

July 19, 2018

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**C&N DECLARES DIVIDEND AND ANNOUNCES SECOND 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 and six-month periods ended June 30, 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 August 10, 2018 to shareholders of record as of July 30, 2018. Declaration of the dividend was made at the July 19, 2018 meeting of C&N’s Board of Directors.

**Unaudited Financial Information**

Net income was \$0.52 per diluted share in the second quarter 2018, up from \$0.36 in the first quarter 2018 and \$0.34 in the second quarter 2017. Second quarter 2018 earnings included a net benefit of \$0.10 per diluted share from a gain on a restricted equity security (Visa Inc. Class B stock) and a loss on available-for-sale debt securities. For the six months ended June 30, 2018, net income was \$0.87 per diluted share, including a net benefit of \$0.09 per diluted share from the gain on Visa Class B stock and the loss on available-for-sale debt securities. In comparison, net income was \$0.62 per diluted share for the six months ended June 30, 2017, including a benefit of \$0.01 per diluted share from a gain on available-for-sale debt securities.

In the second quarter 2018, C&N recorded a pre-tax gain on Visa Class B stock of \$1,750,000. C&N received 19,789 shares of Visa Class B stock pursuant to Visa’s 2007 initial public offering. Until the second quarter 2018, the carrying value of the shares was \$0, which represented C&N’s cost basis. Class B shares are subject to restrictions on transfer, essentially limiting their transferability to other owners of Class B shares. In June 2018, C&N received an offer and agreed to sell 10,000 of the shares for a price of \$88.43 per share. This transaction settled in July 2018. Under current accounting guidance, public companies must consider the pricing of observable transactions in determining the carrying value of equity securities that do not have readily determinable fair values. Accordingly, C&N’s second quarter 2018 gain was based on the price per share of the recently initiated sale, applied to the total of 19,789 shares.

At June 30, 2018, C&N recorded a pre-tax impairment loss on available-for-sale debt securities of \$282,000. The loss represents the unrealized loss at June 30, 2018 on securities that were sold in July 2018. The securities sold included obligations of U.S. Government agencies and states and political subdivisions. The realized losses on the sales totaled \$329,000, including \$282,000 recorded in the second quarter 2018. Proceeds from the sales totaling \$17.8 million were reinvested in fixed rate mortgage-backed securities issued by U.S. Government agencies (CMOs). The recent fully taxable equivalent yield on the securities sold was 1.73%, while the estimated average yield on the CMOs purchased (at current market rates) is 3.36%.

The table below provides a reconciliation of C&N's second quarter and June 30, 2018 year-to-date unaudited earnings results to the comparative 2017 results excluding the gain on Visa Class B stock and gains and losses on available-for-sale debt securities.

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

	2nd Quarter 2018				2nd Quarter 2017			
	Income Before Income Tax Provision	Income Tax Provision (1)	Net Income	Diluted Earnings per Common Share	Income Before Income Tax Provision	Income Tax Provision (1)	Net Income	Diluted Earnings per Common Share
Results as Presented Under U.S. GAAP	\$7,748	\$1,377	\$6,371	\$0.52	\$5,495	\$1,374	\$4,121	\$0.34
Less: Gain on Restricted Equity Security	(1,750)	(368)	(1,382)		0	0	0	
Net Losses (Gains) on Available-for-sale Debt Securities	282	59	223		(107)	(37)	(70)	
<b>Earnings Information, Excluding Effect of Gain on Restricted Equity Security and Net Gains and Losses on Available-for-sale Debt Securities</b>	<b>\$6,280</b>	<b>\$1,068</b>	<b>\$5,212</b>	<b>\$0.42</b>	<b>\$5,388</b>	<b>\$1,337</b>	<b>\$4,051</b>	<b>\$0.33</b>

  

	6 Months Ended June 30, 2018				6 Months Ended June 30, 2017			
	Income Before Income Tax Provision	Income Tax Provision (1)	Net Income	Diluted Earnings per Common Share	Income Before Income Tax Provision	Income Tax Provision (1)	Net Income	Diluted Earnings per Common Share
Results as Presented Under U.S. GAAP	\$12,864	\$2,118	\$10,746	\$0.87	\$9,913	\$2,358	\$7,555	\$0.62
Less: Gain on Restricted Equity Security	(1,750)	(368)	(1,382)		0	0	0	
Net Losses (Gains) on Available-for-sale Debt Securities	282	59	223		(252)	(88)	(164)	
<b>Earnings Information, Excluding Effect of Gain on Restricted Equity Security and Net Gains and Losses on Available-for-sale Debt Securities</b>	<b>\$11,396</b>	<b>\$1,809</b>	<b>\$9,587</b>	<b>\$0.78</b>	<b>\$9,661</b>	<b>\$2,270</b>	<b>\$7,391</b>	<b>\$0.61</b>

(1) Income tax has been allocated to the gain on restricted equity security and net losses (gains) on available-for-sale debt securities based on marginal income tax rates of 21% for 2018 and 35% for 2017.

Additional highlights related to C&N's second quarter and June 30, 2018 year-to-date unaudited earnings results as compared to the first quarter 2018 and comparative periods of 2017 are presented below.

### Second Quarter 2018 as Compared to First Quarter 2018

Net income totaled \$6,371,000 in the second quarter 2018, an increase of \$1,996,000 over first quarter 2018 net income of \$4,375,000. As reflected in the table above, second quarter 2018 earnings included an estimated after-tax benefit of \$1,159,000 from the gain on Visa Class B stock, net of losses on available-for-sale debt securities. 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 17.8% for the second quarter 2018, or 17.0% excluding the effects of the net additional earnings from the gain on Visa Class B stock and other securities losses. In comparison, the effective tax rate for the first quarter was 14.5%. The higher effective tax rate in the second quarter 2018 resulted from higher pre-tax income. Other significant variances were as follows:

- Net interest income increased \$358,000 (3.3%) in the second quarter 2018 as compared to the first quarter. The increase in net interest income reflected the benefits of growth in earning assets, an improvement in the net interest margin and an additional day in the second quarter as compared to the first quarter. Average deposits increased \$31,024,000 in the second quarter 2018 as compared to the first quarter, in part due to seasonal factors, contributing to growth in earning assets of \$14,445,000 and a reduction in average borrowed funds of \$19,575,000. In the second quarter 2018, average brokered

deposits (CDs) totaled \$1,813,000, while there were no brokered deposits in the first quarter. The Corporation issued brokered deposits totaling \$5 million in the second quarter 2018 in order to establish this means of funding as an active alternative to borrowings. Average loans outstanding increased \$8,608,000 (1.1%) from the first quarter. The net interest margin was 3.87% for the second quarter 2018, up from 3.84% for the first quarter 2018, as the average yield on earning assets increased 0.05% while the average rate paid on interest-bearing liabilities increased 0.03%. The increased yield on earning assets included an increase in yield on loans to 5.00% from 4.92%, reflecting the effects of recent increases in market rates. The average rate paid on interest-bearing deposits increased to 0.45% in the second quarter 2018 from 0.39% in the first quarter.

- The credit for loan losses (reduction in expense) was \$20,000 in the second quarter 2018 as compared to a provision of \$292,000 in the first quarter 2018. The credit recognized in the second quarter 2018 included a credit of \$78,000 from a net reduction in specific allowances on loans, as adjusted for net charge-offs during the period, partially offset by a provision of \$58,000 attributable mainly to loan growth. In comparison, 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.
- Noninterest income totaled \$4,689,000 in the second quarter 2018, an increase of \$283,000 (6.4%) from the first quarter 2018 amount. Trust and financial management revenue increased \$104,000 (7.3%) over the first quarter amount, reflecting growth in assets under management resulting from market appreciation and new business. Service charges on deposit accounts increased \$98,000 (8.1%) in the second quarter 2018 over the first quarter total, mainly due to seasonal factors.
- Total noninterest expense of \$9,684,000 in the second quarter 2018, was lower by \$211,000 (2.1%) than the first quarter 2018 total. Pensions and other employee benefits expense was \$410,000 lower in the second quarter 2018 as compared to the first quarter, as payroll taxes and similar expenses decreased from the first quarter total, consistent with the normal pattern of such costs being highest in the beginning of the calendar year. The decrease in employee benefits expense also included a decrease of \$102,000 in health insurance expense from C&N's partially self-insured plan. Other noninterest expense was \$151,000 higher in the second quarter 2018 as compared to the first quarter, including \$250,000 from donating the Towanda, Pennsylvania branch location to a nonprofit organization. In June 2018, C&N donated the real estate for its existing Towanda banking facility, and entered into a 12-month lease with the nonprofit organization, with a 6-month renewal option, allowing banking operations to continue at the facility until a new location in the Towanda market can be obtained and prepared for use. In the second quarter 2018, C&N recognized a Pennsylvania state tax credit of \$154,000 (included in other noninterest income) as a result of the real estate donation.

## **Second Quarter 2018 as Compared to Second Quarter 2017**

Net income of \$6,371,000 in the second quarter 2018 was up \$2,250,000 over the second quarter 2017 amount. Excluding the after-tax impact of the gain on Visa Class B stock and net (losses) gains on available-for-sale debt securities as described above, adjusted second quarter 2018 net income of \$5,212,000 exceeded adjusted second quarter 2017 net income of \$4,051,000 by \$1,161,000 (28.7%). 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 17.8% for the second quarter 2018 was significantly lower than the second quarter 2017 effective tax rate of 25.0%. Pre-tax income, excluding the gain on Visa Class B stock and net (losses) gains on available-for-sale debt securities, totaled \$6,280,000 in the second quarter 2018, an increase of \$892,000 (16.6%) over adjusted pre-tax income of \$5,388,000 in the second quarter 2017. Other significant earnings-related variances were as follows:

- Net interest income increased \$893,000 (8.6%) in the second quarter 2018 over the second quarter 2017 amount. Total interest and dividend income increased \$994,000, while interest expense increased \$101,000. The net interest margin of 3.87% for the second quarter 2018 was 0.04% higher than the second 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 4.23% in the second quarter 2018 from 4.17% in the second 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 \$54.1 million (7.0%) in the second quarter 2018 as compared to the second quarter 2017, while average total available-for-sale debt securities were lower by \$19.2 million. Average total deposits were \$48.6 million (5.0%) higher in the second quarter 2018 as compared to the second quarter 2017. In the second quarter 2018, average brokered deposits (CDs) totaled \$1,813,000, while there were no brokered deposits in the second quarter 2017. The average rate paid on interest-bearing liabilities was 0.52% in the second quarter 2018, up 0.04% as compared to the second quarter 2017. The average rate paid on deposits was up 0.14% in the second quarter 2018 as compared to the second quarter 2017, while the average cost of borrowed funds dropped to 1.75% from 2.71% as a result of the pay-off of higher-cost borrowings that matured in the latter portion of 2017.

- The credit for loan losses (reduction in expense) was \$20,000 in the second quarter 2018 as compared to a provision of \$4,000 in the second quarter 2017. As noted above, the credit recognized in the second quarter 2018 included a credit of \$78,000 from a net reduction in specific allowances on loans, as adjusted for net charge-offs during the period, partially offset by a provision of \$58,000 attributable mainly to loan growth. In comparison, the second quarter 2017 provision included \$315,000 related to the change in total specific allowances on impaired loans, as adjusted for net charge-offs during the period and a \$102,000 increase in the unallocated portion of the allowance, offset by a \$413,000 reduction in the collectively determined portion of the allowance at June 30, 2017.
- Noninterest income increased \$583,000 (14.2%) in the second quarter 2018 over the second quarter 2017 amount. Service charges on deposit accounts increased \$190,000 (17.1%) in the second quarter 2018 over the second 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. Other noninterest income increased \$262,000 in the second quarter 2018 as compared to the second quarter 2017, including \$154,000 from the state tax credit related to the real estate donation described above.
- Total noninterest expense increased \$608,000 (6.7%) in the second quarter 2018 over the second quarter 2017 amount. Salaries and wages expense increased \$221,000 (5.6%), including the effects of annual performance-based salary adjustments for a majority of employees along with an increase of \$73,000 in estimated cash and stock-based compensation expense and an increase in the average number of full-time equivalent employees (FTEs) to 297 in the second quarter 2018 from 292 in the second quarter 2017. Other noninterest expense increased \$122,000, including an increase in donations expense of \$226,000 resulting from the donation of the Towanda real estate as described above. Also, in the second quarter 2018, C&N received refunds of sales and use taxes totaling \$37,000, which were recorded as a reduction in other noninterest expense; in comparison, sales and use tax audit assessments totaling \$65,000 were paid and recognized as other noninterest expense in the second quarter 2017. Over the last half of 2017 and early 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 second quarter 2018 as compared to the second quarter 2017.

### **Six Months Ended June 30, 2018 as Compared to Six Months Ended June 30, 2017**

For the six months ended June 30, 2018, net income of \$10,746,000 exceeded the corresponding amount for the first six months of 2017 by \$3,191,000. Excluding the after-tax impact of the gain on Visa Class B stock and net (losses) gains on available-for-sale debt securities as described above, adjusted year-to-date 2018 net income of \$9,587,000 exceeded adjusted net income for the first six months of 2017 of \$7,391,000 by \$2,196,000 (29.7%). As a result of the lower marginal federal income tax rate in effect in 2018, the effective tax rate was 16.5% for the first six months of 2018, down from 23.8% for the first six months of 2017. Pre-tax income, excluding the gain on Visa Class B stock and net

(losses) gains on available-for-sale debt securities, totaled \$11,396,000 for the first six months of 2018, an increase of \$1,735,000 (18.0%) over adjusted pre-tax income of \$9,661,000 for the first six months of 2017. Other significant earnings-related variances were as follows:

- Net interest income was up \$1,631,000 (8.0%) for the first six months of 2018 over the amount for the first six months of 2017. Trends for the first six months of 2018 as compared to the first six months of 2017 were similar to those described in the comparison of quarterly results above. The net interest margin was 3.86% for the first six months of 2018, up from 3.81% for the first six months of 2017. The average yield on earning assets was 4.21% in the first six months of 2018, up from 4.14% in the first six months of 2017, reflecting an increase in average yield on loans of 0.10% and 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 \$55.8 million (7.3%) for the first six months of 2018 as compared to the first six months of 2017, while average total available-for-sale debt securities were lower by \$27.0 million. Average total deposits were \$39.5 million (4.0%) higher for the first six months of 2018 as compared to 2017. In the first six months of 2018, average brokered deposits (CDs) totaled \$912,000, while there were no brokered deposits in the first six months of 2017. The average rate paid on interest-bearing liabilities was 0.51% in the first six months of 2018, up 0.03% as compared to 2017. The average rate paid on deposits was up 0.12% in the first six months of 2018 as compared to 2017, while the average cost of borrowed funds dropped to 1.69% from 2.42% 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 \$272,000 for the first six months of 2018 as compared to \$456,000 in 2017. The provision in 2018 included \$113,000 from a net increase in specific allowances on loans, as adjusted for net charge-offs during the period, and \$159,000 attributable mainly to loan growth. In comparison, the provision in 2017 included \$703,000 related to the change in total specific allowances on impaired loans, as adjusted for net charge-offs during the period and a \$102,000 increase in the unallocated portion of the allowance, with a reduction in the provision of \$349,000 related to the reduction in the collectively determined allowance for loan losses.
- Noninterest income increased \$1,125,000 (14.1%) for the first six months of 2018 over the amount for the first six months of 2017. Service charges on deposit accounts increased \$293,000 (13.2%), 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. Trust and financial management revenue increased \$271,000 (10.1%), reflecting growth in assets under management resulting from market appreciation and new business. Other noninterest income increased \$254,000, including an increase in tax credits of \$131,000 resulting from the state tax credit related to the real estate donation described above. Interchange revenue from debit card transactions and brokerage revenue also increased by significant amounts, reflecting increases in volume.
- Total noninterest expense increased \$1,205,000 (6.6%) for the first six months of 2018 over the amount for the first six months of 2017. Salaries and wages expense increased \$477,000 (6.1%), including the effects of annual performance-based salary adjustments for a majority of employees along with an increase of \$159,000 in estimated cash and stock-based compensation expense and an increase in the average number of full-time equivalent employees (FTEs) to 295 in 2018 from 290 in 2017. Pensions and other employee benefits expense increased \$149,000 (5.6%), consistent with the increase in salaries and wages and including an increase of \$113,000 (12.5%) in health insurance expense from C&N's partially self-insured plan. As noted above, costs associated with new telephone and loan origination systems contributed to increases in professional fees, data processing and other noninterest expense in 2018.

**Other Information:**

Changes in other unaudited financial information are as follows:

- Total assets amounted to \$1,284,007,000 at June 30, 2018, as compared to \$1,258,116,000 at March 31, 2018 and \$1,243,401,000 at June 30, 2017.
- Net loans outstanding (excluding mortgage loans held for sale) were \$809,816,000 at June 30, 2018, up from \$808,300,000 at March 31, 2018 and up 5.0% from \$771,057,000 at June 30, 2017. In comparing outstanding balances at June 30, 2018 and 2017, total residential mortgage loans increased \$19.8 million, or 4.6%, and total commercial loans increased \$17.9 million, or 5.3%. Total outstanding commercial loans decreased \$3.9 million at June 30, 2018 as compared to March 31, 2018, reflecting pay-offs of approximately \$13 million of a few large commercial loans that occurred late in the second quarter. At June 30, 2018, the outstanding balance of commercial loan participations with other financial entities was \$62.9 million as compared to \$62.8 million at March 31, 2018 and up from \$42.9 million at June 30, 2017.
- The outstanding balance of residential mortgages originated by C&N and sold to third parties, with servicing retained, totaled \$171,543,000 at June 30, 2018 as compared to \$171,237,000 at March 31, 2018 and up from \$165,789,000 at June 30, 2017.
- Total nonperforming assets as a percentage of total assets was 1.35% at June 30, 2018 as compared to 1.39% at March 31, 2018 and 1.30% at June 30, 2017. Total nonaccrual loans were lower by \$2.4 million at June 30, 2018 as compared to March 31, 2018, while foreclosed assets held for sale increased \$1.8 million. In the second quarter 2018, the Corporation acquired two properties that had secured a commercial loan, recording the acquisition at an estimated fair value of \$2.3 million with no gain or loss recognized.
- Deposits and repo sweep accounts totaled \$1,046,068,000 at June 30, 2018, including brokered deposits of \$5,000,000. In comparison, deposits and repo sweeps totaled \$1,023,563,000 at March 31, 2018 and \$1,002,137,000 at June 30, 2017. There were no brokered deposits at March 31, 2018 and June 30, 2017.
- Total shareholders' equity was \$189,179,000 at June 30, 2018 as compared to \$186,382,000 at March 31, 2018 and \$189,859,000 at June 30, 2017. Within shareholders' equity, the portion of accumulated other comprehensive (loss) income related to available-for-sale debt securities was (\$6,476,000) at June 30, 2018 as compared to (\$5,679,000) at March 31, 2018 and \$369,000 at June 30, 2017. Fluctuations in accumulated other comprehensive (loss) income 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 valuation of the accumulated other comprehensive loss at June 30, 2018 and March 31, 2018 include 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 June 30, 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 \$927,089,000 at June 30, 2018 as compared to \$916,295,000 at March 31, 2018 and up 3.6% from \$894,669,000 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](http://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.

June 30, 2018

**QUARTERLY REPORT**

Dear Shareholder:

The positive financial trends we highlighted in our first quarter report continued into the second quarter of 2018. Our work to improve the mix of our balance sheet by emphasizing loan and deposit growth while decreasing reliance on borrowed funds and the investment portfolio produced significant growth in margin revenues. C&N has historically produced strong non-margin revenues due in large part to our Trust and Financial Management group, which expanded its contribution during the second quarter as well. Additionally, management has focused on several initiatives to improve fee income from deposit and debit/credit card activities that are producing results. While we continued to experience normal increases in operating costs and invest in the future of the franchise during the quarter, revenues grew at a faster pace than expenses providing for a substantial increase in earnings.

The second quarter also included some significant transactions. The first was the recognition of a pre-tax gain on Visa Class B stock of \$1,750,000 that, until the second quarter 2018, had a carrying value of \$0, which represented C&N's cost basis. As a partial offset to this gain, C&N also recognized a pre-tax loss on available-for-sale securities totaling \$282,000. More details related to these securities transactions are presented in the Second Quarter Earnings Release distributed through our recent 8-K filing. The other significant transaction was finalizing the donation of our office in Towanda, PA to a nonprofit organization at a cost of \$250,000 which was partially offset by the receipt of a state tax credit of \$154,000. C&N has a one year lease to continue operating at the current facility while we work to secure a new location in the Towanda market that will enhance our ability build relationships and deliver value to local customers.

Earnings per share was \$0.52 in the second quarter 2018, up 52.9% from \$0.34 per share in the second quarter 2017. Net income was \$6,371,000 in the second quarter 2018, an increase of \$2,250,000 (54.6%) over first quarter 2017 net income of \$4,121,000. Excluding the after-tax impact of the gain on Visa Class B stock as described above and net (losses) gains on debt securities for both periods, adjusted second quarter 2018 net income of \$5,212,000, or \$.42 per share, exceeded adjusted second quarter 2017 net income of \$4,051,000, or \$.33 per share, by \$1,161,000 (28.7%). Pre-tax income, excluding the gain on Visa Class B stock and net (losses) gains on available-for-sale debt securities, totaled \$6,280,000 in the second quarter 2018, an increase of \$892,000 (16.6%) over adjusted pre-tax income of \$5,388,000 in the second quarter 2017. Consistent with the reduction in the federal corporate income tax rate in 2018, the effective tax rate of 17.8% for the second quarter 2018 was significantly lower than the second quarter 2017 effective tax rate of 25.0%.

Net income for the six-month period ended June 30, 2018 totaled \$10,746,000, an increase of \$3.2 million (42.2%) over net income for the first six months of 2017. Excluding the impact of the gain on Visa Class B stock and net (losses) gains on debt securities in a similar manner, adjusted year-to-date 2018 net income of \$9,587,000, or \$.78 per share, exceeded adjusted net income for the first six months of 2017 of \$7,391,000, or \$.61 per share, by \$2,196,000 (29.7%). Excluding the securities gains and losses, pre-tax income was \$11,396,000 for the first six months of 2018, an increase of \$1,735,000 (18.0%) over 2017, and the effective income tax rate was 16.5% YTD in 2018 as compared to 23.8% for the first six months of 2017.

Net interest income was \$1,631,000, or 7.9%, higher during the first half of 2018 than 2017. Interest income increased \$1.77 million, including an increase of \$1.95 million in interest and fees on loans. The average balance of loans for YTD 2018 was \$55.8 million (7.3%) higher than in the first six months of 2017, and the average fully taxable-equivalent yield on loans increased to 4.96% for YTD 2018 from 4.86% for the first six months of 2017.

Interest expense increased \$141,000, reflecting an increase in interest on deposits of \$512,000, an increase in interest expense on short-term borrowings of \$159,000 and a decrease in interest expense on long-term borrowings of \$530,000. The increase in interest expense on deposits resulted from an increase in the average rate paid to 0.42% in 2018 from 0.30% in 2017 as well as a \$22.5 million increase in average interest-bearing deposits in the first six months 2018 over the same period in 2017.



Credit quality has remained stable throughout 2018. The provision for loan losses was \$272,000 for the first six months of 2018 as compared to \$456,000 in 2017. During the second quarter, C&N recognized a credit for loan losses (reduction in expense) of \$20,000 as compared to a provision of \$4,000 in the second quarter 2017. Management has a robust process to evaluate the adequacy of the reserve for possible loan losses on a continuous basis. This process includes specific allowances on loans, net charge-offs during the period, the impact of loan growth, and a collectively determined portion. Based on the current assessment, management believes that the reserve for possible loan losses is adequate.

Noninterest income increased \$1,125,000 (14.1%) in the first half of 2018 compared to the same period in 2017, and the second quarter increase of 14.2% compared to 2017 is consistent with first quarter 2018 performance. Trust and financial management revenue, brokerage fees, service charges on deposit accounts, interchange from debit card transactions, and loan servicing fees were the primary drivers. Growth in noninterest income reflects the ongoing efforts and initiatives to add value through deepening customer relationships.

Total noninterest expense increased \$1,205,000 (6.6%) in the first six months of 2018 compared to 2017. The 6.7% increase during the second quarter compared to last year was consistent with the year-to-date amount. Salaries and wages, health care expenses, data processing, telecommunications and professional fees were the primary contributors through six months of 2018. We did experience seasonal moderation in salaries and wages following the typical hike at the beginning of each calendar year. Additionally, health care expenses decreased approximately 25% in the second quarter compared to the first quarter of this year due to improved claims experience during the period.

C&N's strong capital position provides the Company with the ability to pursue growth and expansion and to continue to pay a healthy cash dividend. 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 July 19, 2018, the Board of Directors again declared a dividend of \$.27 per share payable on August 10, 2018 to shareholders of record as of July 30, 2018. On an annualized basis, the quarterly payment produces a dividend yield of 4.18% on the June 30, 2018 market price of \$25.86. 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)

	2ND QUARTER 2018 <u>(Current)</u>	2ND QUARTER 2017 <u>(Prior Year)</u>	<u>\$ Incr. (Decr.)</u>	<u>% Incr. (Decr.)</u>
Interest and Dividend Income	\$12,334	\$11,340	\$994	8.77%
Interest Expense	1,079	978	101	10.33%
Net Interest Income	11,255	10,362	893	8.62%
(Credit) Provision for Loan Losses	(20)	4	(24)	-600.00%
Net Interest Income After (Credit) Provision for Loan Losses	11,275	10,358	917	8.85%
Noninterest Income	4,689	4,106	583	14.20%
Gain on Restricted Equity Security	1,750	0	1,750	
Net (Losses) Gains on Available-for-sale Debt Securities	(282)	107	(389)	-363.55%
Noninterest Expense	9,684	9,076	608	6.70%
Income Before Income Tax Provision	7,748	5,495	2,253	41.00%
Income Tax Provision	1,377	1,374	3	0.22%
<b>Net Income</b>	<b>\$6,371</b>	<b>\$4,121</b>	<b>\$2,250</b>	<b>54.60%</b>
<b>Net Income Attributable to Common Shares (1)</b>	<b>\$6,339</b>	<b>\$4,100</b>	<b>\$2,239</b>	<b>54.61%</b>
<b>PER COMMON SHARE DATA:</b>				
Net Income – Basic	\$0.52	\$0.34	\$0.18	52.94%
Net Income – Diluted	\$0.52	\$0.34	\$0.18	52.94%
Dividend Per Share	\$0.27	\$0.26	\$0.01	3.85%
Number of Shares Used in Computation - Basic	12,210,902	12,106,008		
Number of Shares Used in Computation - Diluted	12,248,145	12,144,706		

**CONDENSED, CONSOLIDATED EARNINGS INFORMATION**

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

	6 MONTHS ENDED JUNE 30,			
	2018 <u>(Current)</u>	2017 <u>(Prior Year)</u>	<u>\$ Incr. (Decr.)</u>	<u>% Incr. (Decr.)</u>
Interest and Dividend Income	\$24,224	\$22,452	\$1,772	7.89%
Interest Expense	2,072	1,931	141	7.30%
Net Interest Income	22,152	20,521	1,631	7.95%
Provision for Loan Losses	272	456	(184)	-40.35%
Net Interest Income After Provision for Loan Losses	21,880	20,065	1,815	9.05%
Noninterest Income	9,095	7,970	1,125	14.12%
Gain on Restricted Equity Security	1,750	0	1,750	
Net (Losses) Gains on Available-for-sale Debt Securities	(282)	252	(534)	-211.90%
Noninterest Expense	19,579	18,374	1,205	6.56%
Income Before Income Tax Provision	12,864	9,913	2,951	29.77%
Income Tax Provision	2,118	2,358	(240)	-10.18%
<b>Net Income</b>	<b>\$10,746</b>	<b>\$7,555</b>	<b>\$3,191</b>	<b>42.24%</b>
<b>Net Income Attributable to Common Shares (1)</b>	<b>\$10,691</b>	<b>\$7,516</b>	<b>\$3,175</b>	<b>42.24%</b>
<b>PER COMMON SHARE DATA:</b>				
Net Income - Basic	\$0.88	\$0.62	\$0.26	41.94%
Net Income - Diluted	\$0.87	\$0.62	\$0.25	40.32%
Dividend Per Share	\$0.54	\$0.52	\$0.02	3.85%
Number of Shares Used in Computation - Basic	12,200,245	12,095,926		
Number of Shares Used in Computation - Diluted	12,236,518	12,138,189		

(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)

	<b>JUNE 30,</b> <b>2018</b>	<b>JUNE 30,</b> <b>2017</b>	<b>JUNE 30, 2018 vs 2017</b>	
			<b>\$ Incr. (Decr.)</b>	<b>% Incr. (Decr.)</b>
<b>ASSETS</b>				
Cash & Due from Banks	\$51,475	\$34,643	\$16,832	48.59%
Available-for-sale Debt Securities	348,044	363,776	(15,732)	-4.32%
Loans Held for Sale	177	1,708	(1,531)	-89.64%
Loans, Net	809,816	771,057	38,759	5.03%
Intangible Assets	11,952	11,957	(5)	-0.04%
Other Assets	62,543	60,260	2,283	3.79%
<b>TOTAL ASSETS</b>	<b>\$1,284,007</b>	<b>\$1,243,401</b>	<b>\$40,606</b>	<b>3.27%</b>
<b>LIABILITIES</b>				
Deposits	\$1,040,899	\$997,262	\$43,637	4.38%
Repo Sweep Accounts	5,169	4,875	294	6.03%
Total Deposits and Repo Sweeps	1,046,068	1,002,137	43,931	4.38%
Borrowed Funds	39,054	42,321	(3,267)	-7.72%
Other Liabilities	9,706	9,084	622	6.85%
<b>TOTAL LIABILITIES</b>	<b>1,094,828</b>	<b>1,053,542</b>	41,286	3.92%
<b>SHAREHOLDERS' EQUITY</b>				
Common Shareholders' Equity, Excluding Accumulated Other Comprehensive Income (Loss)	195,518	189,339	6,179	3.26%
Accumulated Other Comprehensive Income (Loss):				
Net Unrealized Gains/Losses on				
Available-for-sale Debt Securities	(6,476)	369	(6,845)	-1855.01%
Defined Benefit Plans	137	151	(14)	-9.27%
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>189,179</b>	<b>189,859</b>	<b>(680)</b>	<b>-0.36%</b>
<b>TOTAL LIABILITIES &amp; SHAREHOLDERS' EQUITY</b>	<b>\$1,284,007</b>	<b>\$1,243,401</b>	<b>\$40,606</b>	<b>3.27%</b>


**CITIZENS & NORTHERN CORPORATION**
**CONDENSED, CONSOLIDATED FINANCIAL HIGHLIGHTS**

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

	<b>AS OF OR FOR THE SIX MONTHS ENDED JUNE 30,</b>		<b>% INCREASE (DECREASE)</b>
	<b><u>2018</u></b>	<b><u>2017</u></b>	
<b>EARNINGS PERFORMANCE</b>			
Net Income	\$10,746	\$7,555	42.24%
Return on Average Assets (Annualized)	1.70%	1.22%	39.34%
Return on Average Equity (Annualized)	11.56%	8.07%	43.25%
<b>BALANCE SHEET HIGHLIGHTS</b>			
Total Assets	\$1,284,007	\$1,243,401	3.27%
Available-for-Sale Debt Securities	348,044	363,776	-4.32%
Loans (Net)	809,816	771,057	5.03%
Allowance for Loan Losses	8,831	8,635	2.27%
Deposits and Repo Sweep Accounts	1,046,068	1,002,137	4.38%
<b>OFF-BALANCE SHEET</b>			
Outstanding Balance of Mortgage Loans Sold with Servicing Retained	171,543	165,789	3.47%
Trust Assets Under Management	927,089	894,669	3.62%
<b>SHAREHOLDERS' VALUE (PER COMMON SHARE)</b>			
Net Income - Basic	\$0.88	\$0.62	41.94%
Net Income - Diluted	\$0.87	\$0.62	40.32%
Dividends	\$0.54	\$0.52	3.85%
Common Book Value	\$15.40	\$15.59	-1.22%
Tangible Common Book Value (a)	\$14.43	\$14.61	-1.23%
Market Value (Last Trade)	\$25.86	\$23.26	11.18%
Market Value / Common Book Value	167.92%	149.20%	12.55%
Market Value / Tangible Common Book Value	179.21%	159.21%	12.56%
Price Earnings Multiple (Annualized)	14.69	18.76	-21.70%
Dividend Yield (Annualized)	4.18%	4.47%	-6.49%
Common Shares Outstanding, End of Period	12,280,538	12,176,693	0.85%

**CONDENSED, CONSOLIDATED FINANCIAL HIGHLIGHTS (Continued)**

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

	<b>AS OF OR FOR THE SIX MONTHS ENDED</b>		<b>% INCREASE (DECREASE)</b>
	<b>JUNE 30,</b>		
	<b><u>2018</u></b>	<b><u>2017</u></b>	
<b>SAFETY AND SOUNDNESS</b>			
Tangible Common Equity / Tangible Assets (a)	13.93%	14.45%	-3.56%
Nonperforming Assets / Total Assets	1.35%	1.30%	3.85%
Allowance for Loan Losses / Total Loans	1.08%	1.11%	-2.70%
Total Risk Based Capital Ratio (b)	23.76%	23.57%	0.81%
Tier 1 Risk Based Capital Ratio (b)	22.64%	22.45%	0.85%
Common Equity Tier 1 Risk Based Capital Ratio (b)	22.64%	22.45%	0.85%
Leverage Ratio (b)	14.52%	14.49%	0.21%
<b>AVERAGE BALANCES</b>			
Average Assets	\$1,263,473	\$1,238,481	2.02%
Average Equity	\$185,984	\$187,349	-0.73%
<b>EFFICIENCY RATIO</b>			
Net Interest Income on a Fully Taxable-Equivalent Basis	\$22,812	\$21,903	4.15%
Noninterest Income	9,095	7,970	14.12%
Total (1)	\$31,907	\$29,873	6.81%
Noninterest Expense (2)	\$19,579	\$18,374	6.56%
Efficiency Ratio = (2)/(1)	61.36%	61.51%	-0.24%

(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	\$1,284,007	\$1,243,401
Less: Intangible Assets, Primarily Goodwill	(11,952)	(11,957)
<b>Tangible Assets</b>	<b>\$1,272,055</b>	<b>\$1,231,444</b>
Total Shareholders' Equity	\$189,179	\$189,859
Less: Intangible Assets, Primarily Goodwill	(11,952)	(11,957)
<b>Tangible Common Equity (3)</b>	<b>\$177,227</b>	<b>\$177,902</b>
Common Shares Outstanding, End of Period (4)	12,280,538	12,176,693
<b>Tangible Common Book Value per Share = (3)/(4)</b>	<b>\$14.43</b>	<b>\$14.61</b>

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

**QUARTERLY CONDENSED, CONSOLIDATED  
INCOME STATEMENT INFORMATION**

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

	June 30, 2018	March 31, 2018	Dec. 31, 2017	Sept. 30, 2017	June 30, 2017	March 31, 2017
Interest income	\$12,334	\$11,890	\$11,785	\$11,626	\$11,340	\$11,112
Interest expense	1,079	993	999	985	978	953
Net interest income	11,255	10,897	10,786	10,641	10,362	10,159
(Credit) provision for loan losses	(20)	292	23	322	4	452
Net interest income after (credit) provision for loan losses	11,275	10,605	10,763	10,319	10,358	9,707
Noninterest income	4,689	4,406	4,117	4,066	4,106	3,864
Net gains on securities	1,468	0	0	5	107	145
Noninterest expense	9,684	9,895	9,401	9,192	9,076	9,298
Income before income tax provision	7,748	5,116	5,479	5,198	5,495	4,418
Income tax provision	1,377	741	3,536	1,262	1,374	984
Net income	\$6,371	\$4,375	\$1,943	\$3,936	\$4,121	\$3,434
Net income attributable to common shares	\$6,339	\$4,352	\$1,933	\$3,916	\$4,100	\$3,416
Basic earnings per common share	\$0.52	\$0.36	\$0.16	\$0.32	\$0.34	\$0.28
Diluted earnings per common share	\$0.52	\$0.36	\$0.16	\$0.32	\$0.34	\$0.28

**QUARTERLY CONDENSED, CONSOLIDATED  
BALANCE SHEET INFORMATION**

(In Thousands) (Unaudited)

	As of: June 30, 2018	March 31, 2018	Dec. 31, 2017	Sept. 30, 2017	June 30, 2017	March 31, 2017
<b>ASSETS</b>						
Cash & Due from Banks	\$51,475	\$36,860	\$40,244	\$32,850	\$34,643	\$32,543
Available-for-Sale Debt Securities	348,044	341,133	355,937	364,108	363,776	375,948
Loans Held for Sale	177	225	765	437	1,708	163
Loans, Net	809,816	808,300	806,857	792,112	771,057	753,277
Intangible Assets	11,952	11,953	11,954	11,956	11,957	11,958
Other Assets	62,543	59,645	61,202	58,458	60,260	60,035
<b>TOTAL ASSETS</b>	<b>\$1,284,007</b>	<b>\$1,258,116</b>	<b>\$1,276,959</b>	<b>\$1,259,921</b>	<b>\$1,243,401</b>	<b>\$1,233,924</b>
<b>LIABILITIES</b>						
Deposits	\$1,040,899	\$1,018,081	\$1,008,449	\$1,021,625	\$997,262	\$980,251
Repo Sweep Accounts	5,169	5,482	3,766	4,739	4,875	6,244
Total Deposits and Repo Sweeps	1,046,068	1,023,563	1,012,215	1,026,364	1,002,137	986,495
Borrowed Funds	39,054	39,122	67,189	34,256	42,321	52,888
Other Liabilities	9,706	9,049	9,112	8,288	9,084	7,191
<b>TOTAL LIABILITIES</b>	<b>1,094,828</b>	<b>1,071,734</b>	<b>1,088,516</b>	<b>1,068,908</b>	<b>1,053,542</b>	<b>1,046,574</b>
<b>SHAREHOLDERS' EQUITY</b>						
Common Shareholders' Equity, Excluding						
Accumulated Other Comprehensive Income (Loss)	195,518	191,920	189,950	190,639	189,339	187,825
Accumulated Other Comprehensive Income (Loss):						
Net Unrealized Gains (Losses) on						
Available-for-sale Securities	(6,476)	(5,679)	(1,566)	227	369	(630)
Defined Benefit Plans Adjustment, Net	137	141	59	147	151	155
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>189,179</b>	<b>186,382</b>	<b>188,443</b>	<b>191,013</b>	<b>189,859</b>	<b>187,350</b>
<b>TOTAL LIABILITIES &amp; SHAREHOLDERS' EQUITY</b>	<b>\$1,284,007</b>	<b>\$1,258,116</b>	<b>\$1,276,959</b>	<b>\$1,259,921</b>	<b>\$1,243,401</b>	<b>\$1,233,924</b>

AVAILABLE-FOR-SALE DEBT SECURITIES (In Thousands)	June 30, 2018		March 31, 2018		December 31, 2017	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Obligations of U.S. Government agencies	\$7,779	\$7,779	\$8,023	\$7,803	\$8,026	\$7,873
Obligations of states and political subdivisions:						
Tax-exempt	101,956	101,700	103,598	103,403	103,673	105,111
Taxable	26,248	26,066	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	60,130	58,330	50,880	49,335	52,992	52,347
Residential collateralized mortgage obligations	126,457	121,933	127,886	124,008	134,314	131,814
Commercial mortgage-backed securities	33,671	32,236	33,793	32,546	33,881	33,219
<b>Total Available-for-Sale Debt Securities</b>	<b>\$356,241</b>	<b>\$348,044</b>	<b>\$348,320</b>	<b>\$341,133</b>	<b>\$358,317</b>	<b>\$355,937</b>

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

	June 30, 2018	March 31, 2018	Dec. 31, 2017	June 30, 2017
Residential mortgage:				
Residential mortgage loans - first liens	\$361,592	\$358,786	\$359,987	\$342,603
Residential mortgage loans - junior liens	26,594	25,870	25,325	24,150
Home equity lines of credit	34,852	34,595	35,758	37,159
1-4 Family residential construction	26,722	25,790	26,216	26,067
<b>Total residential mortgage</b>	<b>449,760</b>	<b>445,041</b>	<b>447,286</b>	<b>429,979</b>
Commercial:				
Commercial loans secured by real estate	159,392	161,571	159,266	155,158
Commercial and industrial	88,499	89,346	88,276	82,815
Political subdivisions	56,690	56,224	59,287	51,495
Commercial construction and land	13,066	13,232	14,527	15,201
Loans secured by farmland	7,397	7,015	7,255	7,432
Multi-family (5 or more) residential	7,860	7,621	7,713	7,497
Agricultural loans	5,622	5,803	6,178	4,454
Other commercial loans	14,455	16,079	10,986	11,038
<b>Total commercial</b>	<b>352,981</b>	<b>356,891</b>	<b>353,488</b>	<b>335,090</b>
Consumer	15,906	15,417	14,939	14,623
<b>Total</b>	<b>818,647</b>	<b>817,349</b>	<b>815,713</b>	<b>779,692</b>
Less: allowance for loan losses	(8,831)	(9,049)	(8,856)	(8,635)
<b>Loans, net</b>	<b>\$809,816</b>	<b>\$808,300</b>	<b>\$806,857</b>	<b>\$771,057</b>

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

	June 30, 2018	March 31, 2018	Dec. 31, 2017	June 30, 2017
Residential mortgage loans originated and serviced - outstanding balance	\$171,720	\$171,462	\$170,490	\$167,497
Less: outstanding balance of loans sold	(171,543)	(171,237)	(169,725)	(165,789)
<b>Loans held for sale, net</b>	<b>\$177</b>	<b>\$225</b>	<b>\$765</b>	<b>\$1,708</b>

**ANALYSIS OF THE ALLOWANCE FOR LOAN LOSSES**  
**(In Thousands)**

	<b>3 Months Ended June 30, 2018</b>	<b>3 Months Ended March 31, 2018</b>	<b>6 Months Ended June 30, 2018</b>	<b>6 Months Ended June 30, 2017</b>
Balance, beginning of period	\$9,049	\$8,856	\$8,856	\$8,473
Charge-offs	(211)	(115)	(326)	(335)
Recoveries	13	16	29	41
Net charge-offs	(198)	(99)	(297)	(294)
(Credit) provision for loan losses	(20)	292	272	456
Balance, end of period	\$8,831	\$9,049	\$8,831	\$8,635

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

	<b>June 30, 2018</b>	<b>March 31, 2018</b>	<b>Dec 31, 2017</b>	<b>June 30, 2017</b>
Impaired loans with a valuation allowance	\$3,652	\$4,699	\$4,100	\$3,293
Impaired loans without a valuation allowance	4,346	5,507	5,411	5,418
Total impaired loans	\$7,998	\$10,206	\$9,511	\$8,711
Total loans past due 30-89 days and still accruing	\$3,921	\$5,927	\$9,449	\$3,749
Nonperforming assets:				
Total nonaccrual loans	\$11,230	\$13,587	\$13,404	\$11,504
Total loans past due 90 days or more and still accruing	3,195	2,795	3,724	2,680
Total nonperforming loans	14,425	16,382	17,128	14,184
Foreclosed assets held for sale (real estate)	2,897	1,100	1,598	2,023
Total nonperforming assets	\$17,322	\$17,482	\$18,726	\$16,207
Loans subject to troubled debt restructurings (TDRs):				
Performing	\$753	\$774	\$636	\$729
Nonperforming	2,951	2,987	3,027	3,059
Total TDRs	\$3,704	\$3,761	\$3,663	\$3,788
Total nonperforming loans as a % of loans	1.76%	2.00%	2.10%	1.82%
Total nonperforming assets as a % of assets	1.35%	1.39%	1.47%	1.30%
Allowance for loan losses as a % of total loans	1.08%	1.11%	1.09%	1.11%
Allowance for loan losses as a % of nonperforming loans	61.22%	55.24%	51.70%	60.88%



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

	3 Months Ended 6/30/2018 Average Balance	Rate of Return/ Cost of Funds %	3 Months Ended 3/31/2018 Average Balance	Rate of Return/ Cost of Funds %	3 Months Ended 6/30/2017 Average Balance	Rate of Return/ Cost of Funds %
<b>EARNING ASSETS</b>						
Available-for-sale debt securities, at amortized cost:						
Taxable	\$247,809	2.24%	\$249,840	2.21%	\$254,806	2.13%
Tax-exempt	102,801	3.50%	103,177	3.53%	114,993	4.41%
<b>Total available-for-sale debt securities</b>	<b>350,610</b>	<b>2.61%</b>	<b>353,017</b>	<b>2.60%</b>	<b>369,799</b>	<b>2.84%</b>
Marketable equity security	952	2.53%	962	2.11%	1,000	2.01%
Interest-bearing due from banks	22,286	1.73%	14,131	1.43%	14,873	1.11%
Loans held for sale	267	6.01%	168	4.83%	499	4.82%
Loans receivable:						
Taxable	747,889	5.14%	740,655	5.04%	702,933	4.91%
Tax-exempt	77,616	3.65%	76,242	3.72%	68,439	4.48%
<b>Total loans receivable</b>	<b>825,505</b>	<b>5.00%</b>	<b>816,897</b>	<b>4.92%</b>	<b>771,372</b>	<b>4.87%</b>
<b>Total Earning Assets</b>	<b>1,199,620</b>	<b>4.23%</b>	<b>1,185,175</b>	<b>4.18%</b>	<b>1,157,543</b>	<b>4.17%</b>
Cash	18,010		16,874		17,276	
Unrealized gain/loss on securities	(8,242)		(5,529)		689	
Allowance for loan losses	(9,161)		(9,002)		(8,901)	
Bank premises and equipment	15,425		15,451		15,714	
Intangible assets	11,952		11,954		11,957	
Other assets	41,575		42,781		41,322	
<b>Total Assets</b>	<b>\$1,269,179</b>		<b>\$1,257,704</b>		<b>\$1,235,600</b>	
<b>INTEREST-BEARING LIABILITIES</b>						
Interest-bearing deposits:						
Interest checking	\$217,607	0.39%	\$212,981	0.34%	\$203,256	0.21%
Money market	180,667	0.27%	179,923	0.21%	190,703	0.19%
Savings	152,663	0.10%	149,618	0.10%	142,978	0.10%
Certificates of deposit	135,429	1.15%	123,974	1.00%	116,450	0.82%
Individual Retirement Accounts	92,899	0.51%	94,311	0.49%	98,004	0.43%
Other time deposits	1,092	0.00%	772	0.00%	1,107	0.00%
<b>Total interest-bearing deposits</b>	<b>780,357</b>	<b>0.45%</b>	<b>761,579</b>	<b>0.39%</b>	<b>752,498</b>	<b>0.31%</b>
Borrowed funds:						
Short-term	23,610	1.39%	52,305	1.54%	21,205	0.85%
Long-term	22,174	2.13%	13,054	2.02%	38,353	3.74%
<b>Total borrowed funds</b>	<b>45,784</b>	<b>1.75%</b>	<b>65,359</b>	<b>1.64%</b>	<b>59,558</b>	<b>2.71%</b>
<b>Total Interest-bearing Liabilities</b>	<b>826,141</b>	<b>0.52%</b>	<b>826,938</b>	<b>0.49%</b>	<b>812,056</b>	<b>0.48%</b>
Demand deposits	248,182		235,936		227,488	
Other liabilities	8,848		8,870		7,573	
<b>Total Liabilities</b>	<b>1,083,171</b>		<b>1,071,744</b>		<b>1,047,117</b>	
Stockholders' equity, excluding accumulated other comprehensive income/loss						
	192,375		190,129		187,882	
Accumulated other comprehensive income/loss	(6,367)		(4,169)		601	
<b>Total Shareholders' Equity</b>	<b>186,008</b>		<b>185,960</b>		<b>188,483</b>	
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$1,269,179</b>		<b>\$1,257,704</b>		<b>\$1,235,600</b>	
Interest Rate Spread		3.71%		3.69%		3.69%
Net Interest Income/Earning Assets		3.87%		3.84%		3.83%
<b>Total Deposits (Interest-bearing and Demand)</b>	<b>\$1,028,539</b>		<b>\$997,515</b>		<b>\$979,986</b>	

(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 have been presented on an annualized basis.

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

	<b>6 Months Ended 6/30/2018 Average Balance</b>	<b>Rate of Return/ Cost of Funds %</b>	<b>6 Months Ended 6/30/2017 Average Balance</b>	<b>Rate of Return/ Cost of Funds %</b>
<b>EARNING ASSETS</b>				
Available-for-sale debt securities, at amortized cost:				
Taxable	\$248,819	2.22%	\$262,486	2.12%
Tax-exempt	102,988	3.51%	116,303	4.42%
Total available-for-sale debt securities	351,807	2.60%	378,789	2.82%
Marketable equity security	957	2.32%	1,000	2.02%
Interest-bearing due from banks	18,231	1.61%	14,898	0.99%
Loans held for sale	218	5.55%	351	5.75%
Loans receivable:				
Taxable	744,292	5.09%	700,501	4.89%
Tax-exempt	76,933	3.69%	64,907	4.51%
Total loans receivable	821,225	4.96%	765,408	4.86%
Total Earning Assets	1,192,438	4.21%	1,160,446	4.14%
Cash	17,445		16,648	
Unrealized gain/loss on securities	(6,893)		(130)	
Allowance for loan losses	(9,082)		(8,748)	
Bank premises and equipment	15,438		15,713	
Intangible assets	11,953		11,958	
Other assets	42,174		42,594	
<b>Total Assets</b>	<b>\$1,263,473</b>		<b>\$1,238,481</b>	
<b>INTEREST-BEARING LIABILITIES</b>				
Interest-bearing deposits:				
Interest checking	\$215,307	0.37%	\$202,194	0.18%
Money market	180,297	0.24%	190,902	0.18%
Savings	151,149	0.10%	140,903	0.10%
Certificates of deposit	129,733	1.08%	115,051	0.81%
Individual Retirement Accounts	93,601	0.50%	98,513	0.43%
Other time deposits	933	0.00%	950	0.00%
Total interest-bearing deposits	771,020	0.42%	748,513	0.30%
Borrowed funds:				
Short-term	37,878	1.50%	31,240	0.79%
Long-term	17,639	2.09%	38,386	3.75%
Total borrowed funds	55,517	1.69%	69,626	2.42%
Total Interest-bearing Liabilities	826,537	0.51%	818,139	0.48%
Demand deposits	242,093		225,127	
Other liabilities	8,859		7,866	
<b>Total Liabilities</b>	<b>1,077,489</b>		<b>1,051,132</b>	
Stockholders' equity, excluding accumulated other comprehensive income/loss				
Accumulated other comprehensive income/loss	191,258		187,289	
Accumulated other comprehensive income/loss	(5,274)		60	
<b>Total Shareholders' Equity</b>	<b>185,984</b>		<b>187,349</b>	
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$1,263,473</b>		<b>\$1,238,481</b>	
Interest Rate Spread		3.70%		3.66%
Net Interest Income/Earning Assets		3.86%		3.81%
<b>Total Deposits (Interest-bearing and Demand)</b>	<b>\$1,013,113</b>		<b>\$973,640</b>	

(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.

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**COMPARISON OF NONINTEREST INCOME**  
(In Thousands)

	Three Months Ended			Six Months Ended	
	June 30, 2018	March 31, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Trust and financial management revenue	\$1,526	\$1,422	\$1,497	\$2,948	\$2,677
Brokerage revenue	271	212	208	483	364
Insurance commissions, fees and premiums	13	44	31	57	72
Service charges on deposit accounts	1,302	1,204	1,112	2,506	2,213
Service charges and fees	82	86	86	168	166
Interchange revenue from debit card transactions	641	579	568	1,220	1,088
Net gains from sales of loans	166	184	188	350	354
Loan servicing fees, net	61	128	55	189	127
Increase in cash surrender value of life insurance	98	97	94	195	184
Other noninterest income	529	450	267	979	725
Total noninterest income, excluding realized gains (losses) on securities, net	\$4,689	\$4,406	\$4,106	\$9,095	\$7,970

**COMPARISON OF NONINTEREST EXPENSE**  
(In Thousands)

	Three Months Ended			Six Months Ended	
	June 30, 2018	March 31, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Salaries and wages	\$4,193	\$4,124	\$3,972	\$8,317	\$7,840
Pensions and other employee benefits	1,200	1,610	1,137	2,810	2,661
Occupancy expense, net	613	637	600	1,250	1,178
Furniture and equipment expense	313	271	315	584	628
Data processing expenses	694	641	615	1,335	1,190
Automated teller machine and interchange expense	319	322	305	641	599
Pennsylvania shares tax	336	336	336	672	672
Professional fees	279	276	188	555	375
Telecommunications	157	233	132	390	266
Directors' fees	168	184	186	352	371
Other noninterest expense	1,412	1,261	1,290	2,673	2,594
Total noninterest expense	\$9,684	\$9,895	\$9,076	\$19,579	\$18,374