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C&N DECLARES DIVIDEND AND ANNOUNCES FIRST QUARTER 2018 UNAUDITED FINANCIAL RESULTS

FOR IMMEDIATE RELEASE:

Wellsboro, PA – Citizens & Northern Corporation (“C&N”) (NASDAQ: CZNC) announced its most recent dividend declaration and its unaudited, consolidated financial results for the three-month period ended March 31, 2018.

Dividend Declared

C&N’s Board of Directors has declared a regular quarterly cash dividend of \$0.27 per share. The dividend is payable on May 11, 2018 to shareholders of record as of April 30, 2018. Declaration of the dividend was made at the April 19, 2018 meeting of C&N’s Board of Directors.

Unaudited Financial Information

Net income was \$0.36 per diluted share in the first quarter 2018, up from \$0.16 in the fourth quarter 2017 and \$0.28 in the first quarter 2017. First quarter 2018 earnings reflected the benefit of the reduction in the federal corporate income tax rate to 21%, effective January 1, 2018, from the 35% marginal tax rate in effect throughout 2017. In contrast, fourth quarter 2017 results included additional income tax expense related to a reduction in the carrying value of the net deferred tax asset, resulting in a reduction of \$0.18 in diluted earnings per share.

Highlights related to C&N’s first quarter 2018 earnings results as compared to the fourth quarter 2017 and first quarter 2017 are presented below.

First Quarter 2018 as Compared to Fourth Quarter 2017

Net income was \$4,375,000 in the first quarter 2018, an increase of \$2,432,000 over fourth quarter 2017 net income of \$1,943,000. Fourth quarter 2017 results included a tax charge of \$2,159,000 resulting from reduction in the carrying value of the net deferred tax asset due to the change in the marginal corporate tax rate. The effective tax rate (income tax provision as a percentage of income before tax), which includes adjustments to the marginal rate for the impact of tax-exempt interest income and other factors, was 14.5% for the first quarter 2018. In comparison, excluding the effects of the tax charge due to the change in rate, the effective tax rate for the fourth quarter 2017 was 25.1%. Other significant variances were as follows:

- Net interest income increased \$111,000 (1.0%) in the first quarter 2018 as compared to the fourth quarter 2017. Growth in average loans outstanding of \$13,995,000 (1.74%) from the fourth quarter 2017, and an increase in average yield on taxable loans of 0.12%, contributed significantly to the increase. The net interest margin of 3.84% for the first quarter 2018 was 1 basis point lower than the fourth quarter 2017 margin, as the fully taxable-equivalent yield on municipal securities and loans dropped as a result of the reduced corporate tax rate. The average rate paid on interest-bearing liabilities was 0.49% in the first quarter 2018, an increase of 1 basis point as compared to the fourth quarter 2017, as the average rate paid on deposits increased 0.04% while the average cost of borrowed funds dropped significantly as a result of the pay-off of higher-cost borrowings that matured in the latter portion of 2017.

- The provision for loan losses was \$292,000 in the first quarter 2018, up from \$23,000 in the fourth quarter 2017. The first quarter 2018 provision included \$191,000 attributable to the change in total specific allowances on impaired loans, as adjusted for net charge-offs during the period, and \$101,000 due to loan growth and a slight increase in the historical loss experience factor used in the estimate of the collectively determined portion of the allowance for loan losses. In comparison, the fourth quarter provision included \$179,000 related to the change in total specific allowances on impaired loans, as adjusted for net charge-offs, along with an estimated \$81,000 due to loan growth, partially offset by the net effect of a reduction in the collectively determined allowance related to historical loss experience and qualitative factors.
- Noninterest income totaled \$4,406,000 in the first quarter 2018, an increase of \$289,000 (7.0%) from the fourth quarter 2017 amount. Within this category, first quarter 2018 income included \$166,000 from tax credits related to charitable donations and other activities. There was no income from tax credits recorded in the fourth quarter 2017.
- Total noninterest expense of \$9,895,000 in the first quarter 2018 was \$494,000 (5.3%) higher than the fourth quarter 2017 amount. Salaries and wages expense was \$143,000 (3.6%) higher in the first quarter 2018 than the corresponding fourth quarter 2017 total, including an increase in estimated cash and stock-based incentive compensation expense of \$99,000. Pensions and other employee benefits expense was \$126,000 higher in the first quarter 2018 as compared to the fourth quarter 2017, as payroll taxes and similar expenses increased, consistent with the normal pattern of such costs being highest in the beginning of the calendar year. The net increase in employee benefits expense also included a decrease of \$186,000 in health insurance expense from C&N's partially self-insured plan. Other noninterest expense was \$139,000 higher in the first quarter 2018 as compared to the fourth quarter 2017, as charitable donations increased \$149,000. In the first quarter 2018, charitable donations were made under a state program that resulted in a credit to be applied against Pennsylvania Bank Shares Tax of \$135,000.

First Quarter 2018 as Compared to First Quarter 2017

Net income of \$4,375,000 in the first quarter 2018 was up \$941,000 (27.4%) over the first quarter 2017 amount. Pre-tax income was \$698,000 (15.8%) higher in the first quarter 2018 as compared to the first quarter 2017, while the income tax provision was \$243,000 lower. As noted above, the marginal federal income tax rate in effect in 2018 is 21%, down from the 2017 marginal rate of 35%. Accordingly, the effective tax rate of 14.5% for the first quarter 2018 was significantly lower than the first quarter 2017 effective tax rate of 22.3%. Other significant earnings-related variances were as follows:

- Net interest income increased \$738,000 (7.3%) in the first quarter 2018 over the first quarter 2017 amount. Total interest and dividend income increased \$778,000, while interest expense increased \$40,000. The net interest margin of 3.84% for the first quarter 2018 was 0.06% higher than the first quarter 2017 level. Despite the decrease in fully taxable-equivalent yields on municipal securities and loans resulting from the reduced corporate tax rate, the average yield on earning assets increased to 4.18% in the first quarter 2018 from 4.11% in the first quarter 2017. The improvement in average yield included the impact of an increase in average yield on taxable loans, reflecting the effects of recent increases in interest rates, along with a favorable change in the mix of earning assets with growth in loans and a reduction in securities. Average total loans outstanding were higher by \$57.5 million (7.6%) in the first quarter 2018 as compared to the first quarter 2017, while average total available-for-sale debt securities were lower by \$34.9 million. Average total deposits were \$30.3 million (3.1%) higher in the first quarter 2018 as compared to the first quarter 2017. The average rate paid on interest-bearing liabilities of 0.49% in the first quarter 2018 was up 0.02% as compared to the first quarter 2017. The average rate paid on deposits was up 0.11% in the first quarter 2018 as compared to the first quarter 2017, while the average cost of borrowed funds dropped to 1.64% from 2.20% as a result of the pay-off of higher-cost borrowings that matured in the latter portion of 2017.

- The provision for loan losses of \$292,000 in the first quarter 2018 was lower than the first quarter 2017 provision of \$452,000. As noted above, the first quarter 2018 provision included \$191,000 attributable to the change in total specific allowances on impaired loans, as adjusted for net charge-offs during the period. In comparison, the first quarter 2017 provision included \$388,000 from the net increase in specific allowances on impaired loans as adjusted for net charge-offs.
- Noninterest income increased \$542,000 (14.0%) in the first quarter 2018 over the first quarter 2017 amount. Trust and financial management revenue increased \$242,000 (20.5%), reflecting growth in assets under management resulting from market appreciation and new business, as well as an increase in fee levels. Service charges on deposit accounts increased \$103,000 (9.4%) in the first quarter 2018 over the first quarter 2017 total, mainly due to increased fees from the overdraft privilege program and reflecting the benefit of operational improvements to the program that were instituted early in 2018.
- There were no realized gains or losses from available-for-sale debt securities in the first quarter 2018. In comparison, gains from sales of securities totaled \$145,000 in the first quarter 2017.
- Total noninterest expense increased \$597,000 (6.4%) in the first quarter 2018 over the first quarter 2017 amount. Salaries and wages expense increased \$256,000 (6.6%), including the effects of annual performance-based salary adjustments for a majority of employees along with an increase of \$86,000 in estimated cash and stock-based compensation expense and an increase in the average number of full-time equivalent employees (FTEs) to 294 in the first quarter 2018 from 289 in the first quarter 2017. Pensions and other employee benefits expense increased \$86,000, including an increase of \$81,000 in health care expenses due to higher claims on the partially self-insured plan. Over the last half of 2017 and first three months of 2018, C&N installed a new telephone system throughout most locations and implemented a new loan origination system. Costs associated with these projects contributed to increases in professional fees, data processing and other noninterest expense in the first quarter 2018 as compared to the first quarter 2017.

Other Information:

Changes in other unaudited financial information are as follows:

- Total assets amounted to \$1,258,116,000 at March 31, 2018, as compared to \$1,276,959,000 at December 31, 2017 and \$1,233,924,000 at March 31, 2017.
- Net loans outstanding (excluding mortgage loans held for sale) were \$808,300,000 at March 31, 2018, up from \$806,857,000 at December 31, 2017 and up 7.3% from \$753,277,000 at March 31, 2017. In comparing outstanding balances at March 31, 2018 and 2017, total residential mortgage loans increased \$20.0 million, or 4.7%, and total commercial loans increased \$33.9 million, or 10.5%. At March 31, 2018, the outstanding balance of commercial loan participations with other financial entities was \$62.8 million, up from \$43.6 million at March 31, 2017.
- The outstanding balance of residential mortgages originated by C&N and sold to third parties, with servicing retained, totaled \$171,237,000 at March 31, 2018, up from \$169,725,000 at December 31, 2017 and \$164,291,000 at March 31, 2017.
- Total nonperforming assets as a percentage of total assets was 1.39% at March 31, 2018 as compared to 1.47% at December 31, 2017 and 1.28% at March 31, 2017.
- Deposits and repo sweep accounts totaled \$1,023,563,000 at March 31, 2018 as compared to \$1,012,215,000 at December 31, 2017, and up 3.8% from \$986,495,000 at March 31, 2017.
- Total shareholders' equity was \$186,382,000 at March 31, 2018 as compared to \$188,443,000 at December 31, 2017 and \$187,350,000 at March 31, 2017. Within shareholders' equity, the portion of accumulated other comprehensive loss related to available-for-sale debt securities was \$5,679,000 at March 31, 2018 as compared to \$1,566,000 at December 31, 2017 and \$630,000 at March 31, 2017. Fluctuations in accumulated other

comprehensive loss have been caused by increases in interest rates and the effect of the lower corporate income tax rate on municipal bonds, which have resulted in an overall net reduction in the fair value of available-for-sale debt securities. Also, the larger accumulated other comprehensive loss at March 31, 2018 reflected the impact of the lower federal corporate income tax rate, as the associated deferred tax asset has been reduced, consistent with the lower rate.

- C&N and Citizens & Northern Bank are subject to various regulatory capital requirements. At March 31, 2018, C&N and Citizens & Northern Bank continue to maintain regulatory capital ratios that exceed all capital adequacy requirements.
- Assets under management by C&N's Trust and Financial Management Group amounted to \$916,295,000 at March 31, 2018 as compared to \$916,580,000 at December 31, 2017 and up 4.0% from \$880,979,000 a year earlier.

Citizens & Northern Corporation is the parent company of Citizens & Northern Bank, a local, independent community bank providing complete financial, investment and insurance services through 26 full service offices throughout Tioga, Bradford, Sullivan, Lycoming, Potter, Cameron and McKean counties in Pennsylvania and in Canisteo and South Hornell, New York. C&N's most recently opened location, in Elmira, New York, offers commercial, residential and consumer lending services. C&N can be found on the worldwide web at www.cnbankpa.com. The Company's stock is listed on NASDAQ Capital Market Securities under the symbol CZNC.

Safe Harbor Statement: Except for historical information contained herein, the matters discussed in this release are forward-looking statements. Investors are cautioned that all forward-looking statements involve risks and uncertainty, including without limitation, the following: changes in monetary and fiscal policies of the Federal Reserve Board and the U.S. Government, particularly related to changes in interest rates; changes in general economic conditions; legislative or regulatory changes; downturn in demand for loan, deposit and other financial services in the Corporation's market area; increased competition from other banks and non-bank providers of financial services; technological changes and increased technology-related costs; changes in management's assessment of realization of securities and other assets; and changes in accounting principles, or the application of generally accepted accounting principles. Citizens & Northern disclaims any intention or obligation to publicly update or revise any forward-looking statements, whether as a result of events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.



March 31, 2018

QUARTERLY REPORT

Dear Shareholder:

C&N made substantial progress on a number of fronts that further align our Team's efforts to "Create Value" for our customers, communities, and shareholders. Balancing our objectives of growing relationships, revenue and earnings today, while positioning C&N to compete successfully tomorrow and into the future, is the ongoing challenge. During the first three months of 2018, we produced strong financial results, which we will discuss further. At the same time, we completed development of a new mortgage loan origination system that will enable C&N to improve the customer experience, expand our product line, and compete aggressively with on-line providers. More to come as 2018 unfolds. We also introduced "PeoplePay," our entry into the person-to-person (P2P) payments market, a fast, secure and easy way to send funds directly from one person to another. And finally, we introduced Instant Issue debit cards in a number of branches, providing the ability to issue a debit card to customers on the spot and for the Customer to activate their card in the branch and use it immediately. This service will be of value to both new customers and those in need of a replacement. All of these initiatives add to our capacity to create value for our customers and shareholders today, tomorrow, and into the future.

The themes supporting our strong first quarter 2018 earnings performance are consistent with those we have set forth in prior periods. Revenue growth continued gaining traction as both net interest income and noninterest income showed healthy increases. Net loans outstanding increased, the balance sheet mix improved, trust-related income remained strong, and focus on deepening customer relationships all contributed to first quarter results. For simplicity, we will focus on comparing 2018 performance with the first quarter of 2017, and will address the impact of the late 2017 passage of federal tax reform legislation, as appropriate.

Net income was \$0.36 per diluted share in the first quarter 2018, up 28.6% from \$0.28 per share in the first quarter 2017. Net income was \$4,375,000 in the first quarter 2018, an increase of \$941,000 (27.4%) over first quarter 2017 net income of \$3,434,000. Annualized return on average assets (ROA) and return on average equity (ROE) improved to 1.39% and 9.41% during the first quarter of 2018, as compared to 1.11% and 7.38%, respectively, a year earlier. First quarter 2018 earnings reflected the benefit of the reduction in the federal corporate income tax rate to 21%, effective January 1, 2018, from the 35% marginal tax rate in effect throughout 2017. Pre-tax income was \$698,000 (15.8%) higher in the first quarter of 2018 as compared to the first quarter of 2017, while the income tax provision was \$243,000 lower reflective of the recent reduction in federal tax rates. As a result, the effective tax rate of 14.5% for the first quarter of 2018 was well below the effective rate of 22.3% experienced in the first three months of 2017.

Net interest income increased \$738,000 (7.3%) in the first quarter 2018 over the first quarter 2017 amount. Total interest and dividend income increased \$778,000, while interest expense increased \$40,000 producing a net interest margin of 3.84% for the first quarter 2018, or 0.06% higher than the first quarter 2017 level. The average yield on earning assets increased to 4.18% in the first quarter 2018 from 4.11% in the first quarter 2017. The improvement in average yield included an increase in average yield on taxable loans, due to recent increases in market interest rates, along with a favorable change in the mix of earning assets with growth in loans and a reduction in securities. Average total loans outstanding were higher by \$57.5 million (7.6%) in the first quarter 2018 as compared to the first quarter 2017, while average total available-for-sale debt securities were lower by \$34.9 million. Average total deposits were \$30.3 million (3.1%) higher in the first quarter 2018 as compared to the first quarter 2017. The average rate paid on interest-bearing liabilities of 0.49% in the first quarter 2018 was up 0.02% as compared to the first quarter 2017. The average rate paid on deposits was up 0.11% in the first quarter 2018 as compared to the first quarter 2017, while the average cost of borrowed funds dropped to 1.64% from 2.20% as a result of the pay-off of higher-cost borrowings that matured in the latter portion of 2017.

The provision for loan losses of \$292,000 in the first quarter 2018 was lower than the first quarter 2017 provision of \$452,000. The first quarter 2018 provision included \$191,000 attributable to the change in total specific allowances on impaired loans, as adjusted for net charge-offs during the period. In comparison, the first quarter 2017 provision included \$388,000 from the net increase in specific allowances on impaired loans as adjusted for net charge-offs.

Noninterest income increased \$542,000 (14.0%) in the first quarter 2018 over the first quarter 2017 amount. Trust and financial management revenue increased \$242,000 (20.5%), reflecting growth in assets under management resulting from market appreciation and new business, as well as an increase in fee levels. Service charges on deposit accounts increased \$103,000 (9.4%) in the first quarter 2018 over the first quarter 2017 total, mainly due to increased fees from the overdraft privilege program and reflecting the benefit of operational improvements to the program that were instituted early in 2018.

There were no realized gains or losses from available-for-sale debt securities in the first quarter 2018. In comparison, gains from sales of securities totaled \$145,000 in the first quarter 2017.

Total noninterest expense increased \$597,000 (6.4%) in the first quarter 2018 over the first quarter 2017 amount. Salaries and wages expense increased \$256,000 (6.6%), including the effects of annual performance-based salary adjustments for a majority of employees along with an increase of \$86,000 in estimated cash and stock-based compensation expense and an increase in the average number of full-time equivalent employees (FTEs) to 294 in the first quarter 2018 from 289 in the first quarter 2017. Pensions and other employee benefits expense increased \$86,000, including an increase of \$81,000 in health care expenses due to higher claims on the partially self-insured plan. Over the last half of 2017 and first three months of 2018, C&N installed a new telephone system throughout most locations and implemented a new loan origination system. Costs associated with these projects contributed to increases in professional fees, data processing and other noninterest expense in the first quarter 2018 as compared to the first quarter 2017.

C&N continues to maintain a very strong capital position, providing the Company with the ability to pursue growth and expansion. We increased the quarterly cash dividend paid in February 2018 to \$.27 per share from the \$.26 per share paid in November 2017, reflecting the Board's confidence in the ongoing financial strength of the Corporation. On April 19, 2018, the Board of Directors again declared a dividend of \$.27 per share payable on May 11, 2018 to shareholders of record as of April 30, 2018. On an annualized basis, the quarterly payment produces a dividend yield of 4.68% on the March 31, 2018 market price of \$23.09. In April 2016, the Board announced a common stock repurchase program for the acquisition of up to 600,000 shares. There have been no repurchases of stock under this program to date.

We appreciate your investment and ongoing support of C&N.



J. Bradley Scovill
President and CEO

CONDENSED, CONSOLIDATED EARNINGS INFORMATION

(Dollars In Thousands, Except Per Share Data) (Unaudited)

	1ST QUARTER 2018 <u>(Current)</u>	1ST QUARTER 2017 <u>(Prior Year)</u>	<u>\$ Incr. (Decr.)</u>	<u>% Incr. (Decr.)</u>
Interest and Dividend Income	\$ 11,890	\$11,112	\$778	7.00%
Interest Expense	993	953	40	4.20%
Net Interest Income	10,897	10,159	738	7.26%
Provision for Loan Losses	292	452	(160)	-35.40%
Net Interest Income After Provision for Loan Losses	10,605	9,707	898	9.25%
Noninterest Income	4,406	3,864	542	14.03%
Net Gains on Securities	0	145	(145)	-100.00%
Noninterest Expense	9,895	9,298	597	6.42%
Income Before Income Tax Provision	5,116	4,418	698	15.80%
Income Tax Provision	741	984	(243)	-24.70%
Net Income	\$4,375	\$3,434	\$941	27.40%
Net Income Attributable to Common Shares (1)	\$4,352	\$3,416	\$936	27.40%

PER COMMON SHARE DATA:

Net Income – Basic	\$0.36	\$0.28	\$0.08	28.57%
Net Income – Diluted	\$0.36	\$0.28	\$0.08	28.57%
Dividend Per Share	\$0.27	\$0.26	\$0.01	3.85%
Number of Shares Used in Computation - Basic	12,189,471	12,085,729		
Number of Shares Used in Computation - Diluted	12,222,256	12,131,410		

(1) Basic and diluted net income per common share are determined based on net income less earnings allocated to nonvested restricted shares with nonforfeitable dividends.

CONDENSED, CONSOLIDATED BALANCE SHEET DATA

(In Thousands) (Unaudited)

	MARCH 31, 2018	MARCH 31, 2017	MARCH 31, 2018 vs 2017	
			<u>\$ Incr. (Decr.)</u>	<u>% Incr. (Decr.)</u>
ASSETS				
Cash & Due from Banks	\$36,860	\$32,543	\$4,317	13.27%
Available-for-sale Debt Securities	341,133	375,948	(34,815)	-9.26%
Loans Held for Sale	225	163	62	38.04%
Loans, Net	808,300	753,277	55,023	7.30%
Intangible Assets	11,953	11,958	(5)	-0.04%
Other Assets	59,645	60,035	(390)	-0.65%
TOTAL ASSETS	\$1,258,116	\$1,233,924	\$24,192	1.96%
LIABILITIES				
Deposits	\$1,018,081	\$980,251	\$37,830	3.86%
Repo Sweep Accounts	5,482	6,244	(762)	-12.20%
Total Deposits and Repo Sweeps	1,023,563	986,495	37,068	3.76%
Borrowed Funds	39,122	52,888	(13,766)	-26.03%
Other Liabilities	9,049	7,191	1,858	25.84%
TOTAL LIABILITIES	1,071,734	1,046,574	25,160	2.40%
SHAREHOLDERS' EQUITY				
Common Shareholders' Equity, Excluding Accumulated Other Comprehensive Loss	191,920	187,825	4,095	2.18%
Accumulated Other Comprehensive Loss:				
Net Unrealized Losses on Available-for-sale Securities	(5,679)	(630)	(5,049)	801.43%
Defined Benefit Plans	141	155	(14)	-9.03%
TOTAL SHAREHOLDERS' EQUITY	186,382	187,350	(968)	-0.52%
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY	\$1,258,116	\$1,233,924	\$24,192	1.96%


CITIZENS & NORTHERN CORPORATION
CONDENSED, CONSOLIDATED FINANCIAL HIGHLIGHTS

(Dollars In Thousands, Except Per Share Data) (Unaudited)

	AS OF OR FOR THE THREE MONTHS ENDED MARCH 31,		% INCREASE (DECREASE)
	<u>2018</u>	<u>2017</u>	
EARNINGS PERFORMANCE			
Net Income	\$4,375	\$3,434	27.40%
Return on Average Assets (Annualized)	1.39%	1.11%	25.23%
Return on Average Equity (Annualized)	9.41%	7.38%	27.51%
BALANCE SHEET HIGHLIGHTS			
Total Assets	\$1,258,116	\$1,233,924	1.96%
Available-for-Sale Debt Securities	341,133	375,948	-9.26%
Loans (Net)	808,300	753,277	7.30%
Allowance for Loan Losses	9,049	8,744	3.49%
Deposits and Repo Sweep Accounts	1,023,563	986,495	3.76%
OFF-BALANCE SHEET			
Outstanding Balance of Mortgage Loans Sold with Servicing Retained	171,237	164,291	4.23%
Trust Assets Under Management	916,295	880,979	4.01%
SHAREHOLDERS' VALUE (PER COMMON SHARE)			
Net Income - Basic	\$0.36	\$0.28	28.57%
Net Income - Diluted	\$0.36	\$0.28	28.57%
Dividends	\$0.27	\$0.26	3.85%
Common Book Value	\$15.20	\$15.41	-1.36%
Tangible Common Book Value (a)	\$14.22	\$14.42	-1.39%
Market Value (Last Trade)	\$23.09	\$23.28	-0.82%
Market Value / Common Book Value	151.91%	151.07%	0.56%
Market Value / Tangible Common Book Value	162.38%	161.44%	0.58%
Price Earnings Multiple (Annualized)	16.03	20.79	-22.90%
Dividend Yield (Annualized)	4.68%	4.47%	4.70%
Common Shares Outstanding, End of Period	12,264,284	12,159,607	0.86%

CONDENSED, CONSOLIDATED FINANCIAL HIGHLIGHTS (Continued)

(Dollars In Thousands, Except Per Share Data) (Unaudited)

	AS OF OR FOR THE THREE MONTHS ENDED MARCH 31,		% INCREASE (DECREASE)
	<u>2018</u>	<u>2017</u>	
SAFETY AND SOUNDNESS			
Tangible Common Equity / Tangible Assets (a)	14.00%	14.35%	-2.48%
Nonperforming Assets / Total Assets	1.39%	1.28%	8.59%
Allowance for Loan Losses / Total Loans	1.11%	1.15%	-3.48%
Total Risk Based Capital Ratio (b)	23.38%	23.72%	-1.43%
Tier 1 Risk Based Capital Ratio (b)	22.23%	22.57%	-1.51%
Common Equity Tier 1 Risk Based Capital Ratio (b)	22.23%	22.57%	-1.51%
Leverage Ratio (b)	14.38%	14.29%	0.63%
AVERAGE BALANCES			
Average Assets	\$1,257,704	\$1,241,392	1.31%
Average Equity	\$185,960	\$186,202	-0.13%
EFFICIENCY RATIO			
Net Interest Income on a Fully Taxable-Equivalent Basis	\$11,226	\$10,841	3.55%
Noninterest Income	4,406	3,864	14.03%
Total (1)	\$15,632	\$14,705	6.30%
Noninterest Expense (2)	\$9,895	\$9,298	6.42%
Efficiency ratio = (2)/(1)	63.30%	63.23%	0.11%

(a) Tangible book value per common share and tangible common equity as a percentage of tangible assets are non-U.S. GAAP ratios. Management believes this non-GAAP information is helpful in evaluating the strength of the Corporation's capital and in providing an alternative, conservative valuation of the Corporation's net worth. The ratios shown above are based on the following calculations of tangible assets and tangible common equity:

Total Assets	\$1,258,116	\$1,233,924
Less: Intangible Assets, Primarily Goodwill	(11,953)	(11,958)
Tangible Assets	\$1,246,163	\$1,221,966
Total Shareholders' Equity	\$186,382	\$187,350
Less: Intangible Assets, Primarily Goodwill	(11,953)	(11,958)
Tangible Common Equity (3)	\$174,429	\$175,392
Common Shares Outstanding, End of Period (4)	12,264,284	12,159,607
Tangible Common Book Value per Share = (3)/(4)	\$14.22	\$14.42

(b) Capital ratios for the most recent period are estimated.

**QUARTERLY CONDENSED, CONSOLIDATED
INCOME STATEMENT INFORMATION**

(In Thousands, Except Per Share Data) (Unaudited) For the Three Months Ended:

	March 31, 2018	Dec. 31, 2017	Sept. 30, 2017	June 30, 2017	March 31, 2017
Interest income	\$11,890	\$11,785	\$11,626	\$11,340	\$11,112
Interest expense	993	999	985	978	953
Net interest income	10,897	10,786	10,641	10,362	10,159
Provision for loan losses	292	23	322	4	452
Net interest income after provision for loan losses	10,605	10,763	10,319	10,358	9,707
Noninterest income	4,406	4,117	4,066	4,106	3,864
Net gains on securities	0	0	5	107	145
Noninterest expense	9,895	9,401	9,192	9,076	9,298
Income before income tax provision	5,116	5,479	5,198	5,495	4,418
Income tax provision	741	3,536	1,262	1,374	984
Net income	\$4,375	\$1,943	\$3,936	\$4,121	\$3,434
Net income attributable to common shares	\$4,352	\$1,933	\$3,916	\$4,100	\$3,416
Basic earnings per common share	\$0.36	\$0.16	\$0.32	\$0.34	\$0.28
Diluted earnings per common share	\$0.36	\$0.16	\$0.32	\$0.34	\$0.28

**QUARTERLY CONDENSED, CONSOLIDATED
BALANCE SHEET INFORMATION**

(In Thousands) (Unaudited)

	As of: March 31, 2018	Dec. 31, 2017	Sept. 30, 2017	June 30, 2017	March 31, 2017
ASSETS					
Cash & Due from Banks	\$36,860	\$40,244	\$32,850	\$34,643	\$32,543
Available-for-Sale Debt Securities	341,133	355,937	364,108	363,776	375,948
Loans Held for Sale	225	765	437	1,708	163
Loans, Net	808,300	806,857	792,112	771,057	753,277
Intangible Assets	11,953	11,954	11,956	11,957	11,958
Other Assets	59,645	61,202	58,458	60,260	60,035
TOTAL ASSETS	\$1,258,116	\$1,276,959	\$1,259,921	\$1,243,401	\$1,233,924
LIABILITIES					
Deposits	\$1,018,081	\$1,008,449	\$1,021,625	\$997,262	\$980,251
Repo Sweep Accounts	5,482	3,766	4,739	4,875	6,244
Total Deposits and Repo Sweeps	1,023,563	1,012,215	1,026,364	1,002,137	986,495
Borrowed Funds	39,122	67,189	34,256	42,321	52,888
Other Liabilities	9,049	9,112	8,288	9,084	7,191
TOTAL LIABILITIES	1,071,734	1,088,516	1,068,908	1,053,542	1,046,574
SHAREHOLDERS' EQUITY					
Common Shareholders' Equity, Excluding					
Accumulated Other Comprehensive Income (Loss)	191,920	189,950	190,639	189,339	187,825
Accumulated Other Comprehensive Income (Loss):					
Net Unrealized Gains (Losses) on					
Available-for-sale Securities	(5,679)	(1,566)	227	369	(630)
Defined Benefit Plans	141	59	147	151	155
TOTAL SHAREHOLDERS' EQUITY	186,382	188,443	191,013	189,859	187,350
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY	\$1,258,116	\$1,276,959	\$1,259,921	\$1,243,401	\$1,233,924

AVAILABLE-FOR-SALE DEBT SECURITIES (In Thousands)	March 31, 2018		December 31, 2017	
	Amortized	Fair	Amortized	Fair
	Cost	Value	Cost	Value
Obligations of U.S. Government agencies	\$8,023	\$7,803	\$8,026	\$7,873
Obligations of states and political subdivisions:				
Tax-exempt	103,598	103,403	103,673	105,111
Taxable	24,140	24,038	25,431	25,573
Mortgage-backed securities issued or guaranteed by U.S. Government agencies or sponsored agencies:				
Residential pass-through securities	50,880	49,335	52,992	52,347
Residential collateralized mortgage obligations	127,886	124,008	134,314	131,814
Commercial mortgage-backed securities	33,793	32,546	33,881	33,219
Total Available-for-Sale Debt Securities	\$348,320	\$341,133	\$358,317	\$355,937

**Summary of Loans by Type
(Excludes Loans Held for Sale)
(In Thousands)**

	March 31, 2018	Dec. 31, 2017	March 31, 2017
Residential mortgage:			
Residential mortgage loans - first liens	\$358,786	\$359,987	\$340,431
Residential mortgage loans - junior liens	25,870	25,325	23,717
Home equity lines of credit	34,595	35,758	36,810
1-4 Family residential construction	25,790	26,216	24,041
Total residential mortgage	445,041	447,286	424,999
Commercial:			
Commercial loans secured by real estate	161,571	159,266	153,385
Commercial and industrial	89,346	88,276	79,493
Political subdivisions	56,224	59,287	44,625
Commercial construction and land	13,232	14,527	15,252
Loans secured by farmland	7,015	7,255	7,497
Multi-family (5 or more) residential	7,621	7,713	7,622
Agricultural loans	5,803	6,178	3,992
Other commercial loans	16,079	10,986	11,131
Total commercial	356,891	353,488	322,997
Consumer	15,417	14,939	14,025
Total	817,349	815,713	762,021
Less: allowance for loan losses	(9,049)	(8,856)	(8,744)
Loans, net	\$808,300	\$806,857	\$753,277

**Loans Held for Sale
(In Thousands)**

	March 31, 2018	Dec. 31, 2017	March 31, 2017
Residential mortgage loans originated and serviced - outstanding balance	\$171,462	\$170,490	\$164,454
Less: outstanding balance of loans sold	(171,237)	(169,725)	(164,291)
Loans held for sale, net	\$225	\$765	\$163

ANALYSIS OF THE ALLOWANCE FOR LOAN LOSSES

(In Thousands)

	3 Months Ended March 31, 2018	3 Months Ended Dec. 31, 2017	3 Months Ended March 31, 2017	Year Ended Dec. 31, 2017
Balance, beginning of period	\$8,856	\$8,900	\$8,473	\$8,473
Charge-offs	(115)	(77)	(200)	(479)
Recoveries	16	10	19	61
Net charge-offs	(99)	(67)	(181)	(418)
Provision for loan losses	292	23	452	801
Balance, end of period	\$9,049	\$8,856	\$8,744	\$8,856

**PAST DUE AND IMPAIRED LOANS, NONPERFORMING ASSETS
AND TROUBLED DEBT RESTRUCTURINGS (TDRs)**

(Dollars In Thousands)

	March 31, 2018	Dec 31, 2017	March 31, 2017
Impaired loans with a valuation allowance	\$4,699	\$4,100	\$3,319
Impaired loans without a valuation allowance	5,507	5,411	5,380
Total impaired loans	\$10,206	\$9,511	\$8,699
Total loans past due 30-89 days and still accruing	\$5,927	\$9,449	\$6,476
Nonperforming assets:			
Total nonaccrual loans	\$13,587	\$13,404	\$11,231
Total loans past due 90 days or more and still accruing	2,795	3,724	2,714
Total nonperforming loans	16,382	17,128	13,945
Foreclosed assets held for sale (real estate)	1,100	1,598	1,878
Total nonperforming assets	\$17,482	\$18,726	\$15,823
Loans subject to troubled debt restructurings (TDRs):			
Performing	\$774	\$636	\$752
Nonperforming	2,987	3,027	3,083
Total TDRs	\$3,761	\$3,663	\$3,835
Total nonperforming loans as a % of loans	2.00%	2.10%	1.83%
Total nonperforming assets as a % of assets	1.39%	1.47%	1.28%
Allowance for loan losses as a % of total loans	1.11%	1.09%	1.15%
Allowance for loan losses as a % of nonperforming loans	55.24%	51.70%	62.70%

Analysis of Average Daily Balances and Rates
(Dollars in Thousands)

	3 Months Ended 3/31/2018 Average Balance	Rate of Return/ Cost of Funds %	3 Months Ended 12/31/2017 Average Balance	Rate of Return/ Cost of Funds %	3 Months Ended 3/31/2017 Average Balance	Rate of Return/ Cost of Funds %
EARNING ASSETS						
Available-for-sale debt securities, at amortized cost:						
Taxable	\$249,840	2.21%	\$256,714	2.14%	\$270,251	2.11%
Tax-exempt	103,177	3.53%	106,773	4.23%	117,628	4.44%
Total available-for-sale debt securities	353,017	2.60%	363,487	2.76%	387,879	2.81%
Marketable equity security	962	2.11%	1,000	2.38%	1,000	2.03%
Interest-bearing due from banks	14,131	1.43%	15,423	1.29%	14,923	0.87%
Loans held for sale	168	4.83%	393	5.05%	201	8.07%
Loans receivable:						
Taxable	740,655	5.04%	729,219	4.92%	698,042	4.87%
Tax-exempt	76,242	3.72%	73,683	4.56%	61,336	4.55%
Total loans receivable	816,897	4.92%	802,902	4.88%	759,378	4.84%
Total Earning Assets	1,185,175	4.18%	1,183,205	4.18%	1,163,381	4.11%
Cash	16,874		17,645		16,013	
Unrealized gain/loss on securities	(5,529)		(844)		(958)	
Allowance for loan losses	(9,002)		(9,013)		(8,593)	
Bank premises and equipment	15,451		15,313		15,712	
Intangible assets	11,954		11,954		11,959	
Other assets	42,781		42,294		43,878	
Total Assets	\$1,257,704		\$1,260,554		\$1,241,392	
INTEREST-BEARING LIABILITIES						
Interest-bearing deposits:						
Interest checking	\$212,981	0.34%	\$215,300	0.28%	\$201,120	0.16%
Money market	179,923	0.21%	188,659	0.19%	191,103	0.17%
Savings	149,618	0.10%	147,382	0.10%	138,805	0.10%
Certificates of deposit	123,974	1.00%	119,936	0.92%	113,636	0.80%
Individual Retirement Accounts	94,311	0.49%	96,148	0.46%	99,028	0.43%
Other time deposits	772	0.00%	682	0.00%	791	0.00%
Total interest-bearing deposits	761,579	0.39%	768,107	0.35%	744,483	0.28%
Borrowed funds:						
Short-term	52,305	1.54%	25,669	1.28%	41,386	0.75%
Long-term	13,054	2.02%	29,480	3.35%	38,419	3.75%
Total borrowed funds	65,359	1.64%	55,149	2.39%	79,805	2.20%
Total Interest-bearing Liabilities	826,938	0.49%	823,256	0.48%	824,288	0.47%
Demand deposits	235,936		237,518		222,740	
Other liabilities	8,870		9,308		8,162	
Total Liabilities	1,071,744		1,070,082		1,055,190	
Stockholders' equity, excluding accumulated other comprehensive income/loss						
Accumulated other comprehensive loss	190,129		190,878		186,689	
Accumulated other comprehensive loss	(4,169)		(406)		(487)	
Total Stockholders' Equity	185,960		190,472		186,202	
Total Liabilities and Stockholders' Equity	\$1,257,704		\$1,260,554		\$1,241,392	
Interest Rate Spread		3.69%		3.70%		3.64%
Net Interest Income/Earning Assets		3.84%		3.85%		3.78%
Total Deposits (Interest-bearing and Demand)	\$997,515		\$1,005,625		\$967,223	

(1) Annualized rates of return on tax-exempt securities and loans are presented on a fully taxable-equivalent basis, using the Corporation's marginal federal income tax rate of 21% in 2018 and 35% in 2017.

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

(3) Rates of return on earning assets and costs of funds are presented on an annualized basis.

COMPARISON OF NONINTEREST INCOME
(In Thousands)

	Three Months Ended		
	March 31, 2018	Dec. 31, 2017	March 31, 2017
Trust and financial management revenue	\$1,422	\$1,430	\$1,180
Brokerage revenue	212	246	156
Insurance commissions, fees and premiums	44	17	41
Service charges on deposit accounts	1,204	1,160	1,101
Service charges and fees	86	83	80
Interchange revenue from debit card transactions	579	572	520
Net gains from sales of loans	184	167	166
Loan servicing fees, net	128	82	72
Increase in cash surrender value of life insurance	97	98	90
Other noninterest income	450	262	458
Total noninterest income, before realized gains on available-for-sale securities, net	<u>\$4,406</u>	<u>\$4,117</u>	<u>\$3,864</u>

COMPARISON OF NONINTEREST EXPENSE
(In Thousands)

	Three Months Ended		
	March 31, 2018	Dec. 31, 2017	March 31, 2017
Salaries and wages	\$4,124	\$3,981	\$3,868
Pensions and other employee benefits	1,610	1,484	1,524
Occupancy expense, net	637	582	578
Furniture and equipment expense	271	341	313
Data processing expenses	641	620	575
Automated teller machine and interchange expense	322	339	294
Pennsylvania shares tax	336	321	336
Professional fees	276	206	187
Directors' fees	184	172	185
Other noninterest expense	1,494	1,355	1,438
Total noninterest expense	<u>\$9,895</u>	<u>\$9,401</u>	<u>\$9,298</u>