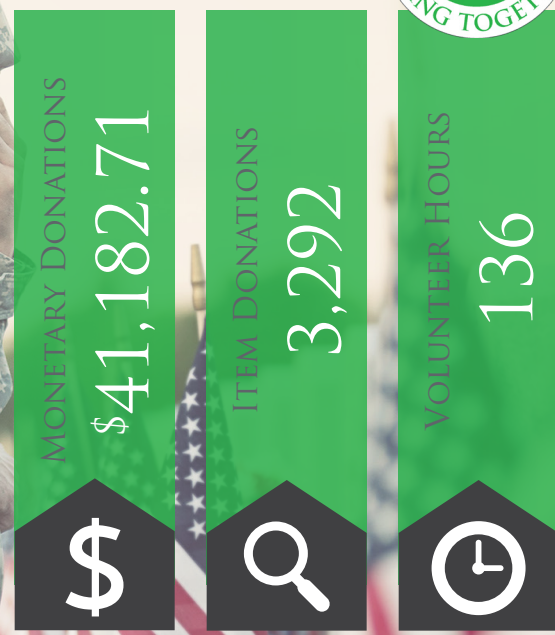
& **Volunteer with us!** Our teams coordinate with their local organizations to be directly involved.

& **Visit us** September 23 - 28 and December 9 - 14 for special events, activities and fundraisers.

& **Spread the word!** Word of mouth is often the most powerful way to generate awareness.



## Year-to-Date DONATIONS



CZNC  
\$26.33  
(as of 6/28/2019)

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