

banCNotes

First Quarter, 2019



Dear Shareholder:

We are pleased to report that the acquisition of Monument Bancorp, Inc. and Monument Bank closed on April 1, 2019. Except for some merger-related expenses discussed below, the acquisition did not impact the March 31st financial statements. With the closing of the transaction, our total assets exceed \$1.6 billion and C&N and Citizens & Northern Bank remain very well capitalized.

Monument Bank will continue to operate as a division of Citizens & Northern Bank until all systems are converted later in the second quarter. Along with the scheduled conversion, a refreshed brand will be introduced not only to the Bucks County market but to all markets served by C&N. Management and staff remain engaged in integration efforts, planning for systems conversions, and importantly in strengthening relationships that will mesh our organizations and drive our long-term success. It has been a very positive team effort to date and we remain optimistic about the opportunity to grow and create value together.

In addition to progress with Monument, C&N received approval in mid-February to establish a loan production office in York County, PA. We currently have a team of four seasoned bankers in place that will serve the market in the south-central PA region and expect the office will open for business by the end of April. We plan to continue adding to the Team as we extend C&N's presence in the region over the next several years. This expansion is consistent with our growth strategy to leverage our strong capital position and operating capacity into larger markets and is a good complement to the Monument acquisition.

C&N's unaudited results for the first quarter 2019 continue to reflect strength and consistency. Net income of \$5.09 million in the first quarter of 2019 was up \$715,000, or 16.3%, from the first quarter of 2018. Earnings per share

increased 13.9% to \$.41 per share from \$.36 per share during the first quarter of 2018. Annualized return on average assets and return on average equity were 1.59% and 10.33% respectively during the first quarter of 2019 compared to 1.39% and 9.41% during the same period in 2018.

Net interest income, C&N's primary source of revenue, increased \$818,000 (7.5%) to \$11.72 million in the first quarter of 2019 over the first quarter 2018 amount of \$10.9 million. Growth in earning assets that was funded mainly by deposits produced a net interest margin of 4.04% during the first quarter of 2019, an increase of .20% compared to 3.84% a year earlier. The improvement in net interest income and net interest margin were achieved during a twelve-month period when the Federal Reserve raised short-term interest rates four times. As we have mentioned in prior reports, growth in noninterest-bearing demand deposits continues to be a strength for C&N that supports a stable, low cost funding mix.

C&N's credit quality is another area that has been strong and consistent over time. While growth in loans outstanding was a modest \$8.8 million between March 31, 2018 and March 31, 2019, our total outstandings of \$817 million are nearly \$200 million greater than they were four years earlier. Throughout this period of growth, credit metrics that measure delinquencies, non-performing loans, and net charge-offs have remained very consistent. Management maintains a robust process of evaluating the adequacy of the allowance for loan losses and makes the appropriate provision to fund this allowance on a quarterly basis. During the first quarter of 2019, specific allowances on two commercial loans totaling \$1.37 million were eliminated and were the primary reason that there was a credit (reduction in expense) of \$957,000 as compared to a provision of \$292,000 during the first quarter of 2018.

Commitment to Community



Unaudited Financial Information

According to the 2015 census, there are 2 million military veterans who call New York and Pennsylvania their home and more than 10% are living with a service-related disability. We are grateful for the sacrifices made by these brave men and women for our country and our freedom. It is with great pride that Citizens & Northern Bank will honor our local military veterans through this year's Giving Back, Giving Together fundraising campaign.

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. In addition to raising funds to support these organizations, we will also be collecting item donations and volunteering with our partners to give back to those who have served our country.

[\(Letter continued from front\)](#)

Noninterest income was unchanged during the first quarter of 2019 compared to a year earlier. Overall trust and brokerage revenues from our wealth management business continued to grow in the first quarter primarily due to higher brokerage revenues. In addition, equity markets rebounded from the fourth quarter decline and longer-term interest rates moderated. Interchange revenues from both credit and debit cards increased reflecting growth in transaction volumes. Loan servicing revenues decreased as the fair value of mortgage servicing rights declined and gains from the sale of mortgage loans decreased during the first quarter of 2019 compared to a year earlier due to lower volume.

Noninterest expenses increased \$1.1 million, or approximately 11%, in the first quarter of 2019 as compared to the same

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](#) during our event weeks, when our offices coordinate on-site events, including fundraisers, supply drives and other activities
 June 24 - 29 September 23 - 28 December 9 - 14
- [Spread the word!](#) Word of mouth is often the most powerful way to generate awareness.

lower relative amount of tax-exempt interest income and non-deductibility of some merger related expenses.

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. On April 18, 2019, the Board of Directors declared a cash dividend on common stock of \$.27 per share. This results in an annual dividend of \$1.08 and annualized yield of 4.31% based on C&N's March 31, 2019 closing price of \$25.04. This closing price was an 8.45% increase from the \$23.09 close a year earlier.

I'd like to close by welcoming everyone from Monument Bank

CONDENSED, CONSOLIDATED EARNINGS STATEMENT (Dollars in Thousands Except Per Share Data)

Interest and Dividend Income
Interest Expense
Net Interest Income
(Credit) Provision for Loan Losses
Net Interest Income After (Credit) Provision
Noninterest Income
Net Gains (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) Basic & diluted net income per common share includes dividends.
PER COMMON SHARE DATA:
Net Income - Basic
Net Income - Diluted
Dividend Per Share - Quarterly
Dividend Per Share - Special
Number of Shares Used in Computation - Basic
Number of Shares Used in Computation - Diluted

CONDENSED, CONSOLIDATED BALANCE SHEET (Dollars in Thousands) (Unaudited)

Cash & Due from Banks
Available-for-sale Debt Securities
Loans Held for Sale
Loans, Net
Intangible Assets
Other Assets
TOTAL ASSETS
LIABILITIES
Deposits
Repo Sweep Accounts
Total Deposits and Repo Sweeps
Deferred Compensation
Other Liabilities
TOTAL LIABILITIES
Equity
Retained Earnings
Other Equity
TOTAL EQUITY
TOTAL LIABILITIES AND EQUITY

Employee Connection



On April 1, Monument Bank officially became part of C&N. Our team decided to welcome them in C&N style with a fun filled evening at the Warrington Country Club. The night was hosted by our Impact team, who traveled down to our new southeast region on March 26. The night included a meet and greet, an introduction and welcome to C&N. Everyone was involved in playing some “Minute-to-win-it” games and then Lee Rubin closed the evening with his powerful and personal 5 C’s of extraordinary teams presentation.

We are excited to have these new members on our team, as we leverage our talents and resources to pursue our common mission of creating value through lifelong relationships.

CZNC
\$25.04
(as of 3/29/2019)

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www.astfinancial.com

Dividend Reinvestment
Plan Administered by
American Stock Transfer
& Trust Company
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