

Today,
Tomorrow
and the
Future



 CITIZENS & NORTHERN CORPORATION

BANCNOTES

Fourth Quarter, 2018

Dear Shareholder:

C&N's unaudited fourth quarter 2018 results remained strong and continued the momentum in our core business that we experienced throughout the year. Unaudited earnings per share (EPS) were \$.46 in the fourth quarter 2018, up from \$.16 in the fourth quarter 2017, and unaudited annual 2018 EPS of \$1.79 exceeded 2017 EPS of \$1.10. In addition to significant growth in pre-tax earnings, 2018 earnings have benefited from a lower corporate tax rate than had been in effect in 2017.

It is helpful to discuss our earnings on a pre-tax basis, after adjusting for the impact of the fourth quarter 2017 tax law changes and net securities gains/losses, as both have had a significant impact on bottom-line performance. With these adjustments, pre-tax income during the quarter increased 22.4% to \$6.7 million compared to \$5.5 million during the fourth quarter of 2017. Annual pre-tax earnings for 2018, similarly adjusted, increased 19.2% to \$24.2 million from \$20.6 million during 2017. Sustained revenue growth was the primary driver, as both net interest income and non-interest income increased at a substantially faster pace than noninterest expenses during both periods. This operating leverage is the result of ongoing investment in our Team and technology that aligns with our mission of "Creating value through lifelong relationships."

Growth in net interest income and expansion of the net interest margin are the result of modest overall growth in loans outstanding and the strength of C&N's core deposits. Loan growth during the fourth quarter and for all of 2018 was muted due to lower production levels and several larger commercial loan payoffs, however the mix of new loan business and repricing in the portfolio produced higher yields and revenue.

Total deposits declined slightly during the fourth quarter but showed solid growth for the year. Demand deposits were the primary source of deposit growth which further improved our funding mix and controlled the related costs.

Generation of core noninterest income is another strength for C&N and is one of the positive outcomes of our focus on developing value-based relationships with customers. Trust and brokerage revenues from our wealth management business continued to grow in the fourth quarter and compared to 2017 as we added new business and we received the full year benefit of a modest fee increase implemented in mid-2017. Investment returns contributed to revenue growth for most of 2018, however the broad equity market decline during the fourth quarter tempered the increase at the end of the year. Service charges and fees related to our core deposits, including interchange revenue from debit cards, also increased substantially, as did loan servicing fees. Net gains from the sale of loans were flat during the quarter and declined for the year, as conforming mortgages declined as a percentage of overall originations resulting in fewer sales.

Noninterest expenses increased approximately 7% during the fourth quarter and for the year in 2018 as compared to the corresponding periods of 2017. Additional staff, salaries and incentive compensation were all higher during the quarter, and ultimately for the year. Pensions and employee benefits declined during both periods primarily due to lower costs in our partially self-funded health care plan. Data processing and telecommunications increases resulted from investment in systems and technology and their ongoing costs. Professional fees were higher due to acquisition expenses and various other projects, and the mid-year donation of the Towanda Office to a non-profit pushed contributions higher for the year.

CONDENSED, CONSOLIDATED EARNINGS IN
(Dollars in Thousands, Except Per Share Data) (U
 Interest and Dividend Income

Interest Expense
Net Interest Income
Provision for Loan Losses
Net Interest Income After Provision for Loan Losses
Noninterest Income
Net Losses on Available-for-sale Debt Securities
Noninterest Expense
Income Before Income Tax Provision
Income Tax Provision
Net Income
Net Income Attributable to Common Shares (1)

PER COMMON SHARE DATA:

Net Income - Basic
Net Income - Diluted
Dividend Per Share
Number of Shares Used in Computation - Basic
Number of Shares Used in Computation - Diluted

CONDENSED, CONSOLIDATED EARNINGS IN
(Dollars in Thousands Except Per Share Data) (U
 Interest and Dividend Income

Interest Expense
Net Interest Income
Provision for Loan Losses
Net Interest Income After Provision for Loan Losses
Noninterest Income
Gain on Restricted Equity Security
Net (Losses) Gains on Available-for-sale Debt Securities
Noninterest Expense
Income Before Income Tax Provision
Income Tax Provision
Net Income
Net Income Attributable to Common Shares (1)

PER COMMON SHARE DATA:

Net Income - Basic
Net Income - Diluted
Dividend Per Share
Number of Shares Used in Computation - Basic
Number of Shares Used in Computation - Diluted

(1) Basic & diluted net income per common share are

CONDENSED, CONSOLIDATED BALANCE SHEET
(In Thousands)(Unaudited)

ASSETS
Cash & Due from Banks
Available-for-sale Debt Securities
Loans Held for Sale
Loans, Net
Intangible Assets
Other Assets
TOTAL ASSETS

LIABILITIES

dividend on common stock from \$.26 to \$.27 per share. The result was an annual dividend of \$1.08 and annualized yield of 4.09% based on C&N's 2018 closing price of \$26.43. This closing price was a 10.1% increase from the \$24.00 close a year earlier.

On January 17, 2019, the Board of Directors again declared a regular dividend of \$.27 per share payable February 8, 2019 to shareholders of record as of January 28, 2019. In addition, the Board declared a special dividend of \$.10 per share with the same payable and record dates, in recognition of C&N's overall performance during 2018 and the Company's ongoing strength.

Thank you for your continued interest and support as we look forward to a successful 2019 for everyone connected to C&N.

J. Bradley Scovill
 President and CEO

Activities related to the Monument Bank acquisition are moving forward. All regulatory applications have been submitted and we expect that closing will occur in the second quarter of 2019. In addition, the Teams from both banks are fully engaged in planning for systems conversions and integration efforts that will follow closing. The interaction of the two groups is serving to validate the cultural fit between the organizations and establish relationships that will drive success over time. It is an exciting time for C&N as we take an initial step in expanding our business model into new markets and begin to leverage our capital position to create additional value for our shareholders.

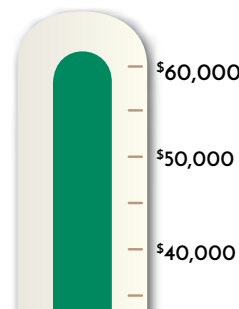
Leveraging capital and paying off our investments in C&N's capacity for growth have been core elements of our strategic plan over the past several years. We have also focused on producing earnings that support a strong dividend and positive stock valuation, and ultimately a "currency" that underpins our capacity for growth. During 2018, C&N produced exceptional earnings and increased the quarterly



Commitment to Community

Our 2018 Giving Back, Giving Together campaign to support education and literacy in our communities has come to a close. We are proud to announce that for the fourth year in a row, we not only met our goal, but passed it. This year we raised over \$65,000 for 24 local libraries, volunteered 35 times and collected over 3,339 books. The continued success of GBGT can be directly attributed to the dedication of our employees to make a difference.

For 2019, C&N employees voted to take on another worthy cause that will make a positive and lasting impact in the community: Honoring our Military Veterans. This year, C&N will raise funds and awareness for local organizations that provide services for our nation's heroes.





Employee Connection



Brad Scovill, C&N President & CEO (fourth from left) presented the following Citizens & Northern Bank employees with service awards: Left to Right - Diane Zimmerman, Christopher Rell, Lorri Stocum, Felicia Crumb, and Victoria Harrison

Success in achieving any company's mission is directly linked to the success of its employees, which is one reason why C&N builds a culture that supports its team members and celebrates their achievements. Last fall, five C&N employees were recognized for a combined 75 years of service.

Recognized during the recent service awards luncheon were:

- **Diane Zimmerman**, Loan Servicing Boarder, Wellsboro, 30 years.
- **Victoria Harrison**, Community Office Manager, Canisteo, 20 years.
- **Christopher Rell**, AVP/ Senior Appraiser, Jersey Shore, 15 years.
- **Felicia Crumb**, Deposit Operations Representative, Wellsboro, 5 years.
- **Lorri Stocum**, Customer Service Representative, Wellsboro, 5 years.

Service awards luncheons are held regularly and hosted by C&N President & CEO Brad Scovill. In 2018, C&N recognized 40 employees for a total of 460 years of service to the company. Citizens & Northern Bank is proud and appreciative of their dedication to the organization and its mission of creating value through lifelong relationships.