

# SECURITIES AND EXCHANGE COMMISSION

## FORM 10-K

Annual report pursuant to section 13 and 15(d)

Filing Date: **1999-03-26** | Period of Report: **1998-12-31**  
SEC Accession No. **0001047469-99-011622**

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### FILER

#### **CITIZENS & NORTHERN CORP**

CIK: **810958** | IRS No.: **232451943** | State of Incorporation: **PA** | Fiscal Year End: **1231**  
Type: **10-K** | Act: **34** | File No.: **000-16084** | Film No.: **99574011**  
SIC: **6022** State commercial banks

Mailing Address  
90-92 MAIN ST  
WELLSBORO PA 16901

Business Address  
THOMPSON ST  
RALSTON PA 17763  
7172656171

FORM 10-K

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 1998      Commission file number: 0-16084  
-----

CITIZENS & NORTHERN CORPORATION  
(Exact name of Registrant as specified in its charter)

Pennsylvania      23-2451943  
-----  
(State or other jurisdiction of      (I.R.S. Employer  
incorporation or organization)      Identification No.)

90-92 MAIN STREET, WELLSBORO, PA      16901  
(Address of principal executive offices)      (Zip code)

(Registrant's telephone number including area code) 570-265-6171

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to section 12(g) of the Act:  
COMMON STOCK Par Value \$1.00

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No \_\_\_\_\_

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

(APPLICABLE ONLY TO CORPORATE REGISTRANTS)

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date.

Title	Outstanding
Common Stock \$1.00 par value	5,153,629 shares March 1, 1999

The aggregate market value of the registrant's common stock held by non-affiliates at

March 1 1999:      \$181,377,015. (a date within 60 days of the date hereof

## DOCUMENTS INCORPORATED BY REFERENCE

Excerpts from the Registrants Annual Report to Shareholders are incorporated herein by reference in response to Part II, hereof. The Registrant's definitive Proxy statement to be used in connection with the 1998 Annual Meeting of shareholders to be held on April 20, 1999 is incorporated herein by reference in partial response to Part III.

<TABLE> <CAPTION> Location in Form 10-K ----- <S>	Incorporated Information ----- <C>
PART II	
Item 5. Market for Registrant's Common Stock and Related Stockholder Matters	Page 46 of the Annual Report
Item 6. Selected Financial Data	Pages 47 and 48 of the Annual Report
Item 7. Management's Discussion and Analysis of the Financial Condition and Results Operations.	Pages 29 through 46 of the Annual Report
Item 7a. Quantitative and Qualitative Disclosures About Market Risk	Pages 41 through 43 of the Annual Report
Item 8. Financial Statements and Supplementary Data	Pages 8 through 11 and 47 through 48 of the Annual Report
PART III	
Item 10. Directors and Executive Officers of the Registrant	Pages 2 through 6 of the Proxy Statement
Item 11. Executive Compensation	Pages 6 through 9 of the Proxy Statement
Item 12. Security Ownership of certain Beneficial Owners and Management	Pages 2 through 6 of the Proxy statement
Item 13. Certain Relationships and Related Transactions	Page 24 of the Annual Report Page 11 of the Proxy Statement
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## PART I

## ITEM 1. BUSINESS

The information appearing in the Annual Report under the caption "Description of Business" on page 49 is herein incorporated by reference.

THE CORPORATION

The Corporation is a one-bank holding company formed under the provisions of Section 3 of the Federal Reserve Act. The Corporation is under the direct supervision of the Federal Reserve Board and must comply with the reporting requirements of the Federal Bank Holding Company Act.

A one-bank or multi-bank holding company is prohibited under Section 3 (a) (3) of the Act from acquiring either directly or indirectly 5% or more of the voting shares of any bank or bank holding company without prior Board approval. Additionally, Section 3 (a) (3) prevents, without prior Board approval, an existing bank holding company from increasing its ownership in an existing subsidiary bank unless a majority (greater than 50 percent) of the shares are already owned (Section 3 (a) (B) ). A bank holding company which owns more than 50 percent of a bank's shares may buy and sell those shares freely without Board approval, provided the ownership never drops to 50 percent or less. If the holding company owns 50 percent or less of a bank's shares, prior Board approval is required before such additional acquisition of shares takes place until ownership exceeds 50 percent.

Under current Pennsylvania law, which became effective March 4, 1990, bank holding companies located in any state may acquire banks and bank holding companies located in Pennsylvania provided that the laws of such state grant reciprocal rights to Pennsylvania bank holding companies and that 75% of the domestic deposits are located in a state granting reciprocity.

THE BANK

The Bank is a state chartered nonmember bank, supervised by and under the reporting requirements of the Pennsylvania Department of Banking and the Federal Deposit Insurance Corporation

YEAR 2000 COMPLIANCE

Information relating to the Corporation's Year 2000 readiness and compliance may be found in the Company's Annual Report under the caption "Management's Discussion and Analysis of the Financial Condition and Results of Operations" on pages 44 and 45, and is herein incorporated by reference.

ITEM 2. PROPERTIES

Information relating to the location of banking offices is located on page 49 of the Annual Report of the Corporation and is herein incorporated by reference.

There are no encumbrances against any of the properties owned by the Bank.

ITEM 3. LEGAL PROCEEDINGS

None

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted during the fourth quarter of the fiscal year covered by this report to a vote of security holders, through the solicitation of proxies or otherwise.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The information appearing in the Annual Report under the caption "Quarterly Share Data" on page 46 and the "Summary of Quarterly Financial Data" on page 48 is herein incorporated by reference.

ITEM 6. SELECTED FINANCIAL DATA

The "Five Year Summary of Operations" on page 47 of the Annual Report is herein incorporated by reference.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

The information appearing in the Annual Report under the caption "Management's Discussion and Analysis of the Financial Condition and Results of Operations" on pages 29 through 46, is incorporated herein by reference.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information appearing in the Company's Annual Report under the caption "Management's Discussion and Analysis of the Financial Condition and Results of Operations" on pages 41 through 43, is incorporated herein by reference.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information required by this item is incorporated by reference to the Financial Statements and Notes to Consolidated Financial Statements on pages 8 through 27 and to the Quarterly Financial Data on page 48 of the Company's Annual Report to Shareholders for the year ended December 31, 1998.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

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PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

(a) Identification of Directors. The information appearing under the caption "Election of Directors" on pages 1 through 3 of the Corporation's Proxy Statement dated March 22, 1999, is herein incorporated by reference.

(b) Identification of Executive Officers. The information appearing under the caption "Corporation's and Bank's Executive Officers" on pages 5 and 6 of the Corporation's Proxy Statement dated March 22, 1999, is herein incorporated by reference.

ITEM 11. EXECUTIVE COMPENSATION

Information appearing under the caption "Executive Compensation" on page 7 and 8 of the Corporation's Proxy Statement dated March 22, 1999, is herein incorporated by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Information appearing under the caption "Election of Directors" on pages 1 through 3 and under the caption "Corporation's and Bank's Executive Officers" on pages 5 through 7 of the Corporation's Proxy Statement is herein incorporated by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information appearing in footnote 13 to the Consolidated Financial Statements included on page 24 in the Annual Report is herein incorporated by reference.

Information appearing under the caption "Certain Transactions" on page 11 of the Corporation's Proxy Statement is herein incorporated by reference.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) (1). The following consolidated financial statements and reports are set forth in Item 8.

<TABLE>  
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Independent Auditors' Report	27
Financial Statements:	
Consolidated Balance Sheet - December 31, 1998 and 1997	8
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<TABLE>

<S>	<C>
Consolidated Statement of Cash Flows - Years Ended December 31, 1998, 1997 and 1996	11
Notes to Consolidated Financial statements	12-26

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(2). Financial statement schedules are either omitted because inapplicable or included in the financial statements or related notes. Individual financial statements of Bucktail Life Insurance Company, a consolidated subsidiary have been omitted, as neither the assets nor the income from continuing operations

before taxes exceed ten percent of the consolidated totals.

(3). Exhibits (numbered as in Item 601 of Regulation S-K)

<TABLE>	<S>	<C>
	2. Plan of Acquisition, Reorganization, Arrangement, Liquidation or Succession	Not applicable
	3. (i) Articles of Incorporation	*
	3. (ii) Bylaws of the Registrant	*
	4. Articles of Incorporation of the Registrant as Currently in effect	*
	9. Voting Trust Agreement	Not applicable
	10. Material Contracts	Not applicable
	11. Statement re Computation of Per Share Earnings	Not applicable
	12. Statements re Computation of Ratios	Not applicable
	13. Annual Report to Shareholders	Page 11
	16. Letter re Change in Certifying Accountant	Not applicable
	18. Letter re Change in Accounting Principles	Not applicable
	21. List of Subsidiaries	Page 10
	22. Published Report Regarding Matters Submitted to Vote of Security Holders	Not applicable
	23. Consent of Independent Auditors	Page 12
	24. Power of Attorney	Not applicable
	27. Financial Data Schedules	None
	28. Information from Reports Furnished to State Insurance Regulatory Authorities	Not applicable
	99. Additional Exhibits	
	* Omitted in the interest of brevity	

</TABLE>

(b) No reports on Form 8-K were filed during the quarter ended December 31, 1998.

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(c) Exhibits - the required exhibits are included under 14 (a) (3) of Form 10 - K.

(d) Financial Statement schedules are omitted because the required information is not applicable or is included elsewhere herein.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

March 19, 1999

Date

By: /s/ Craig G. Litchfield

-----  
 Craig G. Litchfield  
 President and Chief Executive Officer

March 19, 1999

Date

By: /s/ James W. Seipler

-----  
 James W. Seipler  
 Treasurer

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## BOARD OF DIRECTORS

J. ROBERT BOWER

/s/

-----  
 J. Robert Bower

CRAIG G. LITCHFIELD

/s/

-----  
 Craig G. Litchfield

R. ROBERT DECAMP

/s/

-----  
 R. Robert DeCamp

LAWRENCE F. MASE

/s/

-----  
 Lawrence F. Mase

ADELBERT E. ELDRIDGE

/s/

-----  
 Adelbert E. Eldridge

ROBERT J. MURPHY

/s/

-----  
 Robert J. Murphy

WILLIAM K. FRANCIS

/s/

-----  
 William K. Francis

EDWARD H. OWLETT, III

/s/

-----  
 Edward H. Owlett, III

R. BRUCE HANER

/s/

-----  
 R. Bruce Haner

F. DAVID PENNYPACKER

/s/

-----  
 F, David Pennypacker

SUSAN E. HARTLEY

/s/

-----  
 Susan E. Hartley

LEONARD SIMPSON

/s/

-----  
 Leonard Simpson

KARL W. KROECK

/s/

-----  
 Karl W. Kroeck

DONALD E. TREAT

/s/

-----  
 Donald E. Treat



Edward L. Learn

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## EXHIBIT INDEX

- 3.(i) Articles of Incorporation of the Registrant as currently in effect are herein incorporated by reference to Exhibit D to Registrant's Form S-4, Registration Statement dated March 27, 1987.
- 3.(ii) Bylaws of the Registrant as currently in effect are herein incorporated by reference to Exhibit E to Registrant's Form S-4, Registration Statement dated March 27, 1987
- 4. Articles of Incorporation of the Registrant as currently in effect are herein incorporated by reference to Exhibit D to Registrant's Form S-4, Registration Statement dated March 27, 1987.
- 10. Page 29 of Registrant's Form S-4, Registration Statement dated March 27, 1987, is herein incorporated by reference.
- 13. Annual Report to Shareholders
- 21. List of Subsidiaries
- 23. Consent of Parente, Randolph, Orlando, Carey & Associates, Independent Auditors.

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## 1998 ANNUAL REPORT CEO LETTER TO SHAREHOLDERS

## TO OUR SHAREHOLDERS

Citizens & Northern through its commitment to customers and local communities achieved another year of exceptional earnings and strong growth in an ever-increasing competitive environment. The devotion and loyalty of our employees and directors continue to generate customer satisfaction and shareholder value. We believe our vision for Citizens & Northern, which follows, focuses our attention on changes and processes that shall promote long-term growth and profitability.

## OUR VISION

Citizens & Northern Bank strives to be the premier bank in the communities we are privileged to serve. Our top priority is the customer. We will achieve our vision by focusing on their needs, and providing financial products and services with personal attention that best satisfies those needs. Citizens & Northern Bank means quality, value and security to our customers, communities, employees and shareholders.

## 1998 FINANCIAL HIGHLIGHTS

As has been reported to you throughout the year, 1998's financial results were exceptional. Net Income increased compared to 1997 by nearly 9.6% to over \$11 million, the highest ever. This increased basic earnings per share to \$2.15 for the year, versus \$1.96 for 1997. Return on shareholder equity was over 14.8% for the year. During the year income was affected by a significant gain realized from the sale of shares of stock that were acquired in 1919 due to a defaulted loan. The net gain after-tax from the sale of that stock was approximately \$ 1.2 million.

Over the one-year period from December 31st, 1997 through December 31st, 1998, Assets grew 5%, or nearly \$31 million. Deposits grew nearly 7.8%, or approximately \$34 million. Loans increased \$5.7 million, or about 2% for the year.

Dividends paid to shareholders for the 1998-year increased nearly 11%. The last trade price for a share of our stock in 1998 was \$35.50, about a 6% increase in share value as compared to the last trade in 1997.

For a more detailed narrative description of our financial performance, please read the MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS found later in this annual report.

## TRUST AND FINANCIAL SERVICES

The assets under management in the Trust and Financial Services Department increased by over 23% during 1998. Department gross income increased over 28% from the previous year. Excellent sales and business development, plus good investment returns are responsible for the growth. The department is continuing to emphasize its strengths in estate and retirement planning, employee benefit retirement accounts, investment management, and trusts. The department is also responsible for the bank-wide marketing and sales of mutual funds. We invite every shareholder to contact our Trust and Financial Services Department for a free consultation to discuss your personal financial or trust needs. Call 1-800-4 TRUST-4.

## EXCITING CHANGES: PAST AND FUTURE

## NEW MANSFIELD OFFICE

On October 1st, we opened a new full-service office in Mansfield, Pennsylvania. This is our 16th office. The office positions us to offer Citizens & Northern's relationship, community banking to the people of Mansfield, Covington and Blossburg. The challenge of growing and developing a new presence in the Mansfield market is exciting and

worthy of our talented staff.

## FIRST ATMS

Citizens & Northern Bank's installed its first ATMs in 1998. Twelve (12) strategically placed ATMs can be found throughout our market area. The new ATM

network and C&Now Telephone Banking system that was installed in 1997 now provides our customers with access to their accounts 7-days-a-week and 24 hours a day.

#### NEW PRODUCTS AND SERVICES

##### SECONDARY MARKET MORTGAGES

During 1998 we began offering our customers access to secondary market mortgages. This new product produces fee revenue and keeps us competitive with the low rate providers, while still enabling us to provide our own mortgage products. We have found that by providing access to secondary market financing, we are able to develop relationships with and cross-sell other financial services to customers, who may have gone elsewhere.

##### MONEY MANAGEMENT SWEEP CREDIT AND REPO SWEEP CASH MANAGEMENT SERVICE

In the third quarter, we expanded our Money Management Sweep Account to include a Repo Sweep of customers' excess funds to a non-FDIC insured investment deposit. Now we offer our commercial customers a complete, automated cash management service. The service will automatically sweep funds to and from a revolving line of credit, when the customer is borrowing for working capital purposes; and to and from the Repo Sweep account when the customer has investable excess funds. The service reduces borrowing costs and increases investment returns automatically.

##### C&NOW VISA(C) CHECK CARD

Within the first half of 1999, we plan to begin offering our own C&NOW VISA(C) CHECK CARD. The card will provide our customers with access to their checking account funds anywhere that the Visa(C) Credit Card is accepted, including ATMs, point-of-sale terminals and credit card merchants.

##### C&NOW INTERNET BANKING

During the second quarter of 1999, we will be installing a fully interactive and transactional Internet world-wide-web site. This new service, when coupled with our branch system, ATM network and telephone banking system, will provide our existing and new customers with greater control of and access to their financial resources than ever before.

With the C&NOW INTERNET BANKING system consumers can access account balances, transaction histories, account statements, (information can be downloaded into Quicken, MSMoney or PC spreadsheet formats), and digital images of checks. They can pay bills, transfer funds between C&N accounts, apply for loans and credit cards, open accounts and purchase CDs, order checks, buy US Savings Bonds, use financial calculators, maintain a discount brokerage account and access online life, auto, and home insurance quotes. Business customers will have access to the same features available to consumers and they will have cash management features such as access to a Direct Deposit Payroll feature, Automated Clearing House (ACH) debit and credit origination, electronic funds transfer payments of federal tax obligations and much more. We hope to have the system fully operational by no later than the middle of 1999.

#### MARKETING

Two significant changes have occurred in your corporation's marketing program. First, in March, we established our first ever full-time marketing position. We believe that it is absolutely essential to maintain a marketing focus on everything we do. The new marketing coordinator, Michelle "Shelley" Karas, is responsible for leading the development and implementation of the bank's marketing strategy. That strategy includes the second significant

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change in our approach to marketing: the implementation of an organization-wide sales culture through training and emphasis on identifying and satisfying our customers needs.

C&N's management staff, also, received training in business development and officer calling. The calling program is focused on attracting new customers to Citizens & Northern Bank, retaining existing customers and increasing products and services used by both.

#### TECHNOLOGY

In addition to meeting the challenges presented by the Year 2000, our Management Information Systems Department has installed and connected all of our offices with a new state-of-the art digital communications network. The digital network will enable us to simultaneously transmit online main frame data, provide Internet and email access bank-wide, network PC's and ATMs, and permit voice communications between offices, as well. Strategically, this new communications network will improve our ability to better serve the customers needs with the newest technologies.

Much is being said about the computer-based Year 2000 problems. Unfortunately, many pundits in the media are distorting and over-dramatizing the potential problems. We have taken all necessary steps to assure that C&N's customers will not experience any changes in our service delivery. Beginning in 1996, Citizens & Northern Bank began development and implementation of a plan to correct and address any software or system that would be affected when the Year 2000 arrives. The Board of Directors and management of Citizens & Northern Bank have committed all necessary resources to assure that our customer services will not be disrupted. We firmly believe that our Y2K initiative is comprehensive and complete. For a more detailed narrative about our Y2K program, please read the MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS section found later in this annual report.

## RETIREMENTS

At the end of June, Gerald Smith retired from his position as Trust Officer in our Towanda office. Jerry served us well in that capacity for over 12 years.

At the end of 1998, two long time employees from our Dushore office retired: Wayne Gavitt, with over 25 years of service, and Beverly Kann, with over 27 years of service. As the Sullivan County Regional Manager and the Dushore branch manager Wayne made significant contributions to our loan and deposit growth in that market. Replacing Wayne as the Dushore branch manager is Helen Ferris. Helen has over 17 years experience in banking and is committed to providing C&N's superior customer service. Beverly Kann was a loan clerk and IRA specialist.

We wish Jerry, Wayne and Beverly long and fulfilling retirements.

## CONCLUSION

Citizens & Northern will continue to be the premier financial service provider in its market. With our excellent employees and management and the support, business development and oversight provided by our Board of Directors and Advisory boards, your corporation shall continue to out perform its peers.

## CONSOLIDATED BALANCE SHEET

(In Thousands Except Share Data)

<TABLE>

<CAPTION>

	December 31, 1998	December 31, 1997
	<C>	<C>
<b>&lt;S&gt;</b>		
<b>ASSETS</b>		
Cash & Due From Banks		
Noninterest-Bearing	\$ 15,428	\$ 13,449
Interest-Bearing	700	804
-----		
Total Cash and Cash Equivalents	16,128	14,253
Available-for-Sale Securities	329,275	306,587
Held-to-Maturity Securities		
(Estimated fair value of \$1,931 and \$1,623 in 1998 and 1997, respectively)	1,908	1,597
Loans, Net	286,183	280,513
Bank Premises and Equipment, Net	7,416	6,720
Foreclosed Assets Held for Sale	652	230
Accrued Interest Receivable	4,109	4,808
Other Assets	627	645
-----		
<b>TOTAL ASSETS</b>	<b>\$ 646,298</b>	<b>\$ 615,353</b>
-----		
<b>LIABILITIES</b>		
Deposits:		
Noninterest-Bearing	\$ 57,871	\$ 46,916
Interest-Bearing	418,647	395,340
-----		
Total Deposits	476,518	442,256
Dividends Payable	1,123	1,013
Short-Term Borrowings	12,080	15,000
Long-Term Borrowings	60,044	65,461
Accrued Interest and Other Liabilities	5,966	6,088
-----		
<b>TOTAL LIABILITIES</b>	<b>555,731</b>	<b>529,818</b>

STOCKHOLDERS' EQUITY		
Common Stock, Par Value \$ 1.00 per Share	5,220	5,168
Authorized 10,000,000; Issued 5,220,038 and 5,168,354 in 1998 and 1997, respectively		
Stock Dividend Distributable	1,931	1,706
Paid in Capital	15,468	13,799
Retained Earnings	57,477	52,519
-----		
Total	80,096	73,192
Accumulated Other Comprehensive Income	11,922	13,335
Less: Treasury Stock at Cost		
118,010 shares at December 31, 1998	(1,451)	
105,311 shares at December 31, 1997		(992)
-----		
TOTAL STOCKHOLDERS' EQUITY	90,567	85,535
-----		
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	\$ 646,298	\$ 615,353
-----		

</TABLE>

The accompanying notes are an integral part of the consolidated financial statements.

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#### CONSOLIDATED STATEMENT OF INCOME

(In Thousands Except Per Share Data)

<TABLE>

<CAPTION>

	Years Ended December 31,		
	1998	1997	1996
<S>	<C>	<C>	<C>
<b>INTEREST INCOME</b>			
Interest and Fees on Loans	\$28,788	\$28,660	\$27,574
Interest on Balances with Depository Institutions	37	54	37
Interest on Loans to Political Subdivisions	380	391	424
Interest on Federal Funds Sold	229	334	60
Income from Available-for-Sale and Held-to-Maturity Securities:			
Taxable	14,062	14,361	15,943
Tax Exempt	3,982	3,595	3,012
Dividends	950	874	872
-----			
Total Interest and Dividend Income	48,428	48,269	47,922
-----			
<b>INTEREST EXPENSE</b>			
Interest on Deposits	18,252	18,292	17,775
Interest on Short-Term Borrowings	824	755	2,992
Interest on Long-Term Borrowings	3,617	4,265	2,684
-----			
Total Interest Expense	22,693	23,312	23,451
-----			
Interest Margin	25,735	24,957	24,471
-----			
Provision for Possible Loan Losses	763	797	701
-----			
Interest Margin After Provision for Possible Loan Losses	24,972	24,160	23,770
-----			
<b>OTHER INCOME</b>			
Service Charges on Deposit Accounts	1,039	1,076	1,124
Service Charges and Fees	288	281	269
Trust Department Income	1,288	1,004	852
Insurance Commissions, Fees and Premiums	405	462	555
Other Operating Income	94	384	47
-----			
Total Other Income before Realized Gains on Securities, Net	3,114	3,207	2,847
Realized Gains on Securities, Net	3,001	1,001	475
-----			
Total Other Income	6,115	4,208	3,322
-----			
<b>OTHER EXPENSES</b>			
Salaries and Wages	6,621	5,975	5,887
Pensions and Other Employee Benefits	1,760	1,691	1,709
Occupancy Expense, Net	827	726	721

Furniture and Equipment Expense	792	723	726
Expenses Related to Credit Card Operations	2,732	2,395	2,173
Pennsylvania Shares Tax	656	596	544
Other Operating Expense	3,095	2,989	2,926
<b>Total Other Expenses</b>	<b>16,483</b>	<b>15,095</b>	<b>14,686</b>
Income Before Income Tax Provision	14,604	13,273	12,406
Income Tax Provision	3,527	3,166	3,151
<b>NET INCOME</b>	<b>\$11,077</b>	<b>\$10,107</b>	<b>\$ 9,255</b>
<b>NET INCOME PER SHARE - BASIC</b>	<b>\$ 2.15</b>	<b>\$ 1.96</b>	<b>\$ 1.79</b>
<b>NET INCOME PER SHARE - DILUTED</b>	<b>\$ 2.14</b>	<b>\$ 1.96</b>	<b>\$ 1.79</b>

</TABLE>

The accompanying notes are an integral part of the consolidated financial statements.

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Consolidated Statement of Changes in Stockholders' Equity  
(In Thousands Except Per Share Data)

	Common Stock		Stock Dividend Distributable	Paid In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Total
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
BALANCE DECEMBER 31, 1995	5,067	\$ 5,067	\$ 1,013	\$ 11,575	\$ 43,370	\$ 6,952	(\$ 1,000)	\$ 66,977
Comprehensive Income:								
Net Income					9,255			9,255
Unrealized Loss on Securities, Net of Reclassification Adjustment and Tax Effects						(1,185)		(1,185)
<b>Total Comprehensive Income</b>								<b>8,070</b>
Stock Dividend Issued	50	50	(1,013)	963				
Cash Dividends Declared \$.67 Per Share					(3,458)			(3,458)
Stock Dividend Declared, 1%			1,305		(1,305)			
Shares Issued from Treasury Related to Exercise of Stock Options				1			3	4
BALANCE DECEMBER 31, 1996	5,117	5,117	1,305	12,539	47,862	5,767	(997)	71,593
Comprehensive Income:								
Net Income					10,107			10,107
Unrealized Gain on Securities, Net of Reclassification Adjustment and Tax Effects						7,568		7,568
<b>Total Comprehensive Income</b>								<b>17,675</b>
Stock Dividend Issued	51	51	(1,305)	1,254				
Cash Dividends Declared \$.72 Per Share					(3,744)			(3,744)
Stock Dividend Declared, 1%			1,706		(1,706)			
Shares Issued from Treasury Related to Exercise of Stock Options				6			5	11
BALANCE DECEMBER 31, 1997	5,168	5,168	1,706	13,799	52,519	13,335	(992)	85,535
Comprehensive Income:								
Net Income					11,077			11,077
Unrealized Loss on Securities, Net of Reclassification Adjustment and Tax Effects						(1,413)		(1,413)
<b>Total Comprehensive Income</b>								<b>9,664</b>
Stock Dividend Issued	52	52	(1,706)	1,654				
Cash Dividends Declared \$.81 Per Share					(4,188)			(4,188)
Stock Dividend Declared, 1%			1,931		(1,931)			
Shares Issued from Treasury Related to Exercise of Stock Options				15			9	24
Shares Purchased for Treasury							(468)	(468)

BALANCE DECEMBER 31, 1998 5,220 \$ 5,220 \$ 1,931 \$ 15,468 \$ 57,477 \$ 11,922 (\$ 1,451) \$ 90,567

</TABLE>

The accompanying notes are an integral part of the consolidated financial statements.

6

CONSOLIDATED STATEMENT OF CASH FLOWS

(In Thousands)

<TABLE>  
<CAPTION>

	Years Ended December 31,		
	1998	1997	1996
	<C>	<C>	<C>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net Income	\$ 11,077	\$ 10,107	\$ 9,255
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:			
Provision for Possible Loan Losses	763	797	701
Realized Gain on Securities, Net	(3,001)	(1,001)	(475)
Loss (Gain) on Sale of Foreclosed Assets, Net	(26)	97	70
Provision for Depreciation	806	723	764
Accretion and Amortization	(455)	773	827
Deferred Income Tax	63	10	(215)
Decrease (Increase) in Accrued Interest Receivable and Other Assets	717	163	(332)
(Decrease) Increase in Accrued Interest Payable and Other Liabilities	653	(848)	405
<b>Net Cash Provided by Operating Activities</b>	<b>10,597</b>	<b>10,821</b>	<b>11,000</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Proceeds from the Maturity of Held-to-Maturity Securities	178	755	138
Purchase of Held-to-Maturity Securities	(498)	(781)	(199)
Proceeds from Sales of Available-for-Sale Securities	83,888	134,157	13,002
Proceeds from Maturities of Available-for-Sale Securities	127,670	64,768	35,468
Purchase of Available-for-Sale Securities	(232,922)	(186,798)	(58,881)
Net Increase in Loans	(7,231)	(7,652)	(15,428)
Purchase of Premises and Equipment	(1,502)	(834)	(582)
Sale of Foreclosed Assets	402	419	312
<b>Net Cash Provided by (Used in) Investing Activities</b>	<b>(30,015)</b>	<b>4,034</b>	<b>(26,170)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Net Increase in Deposits	34,262	11,945	759
Net Repayment of Short-Term Borrowings	(2,920)	(13,850)	(16,150)
Proceeds from Long-Term Borrowings	34,400	10,074	45,400
Repayments of Long-Term Borrowings	(39,817)	(20,013)	(10,000)
Proceeds from the Sale of Treasury Stock	24	11	4
Purchase of Treasury Stock	(468)	--	--
Dividends Declared	(4,188)	(3,744)	(3,458)
<b>Net Cash Provided by (Used In) Financing Activities</b>	<b>21,293</b>	<b>(15,577)</b>	<b>16,555</b>
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>1,875</b>	<b>(722)</b>	<b>1,385</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<b>14,253</b>	<b>14,975</b>	<b>13,590</b>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>\$ 16,128</b>	<b>\$ 14,253</b>	<b>\$ 14,975</b>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>			
Interest Paid	\$ 22,615	\$ 22,380	\$ 23,474
Income Taxes Paid	\$ 3,172	\$ 3,512	\$ 3,449

</TABLE>

The accompanying notes are an integral part of the consolidated financial statements.

7

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**BASIS OF CONSOLIDATION** - The consolidated financial statements include the accounts of Citizens and Northern Corporation ("Corporation"), and its subsidiaries, Citizens & Northern Bank ("Bank") and Bucktail Life Insurance Company. All material intercompany balances and transactions have been eliminated in consolidation.

**NATURE OF OPERATIONS** - The Corporation is primarily engaged in providing a full range of banking and mortgage services to individual and corporate customers in Northcentral Pennsylvania. Lending activity includes commercial loans, mortgage loans, consumer installment loans, credit cards, lease financing as well as specialized instruments such as commercial letters-of-credit. Deposit services provided include various types of checking accounts, passbook and statement savings, money market accounts, interest checking accounts, individual retirement accounts and certificates of deposit. The Corporation also offers non-insured reposweep accounts and originates secondary market consumer mortgages.

The Corporation provides Trust Department services, including the administration of trusts and estates, retirement plans, and other employee benefit plans.

The Corporation is subject to competition from other financial institutions. It is also subject to regulation by certain federal and state agencies and undergoes periodic examination by those regulatory authorities.

**USE OF ESTIMATES** - The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan losses and the valuation of real estate acquired in connection with foreclosures or in satisfaction of loans. In connection with the determination of the allowance for loan losses and the valuation of foreclosed assets held for sale, management relies on appraisals of its internal certified appraiser.

Management believes that the allowance for losses on loans and the valuation of foreclosed assets held for sale are adequate. While management uses available information to recognize losses on loans and foreclosed assets held for sale, changes in economic conditions may necessitate revisions of these estimates in future years. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Corporation's allowance for losses on loans and valuation of foreclosed assets held for sale. Such agencies may require the Corporation to recognize additional losses based on their judgments of information available to them at the time of their examination.

**INVESTMENT SECURITIES** - Investment securities are accounted for as FOLLOWS:

**HELD-TO-MATURITY SECURITIES** - includes debt securities that the Corporation has the positive intent and ability to hold to maturity. These securities are reported at cost adjusted for amortization of premiums and accretion of discounts, computed using a method approximating the level-yield basis.

**AVAILABLE-FOR-SALE SECURITIES** - includes debt securities not classified as held-to-maturity and both restricted and unrestricted equity securities. Such securities except for restricted equity securities are reported at fair value, with unrealized gains and losses excluded from earnings and reported, net of deferred income taxes, as a separate component of stockholders' equity. The restricted equity securities consist primarily of Federal Home Loan Bank stock, which are carried at cost and evaluated for impairment. Amortization of premiums and accretion of discounts on available-for-sale securities are recorded using the level yield method over the remaining contractual life of the securities, adjusted for actual prepayments.

Realized gains and losses on the sale of available-for-sale securities are computed on the basis of specific identification of the adjusted cost of each security.

The fair values of the majority of the Corporation's investments are estimated based on bid prices published in financial newspapers or bid quotations received from securities dealers. The fair value of certain state and municipal securities is not readily available through market sources other than dealer quotations, so fair value estimates are based on quoted market prices of similar instruments, adjusted for differences between the quoted instruments and the instruments being valued. The carrying values of restricted equity securities approximate fair values.



LOANS AND LEASE FINANCE RECEIVABLES ("LOANS") - Loans are stated at unpaid principal balances, less the allowance for loan losses and net deferred loan fees and unearned discounts.

Loan origination and commitment fees, as well as certain direct origination costs, are deferred and amortized as a yield adjustment over the lives of the related loans using the interest method. Amortization of deferred loan fees is discontinued when a loan is placed on nonaccrual status.

Loans are placed on nonaccrual status when, in the opinion of management, collection of interest is doubtful. Any unpaid interest previously accrued on those loans is reversed from income. Interest income is generally not recognized on specific impaired loans unless the likelihood of further loss is remote. Interest payments received on such loans are applied as a reduction of the loan principal balance. Interest income on other nonaccrual loans is recognized only to the extent of interest payments received.

The allowance for loan losses is maintained at a level which, in management's judgment, is adequate to absorb credit losses inherent in the loan portfolio. The amount of the allowance is based on management's evaluation of the collectibility of the loan portfolio, including the nature of the portfolio, credit concentrations, trends in historical loss experience, specific impaired loans, and economic conditions. Allowances for impaired loans are generally determined based on collateral values or the present value of estimated cash flows. The allowance is increased by a provision for loan losses, which is charged to expense, and reduced by charge-offs, net of recoveries.

BANK PREMISES AND EQUIPMENT - Bank premises and equipment are stated at cost less accumulated depreciation. Repair and maintenance expenditures, which extend the useful life of an asset, are capitalized and other repair expenditures are expensed as incurred.

When premises or equipment are retired or sold the remaining cost and accumulated depreciation are removed from the account and any gain or loss is credited or charged to income. Depreciation expense is computed using the straight-line method.

FORECLOSED ASSETS HELD FOR SALE - Foreclosed assets held for sale consist of real estate acquired by foreclosure and are carried at the lower of fair value minus estimated cost to sell or cost. The book value of foreclosed assets held for sale at December 31, 1998 and December 31, 1997 was \$652,000 and \$230,000, respectively. Foreclosed assets held for sale amounting to \$798,000, \$163,000 and \$510,000 were acquired from the foreclosure of real estate loans during 1998, 1997 and 1996, respectively.

INCOME TAXES - Provisions for deferred income taxes are made as a result of temporary differences in financial and income tax methods of accounting. These differences relate principally to provisions for possible loan losses, amortization of loan origination fees and costs, pension expense, depreciation of bank premises and equipment, and postretirement benefits.

OFF-BALANCE SHEET FINANCIAL INSTRUMENTS - In the ordinary course of business, the Corporation has entered into off-balance sheet financial instruments consisting of commitments to extend credit and standby letters of credit. Such financial instruments are recorded in the financial statements when they become payable.

CASH FLOWS - The Corporation utilizes the net reporting of cash receipts and cash payments for certain deposit and lending activities. The Corporation considers all cash and amounts due from depository institutions, interest-bearing deposits in other banks, and federal funds sold to be cash equivalents for purposes of the statement of cash flows.

TRUST ASSETS AND INCOME - Assets held by the Corporation in a fiduciary or agency capacity for its customers are not included in the financial statements since such items are not assets of the Corporation. Trust income is recorded on a cash basis, which is not materially different from the accrual basis.

RECLASSIFICATION - Certain 1997 and 1996 amounts have been reclassified to conform to the 1998 presentation.

Effective January 1, 1998, the Corporation adopted SFAS No. 130, "Reporting Comprehensive Income." Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported as a separate component of the equity section of the balance sheet, such items, along with net income, are components of comprehensive income. The adoption of SFAS No. 130 had no effect on the Corporation's net income or stockholders' equity. As required by SFAS No. 130, the consolidated financial statements for 1997 and 1996 have been reclassified to reflect application of this pronouncement.

The components of other comprehensive income and the related tax effects are as follows:

<TABLE>  
<CAPTION>

(In Thousands)	Years Ended December 31,		
	1998	1997	1996
<S>	<C>	<C>	<C>
Unrealized holding gains (losses) on available-for-sale securities	\$ 860	\$ 12,468	\$ (1,321)
Less: Reclassification adjustment for gains realized in income	(3,001)	(1,001)	(475)
-----	-----	-----	-----
Net unrealized gains (losses)	(2,141)	11,467	(1,796)
Tax effect	728	(3,899)	611
-----	-----	-----	-----
Net-of-tax amount	\$ (1,413)	\$ 7,568	\$ (1,185)
-----	-----	-----	-----

</TABLE>

### 3. PER SHARE DATA

Net income per share is based on the weighted-average number of shares of common stock outstanding. The number of shares used in calculating net income and cash dividends per share reflect the retroactive effect of stock dividends declared in the fourth quarter of each year presented, payable in the first quarter of the following year. The following data show the amounts used in computing net income per share and the weighted average number of shares of dilutive stock options. The dilutive effect of stock options is computed as the weighted-average common shares available from the exercise of all dilutive stock options, less the number of shares that could be repurchased with the proceeds of stock option exercises based on the average share price of the Corporation's common stock during the period.

<TABLE>  
<CAPTION>

	Net Income	Weighted- Average Common Shares	Earnings Per Share
<S>	<C>	<C>	<C>
1998			
Earnings per share - basic	\$11,077,000	5,158,102	\$ 2.15
			-----
Dilutive effect of stock options		9,805	
			-----
Earnings per share - diluted	\$11,077,000	5,167,907	\$ 2.14
			-----
1997			
Earnings per share - basic	\$10,107,000	5,164,238	\$ 1.96
			-----
Dilutive effect of stock options		4,850	
			-----
Earnings per share - diluted	\$10,107,000	5,169,088	\$ 1.96
			-----
1996			
Earnings per share - basic	\$ 9,255,000	5,164,099	\$ 1.79
			-----
Dilutive effect of stock options		1,086	
			-----
Earnings per share - diluted	\$ 9,255,000	5,165,185	\$ 1.79
			-----

## 4. CASH AND DUE FROM BANKS

Banks are required to maintain reserves consisting of vault cash and deposit balances with the Federal Reserve Bank in their district. The reserves are based on deposit levels during the year and account activity and other services provided by the Federal Reserve Bank. Average daily currency, coin, and cash balances with the Federal Reserve Bank needed to cover reserves against deposits for 1998 ranged from \$4,467,000 to \$5,679,000. For 1997, these balances ranged from \$4,580,000 to \$5,446,000. Average daily cash balances with the Federal Reserve Bank required to cover services provided to the Bank amounted to \$425,000 throughout 1998 and 1997. Total balances restricted at December 31, 1998 and December 31, 1997 were \$5,744,000 and \$5,827,000, respectively.

Deposits with one financial institution are insured up to \$100,000. The Corporation maintains cash and cash equivalents with certain financial institutions in excess of the insured amount.

## 5. SECURITIES

Amortized cost and the fair value of securities at December 31, 1998, 1997 and 1996 are summarized as follows:

(In Thousands)	Amortized Cost	December 31, 1998		Fair Value
		Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	
<S>	<C>	<C>	<C>	<C>
<b>AVAILABLE-FOR-SALE SECURITIES:</b>				
Obligations of the U.S. Treasury	\$ 2,512	\$ 44	\$ --	\$ 2,556
Obligations of Other U.S. Government Agencies	61,998	237	(394)	61,841
Obligations of States and Political Subdivisions	78,434	3,167	(178)	81,423
Other Securities	16,713	92	(338)	16,467
Mortgage-backed Securities	130,189	1,043	(186)	131,046
<b>Total Debt Securities</b>	<b>289,846</b>	<b>4,583</b>	<b>(1,096)</b>	<b>293,333</b>
Marketable Equity Securities	21,365	14,788	(211)	35,942
<b>Total</b>	<b>\$311,211</b>	<b>\$19,371</b>	<b>\$ (1,307)</b>	<b>\$329,275</b>
<b>HELD-TO-MATURITY SECURITIES:</b>				
Obligations of the U.S. Treasury	\$ 630	\$ 4	\$ --	\$ 634
Obligations of Other U.S. Government Agencies	849	4	(1)	852
Mortgage-backed Securities	429	19	(3)	445
<b>Total</b>	<b>\$ 1,908</b>	<b>\$ 27</b>	<b>\$ (4)</b>	<b>\$ 1,931</b>

&lt;/TABLE&gt;

<TABLE>  
<CAPTION>

(In Thousands)	Amortized Cost	December 31, 1997		Fair Value
		Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	
<S>	<C>	<C>	<C>	<C>
<b>AVAILABLE-FOR-SALE SECURITIES:</b>				
Obligations of the U.S. Treasury	\$ 2,520	\$ 18	\$ --	\$ 2,538
Obligations of Other U.S. Government Agencies	74,188	312	(51)	74,449
Obligations of States and Political Subdivisions	62,009	2,606	(1)	64,614
Other Securities	3,851	29	(107)	3,773
Mortgage-backed Securities	127,664	1,585	(59)	129,190
<b>Total Debt Securities</b>	<b>270,232</b>	<b>4,550</b>	<b>(218)</b>	<b>274,564</b>
Marketable Equity Securities	16,149	15,875	(1)	32,023
<b>Total</b>	<b>\$286,381</b>	<b>\$20,425</b>	<b>\$ (219)</b>	<b>\$306,587</b>
<b>HELD-TO-MATURITY SECURITIES:</b>				
Obligations of the U.S. Treasury	\$ 632	\$ --	\$ (2)	\$ 630
Obligations of Other U.S. Government Agencies	350	8	--	358

Mortgage-backed Securities	615	28	(8)	635
Total	\$ 1,597	\$ 36	\$ (10)	\$ 1,623

</TABLE>

11

<TABLE>  
<CAPTION>

(In Thousands)

	December 31, 1996			
	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
<S>	<C>	<C>	<C>	<C>
AVAILABLE-FOR-SALE SECURITIES:				
Obligations of the U.S. Treasury	\$ 2,505	\$ --	\$ (30)	\$ 2,475
Obligations of Other U.S. Government Agencies	36,212	169	(40)	36,341
Obligations of States and Political Subdivisions	54,501	1,611	(169)	55,943
Other Securities	4,962	7	0	4,969
Mortgage-backed Securities	184,864	1,507	(2,888)	183,483
Total Debt Securities	283,044	3,294	(3,127)	283,211
Marketable Equity Securities	16,072	8,671	(101)	24,642
Total	\$299,116	\$11,965	\$ (3,228)	\$307,853
HELD-TO-MATURITY SECURITIES:				
Obligations of the U.S. Treasury	\$ 699	\$ 3	\$ (3)	\$ 699
Obligations of Other U.S. Government Agencies	100	2	102	
Mortgage-backed Securities	770	22	(14)	778
Total	\$ 1,569	\$ 27	\$ (17)	\$ 1,579

</TABLE>

The amortized cost and fair value of investment debt securities at December 31, 1998 follow. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Maturities of mortgage-backed securities have been estimated based on the contractual maturity.

<TABLE>  
<CAPTION>

(In Thousands)

	December 31, 1998	
	Amortized Cost	Fair Value
<S>	<C>	<C>
AVAILABLE-FOR-SALE SECURITIES:		
Due in one year or less	\$ 3,203	\$ 3,271
Due after one year through five years	18,270	18,883
Due after five through ten years	12,150	12,696
Due after ten years	256,223	258,483
Total	\$289,846	\$293,333
HELD-TO-MATURITY SECURITIES:		
Due in one year or less	\$ 100	\$ 100
Due after one year through five years	993	1,002
Due after five through ten years	544	561
Due after ten years	271	268
Total	\$ 1,908	\$ 1,931

</TABLE>

The following table shows the amortized cost and maturity distribution of the debt securities portfolio at December 31, 1998:

<TABLE>  
<CAPTION>

(In Thousands)

	Within One Year		One - Five Years		Five - Ten Years		After Ten Years		Total	Yield
	Yield	Yield	Yield	Yield	Yield	Yield	Yield			
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
AVAILABLE-FOR-SALE SECURITIES:										

Obligations of the U.S. Treasury			\$2,512	6.01			\$ 2,512	6.01		
Obligations of Other U.S. Government Agencies					\$4,982	6.66	\$57,016	6.82	61,998	6.81
Obligations of States and Political Subdivisions	\$3,203	6.10	9,178	6.37	5,899	6.25	60,154	5.51	78,434	5.69
Other Securities			1,018	8.25	550	8.75	15,145	6.69	16,713	6.85
Mortgage-Backed Securities			5,562	7.48	719	8.01	123,908	6.45	130,189	6.50
<b>Total</b>	<b>\$3,203</b>	<b>6.10</b>	<b>\$18,270</b>	<b>6.76</b>	<b>\$ 12,150</b>	<b>6.64</b>	<b>\$256,223</b>	<b>6.32</b>	<b>\$289,846</b>	<b>6.36</b>
<b>HELD-TO-MATURITY SECURITIES:</b>										
Obligations of the U.S. Treasury	\$ 100	5.00	\$ 530	7.14					\$ 630	6.80
Obligations of Other U.S. Government Agencies			449	6.31	\$ 250	6.52	\$ 150	7.05	849	6.50
Mortgage-Backed Securities			14	8.71	294	7.29	121	7.31	429	7.34
<b>Total</b>	<b>\$ 100</b>	<b>5.00</b>	<b>\$ 993</b>	<b>6.79</b>	<b>\$ 544</b>	<b>6.94</b>	<b>\$ 271</b>	<b>7.17</b>	<b>\$ 1,908</b>	<b>6.79</b>

</TABLE>

Investment securities carried at approximately \$57,424,000 and \$31,942,000 at December 31, 1998 and 1997, respectively, were pledged as collateral for public deposits, trusts and certain other deposits as provided by law.

In 1998, gross realized gains from the sale of available-for-sale securities were \$3,422,000 and gross realized losses were \$421,000. Gross realized gains from the sale of available-for-sale securities in 1997 were \$2,883,000, while gross realized losses for that year were \$1,882,000. In 1996, realized gains from the sale of available-for-sale securities amounted to \$475,000.

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#### 6. NET LOANS AND LEASE FINANCE RECEIVABLES

Major categories of loans and leases included in the loan portfolio are summarized as follows:

<TABLE>

<CAPTION>

(In Thousands)	At December 31,			
	1998	% of Total	1997	% of Total
<S>	<C>	<C>	<C>	<C>
Real Estate - Construction	\$ 1,004	0.35%	\$ 406	0.14%
Real Estate - Mortgage	224,849	77.26%	219,952	77.05%
Consumer	30,924	10.63%	33,094	11.59%
Agricultural	1,930	0.66%	2,424	0.85%
Commercial	17,630	6.06%	17,176	6.02%
Other	7,028	2.41%	6,260	2.19%
Political Subdivisions	7,449	2.56%	5,895	2.07%
Lease Receivables	218	0.07%	256	0.09%
<b>Total</b>	<b>291,032</b>	<b>100.00%</b>	<b>285,463</b>	<b>100.00%</b>
Less Unearned Discount	(29)		(37)	
	291,003		285,426	
Less Allowance for Possible Loan Losses	(4,820)		(4,913)	
<b>Net Loans and Lease Finance Receivables</b>	<b>\$ 286,183</b>		<b>\$280,513</b>	

</TABLE>

At December 31, 1998 and 1997, net unamortized loan fees and costs of \$1,875,000 and \$1,932,000, respectively, have been offset against the carrying value of loans.

There is no concentration of loans to borrowers engaged in similar businesses or activities that exceeds 10% of total loans at December 31, 1998.

The Corporation grants commercial, residential and personal loans to customers primarily in Tioga, Bradford, Sullivan and Lycoming counties. Although the Corporation has a diversified loan portfolio, a significant portion of its debtors' ability to honor their contracts is dependent on the local economic conditions within the region.

Loan Maturity Distribution

<TABLE>  
<CAPTION>

(In Thousands)	December 31, 1998			Total
	One Year Or Less	Over One Year but Less than Five Years	After Five Years	
<S>	<C>	<C>	<C>	<C>
Real Estate - Construction	\$ 1,004	\$ --	\$ --	\$ 1,004
Real Estate - Mortgage	67,307	60,717	96,825	224,849
Consumer	10,943	11,783	8,198	30,924
Agricultural	926	820	184	1,930
Commercial	3,397	5,403	8,830	17,630
Other	345	221	6,462	7,028
Political Subdivisions	1,076	2,151	4,222	7,449
Lease Receivables	20	82	116	218
Total	\$85,018	\$81,177	\$124,837	\$291,032

</TABLE>

Loans in the preceding table with maturities over one year but less than five years and over five years are all fixed rate loans. All loans due on demand or at a variable rate are shown as one year or less.

Loans on which the accrual of interest has been discontinued or reduced amounted to \$1,135,000 at December 31, 1998 and \$1,412,000 at December 31, 1997. Interest income on such loans is recorded only as received.

Loans on which the original terms have been restructured totaled \$156,000 and \$174,000 at December 31, 1998 and December 31, 1997, respectively. None of the loans on which the original terms were changed were past due at December 31, 1998.

Loans which were more than 90 days past due and still accruing interest at December 31, 1998 and December 31, 1997 totaled \$1,628,000 and \$1,986,000, respectively.

Transactions in the allowance for possible loan losses were as follows:

<TABLE>  
<CAPTION>

(In Thousands)	Years Ended December 31,		
	1998	1997	1996
<S>	<C>	<C>	<C>
Balance at Beginning of Year	\$ 4,913	\$ 4,776	\$ 4,579
Provision Charged to Operations	763	797	701
Loans Charged Off	(966)	(784)	(672)
Recoveries	110	124	168
Balance at End of Year	\$ 4,820	\$ 4,913	\$ 4,776

</TABLE>

Information related to impaired loans as of December 31, 1998 and 1997 is as follows:

<TABLE>  
<CAPTION>

(In Thousands)	1998	1997
<S>	<C>	<C>
Balance of impaired loans	\$1,135	\$1,412
Balance of impaired loans for which there is a related, specific allowance for loan losses	\$1,065	\$974
Specific allowance for loan losses related to impaired Loans	\$290	\$274

</TABLE>

The average balance of impaired loans amounted to \$1,397,000, \$1,208,000 and \$1,548,000 for 1998, 1997 and 1996, respectively.

The following is a summary of cash receipts on impaired loans and how they were

applied.

<TABLE> <CAPTION> (In Thousands)			
<S>	1998	1997	1996
<S>	<C>	<C>	<C>
Cash receipts applied to reduce principal balance	\$154	\$ 79	\$ 56
Cash receipts recognized as interest income	67	86	116
-----			
Total cash receipts	\$221	\$165	\$172
-----			

13

#### 7. BANK PREMISES AND EQUIPMENT

Bank premises and equipment are summarized as follows:

<TABLE> <CAPTION>		
(In Thousands)		
<S>	December 31,	
<S>	1998	1997
<S>	<C>	<C>
Land	\$ 497	\$ 432
Buildings and Improvements	9,300	8,472
Furniture and Equipment	5,430	4,889
-----		
Total	15,227	13,793
Less Accumulated Depreciation	7,811	7,073
-----		
Net	\$ 7,416	\$ 6,720
-----		

Depreciation expense included in occupancy expense and furniture and equipment expense was comprised of the following:

<TABLE> <CAPTION>			
(In Thousands)			
<S>	Years Ended December 31,		
<S>	1998	1997	1996
<S>	<C>	<C>	<C>
Buildings and Improvements	\$340	\$296	\$304
Furniture and Equipment	466	427	460
-----			
Total	\$806	\$723	\$764
-----			

#### 8. DEPOSITS

The following table reflects time deposits included in total deposits and their remaining maturities.

<TABLE> <CAPTION>							
(In Thousands)							
<S>	December 31, 1998						
<S>	1999	2000	2001	2002	2003	Thereafter	Total
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Certificates of Deposit	\$80,445	\$33,422	\$12,240	\$6,369	\$4,983	\$16	\$137,475
Yield	5.17%	5.76%	5.82%	5.88%	5.67%	4.90%	5.42%
Individual Retirement Accounts	51,000	25,977	--	--	--	--	76,977
Yield	5.00%	5.00%	--	--	--	--	5.00%
-----							
Total time deposits	\$131,445	\$59,399	\$12,240	\$6,369	\$4,983	\$16	\$214,452
Yield	5.10%	5.43%	5.82%	5.88%	5.67%	4.90%	5.27%
-----							

<TABLE> <CAPTION>							
(In Thousands)							
<S>	December 31, 1997						
<S>	1998	1999	2000	2001	2002	Thereafter	Total
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>

Certificates of Deposit	\$82,083	\$16,005	\$11,986	\$7,556	\$4,049	\$34	\$121,713
Yield	5.39%	5.77%	6.24%	5.97%	6.06%	5.57%	5.58%
Individual Retirement Accounts	56,509	24,408	--	--	--	--	80,917
Yield	5.90%	5.90%	--	--	--	--	5.90%
-----							
Total time deposits	\$138,592	\$40,413	\$11,986	\$7,556	\$4,049	\$34	\$202,630
Yield	5.60%	5.85%	6.24%	5.97%	6.06%	5.57%	5.71%
-----							

</TABLE>

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Included in interest-bearing deposits are time deposits issued in the amount of \$100,000 or more. These certificates and their remaining maturities are as follows:

<TABLE>							
<CAPTION>							
At December 31, 1998							
(In Thousands)	1999	2000	2001	2002	2003	Total	
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Certificates of Deposit	\$13,141	\$11,390	\$1,228	\$1,066	\$852	\$27,677	
Yield	5.32%	5.70%	5.96%	6.13%	5.75%	5.55%	
Individual Retirement Accounts	5,634	3,902	--	--	--	9,536	
Yield	5.00%	5.00%	--	--	--	5.00%	
-----							
Total	\$18,775	\$15,292	\$1,228	\$1,066	\$852	\$37,213	
Yield	5.22%	5.52%	5.96%	6.13%	5.75%	5.41%	
-----							

</TABLE>

<TABLE>							
<CAPTION>							
At December 31, 1997							
<S>	1998	1999	2000	2001	2002	Total	
<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Certificates of Deposit	\$12,883	\$1,360	\$920	\$781	\$894	\$16,838	
Yield	5.56%	6.11%	6.47%	6.12%	6.22%	5.72%	
Individual Retirement Accounts	6,878	1,419	--	--	--	8,297	
Yield	5.90%	5.90%	--	--	--	5.90%	
-----							
Total	\$19,761	\$2,779	\$920	\$781	\$894	\$25,135	
Yield	5.68%	6.00%	6.47%	6.12%	6.22%	5.78%	
-----							

</TABLE>

The interest paid on deposits of \$100,000 or more amounted to \$1,047,000, \$898,000 and \$958,000 for the years ended December 31, 1998, 1997 and 1996, respectively.

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## 9. BORROWED FUNDS

### SHORT-TERM BORROWINGS

Short-term borrowings include the following:

<TABLE>		
<CAPTION>		
(In Thousands)		
At December 31,		
	1998	1997
<S>	<C>	<C>
Federal Funds Purchased (a)	\$ --	\$ --
Flexline (b)	--	10,000
Federal Home Loan Bank Borrowings (c)	10,000	5,000
Repurchase Agreements (d)	2,080	--
-----		
Total Short-Term Borrowings	\$12,080	\$15,000
-----		

</TABLE>



(a) Federal Funds Purchased generally represent overnight federal funds borrowings from correspondent banks. The maximum month-end amount of such borrowing in 1998, 1997 and 1996 was \$2,000,000, \$10,000,000 and \$8,500,000, respectively. The average amount of such borrowings was \$2,801,000, \$663,000 and \$967,000 in 1998, 1997 and 1996, respectively, and the weighted average interest rates were 4.75% in 1998, 4.98% in 1997 and 5.96% in 1996.

(b) Flexline is a line of credit with the Federal Home Loan Bank of Pittsburgh used overnight. The line was discontinued on December 31, 1998. The weighted average interest rate for 1998, 1997 and 1996 was 4.75%, 4.98% and 5.96%, respectively. The maximum outstanding balance was \$16,500,000 in 1998, \$20,000,000 in 1997 and \$6,000,000 in 1996.

(c) Federal Home Loan Bank loans included in Short-Term Borrowings are as follows:

<TABLE>		
<CAPTION>		
(In Thousands)	1998	1997
<S>	<C>	<C>
Fixed rate at 5.86%, matured February 5, 1998	\$ --	\$5,000
Variable rate Open Repo Plus maturing overnight	10,000	--
	-----	-----
	\$10,000	\$5,000
	-----	-----

</TABLE>

Collateral for Federal Home Loan Bank loans is described below under long-term borrowings.

d) Repurchase agreements included in Short-Term Borrowings amounted to \$2,080,000 as of December 31, 1998. These repurchase agreements mature overnight, and are collateralized by securities with a carrying value of \$4,988,000 at December 31, 1998.

#### LONG-TERM BORROWINGS

Long-term borrowings are as follows:

<TABLE>		
<CAPTION>		
(In Thousands)	At December 31,	
<S>	1998	1997
<S>	<C>	<C>
Federal Home Loan Bank Borrowings (e)	\$35,644	\$35,661
Repurchase Agreements (f)	24,400	29,800
	-----	-----
Total Long-Term Borrowings	\$60,044	\$65,461
	-----	-----

</TABLE>

(e) Federal Home Loan Bank Loans included in Long-Term Borrowings are as follows:

<TABLE>		
<CAPTION>		
(In Thousands)	At December 31,	
<S>	1998	1997
<S>	<C>	<C>
Fixed rate at 5.28%, matured January 22, 1998	\$ --	\$10,000
Variable rate at 4.74%, maturing October 26, 2000	5,000	--
Variable rate at 5.75%, scheduled to mature December 11, 2001, but repaid in 1998	--	15,000
Variable rate at 5.60%, maturing July 11, 2002	10,000	10,000
Variable rate at 5.19%, maturing July 22, 2003	10,000	--
Variable rate at 4.32%, maturing October 20, 2003	10,000	--
Fixed rate at 6.86%, maturing December 30, 2016	571	587
Fixed rate at 6.83%, maturing June 5, 2017	73	74
	-----	-----
Total Federal Home Loan Bank borrowings	\$35,644	\$35,661
	-----	-----

</TABLE>

All Federal Home Loan Bank loans are collateralized by Federal Home Loan Bank Stock, mortgage-backed securities and first mortgage loans with a book value totaling \$285,490,000 at December 31, 1998.

(f) Repurchase Agreements included in Long-Term Borrowings are as follows:

<TABLE>  
<CAPTION>  
(In Thousands)

	At December 31,	
	1998	1997
<S>	<C>	<C>
Salomon Brothers fixed rate at 5.10%, matured February 27, 1998	\$ --	\$4,800
Salomon Brothers fixed rate at 6.00%, matured June 15, 1998	--	10,000
Morgan Stanley fixed rate at 5.68%, maturing January 30, 2000	9,400	--
Morgan Stanley fixed rate at 5.57%, maturing December 18, 2001	15,000	15,000
-----		
Total Repurchase Agreements	\$24,400	\$29,800
-----		

</TABLE>

Securities sold under repurchase agreements were delivered to the broker-dealers who arrange the transactions. The broker-dealers may have sold, loaned or otherwise disposed of such securities to other parties in the normal course of their operations, and have agreed to resell to the Corporation substantially identical securities at the maturities of the agreements.

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The respective carrying value of the underlying securities at December 31, 1998 and 1997 was \$25,967,000 and \$33,742,000. Average daily repurchase agreement borrowings for the years ended December 31, 1998, 1997, and 1996 amounted to \$28,967,000, \$37,481,000 and \$37,650,000, respectively. The weighted average interest rate on repurchase agreements for 1998, 1997 and 1996 was 5.40%, 5.77% and 5.96%, respectively. During 1998, 1997 and 1996 the maximum outstanding borrowings were \$39,200,000, \$44,650,000 and \$44,650,000.

#### 10. ESTIMATED FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Corporation's entire holdings of a particular financial instrument. Because no market exists for a significant portion of the Corporation's financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision.

Changes in assumptions can significantly affect the estimates. Estimated fair values have been determined by the Corporation using historical data, and an estimation methodology suitable for each category of financial instruments. The method for determining the estimated fair value of the Corporation's investment securities is described in Note 1. The Corporation's fair value estimates, methods and assumptions are set forth below for the Corporation's other financial instruments.

**CASH AND DUE FROM BANKS** - The carrying amounts for cash and due from banks reported in the consolidated balance sheet approximates these assets' fair values.

**LOANS** - Fair values are estimated for portfolios of loans with similar financial characteristics. Loans are segregated by type such as commercial, commercial real estate, residential mortgage, credit card and other consumer. Each loan category is further segmented into fixed and adjustable rate interest terms and by performing and nonperforming categories. The fair value of performing loans, except residential mortgage and credit card loans, is calculated by discounting scheduled cash flows through the estimated maturity using estimated market discount rates that reflect the credit and interest rate risk inherent in the loans. The estimate of maturity is based on the Corporation's historical experience with repayments for each loan classification, modified, as required, by an estimate of the effect of current economic and lending conditions. For performing residential mortgage loans, fair value is estimated by discounting contractual cash flows adjusted for prepayment estimates based on historical experience. For credit card loans, cash flows and maturities are estimated based on contractual interest rates and historical experience. Fair value of nonperforming loans is based on recent appraisals or estimates prepared by the Corporation's lending officers.

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The following tables present information on loans.

<TABLE>  
<CAPTION>

(In Thousands)	December 31, 1998			
	Book Value	Current Yield	Discount Rate (1)	Fair Value
<S>	<C>	<C>	<C>	<C>
Real Estate:				
Real Estate Fixed	\$176,206	8.58	7.69	\$179,542
Real Estate Variable	48,539	8.01	7.18	48,558
-----				
Total Real Estate	224,745	8.46		228,100
-----				
Consumer:				
Consumer Fixed	21,853	9.14	8.77	21,930
Consumer Variable	548	8.50	8.27	548
Credit Cards	7,863	14.90	14.90	7,863
Key Loans	660	18.00	18.00	660
-----				
Total Consumer	30,924			31,001
-----				
Agriculture	1,903	10.00	8.75	1,928
-----				
Commercial:				
Commercial Fixed	10,106	9.06	8.75	10,150
Commercial Variable	7,524	8.59	8.75	7,505
-----				
Total Commercial	17,630			17,655
-----				
Other Loans	7,028	7.81	7.75	7,047
Political Subdivisions	7,449	6.05	5.00	7,616
Leases	218	7.93	8.00	207
Nonperforming	1,135			1,135
-----				
Total Loans	\$291,032			\$294,689

</TABLE>

<TABLE>  
<CAPTION>

	December 31, 1997			
	Book Value	Current Yield	Discount Rate (1)	Fair Value
<S>	<C>	<C>	<C>	<C>
Real Estate:				
Real Estate Fixed	\$162,745	8.87	8.50	\$165,551
Real Estate Variable	56,230	8.49	7.13	56,261
-----				
Total Real Estate	218,975			221,812
-----				
Consumer:				
Consumer Fixed	23,130	9.63	9.90	23,116
Consumer Variable	589	8.90	9.25	589
Credit Card	8,528	14.90	14.90	8,528
Key Loans	847	18.00	18.00	847
-----				
Total Consumer	33,094			33,080
-----				
Agriculture	2,395	10.05	9.00	2,406
-----				
Commercial:				
Commercial Fixed	9,130	9.53	9.50	9,129
Commercial Variable	8,046	9.55	9.50	8,045
-----				
Total Commercial	17,176			17,174
-----				
Other Loans	6,260	7.89	8.50	6,273
Political Subdivisions	5,895	6.11	5.50	6,082
Leases	256	7.72	8.00	203
Nonperforming	1,412			1,412
-----				
Total Loans	\$285,463			\$288,442

</TABLE>

(1) Management has made estimates of fair value discount rates that it believes to be reasonable. However, because there is no market for many of these financial instruments, management has no basis to determine whether the fair value presented above would be indicative of the value negotiated in an actual sale.

DEPOSITS - The fair value of deposits with no stated maturity, such as noninterest-bearing demand deposits, savings, money market and interest checking accounts, is equal to the amount payable on demand at December 31, 1998 and 1997. The fair value of all other deposit categories is based on the discounted value of contractual cash flows. The discount rate is estimated using the rates currently offered for deposits of similar remaining maturities.

&lt;TABLE&gt;

&lt;CAPTION&gt;

(In Thousands)	December 31, 1998	
	Book Value	Market Value
<S>	<C>	<C>
Noninterest-bearing Demand Deposits	\$ 57,871	\$ 57,871
Interest-bearing Deposits:		
Money Market	121,082	121,082
Interest Checking	36,751	36,751
Savings	45,301	45,301
Certificates of Deposit	137,475	142,673
Other Time	78,038	78,040
-----		
Total Interest-bearing Deposits	418,647	423,847
-----		
Total Deposits	\$476,518	\$481,718
-----		

&lt;/TABLE&gt;

&lt;TABLE&gt;

&lt;CAPTION&gt;

(In Thousands)	December 31, 1997	
	Book Value	Fair Value
<S>	<C>	<C>
Noninterest-bearing Demand Deposits	\$ 46,916	\$ 46,916
Interest-bearing Deposits:		
Money Market	104,894	104,894
Interest Checking	40,880	40,880
Savings	45,332	45,332
Certificates of Deposit	121,713	125,098
Individual Retirement Accounts	80,917	79,624
Other Time	1,604	1,604
-----		
Total Interest-bearing Deposits	395,340	397,432
-----		
Total Deposits	\$442,256	\$444,348
-----		

&lt;/TABLE&gt;

The fair value estimates above do not include the benefit that results from the low-cost funding provided by the deposit liabilities compared to the cost of borrowing funds in the market, commonly referred to as the core deposit intangible.

BORROWED FUNDS - Rates currently available to the Corporation for borrowed funds with similar terms and remaining maturities are used to estimate the fair value of existing borrowed funds.

&lt;TABLE&gt;

&lt;CAPTION&gt;

(In Thousands)	December 31, 1998	
	Book Value	Fair Value
<S>	<C>	<C>
Borrowings		
Short -Term	\$ 12,080	\$ 12,071
Long -Term	60,044	59,999
-----		
Total Borrowings	\$ 72,124	\$ 72,070
-----		

&lt;/TABLE&gt;

&lt;TABLE&gt;

&lt;CAPTION&gt;

December 31, 1997	
Book Value	Fair Value

<S>	<C>	<C>
Borrowings		
Short -Term	\$ 15,000	\$ 14,807
Long -Term	65,461	64,619
-----		
Total Borrowings	\$ 80,461	\$ 79,426
-----		

</TABLE>

COMMITMENTS TO EXTEND CREDIT AND STANDBY LETTERS OF CREDIT - There is no material difference between the notional amount and the fair value of off-balance sheet items which totaled \$54,010,000 at December 31, 1998 and \$51,270,000 at December 31, 1997 and are primarily comprised of unfunded loan commitments which are generally priced at market at the time of funding.

11. EMPLOYEE AND POSTRETIREMENT BENEFIT PLANS

DEFINED BENEFIT PLANS

The Corporation has a noncontributory defined benefit pension plan for all employees meeting certain age and length of service requirements. Benefits are based primarily on years of service and the average annual compensation during the highest five consecutive years within the final ten years of employment.

Also the Corporation sponsors a defined benefit health care plan that provides postretirement medical benefits and life insurance to employees who meet certain age and length of service requirements. This plan contains a cost-sharing feature, which causes participants to pay for all future increases in costs related to benefit coverage. Accordingly, actuarial assumptions related to health care cost trend rates do not affect the liability balance at December 31, 1998 and will not affect the Corporation's future expenses.

The following tables show the funded status and components of net periodic benefit cost from these defined benefit plans:

<TABLE>

<CAPTION>

(In Thousands)

CHANGE IN BENEFIT	Pension Benefits		Postretirement Benefits	
	1998	1997	1998	1997
OBLIGATION:				
<S>	<C>	<C>	<C>	<C>
Benefit obligation at beginning of year	\$ 6,059	\$ 5,418	\$ 715	\$ 668
Service cost	267	234	25	19
Interest cost	424	400	42	48
Plan participants' contributions	--	--	54	31
Actuarial loss	384	249	--	35
Benefits paid	(264)	(242)	(104)	(86)
-----				
Benefit obligation at end of year	\$ 6,870	\$ 6,059	\$ 732	\$ 715
-----				
CHANGE IN PLAN ASSETS:				
Fair value of plan assets at				
Beginning of year	\$ 7,628	\$ 6,701	\$--	\$--
Actual return on plan assets	1,014	1,099	--	--
Employer contribution	--	70	50	55
Plan participants' contributions	--	--	54	31
Benefits paid	(264)	(242)	(104)	(86)
-----				
Fair value of plan assets at end of year	\$ 8,378	\$ 7,628	\$--	\$--
-----				
Funded status	\$ 1,508	\$ 1,569	\$ (732)	\$ (715)
Unrecognized net actuarial (gain) loss	(790)	(800)	(111)	(113)
Unrecognized transition obligation (asset)	(274)	(297)	511	547
-----				
Prepaid (accrued) benefit cost	\$ 444	\$ 472	\$ (332)	\$ (281)
-----				

</TABLE>

<TABLE>  
<CAPTION>

(In Thousands)	Pension Benefits		Postretirement Benefits	
	1998	1997	1998	1997
<S>	<C>	<C>	<C>	<C>
WEIGHTED- AVERAGE ASSUMPTIONS				
AS OF DECEMBER 31:				
Discount rate	6.75%	7.00%	6.75%	7.00%
Expected return on plan assets	8.50%	8.50%	N/A	N/A
Rate of compensation increase	5.00%	5.00%	N/A	N/A

</TABLE>

<TABLE>  
<CAPTION>

(In Thousands)	Pension Benefits			Postretirement Benefits		
	1998	1997	1996	1998	1997	1996
<S>	<C>	<C>	<C>	<C>	<C>	<C>
COMPONENTS OF NET PERIODIC BENEFIT COST:						
Service cost	\$ 267	\$ 234	\$ 238	\$ 25	\$ 19	19
Interest cost	424	400	370	42	48	47
Expected return on plan assets	(640)	(550)	(491)	--	--	--
Amortization of transition (asset) obligation	(23)	(23)	(23)	36	36	36
Recognized net actuarial (gain) loss	--	--	--	(2)	(7)	(7)
Net periodic benefit cost	\$ 28	\$ 61	\$ 94	\$ 101	\$ 96	95

</TABLE>

#### PROFIT SHARING AND DEFERRED COMPENSATION PLANS

The Corporation has a profit sharing plan that incorporates the deferred salary savings provisions of Section 401 (k) of the Internal Revenue Code. The Corporation's matching contributions to the plan depend upon the tax deferred contributions of employees. The Corporation's basic and matching contributions for 1998, 1997 and 1996 were \$477,000, \$436,000 and \$413,000, respectively.

The Corporation also has a nonqualified supplemental deferred compensation arrangement with its key officers. Charges to expense for officers' supplemental deferred compensation for 1998, 1997 and 1996 amounted to \$42,000, \$35,000 and \$118,000, respectively.

#### STOCK OPTION PLANS

The Corporation established a Stock Incentive Plan for a selected group of senior officers. Approximately 60,000 shares of common stock may be issued under the Stock Incentive Plan. The recipients' rights to exercise these options vest ratably over a 5-year period and each option has a contractual expiration of 10 years. Also, the Corporation established an Independent Directors Stock Option Plan which allows the issuance of approximately 25,000 shares of common stock to non-employee directors. The recipients' rights to exercise these options expire 10 years from the date of grant. The exercise prices of all stock options awarded under the plans are equal to fair market value as of the date of the grant.

The Corporation applies Accounting Principles Board Opinion 25 and related interpretations in accounting for stock options. Accordingly, no compensation expense has been recognized for the stock options. Had compensation cost for the stock options been determined based on the fair value at the grant dates for awards consistent with the method of SFAS No. 123, the effect on the Corporations' net income and earnings per share for 1998, 1997 and 1996 would have been adjusted to the pro forma amounts indicated below.

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<TABLE>  
<CAPTION>  
(Net Income in Thousands)

	1998	1997	1996
<S>	<C>	<C>	<C>
Net income			
As reported	\$11,077	\$10,107	\$9,255
Pro forma	\$11,048	\$10,096	\$9,250

Earnings per share-basic

As reported	\$2.15	\$1.96	\$1.79
Pro forma	\$2.14	\$1.95	\$1.79

For purposes of the calculations of SFAS No. 123, the fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions.

	1998	1997	1996
Volatility	18%	19%	11%
Expected option lives	6 Years	6 Years	6 Years
Risk-free interest rate	5.05%	5.78%	6.25%
Dividend yield	3.78%	4.05%	4.61%

A summary of the status of the Corporation's stock option plans as of December 31, 1998, 1997, and 1996, and changes during the years then ended, is presented below:

	1998		1997		1996	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding, beginning of year	36,560	\$27.09	22,850	\$22.65	12,100	\$20.00
Granted	17,700	36.38	15,000	33.25	11,000	25.50
Exercised	(810)	20.95	(590)	20.00	(250)	20.00
Forfeited	--	--	(700)	20.00	--	--
Outstanding, end of year	53,450	\$30.26	36,560	\$27.09	22,850	\$22.65
Options exercisable at year-end	12,590	\$25.02	5,920	\$22.04	2,170	\$20.00
Fair value of options granted during the year		\$5.85		\$5.88		\$2.95

The following table summarizes information about stock options outstanding as of December 31, 1998:

	Number Outstanding At December 31, 1998	Remaining Contractual Life in Years	Number Exercisable At December 31, 1998
Exercise Prices			
\$20.00	9,890	7	5,330
\$25.50	10,860	8	4,260
\$33.25	15,000	9	3,000
\$36.38	17,700	10	--
	53,450		12,590

12. INCOME TAXES

The following temporary differences gave rise to the net deferred tax liability at December 31, 1998 and 1997:

	1998	1997
(In Thousands)		
	<C>	<C>

Deferred Tax Liabilities:		
Bond Accretion	\$23	\$14
Depreciation	148	124
Pension Expense	153	166
Unrealized Holding Gains on Available-for Sale Securities	6,142	6,870
-----		
Total	6,466	7,174
-----		
Deferred Tax Assets:		
Loan Fees and Costs	(199)	(281)
SERP Plan	(92)	(55)
Postretirement and Sick Benefits	(129)	(101)
Allowance for Loan Losses	(1,687)	(1,720)
Write down of Other Real Estate Owned	(7)	--
-----		
Total	(2,114)	(2,157)
-----		
Deferred Tax Liability, Net	\$4,352	\$5,017
-----		

</TABLE>

The federal income tax provision is comprised of the following components:

<TABLE> <CAPTION>			
(In Thousands)	1998	1997	1996
<S>	<C>	<C>	<C>
Currently Payable	\$3,464	\$3,156	\$3,366
Deferred Provision (Benefit)	63	10	(215)
-----			
Total Provision	\$3,527	\$3,166	\$3,151
-----			

</TABLE>

The following tabulation is a reconciliation of the expected provision for federal income taxes determined by application of the statutory rates at which income is expected to be taxed and the actual income tax provision.

<TABLE> <CAPTION>						
(In Thousands)	Years Ended December 31,					
	1998		1997		1996	
<S>	Amount	%	Amount	%	Amount	%
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Expected Provision	\$5,111	35.0	\$4,646	35.0	\$4,342	35.0
Nontaxable Bond Interest	(1,375)	(9.4)	(1,249)	(9.4)	(1,054)	(8.5)
Nontaxable Loan Interest	(133)	(0.9)	(137)	(1.0)	(148)	(1.2)
Nondeductible Interest Expense	192	1.3	167	1.3	149	1.2
Dividends Received Deduction	(165)	(1.1)	(161)	(1.2)	(156)	(1.3)
Surtax	(108)	(0.7)	(112)	(0.8)	(138)	(1.1)
Exemption						
Other, Net	5	--	12	--	156	1.3
-----						
Effective Income Tax and Rates	\$3,527	24.2	\$3,166	23.9	\$3,151	25.4
-----						

</TABLE>

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### 13. RELATED PARTY TRANSACTIONS

Loans to executive officers, directors of the Corporation and its subsidiary and any associates of the foregoing persons are as follows:

<TABLE> <CAPTION>						
(In Thousands)	Beginning	New		Other	Ending	
Name of Borrower	Balance	Loans	Repayments	Changes	Balance	
<S>	<C>	<C>	<C>	<C>	<C>	<C>
15 Directors, 5 Executive Officers 1998	\$5,578	\$1,487	\$(1,647)	\$(709)	\$4,709	
15 Directors, 2 Executive Officers 1997	5,441	736	(2,096)	1,497	5,578	
15 Directors, 2 Executive Officers 1996	4,441	661	(703)	1,042	5,441	

The above transactions were made in the ordinary course of business on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons and do not



involve more than normal risks of collectibility. Other changes represent transfers in and out of the related party category.

#### 14. OFF-BALANCE SHEET RISK

The Corporation is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financial needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. These instruments involve, to varying degrees, elements of credit, interest rate or liquidity risk in excess of the amount recognized in the consolidated balance sheet. The contract amounts of these instruments express the extent of involvement the Corporation has in particular classes of financial instruments.

The Corporation's exposure to credit loss from nonperformance by the other party to the financial instruments for commitments to extend credit and standby letters of credit is represented by the contractual amount of these instruments. The Corporation uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

Financial instruments whose contract amounts represent credit risk at December 31, 1998 and 1997 are as follows:

<TABLE>  
<CAPTION>  
(In Thousands)

	1998	1997
<S>	<C>	<C>
Commitments to extend credit	\$48,610	\$46,258
Standby letters of credit	\$5,400	\$5,012

</TABLE>

Commitments to extend credit are legally binding agreements to lend to customers. Commitments generally have fixed expiration dates or other termination clauses and may require payment of fees. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future liquidity requirements. The Corporation evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Corporation, for extensions of credit is based on management's credit assessment of the counterparty.

Standby letters of credit are conditional commitments issued by the Corporation guaranteeing performance by a customer to a third party. Those guarantees are issued primarily to support public and private borrowing arrangements, including commercial paper, bond financing and similar transactions. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers.

#### 15. REGULATORY MATTERS

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory - and possibly additional discretionary - actions by regulators that, if undertaken could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The Bank's capital amount and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined), to average assets (as defined). Management believes, as of December 31, 1998, that the Bank meets all capital adequacy requirements to which it is subject.

To be categorized as well capitalized, a bank must maintain minimum total risk based, Tier I risk based and Tier I leverage ratios as set forth in the table. The Corporation's actual capital amounts and ratios are presented in the following table.

<TABLE>  
<CAPTION>

	At December 31,	
(In Thousands)	1998	1997
<S>	<C>	<C>

Tier I Capital	\$ 78,645	\$ 72,200
Tier II Supplemental Capital (1)	11,096	11,390
-----		
Total Capital	\$ 89,741	\$ 83,590
-----		
Average Assets (2)	\$614,598	\$595,215
Risk Weighted Assets:		
Balance Sheet	\$333,783	\$313,008
Off-Balance Sheet	29,054	26,769
-----		
Total Risk Weighted Assets	\$362,837	\$339,777
-----		

</TABLE>

<TABLE>  
<CAPTION>

	Actual	Minimum Requirements	Well Capitalized
-----			
<S>	<C>	<C>	<C>
As of December 31, 1998			
Total Capital to Risk Weighted Assets	24.73%	greater than or equal to 8%	greater than or equal to 10%
Tier I Capital to Risk Weighted Assets	21.68%	greater than or equal to 4%	greater than or equal to 6%
Tier I to Average Assets (2)	12.80%	greater than or equal to 4%	greater than or equal to 5%
As of December 31, 1997			
Total Capital to Risk Weighted Assets	24.60%	greater than or equal to 8%	greater than or equal to 10%
Tier I Capital to Risk Weighted Assets	21.25%	greater than or equal to 4%	greater than or equal to 6%
Tier I to Average Assets (2)	12.13%	greater than or equal to 4%	greater than or equal to 5%

(1) Inclusion of the allowance for possible loan losses is allowed up to 1.25% of "Risk Adjusted Assets" and 45 percent of the unrealized gain on unrestricted equity securities is allowed. (2) Includes 45 percent of the unrealized gain or loss on equity securities. Otherwise, unrealized gains or (losses) on available-for-sale securities are excluded.

Restrictions imposed by Federal Reserve Regulation H limit dividend payments in any year to the current year's net income plus the retained net income of the prior two years without approval of the Federal Reserve Board. Accordingly, Company dividends in 1999 may not exceed \$13,252,000, plus Company net income for 1999. Additionally, banking regulators limit the amount of dividends that may be paid by the Bank to the Corporation. Retained earnings against which dividends may be paid without prior approval of the banking regulators amounted to approximately \$61,974,000 at December 31, 1998, subject to the minimum capital ratio requirements noted above.

Restrictions imposed by federal law prohibit the Corporation from borrowing from the Bank unless the loans are secured in specific amounts. Such secured loans to the Corporation are generally limited to 10% of the Bank's stockholder's equity (excluding unrealized gains on available-for-sale-securities) or \$7,200,000 at December 31, 1998.

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#### 16. PARENT COMPANY ONLY

The following is condensed financial information for Citizens & Northern Corporation.

#### CONDENSED BALANCE SHEET

<TABLE>  
<CAPTION>

	December 31,	
(In Thousands)	1998	1997
<S>	<C>	<C>
ASSETS		
Cash	\$ 89	\$ 3
Available-for-Sale Securities	9,270	9,101
Subsidiary Investments		
Citizens & Northern Bank	81,000	76,405
Bucktail Life Insurance Company	1,796	1,616
-----		
Total Subsidiary Investments	82,796	78,021
Dividend Receivable	1,300	1,100
-----		

TOTAL ASSETS	\$93,455	\$88,225
-----		
LIABILITIES AND STOCKHOLDERS' EQUITY		
Other Liabilities	\$ 1,765	\$ 1,677
Dividends Payable	1,123	1,013
Stockholders' Equity	90,567	85,535
-----		
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$93,455	\$88,225
-----		

</TABLE>

CONDENSED INCOME STATEMENT

<TABLE>

<CAPTION>

(In Thousands)

	Years Ended December 31,		
	1998	1997	1996
<S>	<C>	<C>	<C>
Dividends from Subsidiary	\$ 5,500	\$ 3,980	\$ 4,183
Other Dividend Income	218	186	142
Available-for-Sale Securities Gains	822	74	217
Expenses	(356)	(77)	(118)
-----			
Income Before Equity in Undistributed Earnings of Subsidiaries	6,184	4,163	4,424
Equity in Undistributed Earnings of Subsidiaries	4,893	5,944	4,831
-----			
NET INCOME	\$ 11,077	\$ 10,107	\$ 9,255
-----			

</TABLE>

CONDENSED STATEMENT OF CASH FLOWS

<TABLE>

<CAPTION>

(In Thousands)

	Years Ended December 31,		
	1998	1997	1996
<S>	<C>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES			
Net Income	\$ 11,077	\$ 10,107	\$ 9,255
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:			
Noncash Dividends Received	--	--	(578)
Equity Securities Gains	(822)	(74)	(217)
Equity in Undistributed Net Income of Subsidiaries	(4,893)	(5,944)	(4,831)
Increase in Other Assets	(200)	(150)	(80)
Increase in Other Liabilities	372	111	51
-----			
Net Cash Provided by Operating Activities	5,534	4,050	3,600
-----			
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of Available-for-Sale Securities	(2,257)	(602)	(486)
Proceeds from Sale of Available-for-Sale Securities	1,441	187	425
-----			
Net Cash Used in Investing Activities	(816)	(415)	(61)
-----			
CASH FLOWS FROM FINANCING ACTIVITIES			
Sale of Treasury Stock	24	11	4
Purchase of Treasury Stock	(468)	--	--
Dividends Declared	(4,188)	(3,744)	(3,458)
-----			
Net Cash Used in Financing Activities	(4,632)	(3,733)	(3,454)
-----			
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	86	(98)	85
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	3	101	16
-----			
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 89	\$ 3	\$ 101
-----			

</TABLE>

INDEPENDENT AUDITORS' REPORT

To the Stockholders and Board of Directors of Citizens & Northern Corporation

We have audited the accompanying consolidated balance sheets of Citizens & Northern Corporation and subsidiaries ("Corporation") as of December 31, 1998

and 1997, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 1998. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Citizens & Northern Corporation and subsidiaries as of December 31, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles.

PARENTE, RANDOLPH, ORLANDO, CAREY & ASSOCIATES  
WILLIAMSPORT, PENNSYLVANIA  
FEBRUARY 5, 1999

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#### MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

February 3, 1999

To the Stockholders and Board of Directors of Citizens & Northern Corporation

Management of Citizens & Northern Corporation and its subsidiaries has prepared the consolidated financial statements and other information in the "Annual Report and Form 10-K" in accordance with generally accepted accounting principles and is responsible for its content and accuracy.

In meeting its responsibility, management relies on internal accounting and related control systems, which include selection and training of qualified personnel, establishment and communication of accounting and administrative policies and procedures, appropriate segregation of responsibilities and programs of internal audit. These systems are designed to provide reasonable assurance that financial records are reliable for preparing financial statements and maintaining accountability for assets and that assets are safeguarded against unauthorized use or disposition. Such assurance cannot be absolute because of inherent limitations in any internal control system.

Management also recognizes its responsibility to foster a climate in which Company affairs are conducted with the highest ethical standards. The Company's Code of Conduct, furnished to each employee and director, addresses the importance of open internal communications, potential conflicts of interest, compliance with applicable laws, including those related to financial disclosure, the confidentiality of proprietary information and other items. There is an ongoing program to assess compliance with these policies.

The Audit Committee of the Company's Board of Directors consists solely of outside directors. The Audit Committee meets periodically with management and the independent accountants to discuss audit, financial reporting and related matters. Parente, Randolph, Orlando, Carey & Associates and the Company's internal auditors have direct access to the Audit Committee.

Craig G. Litchfield  
President & CEO

James W. Seipler  
Treasurer

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CAUTIONARY STATEMENT

THIS REPORT CONTAINS CERTAIN "FORWARD-LOOKING STATEMENTS" INCLUDING STATEMENTS CONCERNING PLANS, OBJECTIVES, FUTURE EVENTS OR PERFORMANCE AND ASSUMPTIONS AND OTHER STATEMENTS WHICH ARE OTHER THAN STATEMENTS OF HISTORICAL FACT. CITIZENS &

NORTHERN CORPORATION AND ITS SUBSIDIARIES WISHES TO CAUTION READERS THAT THE FOLLOWING IMPORTANT FACTORS, AMONG OTHERS, MAY HAVE AFFECTED AND COULD IN THE FUTURE AFFECT THE CORPORATION'S ACTUAL RESULTS AND COULD CAUSE THE CORPORATION'S ACTUAL RESULTS FOR SUBSEQUENT PERIODS TO DIFFER MATERIALLY FROM THOSE EXPRESSED IN ANY FORWARD-LOOKING STATEMENT MADE BY OR ON BEHALF OF THE CORPORATION HEREIN: THE EFFECT OF CHANGES IN LAWS AND REGULATIONS, INCLUDING FEDERAL AND STATE BANKING LAWS AND REGULATIONS, WITH WHICH THE CORPORATION MUST COMPLY, AND THE ASSOCIATED COST OF COMPLIANCE WITH SUCH LAWS AND REGULATIONS EITHER CURRENTLY OR IN THE FUTURE AS APPLICABLE; THE EFFECT OF CHANGES IN ACCOUNTING POLICIES AND PRACTICES, AS MAY BE ADOPTED BY THE REGULATORY AGENCIES AS WELL AS THE FINANCIAL ACCOUNTING STANDARDS BOARD, OR OF CHANGES IN THE CORPORATION'S ORGANIZATION, COMPENSATION AND BENEFIT PLANS; THE EFFECT ON THE CORPORATION'S COMPETITIVE POSITION WITHIN ITS MARKET AREA OF THE INCREASING CONSOLIDATION WITHIN THE BANKING AND FINANCIAL SERVICES INDUSTRIES, INCLUDING THE INCREASED COMPETITION FROM THE LARGER REGIONAL BANKING ORGANIZATIONS AS WELL AS NONBANK PROVIDERS OF VARIOUS FINANCIAL SERVICES; THE EFFECT OF CHANGES IN INTEREST RATES; AND THE EFFECT OF CHANGES IN THE BUSINESS CYCLE AND DOWNTURNS IN THE LOCAL, REGIONAL OR NATIONAL ECONOMIES.

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GLOSSARY OF FREQUENTLY USED TERMS

AVAILABLE-FOR-SALE SECURITIES - DEBT AND EQUITY SECURITIES THAT ARE REPORTED AT FAIR VALUE, WITH UNREALIZED GAINS AND LOSSES EXCLUDED FROM EARNINGS AND REPORTED, NET OF DEFERRED TAXES, AS A SEPARATE COMPONENT OF STOCKHOLDERS' EQUITY.

ALLOWANCE FOR POSSIBLE LOAN LOSSES - A RESERVE CREATED BY A PERIODIC CHARGE TO EARNINGS TO PREVENT AN UNEXPECTED IMPACT ON EARNINGS OR CAPITAL OF THE CORPORATION IN THE EVENT OF LOAN DEFAULT. THIS AMOUNT REPRESENTS AN ESTIMATE OF THE POTENTIAL CREDIT LOSS INHERENT IN THE LOAN PORTFOLIO AS OF A POINT IN TIME.

AMORTIZATION - THE SYSTEMATIC CHARGE TO EARNINGS TO REDUCE THE PREMIUM PAID FOR AN INVESTMENT SECURITY.

CAPITAL RATIOS AND COMPONENTS:

1. CAPITAL RATIOS

- A. LEVERAGE RATIO - THE RATIO OF TOTAL EQUITY TO TOTAL LIABILITIES.
- B. RETURN ON EQUITY - NET INCOME DIVIDED BY EQUITY.
- C. RISK-BASED CAPITAL RATIO - RATIO OF EQUITY TO RISK WEIGHTED ASSETS.

2. COMPONENTS OF CAPITAL

- A. CAPITAL STOCK - INVESTOR OWNERSHIP OF COMMON STOCK IN THE CORPORATION STATED AS PAR VALUE.
- B. PAID-IN-CAPITAL - VALUE OF COMMON STOCK IN EXCESS OF THE PAR VALUE.
- C. RETAINED EARNINGS - ACCUMULATED EARNINGS LESS DIVIDENDS PAID TO COMMON SHAREHOLDERS.
- D. STOCK DIVIDEND DISTRIBUTABLE - NON-CASH DIVIDEND PAYABLE IN COMMON STOCK OF THE CORPORATION.
- E. TIER I CAPITAL OR EQUITY - SUM OF COMMON STOCK, PAID-IN-CAPITAL AND RETAINED EARNINGS.
- F. TIER II CAPITAL - SUM OF SUBORDINATED DEBT, PREFERRED STOCK, CONVERTIBLE DEBT SECURITIES, A CALCULATED PORTION OF THE ALLOWANCE FOR LOAN LOSSES AND 45 PERCENT OF UNREALIZED GAINS ON UNRESTRICTED EQUITY SECURITIES.
- G. TOTAL CAPITAL - SUM OF TIER I AND TIER II CAPITAL

COMPREHENSIVE INCOME - THE CHANGE IN EQUITY DURING A PERIOD FROM TRANSACTIONS AND OTHER EVENTS AND CIRCUMSTANCES FROM NONOWNER SOURCES. IT INCLUDES ALL CHANGES IN EQUITY DURING A PERIOD EXCEPT THOSE RESULTING FROM INVESTMENTS BY OWNERS AND DISTRIBUTIONS TO OWNERS. FOR THE CORPORATION IT MEANS NET INCOME AND UNREALIZED GAINS AND LOSSES ON AVAILABLE-FOR-SALE SECURITIES.

CORE DEPOSITS - A SUBJECTIVE DOLLAR VALUE OF DEPOSITS THAT MANAGEMENT FEELS WILL BE UNAFFECTED BY INTEREST RATES.

DEMAND DEPOSIT - A NONINTEREST-BEARING DEPOSIT WITH NO STATED MATURITY AND REQUIRES NO NOTICE OF WITHDRAWAL.

EARNING ASSETS - INTEREST-BEARING ASSETS OWNED BY THE CORPORATION CONSISTING PREDOMINANTLY OF INVESTMENTS AND LOANS.

HELD-TO-MATURITY SECURITIES - SECURITIES PURCHASED WITH THE INTENT AND ABILITY TO BE HELD TO MATURITY; CARRIED ON THE BOOKS AT COST.

INTEREST-BEARING LIABILITIES - ALL INTEREST-BEARING DEPOSITS AND BORROWINGS OF THE CORPORATION.

INTEREST RATE RISK - THE RISK THAT CHANGES IN INTEREST RATES COULD ADVERSELY AFFECT THE VALUE OF THE CORPORATION OR ITS FUTURE EARNINGS.

MORTGAGE-BACKED SECURITIES - A POOL OF MORTGAGES SOLD ON THE SECONDARY MARKET. THE INTEREST RATE PAID IS THE WEIGHTED AVERAGE COUPON RATE OF THE UNDERLYING MORTGAGES.

MVPE- MARKET VALUE OF PORTFOLIO EQUITY - THE MARKET VALUE OF ASSETS LESS THE MARKET VALUE OF LIABILITIES. THE MARKET VALUE OF ASSETS AND LIABILITIES ARE THE PRESENT VALUE OF ALL FUTURE CASH FLOWS AT CURRENT MARKET RATES. THIS AMOUNT DOES NOT INCLUDE ASSETS AND LIABILITIES THAT ARE NOT FINANCIAL INSTRUMENTS, SUCH AS PREMISES AND EQUIPMENT, ACCRUED INTEREST RECEIVABLE OR PAYABLE, DEFERRED TAXES, ETC.

NIM - NET INTEREST MARGIN - TOTAL INTEREST INCOME LESS TOTAL INTEREST EXPENSE.

NONPERFORMING LOANS - IMPAIRED LOANS CLASSIFIED AS NONACCRUAL DUE TO NONPERFORMANCE OF CREDITORS.

OTHER REAL ESTATE - REAL ESTATE ACQUIRED THROUGH A DEED IN LIEU OF FORECLOSURE OR FORECLOSURE PROCEEDINGS AGAINST A DEBTOR.

RISK ADJUSTED ASSETS - THE SUM OF THE CORPORATION'S ASSETS DEEMED TO BE AT RISK. CALCULATION OF RISK ASSETS IS PERFORMED USING PERCENTAGES SUPPLIED BY THE REGULATORS.

SENDERO MODEL - A PC BASED SIMULATION MODEL PURCHASED FROM THE SENDERO CORPORATION WHICH SIMULATES INTEREST INCOME AND MARKET VALUE BEHAVIOR UNDER VARIOUS INTEREST RATE SCENARIOS USING A VARIETY OF ASSET AND LIABILITY MIXES.

WATCH LIST - A LIST OF LOANS IN THE PORTFOLIO THAT HAVE BEEN ISOLATED FOR A VARIETY OF REASONS: DELINQUENCY, COLLATERAL, CASH FLOW, DOCUMENTATION, ETC.

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#### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

##### 1998 PERFORMANCE REVIEW

Citizens and Northern Corporation ("Corporation") and its major subsidiary, Citizens and Northern Bank ("Bank"), recorded basic per share earnings of \$2.15, \$1.96 and \$1.79, respectively, for the years ended December 31, 1998, 1997 and 1996. Diluted earnings per share amounted to \$2.14, \$1.96 and \$1.79 for the years ended December 31, 1998, 1997 and 1996, respectively. Return on the Corporation's equity, excluding the net unrealized gain or loss on available-for-sale securities, for the years ended 1998, 1997 and 1996 amounted to 14.81 percent, 14.56 percent and 14.74 percent, respectively.

Net income for the years ended 1998, 1997 and 1996 amounted to \$11,077,000, \$10,107,000 and \$9,255,000, respectively. Securities gains included in net income for the same periods respectively, amounted to \$3,001,000, \$1,001,000 and \$475,000. During 1998 the Corporation recorded an unusual security gain. Stock that had been acquired as the result of a defaulted loan in 1919 and carried on the Corporation books at \$1.00 was sold for an approximate gain of \$1,766,000. Net income exclusive of securities gains net of tax for the years ended December 31, 1998, 1997 and 1996 amounted to \$9,097,000, \$9,446,000 and \$8,941,000, respectively. The slightly lower income recorded during 1998 when compared to 1997 reflects the additional cost of a new branch which opened during 1998 and the installation of 12 automated teller machines.

1998 was a busy and exciting year for your Corporation. A new branch in Mansfield Pennsylvania was added, 12 automated teller machines were placed at strategic market locations in the branch network, a marketing department was established, telephone banking was introduced and a cash management "Repo Sweep" account was added. Also during 1998 year 2000 program changes and testing were being finalized.

##### OUTLOOK FOR 1999

The Corporation's Board of Directors and management team feel very confident going forward, and with good reason: your Corporation has in place an excellent earning asset base, capable personnel, a well established and managed branch network, an increasingly large deposit base and a package of services designed to accommodate an increasingly sophisticated customer base.

Given the same rate environment for 1999 as we experienced during 1998, operating earnings will probably mirror those of 1998. However, if rates suddenly change substantially in either direction (300 basis points), earnings could be pushed somewhat lower. It should also be noted that earnings derived from investment security gains are expected to be lower in 1999 when compared to 1998.

Other Corporation endeavors for 1999 will include the implementation of a transactional internet banking application, a Visa check card and the development of a transfer pricing system that will provide management with a tool for more detailed department, branch and product profitability analysis. Additionally, management is currently considering the opening of a full service office in Lycoming County. At the top of the list for 1999 will be the completion of the year 2000 project.

The prime focus of the Corporation in 1999 will be to remain a strong independent community bank serving the people, the businesses and the communities of its market area.

#### NET INTEREST MARGIN 1998/1997/1996

The primary source of operating income for the Corporation is the net interest margin. The net interest margin is the difference between total interest income generated by interest-bearing assets and the interest expense paid on interest-bearing liabilities.

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#### INTEREST INCOME

Interest income generated by the Corporation comes primarily from two earning asset sources: investments and loans. The investment portfolio has traditionally comprised about half of the base of earning assets. Nearly all of the Corporation's investments are classified as available-for-sale, excluding approximately \$1,762,000 held by the Corporation's insurance subsidiary, Bucktail Life Insurance Company. The investment portfolio is funded primarily by deposits and borrowed funds.

The average balance of the available-for-sale investment portfolio during 1998, 1997 and 1996 amounted to \$294,121,000, \$287,553,000 and \$303,548,000, respectively. The portfolio consists of U. S. Treasury securities, U. S. Agency securities, municipal bonds, pools of mortgage-backed instruments and equity investments of banks and bank holding companies located primarily in Pennsylvania.

The rate of return on the investment portfolio has remained relatively constant during 1998, 1997 and 1996 at 6.42 percent, 6.51 percent and 6.50 percent, respectively. The portfolio is primarily a long-term investment vehicle and does not have a great deal of turnover with the exception of mortgage-backed securities that provide a monthly flow of payments. The portfolio is, however, monitored continuously for long-term profit maximization, especially during periods of interest rate volatility, and at such times the Corporation may sell selected securities from the available-for-sale category.

During 1998 declining interest rates caused the mix of portfolio assets to change. The lower interest rates increased the amount of monthly payments received on mortgage-backed instruments as consumers exercised their option to refinance mortgages. Also in 1998 government agencies refinanced debt held by the Corporation amounting to about \$74,000,000. The increased cash flow of debt refinancing was reinvested in U. S. Agency issues; primarily Federal National Mortgage Association and Federal Home Loan Bank zero coupon bonds. The slightly higher return on U. S. Agency bonds is reflected in the increase in average balances carried in U. S. agency securities and a decrease in average balances carried in mortgage-backed pools during 1998. Average balances carried in mortgage-backed pools during 1998 amounted to \$121,466,000. Average balances respectively, for the years ended 1997 and 1996 were \$163,942,000 and \$197,581,000. The average balance of U. S. Agencies for the respective three-year periods was \$68,512,000, \$41,968,000 and \$30,914,000.

Also during 1998 municipal bonds, because of their nontaxable income and the Corporation's tax position, provided respectable yields. The average balance of municipal securities in 1998 increased to \$68,942,000; this compares to \$59,554,000 for 1997 and \$49,700,000 for 1996. Also during 1998 several of the higher yielding municipal bonds were called, again due to lower rates.

Additional equity securities purchased during 1998 increased the average balances carried to \$18,725,000. Average balances carried during 1997 and 1996 were \$15,039,000 and \$16,342,000, respectively. Nine equity investments were sold for a before tax profit of \$1,581,000. This profit is exclusive of the gain on the stock that was carried as a result of a defaulted loan mentioned earlier. The equity portfolio is monitored continuously for stocks that management feels are fully valued. It is the practice of the Corporation to sell certain stocks each year and realize gains, which comprise a substantial portion of the overall yield of equity investments. Traditionally equity securities average an annual return of between 2 to 4 percent. Approximately 21 percent of the portfolio consists of Federal Home Loan Bank stock which carries a substantially higher return than the rest of the portfolio. During the last 3 years the Federal Home

Loan Bank stock has carried an annual return of about 6.60 percent. Membership in The Federal Home Loan Bank requires stock ownership and the amount of stock varies according to the amount of outstanding loans made to the Corporation.

The average balance of other securities increased by nearly \$10,000,000 when compared to the years ended 1997 and 1996 as a portion of the prepayments on mortgage-backed securities was invested in a collateralized mortgage obligation.

The portion of the investment portfolio that is funded by borrowed funds declined in 1998 and 1997 as the spread between the interest rates on borrowed funds and the return on investments remained very narrow during both years. Average borrowed funds for the years ended December 31, 1998, 1997 and 1996 amounted to \$78,841,000, \$89,211,000 and \$102,088,000, respectively.

The loan portfolio makes up the balance of the earning asset base and is the largest contributor to total interest income. The Corporation's market area consists of several small rural communities, which surround three or four more heavily populated towns. Consequently, the loan portfolio is retail oriented, consisting mostly of real estate secured mortgages on one to four family dwellings. Total average real estate secured mortgage loans to customers in our market area made up 80 percent, 79 percent and 77 percent of the loan portfolio for 1998, 1997 and 1996, respectively. Respectively, they contributed 70 percent, 70 percent and 69 percent of the total interest income derived from the loan portfolio. The balance of the loan portfolio includes consumer installment loans and commercial loans. The Corporation also has an extensive credit card operation, which provides credit cards to the Corporation's customer base and 56 other agent banks in Pennsylvania. The return on the Corporation's total loan portfolio for the years ended December 31, 1998, 1997 and 1996 amounted to 10.22 percent, 10.28 percent and 10.31 percent, respectively.

Other interest income producing assets included federal funds sold and interest-bearing deposits held with correspondent banks. The balances held and income produced were considered insignificant for discussion purposes.

#### INTEREST EXPENSE

The liability and equity side of the balance sheet is made up of stockholders' equity, interest-bearing liabilities and noninterest-bearing demand deposits and other liabilities. The return on the Corporation's assets and equity are dependent on the spread between rates paid on earning assets and the rate of interest paid on interest-bearing liabilities. Interest-bearing liabilities are made up of deposits and borrowed funds. Average total deposits, including demand deposits, increased 3.2 percent during 1998. This compares to growth rates of 1.4 percent and 3.4 percent for 1997 and 1996, respectively. Competition for deposits has become increasingly intense as new products and new competitors come on the scene. Competition for deposits comes primarily from banks and nonbank sources, including credit unions, mutual funds and brokerage houses.

The Corporation has five primary sources of interest-bearing deposits. Two of the sources are considered long term and three are short term, based on the length of the repricing period for the deposit.

Certificates of Deposit and Individual Retirement Accounts are considered long term instruments. Certificates of Deposit are the largest single source of deposits. The maturity schedule of certificates ranges from one month to five years. Average balances carried in certificates of deposit for the years ended December 31, 1998, 1997 and 1996 were \$126,902,000, \$119,226,000 and \$117,596,000, respectively. The average rate paid for those deposits for the same periods, respectively, was 5.50 percent, 5.49 percent and 5.47 percent. During the third quarter of 1998 the Corporation successfully attracted local school district deposits, and as a result of the effort, average Certificate of Deposit balances increased 6.4 percent over 1997. At year-end 1998 total Certificates of Deposit amounted to approximately \$137,475,000. Individual Retirement Accounts are the other source of long term funding. These accounts carry an eighteen-month maturity schedule and the rate changes quarterly. The Corporation had in the past been successful in growing the balances in these accounts by paying higher than market rates. However, due to mutual fund competition and competition from the Corporation's Trust Department for the balances carried in Individual Retirement Accounts we have witnessed a small decline during the past three years. Average balances and rates paid on Individual Retirement Accounts during the years ended December 31, 1998, 1997 and 1996 were, respectively, \$76,557,000 at 5.42 percent, \$78,662,000 at 5.99 percent and \$79,076,000 at 5.77 percent.

Short term deposits (deposits that reprice more frequently) consist of Money Market accounts, Interest Checking accounts and Savings accounts. Money Market accounts are the Corporation's second largest source of deposits. The Corporation has paid higher than the market rate for these deposits and has been successful in attracting and maintaining large average balances. Average



balances carried for the years ended December 31, 1998, 1997 and 1996, respectively, were \$115,143,000, \$107,287,000 and \$100,618,000. Average rates paid for those same periods were, respectively, 4.42 percent, 4.55 percent and 4.53 percent. During 1998 the Corporation introduced a new Municipal Money Market Account that carried a rate tied to the over-night Federal Funds rate. The rate is tiered according to the balances carried. The account has been popular with local school districts and other municipal depositors. It allows the municipalities to maintain funds locally as opposed to sending the funds out of the market area. The Interest Checking accounts allow normal checking activity but earn a lesser rate of interest. Average balances and rates paid on these accounts for the years ended December 31, 1998, 1997 and 1996 were, respectively, \$36,556,000 at 2.33 percent, \$38,334,000 at 2.46 percent and \$40,558,000 at 2.46 percent. Finally, the last short term interest-bearing accounts carried by the Corporation are the Regular Savings accounts. Regular Savings come in two forms, passbook and statement, and both pay the same rate of interest. Regular Savings have traditionally been the backbone of the Corporation's core deposit base. Average balances for the years ended December 31, 1998, 1997 and 1996 were \$45,207,000, \$46,338,000 and \$46,751,000, respectively. The rate paid for each of the three years was approximately 2.50 percent.

During the fourth quarter of 1998 the Corporation introduced a new type of account called the "RepoSweep". Although linked to deposit activity, "RepoSweep" balances are classified as Short-term Borrowings on the Corporation's balance sheet. The accounts are monitored each day and excess funds above a predetermined level are swept to an interest-bearing account. The rate paid is indexed to the 91-day Treasury Bill rate. Though the FDIC does not insure the accounts, they are secured by investment securities pledged specifically for them and held at a correspondent bank. Balances in the accounts have ranged from \$1.5 million to \$3 million on a daily basis.

The Corporation also carries noninterest-bearing Demand Deposits; average balances for the past three years, respectively, were \$46,336,000, \$42,780,000 and \$42,500,000. The increase in average balances during 1998 is due to an increase in the number of municipal accounts, a new branch and other factors.

The final type of interest-bearing liability found on the Corporation balance sheet is borrowed funds, both short and long-term. The Corporation normally uses short term borrowing for liquidity purposes, i.e., deposit fluctuations, etc. This may be in the form of overnight Federal Funds borrowed from a correspondent bank or a repurchase agreement arranged through the Federal Home Loan Bank of Pittsburgh or a broker. Long-term borrowing is used to leverage the Corporation's strong capital base to enhance earnings. Long-term borrowings may be in the form of repurchase agreements or secured borrowing, also through the Federal Home Loan Bank of Pittsburgh or a broker. Short-term borrowing is defined as having an original maturity of overnight to one year. Long-term borrowed funds have a maturity of one year or more.

Average balances carried as short and long-term borrowing for the years ended December 31, 1998, 1997 and 1996 amounted to \$78,841,000, \$89,211,000 and \$102,088,000, respectively. Average rates for the same periods, respectively, were 5.63 percent, 5.63 percent and 5.56 percent. Because of declining interest rates in 1998 the Corporation repaid borrowings amounting to \$15,000,000 and refinanced an additional \$15,000,000. The remaining \$15,000,000 was refinanced at a more favorable rate resulting in a savings of 50 basis points.

To summarize the discussion of the interest margin it is important to note the change in the net interest spread. The spread for 1995 was 2.99 percent, reflecting a rise in interest rates beginning in late 1994. During 1995 rates continued to rise until the fall of that year. Late in 1995, as inflation worries subsided and the inflation rate stabilized at about 3 percent, the rates began to decline. Rates remained relatively stable during 1998, 1997 and 1996 and produced a net spread of 3.54 percent in 1998, 3.50 percent for 1997 and 3.49 percent during 1996. The concern for 1999 appears to be the Asian and South American economies. Those economies will not have a direct impact on the earnings of your Corporation unless interest rates are affected. At this writing it appears that interest rates will remain stable during 1999 and produce operating earnings comparable to 1998.

TABLE I - ANALYSIS OF INTEREST INCOME AND EXPENSE

<TABLE>  
<CAPTION>

(In Thousands)

	Years Ended December 31,			Change	
	1998	1997	1996	Increase (Decrease) 98/97	97/96
<S>	<C>	<C>	<C>	<C>	<C>
INTEREST INCOME Available-for-Sale Securities:					

U S Treasury Securities	\$ 151	\$ 139	\$ 128	\$ 12	\$ 11
Securities of Other U S Government Agencies and Corporations	4,842	3,002	2,124	1,840	878
Mortgage Backed Securities	7,992	11,060	13,113	(3,068)	(2,053)
Obligations of States and Political Subdivisions	3,982	3,595	3,012	387	583
Stock	950	874	872	76	2
Other Securities	961	52	472	909	(420)
<b>Total Available-for-Sale Securities</b>	<b>18,878</b>	<b>18,722</b>	<b>19,721</b>	<b>156</b>	<b>(999)</b>
<b>Held-to-Maturity Securities:</b>					
U S Treasury Securities	37	34	42	3	(8)
Securities of Other U S Government Agencies and Corporations	41	22	4	19	18
Mortgage Backed Securities	38	52	59	(14)	(7)
<b>Total Held-to-Maturity Securities</b>	<b>116</b>	<b>108</b>	<b>105</b>	<b>8</b>	<b>3</b>
Interest -bearing Due from Banks	37	54	37	(17)	17
Federal Funds Sold	229	334	60	(105)	274
<b>Loans:</b>					
Real Estate Loans	20,371	20,218	19,277	153	941
Consumer	6,498	6,484	6,402	14	82
Agricultural	223	272	278	(49)	(6)
Commercial/Industrial	1,621	1,606	1,577	15	29
Other	55	62	25	(7)	37
Political Subdivisions	380	391	424	(11)	(33)
Leases	20	18	16	2	2
<b>Total Loan Income</b>	<b>29,168</b>	<b>29,051</b>	<b>27,999</b>	<b>117</b>	<b>1,052</b>
<b>Total Interest Income</b>	<b>\$48,428</b>	<b>\$48,269</b>	<b>\$47,922</b>	<b>\$ 159</b>	<b>\$ 347</b>
<b>INTEREST EXPENSE</b>					
Interest Checking	\$ 853	\$ 945	\$ 998	\$ (92)	\$ (53)
Money Market	5,093	4,879	4,556	214	323
Savings	1,121	1,150	1,169	(29)	(19)
Certificates of Deposit	6,984	6,549	6,431	435	118
Individual Retirement Accounts	4,152	4,713	4,563	(561)	150
Other Time Deposits	49	56	58	(7)	(2)
Federal Funds Purchased	133	33	55	100	(22)
Other Borrowed Funds	4,308	4,987	5,621	(679)	(634)
<b>Total Interest Expense</b>	<b>\$22,693</b>	<b>\$23,312</b>	<b>\$23,451</b>	<b>\$ (619)</b>	<b>\$ (139)</b>
<b>Net Interest Income</b>	<b>\$25,735</b>	<b>\$24,957</b>	<b>\$24,471</b>	<b>\$ 778</b>	<b>\$ 486</b>

</TABLE>

(1) Net interest income, if reflected on a fully tax equivalent basis, would have amounted to \$27,621,000, \$26,773,000, and \$25,963,000 for 1998, 1997, and 1996, respectively.

(2) Fees on loans are included with interest on loans and amounted to \$710,000, \$612,000 and \$701,000 for the years ended 1998, 1997 and 1996, respectively.

TABLE II - ANALYSIS OF AVERAGE DAILY BALANCES AND RATES

<TABLE>

<CAPTION>

(In Thousands)	12/31/98	Rate of Return/ Cost of Funds	12/31/97	Rate of Return/ Cost of funds	12/31/96
<S>	<C>	<C>	<C>	% <C>	<C>
<b>EARNING ASSETS</b>					
Available-for-Sale Securities(*) :					
U. S. Treasury Securities	\$ 2,516	6.00	\$ 2,514	5.53	\$ 2,506
Securities of Other U.S. Government Agencies and Corporations	68,512	7.07	41,968	7.15	30,514
Mortgage Backed Securities	121,466	6.58	163,942	6.75	197,581
Obligations of States and Political Subdivisions	68,942	5.78	59,554	6.04	49,700
Stock	18,725	5.07	15,039	5.81	16,342
Other Securities	13,960	6.88	4,536	1.15	6,905
<b>Total Available-for-Sale Securities</b>	<b>294,121</b>	<b>6.42</b>	<b>287,553</b>	<b>6.51</b>	<b>303,548</b>
<b>Held-to-Maturity Securities:</b>					
U. S. Treasury Securities	626	5.91	601	5.66	698

Securities of Other U. S. Government Agencies and Corporations	629	6.52	297	7.41	50
Mortgage Backed Securities	507	7.50	689	7.55	829
<b>Total Held-to-Maturity Securities</b>	<b>1,762</b>	<b>6.58</b>	<b>1,587</b>	<b>6.81</b>	<b>1,577</b>
Interest -bearing Due from Banks	671	5.66	795	6.79	455
Federal Funds Sold	4,139	5.53	6,132	5.45	1,100
Loans(**) :					
Real Estate Loans	227,845	8.94	223,510	9.05	210,289
Consumer	30,366	21.40	32,293	20.08	35,305
Agricultural	2,219	10.05	2,689	10.12	2,750
Commercial/Industrial	17,698	9.16	16,743	9.59	16,207
Other	707	7.78	754	8.22	237
Political Subdivisions	6,227	6.10	6,355	6.15	6,629
Leases	214	9.35	236	7.63	201
<b>Total Loans</b>	<b>285,276</b>	<b>10.22</b>	<b>282,580</b>	<b>10.28</b>	<b>271,618</b>
<b>Total Earning Assets</b>	<b>585,969</b>	<b>8.26</b>	<b>578,647</b>	<b>8.34</b>	<b>578,298</b>
Cash	12,694			12,228	11,502
Securities Valuation Reserve	19,939			9,907	5,924
Allowance for Possible Loan Losses	(4,822)			(4,844)	(4,726)
Other Assets	5,337			5,745	6,617
Bank Premises & Equipment	6,985			6,594	6,793
<b>Total Assets</b>	<b>626,102</b>			<b>608,277</b>	<b>604,408</b>
<b>INTEREST-BEARING LIABILITIES</b>					
Interest Checking	36,556	2.33	38,334	2.47	40,558
Money Market	115,143	4.42	107,287	4.55	100,618
Savings	45,207	2.48	46,338	2.48	46,751
Certificates of Deposit	126,902	5.50	119,226	5.49	117,596
Individual Retirement Accounts	76,557	5.42	78,662	5.99	79,076
Other Time Deposits	1,900	2.58	2,223	2.52	1,937
Federal Funds Purchased	2,801	4.75	663	4.98	967
Other Borrowed Funds	76,040	5.67	88,548	5.63	101,121
<b>Total Interest-bearing Liabilities</b>	<b>481,106</b>	<b>4.72</b>	<b>481,281</b>	<b>4.84</b>	<b>488,624</b>
Demand Deposits	46,336		42,780		42,500
Other Liabilities	10,663		8,211		6,794
<b>TOTAL LIABILITIES</b>	<b>538,105</b>		<b>532,272</b>		<b>537,918</b>
Stockholders' Equity	74,810		69,440		62,797
Securities Valuation Reserve	13,187		6,565		3,693
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$ 626,102</b>		<b>\$ 608,277</b>		<b>\$ 604,408</b>
Interest Rate Spread		3.54		3.50	

</TABLE>

(\*) Average balances do not include unrealized gains and losses on Available-for-Sale Securities.

(\*\*) Nonaccrual loans have been included with loans for the purpose of analyzing net interest earnings.

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TABLE III - ANALYSIS OF THE EFFECT OF VOLUME AND RATE CHANGES ON INTEREST INCOME AND INTEREST EXPENSE

(In Thousands)	Years Ended December 31, 1998/1997		
	Change in Volume	Change in Rate	Total Change
<S>	<C>	<C>	<C>
<b>EARNING ASSETS</b>			
<b>Available-for-Sale Securities:</b>			
U. S. Treasury Securities	\$ --	\$ 12	\$ 12
Securities of Other U.S. Government Agencies and Corporations	1,876	(36)	1,840
Mortgage Backed Securities	(2,801)	(267)	(3,068)
Obligations of States and Political Subdivisions	533	(146)	387
Stock	158	(82)	76
Other Securities	267	642	909

Total Available-for-Sale Securities	33	123	156
Held-to-Maturity Securities:			
U. S. Treasury Securities	1	2	3
Securities of Other U.S. Government Agencies and Corporations	19	19	
Mortgage Backed Securities	(14)	(14)	
Total Held-to-Maturity Securities	6	2	8
Interest -bearing Due from Banks	(9)	(8)	(17)
Federal Funds Sold	(110)	5	(105)
Loans:			
Real Estate Loans	382	(229)	153
Consumer	(137)	151	14
Agricultural	(47)	(2)	(49)
Commercial/Industrial	72	(57)	15
Other	(4)	(3)	(7)
Political Subdivisions	(8)	(3)	(11)
Leases	(1)	3	2
Total Loans	257	(140)	117
Total Interest Income	177	(18)	159
INTEREST BEARING LIABILITIES			
Interest Checking	(43)	(49)	(92)
Money Market	342	(128)	214
Savings	(28)	(1)	(29)
Certificates of Deposit	422	13	435
Individual Retirement Accounts	(123)	(438)	(561)
Other Time Deposits	(8)	1	(7)
Federal Funds Purchased	101	(1)	100
Other Borrowed Funds	(709)	30	(679)
Total Interest Expense	(46)	(573)	(619)
NET INTEREST INCOME	\$ 223	\$ 555	\$ 778

</TABLE>

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<TABLE>  
<CAPTION>

(In Thousands)	Years Ended December 31, 1997/1996		
	Change in Volume <C>	Change in Rate <C>	Total Change <C>
<S>			
EARNING ASSETS			
Available-for-Sale Securities:			
U. S. Treasury Securities	\$ --	\$ 11	\$ 11
Securities of Other U.S. Government Agencies and Corporations	818	60	878
Mortgage Backed Securities	(2,273)	220	(2,053)
Obligations of States and Political Subdivisions	595	(12)	583
Stock	(17)	19	2
Other Securities	(123)	(297)	(420)
Total Available-for-Sale Securities	(1,000)	1	(999)
Held-to-Maturity Securities			
U. S. Treasury Securities	(6)	(2)	(8)
Securities of Other U.S. Government Agencies and Corporations	18	18	
Mortgage Backed Securities	(11)	4	(7)
Total Held-to-Maturity Securities	1	2	3
Interest -bearing Due from Banks	22	(5)	17
Federal Funds Sold	274	274	
Loans:			
Real Estate Loans	1,192	(251)	941
Consumer	(319)	401	82
Agricultural	(6)	(6)	
Commercial/Industrial	51	(22)	29
Other	41	(4)	37
Political Subdivisions	(17)	(16)	(33)
Leases	3	(1)	2
Total Loans	945	107	1,052

Total Interest Income	242	105	347
INTEREST BEARING LIABILITIES			
Interest Checking	(55)	2	(53)
Money Market	302	21	323
Savings	(10)	(9)	(19)
Certificates of Deposit	89	29	118
Individual Retirement Accounts	(25)	175	150
Other Time Deposits	8	(10)	(2)
Federal Funds Purchased	(17)	(5)	(22)
Other Borrowed Funds	(709)	75	(634)
Total Interest Expense	(417)	278	(139)
NET INTEREST INCOME	\$ 659	\$ (173)	\$ 486

</TABLE>

The change in interest due to both volume and rates has been allocated to volume and rate changes in proportion to the relationship of the absolute dollar amounts of the change in each.

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#### NONINTEREST INCOME 1998/1997/1996

Noninterest income is composed of six major components: Service Charges on Deposit Accounts, Service Charges and Fees, Trust Department Income, Insurance Commissions, Fees and Premiums, Other Operating Income and Realized Net Gains on Available-for-Sale Securities. The percentages cited below in the discussion of the components of Noninterest Income are derived using Noninterest Income Before Gains on Securities, Net. Overall, Noninterest Income decreased \$93,000, or 2.9 percent, in 1998 compared to 1997; however, noninterest income for 1997 includes a gain of \$301,000 from the sale of a copyrighted logo. Exclusive of this gain, other noninterest income would have increased 7.2 percent during 1998 when compared to 1997. A comparison of noninterest income between the years ended 1997 and 1996 reflects an increase of 12.6 percent, primarily from the gain described above.

Income generated from Service Charges on Deposit Accounts is from fees assessed on checking accounts for monthly service charges, per-check charges for checks drawn and checks deposited and for charges assessed for checking account overdrafts. For each of the three years presented service charges amounted to 55 percent of the total and the remainder were overdraft fees. Service Charges on Deposit Accounts for the years ended December 31, 1998, 1997 and 1996 accounted for 33 percent, 34 percent and 39 percent of total Noninterest Income, respectively. Excluding the sale of the copyright, Service Charges on Deposit Accounts would have contributed 37 percent of other noninterest income for 1997. Recorded Service Charges have declined slightly during 1998 and 1997 due in part to the elimination of service charges on accounts using direct deposit that began during 1997.

Other Service Charges and Fees are derived from debit card fees, credit card annual fees, fees for bank customer data processing services and a variety of other services such as check cashing for noncustomers, bank money orders, cashier checks, traveler's checks, etc. Annually, Other Service Charges and Fees contributed approximately 9 percent of the total Noninterest Income in each of the three years presented.

Trust Department Income has become the largest source of noninterest income. For the years ended December 31, 1998, 1997 and 1996, respectively, Trust Department Income amounted to 41 percent, 35 percent (excluding the gain from sale of the logo) and 30 percent of total noninterest income. Trust Department Income has increased approximately 28 percent when comparing the years ended December 31, 1998 and 1997 and 18 percent when comparing 1997 to 1996. The increase can be attributed to an increase in the number of trust accounts and the amount of trust assets. Assets under management as of December 31, 1998, 1997 and 1996, respectively, were \$283,076,000, \$230,149,000 and \$222,541,000. The increase in trust assets can be attributed to the highly qualified and technical staff employed by the Trust Department and their sales efforts.

Insurance Commissions, Fees and Premiums generated by the Corporation's subsidiary, Bucktail Life Insurance Company, accounted for 13 percent, 16 percent and 19 percent of Noninterest Income for the years ended December 31, 1998, 1997 and 1996, respectively. Insurance Commissions, Fees and Premiums have been declining due to the availability of less expensive term policies for loan

repayment protection from other insurance companies. The contribution percentage to Other Noninterest Income was calculated excluding the sale of the copyright.

Net realized gains on available-for-sale securities in 1998 amounted to \$3,001,000, including a gain of \$1,766,000 on the sale of stock carried at \$1.00 previously mentioned. Gross gains realized on the sale or early call of investments amounted to \$3,422,000 and gross losses realized amounted to \$421,000. Net realized gains on available-for-sale securities for the year ended December 31, 1997 amounted to \$1,001,000. During 1997, \$109,016,000 in mortgage-backed available-for-sale securities were sold at a loss of \$1,773,000. Securities with a weighted average return of 6.59 percent were sold and the proceeds were invested in securities with an average expected rate of return of 7.24 percent. The purpose of the restructuring was to increase annual income and increase the market value of portfolio equity. The realized loss on the restructuring transaction is expected to be recovered through enhanced earnings in 2.3 years. These losses were more than offset by gains from the sales of bank stocks in the amount of \$2,774,000 in 1997. Realized gains during 1996 were relatively small at \$475,000. During recent years it has been the practice of the Corporation's management and Board of Directors to sell certain equity investments that it feels are overpriced and use the realized gains to increase the return on the equity investment portion of the portfolio to a level consistent with the remainder of the portfolio.

TABLE IV - COMPARISON OF NONINTEREST INCOME

<TABLE>  
<CAPTION>

(In Thousands)	Years Ended December 31,				
	1998	% Change	1997	% Change	1996
<S>	<C>	<C>	<C>	<C>	<C>
Service Charges on Deposit Accounts	\$1,039	(3.44)	\$1,076	(4.27)	\$1,124
Service Charges and Fees	288	2.49	281	4.46	269
Trust Department Income	1,288	28.29	1,004	17.84	852
Insurance Commissions, Fees and Premiums	405	(12.34)	462	(16.76)	555
Other Operating Income	94	(75.52)	384	717.02	47
-----					
Total Other Operating Income before Realized					
Securities Gains, Net	3,114	(2.90)	3,207	12.64	2,847
Realized Gains on Securities, Net	3,001	199.80	1,001	110.74	475
Total Other Income	\$6,115	45.32	\$4,208	26.67	\$3,322
-----					

</TABLE>

OTHER NONINTEREST EXPENSE  
1998/1997/1996

Other Noninterest Expense is made up of Salaries and Wages, Pension and Other Employee Benefit Expenses, Occupancy Expense, Furniture and Equipment Expense, Expenses Related to Credit Card Operations, Pennsylvania Shares Tax and Other Operating Expense. Other Noninterest Expense for the year ended December 31, 1998 increased 9.2 percent when compared to the year ended December 31, 1997 and 2.8 percent when comparing 1997 to the year 1996.

Salaries and Wages for the year ended December 31, 1998 when compared to 1997 increased \$646,000. The increase is attributable to the addition of a marketing department and the additional staff of a new branch. Merit raises of about 4.5 percent also contributed to the increase. A comparison of salary expense for the years ended December 31, 1997 and 1996 reflects an increase of \$88,000 or 1.49 percent. The relatively small increase was the result of several retirements, including the retirement of the Corporation's former President.

Pension and Other Employee Benefits for the year ended December 31, 1998 increased about 4 percent when compared to 1997. The increase can be attributed to the expense of funding the Corporation's 401 (k) Plan due to an increase in employee contributions that were matched by the Corporation. The Corporation matches dollar for dollar employee contributions up to 3 percent of an employee's salary, and \$.50 per dollar of contribution up to 5 percent of salary. Also, during 1998 the Corporation recorded a higher sick pay accrual. A comparison of benefit expense for 1997 and 1996 reflects a decline of 1.05 percent in 1997. The decrease can be attributed to a decrease of \$53,000 in group health care costs, a decrease of \$33,000 in pension expense and a decrease of \$83,000 in the contribution to the Supplemental Employees Retirement Plan. The decrease in health care costs is attributed to lower rates in 1997. The decrease in the pension contribution can be attributed to the performance of the plan and its fully funded status. Contributions to the Supplemental Employees Retirement Plan were smaller due to the retirement of the Corporation's President.

Occupancy Expense increased 13.9 percent during 1998 when compared to 1997 and varied only slightly when comparing the expense recorded in 1997 to that of 1996. The increase that occurred in 1998 can be attributed in part to the expenses associated with the opening of the new office. Also, the janitors in two of the larger offices were replaced with cleaning services which had the effect of lowering salaries and wages and increasing occupancy expense. The increase between the years ended December 31, 1997 and 1996 was minimal, less than 1 percent.

A comparison of Furniture and Equipment Expense for the years 1998 and 1997 reflects an increase of 9.5 percent. A substantial portion of the increase is related to the installation of several automated teller machines with the associated depreciation and maintenance costs. Also contributing to the increase was the depreciation and maintenance of several new pieces of data processing equipment, including several new and replacement personal computers. Expenses related to Furniture and Fixtures were about the same when comparing the years 1997 and 1996.

Expenses Related to Credit Card Operations continue to increase. Those expenses increased 14.1 percent during 1998 when compared to 1997. The increase is directly related to interchange transaction fees (those are fees paid to networks of which we are not a member) paid to process the growing number of credit card transactions. The same holds true for the increase of 10.2 percent during 1997 when compared to 1996. It should be noted that a portion of those increased costs in 1997 resulted from the sale of the Corporation's copyrighted debit card logo. Due to the sale of the logo, a new advertising campaign had to be developed and new supplies, including cards, had to be purchased. Those costs amounted to approximately \$100,000. (Credit card income, included in interest and fees on loans, also increased \$243,000 during 1998 and \$250,000 in 1997 when compared to the previous years.) The Corporation is a major credit card processor for more than 50 banks in Pennsylvania.

Pennsylvania Shares Tax is also a substantial Noninterest Expense amounting to \$656,000, \$596,000 and \$544,000 for the years ended December 31, 1998, 1997 and 1996, respectively. The tax is based on the Bank's capital excluding U. S. Treasury and qualifying U. S. Government agency securities, at a rate of 1.25 percent.

Other Operating Expense, whose major components are supplies, directors' fees, advertising, examination charges and legal fees, increased 3.6 percent in 1998 over 1997 and increased 2.2 percent in 1997 when compared to 1996. The increase is spread across many expense categories and is not considered significant by the Corporation.

TABLE V- COMPARISON OF NONINTEREST EXPENSE

<TABLE>  
<CAPTION>

(In Thousands)	Years Ended December 31,				
	1998	Change	1997	Change	1996
<S>	<C>	<C>	<C>	<C>	<C>
Salaries and Wages	\$ 6,621	10.81	\$ 5,975	1.49	\$ 5,887
Pensions and Other Employee Benefits	1,760	4.08	1,691	(1.05)	1,709
Occupancy Expense, Net	827	13.91	726	0.69	721
Furniture and Equipment Expense	792	9.54	723	(0.41)	726
Expenses Related to Credit Card Operations	2,732	14.07	2,395	10.22	2,173
Pennsylvania Shares Tax	656	10.07	596	9.56	544
Other Operating Expense	3,095	3.55	2,989	2.15	2,926
-----					
Total Other Expense	\$16,483	9.20	\$15,095	2.78	\$14,686
-----					

</TABLE>

INCOME TAXES

The Corporation's Income Tax Provision reflected as a per share cost to stockholders amounted to \$.68, \$.61 and \$.61, respectively, for 1998, 1997 and 1996. The amount of income tax payable per common share for those years was \$.67, \$.61 and \$.65, respectively. The per share tax payable for 1998 is a reasonable estimate as the return has not been prepared as of the date of this analysis.

The difference between the amount of income tax currently payable and the amount reflected in the Corporation's income statement is caused by temporary differences. Generally, temporary differences occur when an item of income or expense is included in taxable income during different accounting periods for

financial statement and tax return purposes.

The most significant items creating temporary differences are accretion on bonds, depreciation, loan loss expense, loan fees and expense and employee benefit plans.

There are items included in the income statement that are not fully taxable, including dividends received from certain domestic corporations and a portion of interest received on municipal bonds and loans.

The reader should refer to Note 12 of the "Notes to the Consolidated Financial Statements" for a more complete analysis of income tax expense.

ALLOWANCE FOR POSSIBLE LOAN LOSSES

Credit risk is the risk to earnings or capital arising from an obligor's failure to meet the terms of a contract with the Corporation. Management's responsibility for maintaining an adequate allowance for loan losses is clearly identified by the banking regulatory agencies in the Interagency Policy Statement on the Allowance for Loan and Lease Losses (The Interagency Policy) and in generally accepted accounting principles (GAAP). The Interagency Policy states: "Federally insured depository institutions must maintain an Allowance for Loan Losses at a level that is adequate to absorb estimated credit losses associated with the loan and lease portfolio, including all binding commitments to lend."

The assessment of the allowance balance is performed by management and reviewed by The Board of Directors quarterly. The Board of Directors also reviews the Corporation's "Watch List" monthly. The "Watch List" is a collection of loans that have a history of delinquency, collateral deficiency, cash flow problems, etc. Total "Watch List" loans at December 31, 1998 were approximately \$12,150,000. All of the watch list loans have the potential of becoming significant credit risks; however, a substantial portion of the loans are current as to principal and interest.

The quarterly assessment is performed by a loan quality committee which consists of the President, Treasurer, Executive Vice-presidents in charge of loans and branch administration and in a review capacity, the Corporation's internal auditor. The committee reviews all of the risk elements in the loan portfolio; namely, the "Watch List", past due reports, nonperforming loans, Other Real Estate and historical information related to charge-offs and recoveries by loan categories.

In the event that a loan becomes 90 to 120 days or more past due, the loan is reviewed by the loan quality committee and if necessary is classified as an impaired or nonperforming loan. At the time the loan is classified as impaired, all accrued interest is written off against earnings or the allowance for loan losses, whichever is applicable. The collateral value is compared to the carrying value and any deficiency becomes a specific allocation of the Allowance for Possible Loan Losses as required by SFAS No. 114, "Accounting by a Creditor for Impairment of a Loan". Specific allocations for impaired loans at December 31, 1998 and 1997 amounted to \$290,000 and \$274,000, respectively.

The balance of the Allowance for Possible Loan Losses is then allocated across the balance of the portfolio. Two methods of allocation are used: the first, an historic method using the history of charge-offs and recoveries during the previous five years, calculates the ratio of average losses by type to the average outstanding balance by type. The ratio is then applied to the current outstanding balance of the various loan categories to determine the portion of the reserve to be allocated. The second method, called the "Regulatory Method", extracts loans by a quality rating system. The committee categorizes all "Watch List" loans as "Substandard", "Doubtful", or "Loss". Using regulatory guidelines of 15 percent of substandard, 50 percent of doubtful and 100 percent of loss, the allowance is then allocated under regulatory guidelines.

The following regulatory allocation was performed using loan data as of October 31, 1998.

<TABLE>  
<CAPTION>  
(In Thousands)

	Total Classified	Regulatory Allocation
<S>	<C>	<C>
Substandard Loans @ 15 percent	\$ 8,236	\$1,234
Doubtful Loans @ 50 percent	1,456	728
Loss Loans @100 Percent	51	51
Impaired Loans, Collateral Value	1,135	290

-----



Total Allocation	\$10,878	2,303
Unallocated Portion		2,517
-----		
Total Allowance Balance		\$ 4,820
-----		

</TABLE>

The Corporation also engages a consulting firm to perform an independent credit review. Their review is performed annually on loans of \$175,000 and higher. The most recent review was at the close of business May 15, 1998. The consultants' report lists substandard loans at \$7,959,000, doubtful loans at \$1,060,000 and loss loans at \$13,000. The allowance allocation based upon these classifications would amount to \$2,737,000 as of May 15, 1998.

The Corporation was examined by the Federal Deposit Insurance Corporation as of March 31, 1998. The Corporation charges off loans that are recommended by the examiners unless there are underlying circumstances that management feel will make the debt collectible. The Corporation also has a policy of charging off loans, based on management's analysis and The Board of Directors' approval, at the end of each quarter.

Tables VI, VII, and VIII present an analysis of the loan portfolio, the allowance for loan losses and the allocation of the allowance.

TABLE VI - SIX YEAR HISTORY OF LOAN LOSSES

<TABLE>							
<CAPTION>							
(In Thousands)	1998	1997	1996	1995	1994	1993	AVERAGE
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Net Loans *	\$291,003	\$285,426	\$278,639	\$264,182	\$258,472	\$238,755	\$269,413
Net Charge offs	856	660	504	387	326	247	497
Allowance for Possible Loan Losses Balance	4,820	4,913	4,776	4,579	4,229	3,817	4,522
Provision for Loan Losses Charged to Earnings	763	797	701	737	737	708	740
Earnings	11,077	10,107	9,255	7,866	7,494	8,127	8,988
Earnings Coverage of Net Charge offs	12.9 x	15.3 x	18.4 X	20.3 x	23.0 x	32.9 x	18.1 X
Allowance Coverage of Net Charge offs	5.6 x	7.4 x	9.5 X	11.8 x	13.0 x	15.5 x	9.1 X
Loans Ninety Days or More Past Due and Still Accruing	1,628	1,986	2,994	2,915	2,743	2,899	2,528
Net Charge offs as a Percent of the Provision	112.2%	82.8%	71.9%	52.5%	44.2%	34.9%	67.2%
Year-End Nonperforming Loans	1,135	1,412	864	279	624	843	860
Allowance as a Percentage of Gross Loans: *							
Citizens & Northern Corporation (1)	1.66%	1.72%	1.71%	1.73%	1.64%	1.60%	1.68%
Peer Group (2)	1.53%	1.43%	1.50%	1.61%	1.65%	1.82%	1.59%

\* Gross Loans less Unearned Discount

- (1) At December 31,  
(2) At September 30,

41

TABLE VII - ANALYSIS OF THE ALLOWANCE FOR POSSIBLE LOAN LOSSES

<TABLE>					
<CAPTION>					
(In Thousands)	Years Ended December 31,				
<S>	1998	1997	1996	1995	1994
	<C>	<C>	<C>	<C>	<C>
Balance at Beginning of Year	\$4,913	\$4,776	\$4,579	\$4,229	\$3,817
Charge-offs					
Real Estate Loans	257	246	157	38	--
Installment Loans	144	230	240	236	266
Credit Cards and Related Plans	264	305	201	184	144
Commercial and Other Loans	301	3	74	116	109
Total Charge-offs	966	784	672	574	519
Recoveries					
Real Estate Loans	12	21	22	--	4
Installment Loans	43	64	53	60	68
Credit Card and Related Plans	40	30	38	41	42
Commercial and Other Loans	15	9	55	86	80
Total Recoveries	110	124	168	187	194
Net Charge-offs	856	660	504	387	325
Additions Charged to Operations	763	797	701	737	737

Balance at End of Year	\$4,820	\$4,913	\$4,776	\$4,579	\$4,229
------------------------	---------	---------	---------	---------	---------

</TABLE>

TABLE VIII - ALLOCATION OF THE ALLOWANCE FOR POSSIBLE LOAN LOSSES BY TYPE

<TABLE>

<CAPTION>

(In Thousands) <S>	Years Ended December 31,				
	1998 <C>	1997 <C>	1996 <C>	1995 <C>	1994 <C>
Mortgage	\$ 97	\$ 350	\$ 58	\$ 38	\$ 35
Consumer	702	375	303	286	241
Commercial	650	625	630	604	443
Letters of Credit Commitments	6	201	--	54	86
Impaired Loans	290	274	113	228	--
All Other Commitments	196	142	369	320	300
Total Allocated	1,941	1,766	1,473	1,530	1,105
Unallocated	2,879	3,147	3,303	3,049	3,124
Total Allowance	\$4,820	\$4,913	\$4,776	\$4,579	\$4,229

</TABLE>

The above allocation is based on estimates and subjective judgments and is not necessarily indicative of the specific amounts or loan categories in which losses may occur.

TABLE IX - FIVE YEAR SUMMARY OF LOANS BY TYPE

<TABLE>

<CAPTION>

(In Thousands) <S>	Years Ended December 31,					
	1998 <C>	% <C>	1997 <C>	% <C>	1996 <C>	% <C>
Real Estate-Construction	\$ 1,004	0.35	\$ 406	0.14	\$ 1,166	0.42
Real Estate-Mortgage	224,849	77.26	219,952	77.05	213,957	76.79
Consumer	30,924	10.63	33,094	11.59	33,420	11.99
Agricultural	1,930	0.66	2,424	0.85	2,603	0.93
Commercial	17,630	6.06	17,176	6.02	15,751	5.65
Other	7,028	2.41	6,260	2.19	5,014	1.80
Political Subdivisions	7,449	2.56	5,895	2.07	6,464	2.32
Lease Receivables	218	0.07	256	0.09	264	0.09
Total	291,032	100.00	285,463	100.00	278,639	100.00
Less Unearned Discount	(29)		(37)		(42)	
Less Allowance for Possible Loan Losses	(4,820)		(4,913)		(4,776)	
Net Loans and Lease Financing Receivables	\$ 286,183		\$ 280,513		\$ 273,821	

</TABLE>

<TABLE>

<CAPTION>

(In Thousands) <S>	Years Ended December 31,			
	1995 <C>	% <C>	1994 <C>	% <C>
Real Estate-Construction	\$ 1,284	0.49	\$ 2,539	0.98
Real Estate-Mortgage	200,066	75.72	193,095	74.72
Consumer	36,351	13.76	37,531	14.52
Agricultural	2,815	1.07	3,154	1.22
Commercial	14,445	5.47	13,625	5.27
Other	2,512	0.95	2,459	0.95
Political Subdivisions	6,546	2.48	5,870	2.27
Lease Receivables	189	0.07	168	0.07
Total	264,208	100.00	258,441	100.00
Less Unearned Discount	(26)		(23)	
Less Allowance for Possible Loan Losses	(4,579)		(4,229)	
Net Loans and Lease Financing Receivables	\$ 259,603		\$ 254,189	

## BALANCE SHEET

Average Total Assets of the Corporation for the year ended December 31, 1998 were \$626,102,000. This compares to average total assets for the years ended December 31, 1997 and December 31, 1996 of \$608,277,000 and \$604,408,000, respectively.

Assets of the Corporation consist of earning and nonearning assets. Earning assets include investments, loans and certain interest-bearing deposits held at the Federal Home Loan Bank of Pittsburgh and other correspondent banks.

The average balance of the investment portfolio during 1998 amounted to \$295,883,000, or 50 percent of average earning assets. This compares to average investment portfolio balances in 1997 and 1996 of \$289,140,000 and \$305,125,000, respectively. The investment portfolio amounted to 50.0 percent of earning assets in 1997 and 52.8 percent in 1996. Investments are purchased when the Corporation has deposits in excess of its loan demand, or when leverage opportunities exist and funds are borrowed. Investing borrowed funds allows the Corporation to leverage its strong capital position. Normally the leveraged borrowing will produce a spread of about 150 basis points (1.5 percent). During the last two years interest rate spreads have narrowed to ranges that do not allow leveraging, therefore, the portfolio balances have remained fairly constant.

The investment portfolio consists of U. S. Treasury securities, U. S. agency securities, municipal bonds, other bonds and equity securities. U. S. Treasury issues normally make up a small percentage of the total portfolio and traditionally carry a lower after tax return than the other investments. The issues that are carried are required as collateral for U. S. Government and state deposits.

U. S. agency investments during 1998, 1997 and 1996 averaged 23.4 percent, 14.6 percent and 10.0 percent of the portfolio, respectively. The prepayments or calls of entire issues that were refinanced at lower rates plagued the portfolio of U. S. agency issues. Included in the portfolio of U. S. agency investments are instruments issued by the Federal National Mortgage Association, the Federal Home Loan Bank, and the Federal Home Loan Mortgage Corporation. The increase in agencies during 1998 was necessitated by the increased prepayments of mortgage-backed investments. Falling interest rates that spurred mortgage holders to refinance at lower rates caused the increase in prepayments. The prepayments were invested primarily in zero-coupon agency issues.

The Corporation also holds a large portion of state and municipal bonds in the portfolio. The municipal bonds carry a lower rate of interest; however, a large portion of the interest is tax exempt, which effectively increases the rate of return. A portion of the interest paid on deposits used to purchase these bonds, however, is nondeductible. Tax-exempt interest income from municipal bonds and loans totaled \$4,362,000 in 1998, \$3,986,000 in 1997 and \$3,436,000 in 1996 while the amount of nondeductible interest during each of the last three years was \$549,000 in 1998, \$477,000 in 1997 and \$426,000 in 1996. During 1998, 1997 and 1996 average balances carried in municipal bonds made up 23.3 percent, 20.6 percent and 16.3 percent of the investment portfolio, respectively. Average balances carried during 1998 increased slightly because of attractive rates and the tax position of the Corporation.

Mortgage-backed securities make up the largest part of the portfolio averaging 41.2 percent, 56.9 percent and 65.0 percent for 1998, 1997, 1996, respectively. The decline in balances during 1998 and 1997 clearly underscores the prepayment risk associated with the investments. Mortgage-backed investments are issued by the Federal National Mortgage Association,

the Government National Mortgage Association and the Federal Home Loan Mortgage Corporation. The investments represent a share of a pool of mortgages or a bond secured by a pool of mortgages. The rate of return on the pool depends on the weighted average coupon or mortgage rate of the individual mortgages in the pool and whether the pool was purchased at a discount or premium. The pools are used for liquidity purposes as they normally provide a monthly cash flow of \$2,000,000 to \$3,000,000; however, at times during 1998 and 1997 monthly payments amounted to \$4,000,000. In 1998 and 1997, the funds were reinvested at current, lower rates and since many securities were purchased at a premium, they are subject to accelerated monthly amortization charges, effectively lowering the rate of return. The balance of the investment portfolio consists of Federal Home Loan Bank of Pittsburgh stock and stocks in other banks and bank holding

companies primarily in Pennsylvania, and other bonds of highly rated corporations.

The available-for-sale investment portfolio must be reported at market value, so at the end of each quarterly reporting period the entire portfolio is repriced to the current market value. The difference between cost and market value represents unrealized gain or loss and is recorded, net of tax as an increase or decrease in capital of the Corporation. The net adjustment to capital as of December 31, 1998, 1997 and 1996 was \$11,922,000, \$13,335,000 and \$5,767,000, respectively.

Average total loans for the years ended December 31, 1998, 1997 and 1996 amounted to \$285,276,000, \$282,580,000 and \$271,618,000, respectively. As a percentage of average earning assets for those years they were 48.7 percent, 48.8 percent and 47.0 percent, respectively.

Historically, real estate secured loans have made up 70 to 80 percent of the dollars in the loan portfolio. The mortgages are primarily 1-4 family dwellings and commercial loans secured by real estate. The commercial side of the portfolio is weighted heavily in forest and wood product loans because of the abundance of hard woods natural to our geographic area. The mortgage portfolio carries with it the same risk of prepayment as the mortgage-backed investments in a falling interest rate environment. During 1998 the average rate of return did decline slightly because of rewrites and increased competition from nonbank sources and the large number of other banks in our market area all competing for the same customers.

The structure and nature of the loan portfolio is not expected to change significantly in the coming years and loan growth for 1999 will probably be minimal because of the increased competition. The Corporation did introduce a new home equity line of credit during 1997 that has enjoyed a certain amount of success because of the price, ease and speed with which it is set up.

Approximately 4.0 percent of the Corporation's average assets for 1998 were invested in land, buildings, furniture and fixtures, noninterest-bearing cash and other assets. The Corporation has 16 banking offices in Tioga, Bradford, Sullivan and Lycoming counties. All of the offices are modern banking facilities. The Corporation has also installed 12 automated teller machines throughout its market area.

The liability side of the balance sheet is made up of three basic components: deposits, borrowed funds and capital.

The deposit base is primarily interest-bearing and has exhibited some growth during 1998, particularly Certificates of Deposit and Money Market accounts. Interest-bearing deposit categories include Interest Checking accounts, Money Market accounts, Regular Savings (passbook and statement), Certificates of Deposit, Individual Retirement Accounts and other time deposits (Christmas clubs, Vacation clubs).

Certificates of Deposit provide the major portion of the deposit base for the Corporation. Average balances, respectively, for the years ended December 31, 1998, 1997 and 1996 amounted to \$126,902,000, \$119,226,000 and \$117,956,000, making up nearly a third of the deposit base in each of the three years. At December 31, 1998 the Corporation had approximately 10,000 accounts with a weighted average interest rate of 5.39 percent.

The Corporation's Super Money Fund (Money Market) accounts provide the second largest source of deposits, providing about 25 percent of deposit funds and numbered 3,412 accounts at December 31, 1998. The accounts are required to carry a higher minimum balance and are paid a higher rate of interest than Interest Checking and Savings accounts. The interest rate is determined utilizing the 91-day treasury bill rate as an index. Monthly activity is restricted by regulation. The Corporation has been successful in recent years in attracting Super Money Fund accounts by paying a slightly higher rate than other institutions in our market area. During 1998 a new Money Market Municipal account was introduced. The account is paid a rate approximating the overnight Federal Funds rate and is available to all municipal customers. The account has been very popular and has had the effect of keeping municipal funds in the market area. The rate paid is tiered depending on the balance.

Interest Checking accounts make up approximately 9 percent of the deposit base and numbered about 2,300 accounts at December 31, 1998. This type of account allows unlimited transaction activity and earns a rate of interest slightly higher than Regular Savings, provided the balance is \$2,500 or higher; when the balance falls below \$2,500 the rate paid is less than Regular Savings. The average balance has declined since 1995 as the rate was lowered on November 1, 1995 from 79 percent of the treasury indicator to 50 percent of the same indicator. The indicator used to price this account is the 91-day treasury bill auction rate.

The Corporation also offers the still very popular Regular Savings account. The account comes in two forms: passbook and statement. The account pays a rate of 2.50 percent, which is very competitive for our market area. The average balance for this type of account has experienced some erosion during the past three years, however average balances stabilized at about \$45,000,000 during 1998. It is expected that average balances will decline modestly in 1999 as funds are moved to higher rate instruments and alternative investments, especially mutual funds. At December 31, 1998, the Corporation had approximately 19,000 Regular Savings and Statement Savings accounts.

Demand deposit average balances have remained stable during the past three years, averaging about 10 percent of the deposit base. The Corporation offers a variety of checking account types to meet the needs of our market area. The total number of checking accounts being serviced at December 31, 1998 was approximately 21,700.

Individual Retirement Accounts are the third largest source of deposit funds for the Corporation and during the past three years have made up about 19 to 20 percent of the deposit base. The Corporation has aggressively marketed Individual Retirement Accounts by paying a higher than market rate. During the past three years increased competition from mutual funds and the Corporation's Trust department have slowed deposit growth. The number of accounts was about 3,800 at December 31, 1998.

The remaining component of interest-bearing liabilities is borrowed funds. Borrowed funds may be in the form of unsecured overnight Federal Funds purchased, fixed term borrowings secured by a blanket floating-lien agreement and repurchase agreements secured by individual securities. The borrowings are classified as either short-term or long-term depending on the original maturity. Borrowings with an original maturity of one year or less are classified short-term. Borrowings whose original maturity exceeds one year are classified long-term. Borrowed funds have been reduced from an average of \$102,088,000 during 1996 to an average balance during 1998 of \$78,841,000. The reduction was necessary because of narrowing interest margins. During the fourth quarter of 1998 \$30,000,000 in borrowings with The Federal Home Loan Bank were paid or refinanced prior to maturity. The terms for fixed rate borrowings and Repurchase Agreements range from 3 months to 5 years. The floating-lien agreement loans are with the Federal Home Loan Bank of Pittsburgh, a major source of funding for the Corporation. The loans secured by repurchase agreements are placed with either the Federal Home Loan Bank of Pittsburgh, Solomon Brothers or Morgan Stanley.

The Capital accounts of the Corporation will be discussed later in Management's Discussion in the Capital section.

#### LIQUIDITY

Bank liquidity is the ability to quickly raise cash at a reasonable cost in order to serve customer needs and to operate efficiently by meeting short-term obligations on a timely basis. An adequate liquidity position permits the Corporation to pay creditors, to allow for unforeseen deposit runoffs, to fund unexpected increases in loan demand and to fund loan growth without making costly balance sheet adjustments. Normally, day to day deposit decreases do not vary more than \$4,000,000 to \$6,000,000 and new loan advances, net of loan repayments, average less than \$100,000 daily.

To accommodate fluctuations in deposits and the funding needed to support loan growth, the Corporation has several cash generating resources. Beyond the regular and on-going liquidity generated by loan repayments, amortization of mortgage-backed securities, the maturing of bonds and the routine growth in deposits, the Corporation has several additional sources for meeting its liquidity needs: the sale of assets (primarily investment securities), short-term or long-term borrowing (e.g., federal funds purchased and Federal Home Loan Bank borrowings) and attracting short-term deposits (principally certificates of deposit). When deposits decline for short periods or when loan demand increases unexpectedly, the Corporation relies on several credit lines. The Corporation maintains an "Open-Repo Plus" program with the Federal Home Loan Bank of Pittsburgh, and overnight borrowing agreements with several of its correspondent banks, principally Mellon Bank and the Atlantic Central Bankers Bank. The Federal Home Loan Bank borrowing is secured by the Corporation's mortgage loans and mortgage-backed securities. Additionally, the Corporation uses repurchase agreements placed with Solomon Brothers and Morgan Stanley to borrow short-term funds secured by investment assets.

During the fourth quarter of 1998 the Corporation introduced a new interest-bearing noninsured account called the "Repo Sweep" secured by investments deposited with a correspondent bank. The account is paid a rate that is tiered and indexed to the Federal Funds rate. The account looks at checking account balances during daily processing and transfers balances above a

predetermined level to the "Repo Sweep" account and during processing for the next business day the balances are transferred back. The Corporation also has a similar product available to business customers with credit lines. Credit lines are accessed or paid down automatically depending on predetermined deposit balances.

#### MARKET RISK

The Corporation's two major categories of market risk, interest rate and equity securities risk, are discussed in the following sections.

#### INTEREST RATE RISK

Business risk that exists and arises from changes in interest rates is an inherent factor in operating a bank. The Corporation's assets are predominantly composed of long-term bonds, term loans with amortizations over periods up to 20 years and other long-term assets. Funding for these assets comes principally from short-term deposits: demand deposits (checking accounts), money market accounts, certificates of deposit with maturities of 1 to 60 months and regular savings accounts. When short-term funding sources, with interest rates that can change frequently, are used to fund long-term assets, with rates that change much less frequently, there is an inherent interest rate and market value risk.

Interest rate fluctuations impact the market values of the Corporation's investments, which are carried as available-for-sale securities and marked to the current market values at the end of each quarter. Rising interest rates can cause significant depreciation in the portfolio. Conversely, falling interest rates can dramatically increase the value of the portfolio. Interest rate fluctuations can also affect the loan portfolio and the Corporation's deposit base. However, those assets and liabilities are considered long-term and not available for sale, therefore, market value fluctuations are not recorded.

Two important measurements of Interest Rate Risk are the impact on net interest income and the impact on the market value of the Corporation's portfolio equity. Quantifying interest rate risk can be achieved using several methods. Many experts and regulators agree that sophisticated income simulation models provide the best way to measure and predict the effects of Interest Rate Risk. The Corporation uses such a model to calculate the Interest Rate Risk and its potential effect on net interest income and market value of portfolio equity. The simulation model is used monthly by the Corporation. Applying interest rate increases and decreases of 100, 200 and 300 basis points to earning assets and interest-bearing liabilities the model measures and projects potential changes in net interest income and calculates the discounted present value of anticipated cash flows of the assets and liabilities to arrive at a net market value under the base "most likely" and "what if" scenarios. The simulation is performed using a number of different asset and liability mix scenarios that allows management to measure on a "what if" basis. The Corporation's Board of Directors has established parameters within which the Interest Rate Risk effects on income and market value may fall when interest rates are simulated to increase or decrease 200 basis points. The acceptable range for fluctuations in net interest income is minus 20 percent from the base most likely one-year scenario. The acceptable range for market value variance is minus 25 percent from the base most likely one-year scenario.

The model used by the Corporation, Sendero, has the capability of applying the embedded options inherent in any balance sheet such as prepayments during a period of declining interest rates or runoffs of certain deposits during rising rates. The model is flexible enough to allow several rates to be applied to several different balance sheet assumptions.

Table X was prepared using the Sendero model described above. The estimated change in the net interest margin was calculated based on the difference between the Corporation's estimated interest margin for 1999 amounting to \$24,018,000 based on current interest rates as of December 31, 1998, and the hypothetical interest margin that would result from an increase or decrease in interest rates of 200 basis points. The market value of portfolio equity represents the difference between incoming and outgoing cash flows, discounted to present value, from assets, liabilities and off-balance sheet contracts. The results presented in Table X indicate that the Corporation was operating within its internal tolerable interest rate risk guidelines as of December 31, 1998. In 1998, updated prepayment tables were used which resulted in a greater negative impact on net interest income in the rising rate scenario and a less favorable impact on net interest income in the declining rate scenario

The model utilized to create Table X makes estimates, at each level of interest rate change, regarding cash flows from principal repayments on loans and mortgage-backed securities and call activity on other investment securities. Actual results could vary significantly from these estimates which could result

in significant differences in the calculations of projected changes in net interest margin and market value of portfolio equity. Also, the model does not make estimates related to changes in the composition of the deposit portfolio that could occur due to rate competition and the table does not necessarily reflect changes that management would make to realign the portfolio as a result of changes in interest rates.

TABLE X - THE EFFECT OF HYPOTHETICAL CHANGES IN INTEREST RATES

<TABLE>  
<CAPTION>

December 31, 1998 Data (In Thousands)	Most Likely Forecast Amount <C>	Period Ending December 31, 1999			
		Plus 200 Basis Points		Minus 200 Basis Points	
Interest Income: <S>	Amount <C>	Amount <C>	% Change <C>	Amount <C>	% Change <C>
Investments	\$ 18,753	\$ 20,317	8.34	\$ 18,520	(1.24)
Interest Bearing Due from Banks	395	279	(29.37)	114	(71.14)
Loans	26,822	27,311	1.82	23,483	(12.45)
Federal Funds Sold	54	44	(18.52)	19	(64.81)
<b>Total Interest Income</b>	<b>46,024</b>	<b>47,951</b>	<b>4.19</b>	<b>42,136</b>	<b>(8.45)</b>
Interest Expense:					
Interest on Deposits	18,415	22,197	20.54	13,693	(25.64)
Interest on Borrowed Funds	3,591	4,508	25.54	3,177	(11.53)
<b>Total Interest Expense</b>	<b>22,006</b>	<b>26,705</b>	<b>21.35</b>	<b>16,870</b>	<b>(23.34)</b>
<b>Net Interest Income</b>	<b>\$ 24,018</b>	<b>\$ 21,246</b>	<b>(11.54)</b>	<b>\$ 25,266</b>	<b>5.20</b>
Market Value of Portfolio Equity at December 31, 1998	\$ 88,235	\$ 66,909	(24.17)	\$110,814	25.59

</TABLE>

<TABLE>  
<CAPTION>

DECEMBER 31, 1997 DATA (In Thousands)	Most Likely Forecast Amount <C>	Period Ending December 31, 1998			
		Plus 200 Basis Points		Minus 200 Basis Points	
Interest Income: <S>	Amount <C>	Amount <C>	% Change <C>	Amount <C>	% Change <C>
Investments	\$ 17,916	\$ 21,124	17.91	\$ 18,692	4.33
Interest Bearing Due from Banks	378	289	(23.54)	115	(69.58)
Loans	25,630	28,397	10.80	23,703	(7.52)
Federal Funds Sold	53	45	(15.09)	21	(60.38)
<b>Total Interest Income</b>	<b>43,977</b>	<b>49,855</b>	<b>13.37</b>	<b>42,531</b>	<b>(3.29)</b>
Interest Expense:					
Interest on Deposits	17,596	23,078	31.15	13,822	(21.45)
Interest on Borrowed Funds	3,432	4,687	36.57	3,206	(6.59)
<b>Total Interest Expense</b>	<b>21,028</b>	<b>27,765</b>	<b>32.04</b>	<b>17,028</b>	<b>(19.02)</b>
<b>Net Interest Income</b>	<b>\$ 22,949</b>	<b>\$ 22,090</b>	<b>(3.74)</b>	<b>\$ 25,503</b>	<b>11.13</b>
Market Value of Portfolio Equity as of December 31, 1997	\$ 87,131	\$ 65,505	(24.82)	\$ 96,803	11.10

</TABLE>

## EQUITY SECURITIES RISK

The Corporation's equity securities portfolio consists of restricted stock, primarily of the Federal Home Loan Bank of Pittsburgh ("FHLB"), and investments in stocks of other banks and bank holding companies, mainly based in Pennsylvania.

FHLB stock can only be sold back to the FHLB or to another member institution at par value. Accordingly, the Corporation's investment in FHLB stock is carried at cost, which equals par value, and is evaluated for impairment. Factors that might cause FHLB stock to become impaired (decline in value on an other than temporary basis) are primarily regulatory in nature and are related to potential problems in the residential lending market; for example, the FHLB may be required to make dividend or other payments to the Financing Corporation, the Resolution Funding Corporation, or other entities, in amounts that could exceed the FHLB's total equity.

Investments in bank stocks are subject to the risk factors affecting the banking industry generally, including competition from non-bank entities, credit risk, interest rate risk and other factors that could result in a decline in market prices. Also, losses could occur in individual stocks held by the Corporation because of specific circumstances related to each bank. Further, because of the concentration of its holdings in Pennsylvania banks, these investments could decline in value if there were a downturn in the state's economy.

The Corporation's management monitors its risk associated with its equity securities holdings by reviewing its holdings on a detailed, individual security basis, at least monthly, considering all of the factors described above.

Equity securities held as of December 31, 1998, 1997, and 1996 are as follows:

<TABLE>  
<CAPTION>

(In Thousands)

At December 31, 1998	Cost	Fair Value	Hypothetical 10 % Decline in Market Value	Hypothetical 20 % Decline in Market Value
<S>	<C>	<C>	<C>	<C>
Banks & Bank Holding Companies	\$16,791	\$31,368	\$ (3,137)	\$ (6,274)
Federal Home Loan Bank and Other Restricted Stocks	4,574	4,574	(457)	(915)
	\$21,365	\$35,942	\$ (3,594)	\$ (7,189)

</TABLE>

<TABLE>  
<CAPTION>

At December 31, 1997	Cost	Fair Value	Hypothetical 10 % Decline in Market Value	Hypothetical 20 % Decline in Market Value
<S>	<C>	<C>	<C>	<C>
Banks & Bank Holding Companies	\$12,035	\$27,909	\$ (2,791)	\$ (5,582)
Federal Home Loan Bank and Other Restricted Stocks	4,114	4,114	(411)	(823)
Total	\$16,149	\$32,023	\$ (3,202)	\$ (6,405)

</TABLE>

<TABLE>  
<CAPTION>

At December 31, 1996	Cost	Fair Value	Hypothetical 10 % Decline in Market Value	Hypothetical 20 % Decline in Market Value
<S>	<C>	<C>	<C>	<C>
Banks & Bank Holding Companies	\$12,122	\$20,692	\$ (2,069)	\$ (4,138)
Federal Home Loan Bank and Other Restricted Stocks	3,950	3,950	(395)	(790)
	\$16,072	\$24,642	\$ (2,464)	\$ (4,928)

</TABLE>



## CAPITAL ADEQUACY

Under regulations published by the Federal Deposit Insurance Corporation and other bank regulators, a bank's capital must be divided into two tiers. The first tier consists primarily of common stock, retained earnings, surplus and noncumulative perpetual preferred stock, if any. The second tier includes the allowance for possible loan losses (limited to 1.25 percent of risk-weighted assets), cumulative preferred stock and subordinated debt and 45 percent of unrealized gains on equity investments.

Risk-based capital guidelines published in 1990 require banks to maintain a risk-based capital ratio of 8 percent, 4 percent of which must be tier I; the remainder may be tier II. The total (tier I and tier II) risk-based capital ratios at December 31, 1998 and 1997 were 24.73 percent and 24.60 percent, respectively.

The primary source of capital growth for Citizens and Northern Corporation is earnings. The growth of capital, excluding unrealized gains on available-for-sale securities, attributable to earnings, (net of dividends), for the years ended December 31, 1998, 1997 and 1996 was 9.5 percent, 9.7 percent and 9.7 percent, respectively.

The total capital of the Corporation at December 31, 1998, excluding net unrealized gains on Available-for-Sale Securities, amounted to \$78,645,000. This compares to total capital of \$72,200,000 and \$65,826,000 at December 31, 1997 and 1996, respectively.

Total capital of the Corporation at December 31, 1998, 1997, and 1996, respectively, including the adjustment for unrealized gains and losses on Available-for-Sale Securities, amounted to \$90,567,000, \$85,535,000 and \$71,593,000. The adjustment is caused by the required implementation of Statement of Financial Accounting Standards (SFAS) No. 115. This pronouncement requires that investment securities held as available-for-sale be marked-to-market on the last day of each accounting quarter and the adjustment, net of taxes, be included in shareholders' equity.

The leverage ratio (capital divided by total liabilities), excluding the adjustment for unrealized gains and losses on available-for-sale securities, at December 31, 1998 and 1997 was 14.2 percent and 13.6 percent, respectively. The capital to deposits ratio at the same dates was 16.5 percent and 16.3 percent, respectively.

Capital expenditures for 1999 are expected to be between \$500,000 and \$750,000. This will not have a detrimental effect on the capital ratios or the results of operations.

## COMPREHENSIVE INCOME

Comprehensive Income is a measure of all changes in the equity of a corporation, excluding transactions with owners in their capacity as owners (such as proceeds from issuances of stock and dividends). The difference between Net Income and Comprehensive Income is termed "Other Comprehensive Income". For the Corporation, Other Comprehensive Income consists of unrealized gains and losses on available-for-sale securities, net of deferred income tax. Comprehensive Income should not be construed to be a measure of net income. The effect of Other Comprehensive Income would only be reflected in the income statement if the entire portfolio of available-for-sale securities were sold on the statement date. The amount of unrealized gains or losses reflected in Comprehensive Income may vary widely at statement dates depending on the markets as a whole and how the portfolio of available-for-sale securities is affected by interest rate movements. Other Comprehensive Income (Loss) for the periods ended December 31, 1998, 1997, and 1996 were respectively, (\$1,413,000), \$7,568,000 and (\$1,185,000).

## YEAR 2000 COMPLIANCE

The Year 2000, or Y2K problem as it is commonly referred to, is a computer problem that originated when computers first began to be utilized to store and process information. When computers were first used, computer memory and storage space was very expensive. To make efficient use of this memory and storage limitation, the year was stored as a two-digit number. For example, the year 1998 was stored as 98. Without corrective action being taken, when the date rolls forward to 2000, many computers would read the date as 00 or 1900. This would have a major impact on many calculations if appropriate action was not taken.

Citizens & Northern Corporation began working on the problem in 1996 with the

This committee, consisting of various key people throughout the organization, meets periodically and reports to the Board of Directors on a quarterly basis. The Board of Directors has approved and implemented a formal Year 2000 Plan.

Overall, the Corporation has made substantial progress on Y2K issues. To date, the corporation's progress is as follows:

- Mainframe software upgrades have been completed.
- All mission critical applications have been tested by the MIS department and will be thoroughly retested independently by our Audit and Compliance departments.
- A contingency/business plan is being developed and is well underway.
- Customer risk (both funds users and funds providers) is being assessed.
- Several steps have been taken to increase customer awareness.

TESTING:

A Year 2000 readiness-testing plan was developed to guide the testing process. This program covers various areas of the Bank, such as mainframe computers, personal computers, environmental systems, and various third parties.

Our current programming and systems analyst staff has written and developed the majority of mission-critical software for the mainframe system. This software processes most of the core banking systems. All critical in-house software has been modified to be ready for the Year 2000 and tested by the Management Information Systems (MIS) department. Those modified programs are being used for our current day-to-day processing. In addition to the testing performed by the MIS department, the plan calls for additional independent testing. The Audit and Compliance departments are performing the independent testing. By the end of March 1999 we expect that all of the mission-critical systems will have been independently tested.

MAINFRAME AND SOFTWARE TESTING:

Independent testing of software for Y2K compliance is being done utilizing our HP 937 back-up computer system. Through initial independent testing in July of 1998, it was discovered that new operating systems were required. Subsequently, both the mainframe and backup computer systems were upgraded with new operating systems certified to be compliant by the reliable vendor. All internally written software has been revised and tested by the MIS staff. Using application testing, the following systems have been independently tested, and any problems located and corrected: general ledger, income & expense, regular savings, individual retirement accounts, christmas clubs, fund clubs, safe deposit boxes, savings bond redemption processing, payroll, and certificates of deposit. The second and final round of independent testing of the demand deposit (checking) system, loan system and the stockholder record system will be completed by the end of March 1999.

After the completion of application testing, integration testing is planned to determine that all applications will interface properly. This integration testing is scheduled to be completed by the end of March 1999.

KEY EXTERNAL THIRD PARTY SUPPLIERS:

- Trust - The department's primary, mission-critical software TrustRite, has been reviewed, modified and tested by the vendor. The department has partnered with a TrustRite users group, which has hired a third-party software specialist firm to perform independent testing of the system. That independent testing was completed in January 1999, and the report of the results is forthcoming as of this writing. Additionally, all other software and hardware in the department has been identified and reviewed for Y2K compliance.
- Electronic Funds Transfer - Has been tested and is Y2K compliant. (ACH and Wire Transfer)
- Check and Document Imaging - Software and hardware has been upgraded and is certified compliant by the vendor. Our independent testing will be completed by the second quarter.

- Credit Card - Internal testing has been performed. Third party testing is scheduled for the near future.
- ATM - All automated teller machines are compliant based on manufacturer's warranties. Third party testing is scheduled for the near future.
- Postage machines are compliant.
- Various security systems, elevators, vaults, etc. were determined to be Y2K compliant or are not date sensitive.

VENDORS:

To date, a few vendors have not yet responded concerning their Y2K readiness. However, these vendors are not considered mission critical. All mission critical vendors have responded stating that they will be able to support Y2K.

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CONTINGENCY PLAN/BUSINESS RESUMPTION:

A contingency plan for the Year 2000 is being developed. Key operational areas have been identified such as Trust, Credit Card/ATM, Accounting, Fedwire/ACH and the overall Management Information System and will be evaluated and plans developed to use in case of Y2K related issues. Plans are being developed for each of these areas using staff input to determine how processing could be performed without computerization. Items such as paper forms necessary to complete manual posting to the need for a back-up generator (which could be used in case of any loss of power, not just Y2K) are being analyzed and plans will be developed accordingly.

CUSTOMER RISK AND AWARENESS: To date, the following efforts have been made to inform our customers of the Y2K problem:

- Y2K letter sent to commercial loan customers.
- Y2K press release in all newspapers in market area.
- Y2K Seminar was held in June 1998 for all commercial customers.
- A second Y2K Seminar for all customers is scheduled for March 30th, 1999.
- Bankcard Services sent Y2K updates to all member banks.
- Y2K informational brochures were distributed to all offices for customers inquiring into the Y2K problem.
- Y2K informational flyers were distributed in the C&N 1999 calendars that are made available to customers, free of charge at all branches.

The bank developed a Y2K questionnaire for selected loan customers. This questionnaire, based on Appendix A of the FFIEC Inter Agency Statement on Y2K concerning the impact of customers, is for all commercial loan customers with aggregate balances over \$150,000. Deposit customers with aggregate balances over \$100,000 have been selected for review. The results are being reviewed and appropriate action will be taken as deemed necessary. Loan officers are meeting independently with all loan customers with borrowing availability totaling \$150,000 or more to review and assess the customer's Y2K readiness.

COSTS:

Citizens & Northern Corporation employs a staff of system analysts and programmers and it is difficult to estimate the total cost of compliance since the work has been done in-house and was begun in 1996. A reasonable estimate would put programming costs through December 31, 1998 in excess of \$250,000. The current telephone banking system installed in 1997, which is not Y2K compliant, will be replaced with a Y2K compliant Internet and Telephone Banking System that incorporates telephone banking with its installation to be completed during the second quarter of 1999. The Internet and Telephone Banking System is expected to cost approximately \$100,000. Item-processing software has been updated at a cost of \$32,000. The cost of PC replacements is estimated to be between \$50,000 and \$75,000; software upgrades will probably be equal to that. The main frame computer network has been upgraded for Y2K and non-Y2K reasons at a cost of \$200,000. The Corporation is also in the process of purchasing a natural gas or diesel generator for the operations center in Wellsboro. Estimates have ranged from \$30,000 to \$80,000. The primary purpose of the generator is to provide a back-up electricity source for our MIS department in the event of power

interruptions caused by weather or other non-Y2K related unforeseen situations.

The Corporation wishes to caution shareholders and customers that although it believes all aspects of the year 2000 issue have been addressed (i.e., software, hardware, customers, vendors, and facilities) internal problems (Y2K or otherwise) may occur that could temporarily prevent the Corporation from carrying on business-as-usual. Nevertheless, it is the judgment of management and the Board of Directors that the Corporation has a highly qualified MIS staff, which has proven their ability to quickly correct problems with minimal disruption to business. If problems arise that are caused by external sources, such as power outages, or vendor failure of certified Y2K-compliant equipment or software, for which the Corporation must rely on the outside source, business could be disrupted. Therefore, the Corporation has made significant progress in developing contingency plans to allow the Corporation to function satisfactorily in the unlikely event that such a failure were to occur.

No one can predict with certainty what will occur when the century date changes, however your Corporation's Board of Directors and management team have expended all reasonable time and effort to solve the problem and will deal with unforeseen problems as they arise.

INFLATION

Inflation affects nearly every aspect of banking, primarily interest rates, which have been discussed in detail earlier under Interest Rate Risk. The effect of inflation impacts the purchase of goods, such as supplies, services and labor used to provide banking products to our customers. Growth in the U. S. economy is at a 3 to 3 1/2 percent level, which is considered to be noninflationary. The Federal Reserve Open Market Committee did lower rates twice during 1998 in an effort to ease the impact of the Asian crisis on the global economy. The yield curve at this time is very flat, with the difference in spread between 2-year and 10-year maturities at approximately 10 basis points.

The Asian crisis seems to have stabilized, although far from being over. However, it appears at this writing that problems with the Brazilian economy may have an effect on the economy of our country. Locally, several of the manufacturing facilities and some of the lumber producers sell to the Asian markets and with the recent weakening of the dollar their products may be more saleable. Your Corporation does not have any foreign loans and is not as affected as the money center banks when economies of foreign countries experience downturns, even though we still have customers who are dependent on foreign sales.

QUARTERLY SHARE DATA

The Corporation's stock is not traded on an established stock exchange. However, stock transactions are effected through various brokers who maintain a market in the Corporation's stock or trades are made on a person to person basis. The following table sets forth the approximate high and low sales prices of the common stock during 1998, 1997 and 1996 as furnished by brokers and other sources considered by the Corporation to be reliable.

<TABLE>  
<CAPTION>

	1998		1997		1996				
	High	Low	Dividend Declared Per Quarter	High	Low	Dividend Declared Per Quarter	High	Low	Dividend Declared Per Quarter
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
First Quarter	\$36.75	\$33.65	\$0.20	\$26.50	\$24.00	\$0.18	\$22.50	\$20.50	\$0.17
Second Quarter	37.95	36.50	0.20	29.25	27.25	0.18	22.75	21.00	0.17
Third Quarter	38.50	37.00	0.20	32.25	29.50	0.18	23.25	21.50	0.17
Fourth Quarter	36.80	35.35	0.22	33.50	30.75	0.20	25.50	22.50	0.18
			plus 1 % stock			Plus 1 % stock			plus 1 % stock

</TABLE>

<TABLE>  
<CAPTION>

COMMON STOCK AND PER SHARE DATA

	1998	1997	1996	1995	1994
<S>	<C>	<C>	<C>	<C>	<C>
Net Income - Basic	\$2.15	\$1.96	\$1.79	\$1.54	\$1.47
Net Income - Diluted	\$2.14	\$1.96	\$1.79	\$1.54	\$1.47
Cash Dividends Declared	\$0.81	\$0.72	\$0.67	\$0.62	\$0.59
Cash Dividends Declared on an Historical Basis	\$0.82	\$0.74	\$0.69	\$0.65	\$0.62
Stock Dividend	1 %	1 %	1 %	1 %	1 %
Number of Shares Outstanding (excluding shares held in treasury)	5,063,043	5,012,332	4,962,456	4,913,322	5,102,028
Number of Shares Used for Computation - Basic	5,158,102	5,164,238	5,164,099	5,164,099	5,164,099
Number of Shares Issued	5,220,038	5,168,354	5,117,182	5,066,516	5,016,352
Number of Shares Authorized	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000
Stockholders' Equity Per Share (a)	\$17.58	\$16.73	\$14.00	\$13.10	\$9.15
Stockholders' Equity Per Share (*) (a)	\$15.26	\$14.12	\$12.87	\$11.74	\$10.83
Number of stockholders at Year End	2,300	2,182	2,119	2,027	1,901

</TABLE>

(\*) Does not include unrealized holding gains or losses on available-for-sale securities.

(a) For purposes of this computation, the number of shares outstanding, excluding shares held in treasury has been increased for the effects of the 1% stock dividend issued in January following each year-end.

Known "market makers" who handle Citizens & Northern Corporation stock transactions are:

<TABLE>

<S>	<C>	<C>
F. J. MORRISSEY & CO., INC. 1700 Market Street, Suite 1420 Philadelphia, PA 19103-3913 (215) 563-8500	HOPPER SOLIDAY & COMPANY 1703 Oregon Pike Lancaster, PA 17601-6401 (800) 526-6371	RYAN, BECK & COMPANY 3 Parkway Philadelphia, PA 19102 (800) 342-2325
FERRIS, BAKER WATTS, INC. 6 Bird Cage Walk Holidaysburg, PA 16648 (800) 343-5149	MERRILL LYNCH, PIERCE, FENNER & SMITH, INC. One West Third Street Williamsport, PA 17701 (800) 937-0769	SANDLER O'NEILL & PARTNERS, LP Two World Trade Center, 104th Floor New York, NY 10048 (800) 635-6851

INVESTOR INFORMATION

INDEPENDENT AUDITORS

ANNUAL MEETING OF SHAREHOLDERS	General shareholder inquiries Should be sent to:	PARENTE, RANDOLPH, ORLANDO CAREY & ASSOCIATES 400 Market Street Williamsport, PA 17701
The Annual Meeting of Shareholders will be held in Wellsboro, PA, at 2:00 p.m., Tuesday, April 20, 1999.	CITIZENS & NORTHERN CORPORATION 90-92 Main Street, P.O. Box 58 Wellsboro, PA 16901	
	STOCK TRANSFER AGENT Citizens & Northern Bank 90-92 Main Street, P.O. Box 58 Wellsboro, PA 16901 (800) 487-8784	

</TABLE>

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FIVE YEAR SUMMARY OF OPERATIONS  
(In Thousands)

<TABLE>  
<CAPTION>

INCOME STATEMENT	1998	1997	1996	1995	1994
<S>	<C>	<C>	<C>	<C>	<C>
Interest Income	\$48,428	\$48,269	\$47,922	\$45,181	\$42,309
Interest Expense	22,693	23,312	23,451	24,477	20,805
Interest Margin	25,735	24,957	24,471	20,704	21,504
Provision for Possible Loan Losses	763	797	701	737	737
Interest Margin After Provision for Possible Loans Losses	24,972	24,160	23,770	19,967	20,767
Other Income	3,114	3,207	2,847	2,796	2,882
Securities Gains (Losses)	3,001	1,001	475	1,675	(219)
Other Expenses	16,483	15,095	14,686	14,079	13,597

Income Before Income Tax Provision	14,604	13,273	12,406	10,359	9,833
Income Tax Provision	3,527	3,166	3,151	2,493	2,339
Net Income	\$11,077	\$10,107	\$9,255	\$7,866	\$7,494

#### BALANCE SHEET AT YEAR END

Total Securities (1)	\$331,883	\$308,988	\$310,077	\$301,743	\$261,820
Loans (Excluding Unearned Discount)	291,003	285,426	278,597	264,182	258,472
Total Assets	646,298	615,353	610,192	585,987	546,478
Total Deposits	476,518	442,256	430,311	429,552	399,263
Stockholders' Equity Before Adjustment for Unrealized Gain or Loss on Available-for-Sale Securities	78,645	72,200	65,826	60,025	55,385
Stockholders' Equity	90,567	85,535	71,593	66,977	46,796

#### AVERAGE BALANCE SHEET

Total Securities (Amortized Cost) (1)	\$300,693	\$296,067	\$306,680	\$290,694	\$292,080
Loans (Excluding Unearned Discount)	285,276	282,580	271,618	259,143	243,147
Earning Assets	585,969	578,647	578,298	549,837	535,227
Total Assets	626,102	608,277	604,408	566,030	554,658
Total Assets Excluding Market Value Adjustment for Unrealized Gain or Loss on Available-for-Sale Securities	606,163	598,370	598,813	568,700	555,475
Total Deposits	448,601	435,190	429,036	414,958	395,512
Stockholders' Equity Before Adjustment for Unrealized Gain or Loss on Available-for-Sale Securities	74,810	69,440	62,797	55,961	52,629
Stockholders' Equity	87,997	76,005	66,490	53,727	52,090

#### FINANCIAL RATIOS

Return on Stockholders' Equity (3)	14.81%	14.56%	14.74%	14.06%	14.24%
Return on Stockholders' Equity (2)	12.59%	13.30%	13.92%	14.51%	14.40%
Return on Assets (2)	1.77%	1.66%	1.53%	1.39%	1.35%
Stockholders' Equity to Assets (3)	12.34%	11.60%	10.49%	9.84%	9.49%
Stockholders' Equity to Assets (2)	14.05%	12.50%	11.00%	9.58%	9.39%
Stockholders' Equity to Loans (2)	30.85%	26.90%	24.48%	20.91%	21.42%
Net Income to:					
Total Interest Income	22.87%	20.94%	19.31%	17.41%	17.70%
Interest Margin	43.04%	40.50%	37.82%	37.99%	34.80%
Cash Dividends as a % of Net Income	37.81%	37.04%	37.36%	41.01%	40.30%

</TABLE>

- (1) Includes Interest-Bearing Due from Banks and Federal Funds Sold  
(2) Average Balance Sheet, Including Valuation Reserve  
(3) Average Balance Sheet, Excluding Valuation Reserve

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#### SUMMARY OF QUARTERLY FINANCIAL DATA (UNAUDITED)

The following table presents summarized quarterly financial data for 1998 and 1997 (In Thousands, Except Per Share Data).

<TABLE>  
<CAPTION>

<S>	1998 Quarter Ended			
	Mar. 31, <C>	June 30, <C>	Sept. 30, <C>	Dec. 31, <C>
Interest Income	\$11,873	\$12,022	\$12,395	\$12,138
Interest Expense	5,724	5,701	5,769	5,499
Interest Margin	6,149	6,321	6,626	6,639
Provision for Possible Loan Losses	191	191	191	190
Interest Margin After Provision for Possible Loan Losses	5,958	6,130	6,435	6,449
Other Income	766	788	783	777
Securities Gains	754	1,860	235	152
Other Expense	3,937	4,089	4,154	4,303
Income Before Income Taxes	3,541	4,689	3,299	3,075
Income Tax Provision	860	1,227	785	655

Net Income	\$2,681	\$3,462	\$2,514	\$2,420
Net Income Per Share - Basic	\$0.52	\$0.67	\$0.49	\$0.47
Net Income Per Share - Diluted	\$0.52	\$0.67	\$0.49	\$0.47

<TABLE>  
<CAPTION>

	1997 Quarter Ended			
	Mar. 31,	June 30,	Sept. 30,	Dec. 31,
<S>	<C>	<C>	<C>	<C>
Interest Income	\$11,859	\$11,945	\$12,146	\$12,319
Interest Expense	5,737	5,846	5,886	5,843
Interest Margin	6,122	6,099	6,260	6,476
Provision for Possible Loan Losses	181	181	181	254
Interest Margin After Provision for Possible Loan Losses	5,941	5,918	6,079	6,222
Other Income	739	1,038	744	686
Securities Gains	787	20	62	132
Other Expense	3,803	3,749	3,722	3,821
Income Before Income Taxes	3,664	3,227	3,163	3,219
Income Tax Provision	901	743	724	798
Net Income	\$2,763	\$2,484	\$2,439	\$2,421
Net Income Per Share - Basic	\$0.54	\$0.48	\$0.47	\$0.47
Net Income Per Share - Diluted	\$0.54	\$0.48	\$0.47	\$0.47

</TABLE>

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<TABLE>  
<CAPTION>

TRUST DEPARTMENT (In Thousands)	1998	1997	1996	1995	1994
<S>	<C>	<C>	<C>	<C>	<C>
Assets	\$283,262	\$230,149	\$222,541	\$181,351	\$146,178
Earnings	\$1,288	\$1,004	\$852	\$726	\$582

</TABLE>

The composition of trust assets and liabilities as of December 31, 1998, 1997 and 1996 are shown in the following table:

<TABLE>  
<CAPTION>

(In Thousands)	1998	1997	1996
<S>	<C>	<C>	<C>
INVESTMENTS			
Bonds	\$ 78,442	\$70,413	\$ 77,977
Stock	100,479	77,356	79,815
Savings and Money Market Funds	19,150	14,835	28,389
Mutual Funds	80,361	65,331	34,173
Mortgages	1,066	425	506
Real Estate	3,061	1,156	852
Miscellaneous	703	633	829
Total	\$283,262	\$230,149	\$222,541

ACCOUNTS			
Estates	\$ 2,370	\$ 3,537	\$ 872
Trusts	86,079	62,280	54,458
Guardianships	1,972	1,893	1,716
Pension/Profit Sharing	113,110	86,506	93,451
Investment Management	79,731	75,933	72,044
<b>Total</b>	<b>\$283,262</b>	<b>\$230,149</b>	<b>\$222,541</b>

</TABLE>

#### STOCKHOLDER INQUIRIES

A copy of the Corporation's Annual Report for the year ended December 31, 1998, on Form 10-K as required to be filed with the Securities and Exchange Commission, will be furnished to a stockholder without charge upon written request to the Corporation's Treasurer at the principal office at P O Box 58, Wellsboro, PA 16901. The information is also available at the website of The Securities and Exchange Commission at [www.sec.gov](http://www.sec.gov).

This statement has not been reviewed or confirmed for accuracy or relevance by the Federal Deposit Insurance Corporation.

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#### DESCRIPTION OF BUSINESS

Citizens & Northern Corporation ("Corporation") is a one-bank holding company whose principal subsidiary is Citizens & Northern Bank ("Bank").

The Bank is a Pennsylvania banking institution that was formed pursuant to the consolidation of Northern National Bank of Wellsboro and Citizens National Bank of Towanda on October 1, 1971. In May of 1972, the Bank merged with the First National Bank of Ralston and on October 1, 1977, merged with the Sullivan County National Bank. Then on January 1, 1984 the Bank merged with the Farmers National Bank of Athens. On May 1, 1990, The First National Bank of East Smithfield merged with the Bank. The Bank has held its current name since May 6, 1975, at which time the Bank changed its charter from a National bank to a Pennsylvania bank. The Bank's principal office is located in Wellsboro, Pennsylvania. On December 31, 1998 the Bank had total assets of \$634,091,000, total deposits of \$476,518,000 and total loans outstanding of \$291,003,000.

The Bank provides an extensive range of banking services, including checking accounts, savings accounts, certificates of deposit, money market accounts, personal, commercial and installment loans and such types of deposits and other loans that are common to a full service bank of its size and structure. The Bank also maintains a trust division that provides full fiduciary services.

The Corporation also owns a subsidiary, Bucktail Life Insurance Company, which provides credit life and accident and health insurance on behalf of the Bank. The business generated by Bucktail Life Insurance Company is insignificant in relation to the total business of the Corporation.

The main office of the Bank is located at 90-92 Main Street, Wellsboro, Pennsylvania. The Bank has a total of sixteen (16) banking offices; all located in the Pennsylvania counties of Bradford, Lycoming, Sullivan and Tioga. The Bank owns all such properties. There are no encumbrances against any of the Bank's properties.

As of December 31, 1998, the Bank had a total of 209 full-time equivalent employees. The Bank provides a variety of employee benefits and considers its relationship with its employees to be good.

All phases of the Bank's business are competitive. The Bank primarily competes in the market area composed of Tioga and Bradford counties and portions of Lycoming and Sullivan counties. The Bank competes with approximately 15 commercial banks, including local commercial banks headquartered in our market



area as well as other commercial banks with branches in the Bank's market area. Some of the banks that have branches in the Bank's market area are larger in overall size than the Bank. The Bank, along with other commercial banks, competes with respect to its lending activities as well as in attracting demand and savings deposits with savings banks, savings and loan associations, insurance companies, regulated small loan companies and credit unions. The Bank also competes with insurance companies, investment counseling firms, mutual funds and other business firms and individuals in corporate trust and investment management services.

The Bank is generally competitive with all financial institutions in its service area with respect to interest rates paid on time and savings deposits, service charges on deposit accounts and interest rates charged on loans.

CITIZENS & NORTHERN CORPORATION  
AND  
CITIZENS & NORTHERN BANK

<TABLE>  
<CAPTION>

BOARD OF DIRECTORS

<S> J. Robert Bower Pharmacist	<C> Susan E. Hartley Attorney at Law
R. Robert DeCamp President, Patterson Lumber Co., Inc.	Karl W. Kroeck Farmer
Adelbert E. Eldridge Retired Regional Director of Susquehanna Region of Pennsylvania Electric Co.	Edward L. Learn Owner, Learn Hardware & Building Supply
William K. Francis Chairman of the Board	Craig G. Litchfield President and Chief Executive Officer
R. Bruce Haner Inventory Control Manager, Williams Auto Group, Former owner of Haner's Auto Sales	Lawrence F. Mase Retired, formerly President of Mase's Inc.

<C> Robert J. Murphy Retired, formerly Attorney in law firm of Davis, Murphy, Niemic & Smith
Edward H. Owlett, III Attorney in law firm of Owlett, Lewis & Ginn, P.C.
F. David Pennypacker CPA in firm of Pennypacker & Gooch, P.C.
Leonard Simpson Attorney at Law
Donald E. Treat Self-employed, former owner of Treat Hardware

DIRECTORS EMERITI

<C> R. James Dunham President, R. J. Dunham, Inc. Department Store
Laurence R. Kingsley Retired, formerly owner of L. R. Kingsley Lumber
John H. Macafee Retired, formerly operator of Mapoval Farms, Inc.
Howard W. Skinner Retired, formerly Senior Vice President

</TABLE>

ADVISORY BOARDS

<TABLE>

<S> ATHENS & SAYRE Terry R. Depew Stephan W. Bowen Max P. Gannon R. Bruce Haner Susan E. Hartley George D. Howell Wayne E. Lowery John H. Macafee Laurance A. Reagan, Jr. David Rosenbloom Howard W. Skinner	<C> ELKLAND Scott A. Keck Eric L. Beard John C. Kenyon Edward L. Learn	<C> MANSFIELD Robin K. Carleton Gary Ray Butters David Kurzejewski John F. Wise, Jr.	<C> TROY Mark C. Griffis Dennis F. Beardslee Roy W. Cummings, Jr. J. Robert Garrison Gregory W. Powers
DUSHORE Wayne E. Gavitt Ronald A. Gutosky	KNOXVILLE Mary Rose Sacks Clyde E. Beard Gerald L. Bliss Grant Gehman Karl W. Kroeck	RALSTON Daniel P. Clark George E. Bittner William W. Brooks, III Richard T. Demitras	WELLSBORO Richard L. Wilkinson Donald R. Abplanalp J. Robert Bower R. Robert DeCamp R. James Dunham Jan E. Fisher Edward H. Owlett, III F. David Pennypacker
LAPORTE Randy R. Meckes Kenneth F. Fry	TIOGA Lois C. Wood John E. Brackley Leisa L. LaVancher		

Robert P. Henderson, Jr.	Marvin L. Higley	Donald E. Treat	
Leo F. Lambert	Walter B. Neidig	Jean L. Ward	WYSOX
Dennis K. McCarty	Leonard Simpson		Debra S. Kithcart
Kerry A. Meehan		TOWANDA & MONROETON	Lucille P. Donovan
	LIBERTY	James E. Parks	Robert L. Fulmer
EAST SMITHFIELD	Ann L. Yuscavage	Jeffery E. Aepli	Mark W. Smith
Peggy A. Brown	Lyle R. Brion	James A. Bowen	Walter E. Warburton, Jr.
Roy L. Beardslee	Gary Dinnison	Adelbert E. Eldridge	
Laurence R. Kingsley	Lawrence F. Mase	Robert J. Murphy	
Liston D. Pepper	Ray E. Wheeland	Jeffrey A. Smith	
Bennett R. Young		James E. Towner	
		Deborah J. Weisbrod	

</TABLE>

CITIZENS & NORTHERN BANK OFFICERS

<TABLE>

<S>	<C>	<C>	<C>
William K. Francis Chairman of the Board	James E. Parks Vice President	Rhonda J. Litchfield Trust Investment Officer	Diane B. Elvidge Assistant Cashier
Craig G. Litchfield President and Chief Executive Officer	Deborah E. Scott Vice President and Trust Officer	Jeffrey B. Osgood Assistant Vice President and Personnel Officer	Linda M. Etzel Assistant Cashier
Robert W. Anderson Executive Vice President - MIS	Richard L. Wilkinson Vice President	Mary Rose Sacks Assistant Vice President	Kathy L. Griffis Assistant Cashier
Thomas L. Briggs Executive Vice President and Senior Trust Officer	Ann L. Yuscavage Vice President	Shawn M. Schreck Assistant Vice President and Compliance Officer	Roberta C. Heck Assistant Cashier
Brian L. Canfield Executive Vice President and Branch System Administrator	Kathleen M. Osgood Corporate Secretary	David S. Schucker Assistant Vice President	William Holmes Assistant Cashier
Matthew P. Prosseda Executive Vice President and Commercial Loan Coordinator	Jeffery E. Aepli Assistant Vice President	James H. Shel mire Senior Systems Analyst	Joan F. Johnson Assistant Cashier
James W. Seipler Executive Vice President and Treasurer	Klas G. Anderson Assistant Vice President	Joseph A. Snell Assistant Controller	Michelle M. Karas Marketing Coordinator
Russell H. Bauman Vice President and Auditor	Robert E. Bolt Assistant Vice President	Jan L. Southworth Assistant Vice President	Karen L. Keck Bookkeeping Manager
Terry R. Depew Vice President	Stephan W. Bowen Assistant Vice President	Nancy L. Tubbs Assistant Vice President	Matthew Lundgren Assistant Trust Officer
Keith E. Ferguson Vice President	Peggy A. Brown Assistant Vice President	Lois C. Wood Assistant Vice President	Glenda R. Marzo Assistant Auditor
Wayne E. Gavitt Vice President	Robin K. Carleton Assistant Vice President	Mary J. Wood Trust Officer	Sandra J. McNeal Assistant Cashier
Mark C. Griffis Vice President	Rick J. Cisco Senior Systems Analyst	Sandra G. Andrews Assistant Cashier	Leonard Mitchell, III Assistant Cashier
Nicholas Helf, Jr. Vice President and Employee Benefit Officer	Daniel P. Clark Assistant Vice President	Bonnie L. Bennett Assistant Cashier	Janet R. Ordway Assistant Cashier
Scott A. Keck Vice President	Helen W. Ferris Assistant Vice President	Joan M. Blackwell Assistant Cashier	Sandra A. Parulas Training Officer
Linda L. Kriner Vice President and Trust Officer	Rita Y. Fisk Assistant Vice President	Lynette M. Burrous Assistant Cashier	Eileen K. Ranck Bankcard Manager
Randy R. Meckes	Joan L. Grenell Assistant Vice President	Carl M. Chambers Assistant Bankcard Manager	Virginia L. Reap Assistant Cashier
	Harold F. Hoose, III Assistant Vice President	Marcella Chaykosky Assistant Cashier	Charmaine H. Stempel Assistant Cashier and Security Officer
	Elaine F. Johnston Assistant Vice President	Jerome Coleman Assistant Cashier	Barbara J. Walters Assistant Cashier
	Valerie W. Kinney		Brenda B. Whiteley

Vice President

Assistant Vice President

Assistant Cashier

Kim L. Miller  
Vice President

Debra S. Kithcart  
Assistant Vice President

Raechelle Curry  
Assistant Cashier

</TABLE>

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CITIZENS & NORTHERN CORPORATION OFFICERS

<TABLE>

<S>  
William K. Francis  
Chairman of the Board

<C>  
Craig G. Litchfield  
President and Chief  
Executive Officer

<C>  
James W. Seipler  
Treasurer

<C>  
Kathleen M. Osgood  
Corporate Secretary

</TABLE>

CITIZENS & CORPORATION

ATHENS/DUSHORE/EAST SMITHFIELD/ELKLAND/KNOXVILLE  
LAPORTE/LIBERTY/MANSFIELD/MONROETON/RALSTON/SAYRE/TIOGA  
TOWANDA/TROY/WELLSBORO/WYSOX/MEMBER FDIC

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EXHIBIT 21

<TABLE>

<CAPTION>

Name	Jurisdiction or State of Incorporation
----	-----
<S>	<C>
Citizens & Northern Bank	Pennsylvania
Bucktail Life Insurance Company	Arizona

</TABLE>

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INDEPENDENT AUDITORS' REPORT

To the Stockholders and Board of Directors of Citizens & Northern Corporation

We have audited the accompanying consolidated balance sheets of Citizens & Northern Corporation and subsidiaries ("Corporation") as of December 31, 1998 and 1997, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 1998. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted accounting standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Citizens & Northern Corporation and subsidiaries as of December 31, 1998 and 1997, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles.

Parente, Randolph, Orlando, Carey & Associates  
Williamsport, Pennsylvania  
February 5, 1999

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EXHIBIT 23

CONSENT OF INDEPENDENT AUDITORS

We hereby consent to the incorporation by reference in this annual report on Form 10-K of Citizens & Northern Corporation for the year ended December 31, 1998 of our report dated February 5, 1999 which appears on page 27 of the annual report to shareholders for the year ended December 31, 1998.

Williamsport, Pennsylvania  
March 22, 1999

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