

April 20, 2017

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**C&N DECLARES DIVIDEND AND ANNOUNCES FIRST QUARTER 2017 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, 2017.

**Dividend Declared**

C&N’s Board of Directors has declared a regular quarterly cash dividend of \$0.26 per share. The dividend is payable on May 12, 2017 to shareholders of record as of May 1, 2017. Declaration of the dividend was made at the April 20, 2017 meeting of C&N’s Board of Directors.

**First Quarter 2017 Unaudited Financial Results**

Earnings per basic and diluted common share were \$0.28 in the first quarter 2017, as compared to \$0.35 per share in the fourth quarter 2016 and \$0.29 per share in the first quarter 2016. The annualized return on average assets for the first quarter 2017 was 1.11%, and the annualized return on average equity was 7.38%. Earnings for the first quarter 2017 included an estimated \$0.01 per common share after-tax benefit from realized gains on available-for-sale securities, as compared to an estimated \$0.02 per share after-tax benefit from securities gains in the first quarter 2016. Highlights related to C&N’s earnings results for the comparative periods are presented below.

**First Quarter 2017 as Compared to Fourth Quarter 2016**

Net income totaled \$3,434,000 in the first quarter 2017, down from \$4,231,000 in the fourth quarter 2016. Significant variances were as follows:

- Total noninterest expenses in the first quarter 2017 increased \$740,000 (8.6%) over the fourth quarter 2016 amount. Pensions and other employee benefits expense was \$312,000 higher in the first quarter 2017 as compared to the fourth quarter 2016, as payroll taxes and similar expenses increased, consistent with the normal pattern of such costs being highest in the beginning of the calendar year. Other operating expenses were \$281,000 higher in the first quarter 2017 as compared to the fourth quarter 2016. Within other operating expense, charitable donations increased \$152,000, including donations totaling \$150,000 under a state program that resulted in a credit to be applied against Pennsylvania Bank Shares Tax of \$135,000. Also within other operating expense, loan collection expenses increased \$110,000, net losses and expenses on other real estate properties increased \$52,000 and education and training expenses decreased \$35,000. Salaries and wages increased \$158,000 (4.3%) in the first quarter 2017 as compared to the fourth quarter 2016, reflecting merit-based pay increases for a portion of the employee base as well as the effects of fourth quarter 2016 reductions in restricted stock and incentive bonus expense based on updated year-end 2016 estimates.
- The provision for loan losses totaled \$452,000 in the first quarter 2017 as compared to a credit (reduction in expense) of \$3,000 in the fourth quarter 2016. Net charge-offs totaled \$181,000 in the first quarter 2017, and total specific allowances on impaired loans increased \$207,000 to \$881,000 at March 31, 2017 from \$674,000 at December 31, 2016. The net increase in specific allowances in the first quarter 2017 included an increase in the allowance related to one real estate secured commercial loan relationship of

\$225,000. At March 31, 2017, total loans outstanding associated with this relationship amounted to \$3,278,000, and the related allowance was \$753,000. The small credit for loan losses in the fourth quarter 2016 included the effect of an excess of \$55,000 of recoveries on previously charged-off loans over the amount of current charge-offs as well as a net reduction of \$11,000 in specific allowances required on impaired loans.

- Noninterest revenue totaled \$3,864,000 in the first quarter 2017, down \$167,000 (4.1%) from the fourth quarter 2016 total. Net gains from sales of residential mortgage loans totaled \$166,000 in the first quarter 2017, which was \$164,000 lower than the fourth quarter 2016 total, consistent with C&N's historical experience of a lower volume of mortgage loan sales in the winter months. Service charges on deposit accounts totaled \$1,084,000 in the first quarter 2017, down \$88,000 from the fourth quarter amount, consistent with C&N's typical seasonal trends and also reflecting an ongoing pattern of fewer consumer overdrafts throughout the market area. Other operating income totaled \$458,000 in the first quarter 2017, up \$113,000 from the fourth quarter 2016 amount. The increase in other operating income resulted mainly from an increase in revenue from tax credit programs, including the tax credits associated with the charitable donations described above.
- The income tax provision was \$984,000 in the first quarter 2017, down from \$1,500,000 in the fourth quarter 2016, primarily as a result of lower pre-tax income.

### **First Quarter 2017 as Compared to First Quarter 2016**

Net income for the first quarter 2017 was \$139,000 (3.9%) lower than the first quarter 2016 amount. Significant variances were as follows:

- Net interest income increased \$126,000 (1.3%), in the first quarter 2017 as compared to the first quarter 2016. The net interest margin was 3.78% for the first quarter 2017 as compared to 3.81% for the first quarter 2016. Average total loans outstanding were higher by \$57.7 million (8.2%) in the first quarter 2017 as compared to the first quarter 2016, while average total available-for-sale securities were lower by \$22.4 million. Average total deposits were \$22.6 million (2.4%) higher in the first quarter 2017 as compared to the first quarter 2016.
- The first quarter 2017 provision for loan losses was \$84,000 higher than the first quarter 2016 amount. The \$452,000 provision in the first quarter 2017 included \$388,000 related to the change in total specific allowances on impaired loans, as adjusted for net charge-offs during the period and a \$64,000 increase in the collectively determined allowance for loan losses, mainly due to loan growth. In the first quarter 2016, the \$368,000 provision included \$82,000 related to the change in total specific allowances on impaired loans, as adjusted for net charge-offs during the period and a \$286,000 increase in the collectively determined allowance for loan losses. The increase in the collectively determined allowance in the first quarter 2016 included the effects of loan growth, increased qualitative factors associated with residential mortgage loans and an increased net charge-off experience factor for commercial loans.
- Noninterest revenue increased \$174,000 (4.7%) in the first quarter 2017 over the first quarter 2016 amount. Other operating income increased \$87,000, including an increase of \$50,000 in revenue from tax credits. Interchange revenue from debit card transactions increased \$57,000 (12.3%), reflecting benefits from a consulting project in 2016 that identified opportunities for improvements in card-related volumes and processing. Loan servicing fees, net, increased \$50,000, as the fair value of mortgage servicing rights decreased by \$30,000 in the first quarter 2017 as compared to a reduction of \$71,000 in the first quarter 2016. Trust and Financial Management Group revenue increased \$36,000 (3.1%), in part due to market valuation increases. Service charges on deposit accounts decreased \$54,000 (4.7%), as revenue from consumer overdrafts declined due to lower volume.
- Realized gains on available-for-sale securities totaled \$145,000 in the first quarter 2017, down from \$383,000 in the first quarter 2016.

- Total noninterest expenses increased \$226,000 (2.5%) in the first quarter 2017 over the first quarter 2016 amount. Other operating expense increased \$169,000, including increases of \$89,000 in loan collection expenses and \$42,000 in losses and expenses associated with other real estate. Pensions and other employee benefits expense increased \$93,000, including the effect of higher health care expenses on C&N's partially self-insured plan. Automated teller machine and interchange expense increased \$45,000, including costs associated with issuing new debit cards with EMV functionality. Software subscriptions increased \$39,000, including costs associated with new applications as well as annual licensing increases. Professional fees expense decreased \$62,000, including a reduction in information technology and sales and service-related consulting. FDIC assessments expense decreased \$48,000, reflecting a lower assessment level.
- The first quarter 2017 provision for income tax of \$984,000, or 22.3% of pre-tax earnings, was \$109,000 lower than the first quarter 2016 tax provision of \$1,093,000, or 23.4% of pre-tax income. The lower effective tax in the first quarter 2017 resulted primarily from lower pre-tax earnings.

**Other Information:**

Changes in other unaudited financial information are as follows:

- Total assets amounted to \$1,233,924,000 at March 31, 2017, as compared to \$1,242,292,000 at December 31, 2016 and \$1,216,544,000 at March 31, 2016.
- Net loans outstanding (excluding mortgage loans held for sale) were \$753,277,000 at March 31, 2017, up from \$743,362,000 at December 31, 2016 and up 8.6% from \$693,994,000 at March 31, 2016. In comparing outstanding balances at March 31, 2017 and 2016, total residential mortgage loans increased \$38.0 million, or 9.8%, and total commercial loans increased \$19.5 million, or 6.4%. At March 31, 2017, the outstanding balance of commercial loan participations with other financial entities was \$43.6 million, down slightly from \$43.9 million at March 31, 2016.
- The outstanding balance of residential mortgages originated by C&N and sold to third parties, with servicing retained, totaled \$164,291,000 at March 31, 2017, up from \$163,296,000 at December 31, 2016 and \$153,778,000 at March 31, 2016.
- Total nonperforming assets as a percentage of total assets was 1.28% at March 31, 2017 as compared to 1.43% at December 31, 2016 and 1.36% at March 31, 2016. The balance of loans subject to troubled debt restructurings (TDRs) was \$4.8 million lower at March 31, 2017 as compared to December 31, 2016, mainly due to removal of one commercial relationship from TDR status. Loans to this borrower are performing as agreed based on a modification agreement entered into in 2016.
- Deposits and repo sweep accounts totaled \$986,495,000 at March 31, 2017, down from \$989,018,000 at December 31, 2016, and up 2.4% from \$962,989,000 at March 31, 2016.
- Total shareholders' equity was \$187,350,000 at March 31, 2017 as compared to \$186,008,000 at December 31, 2016 and \$188,310,000 at March 31, 2016. Tangible common equity as a percentage of tangible assets was 14.35% at March 31, 2017 as compared to 14.64% a year earlier. Within shareholders' equity, the portion of accumulated other comprehensive income (loss) related to available-for-sale securities was in a loss position of (\$630,000) at March 31, 2017 and (\$949,000) at December 31, 2016 as compared to a gain position of \$5,347,000 at March 31, 2016. The decrease in accumulated other comprehensive income (loss) was caused by increases in interest rates, which resulted in a decrease in the fair value of available-for-sale securities.
- Assets under management by C&N's Trust and Financial Management Group amounted to \$880,979,000 at March 31, 2017, up from \$879,844,000 at December 31, 2016, and up 6.6% from \$826,470,000 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.

March 31, 2017

## QUARTERLY REPORT

Dear Shareholder:

Diluted earnings per share for the first quarter of 2017 were \$.28 per share compared to \$.29 in the first quarter of 2016. Earnings for the first quarter of 2017 included an estimated \$.01 per share benefit from realized gains on securities, while earnings for the first quarter of 2016 included an estimated \$.02 benefit from realized gains on securities. Return on average assets for the quarter was 1.11% and return on average equity was 7.38%. The first quarter has always been challenging to assess as it is historically the weakest period during the year for new business development, carries a variety of front-loaded compensation and benefits related expenses, and includes the short month of February that impacts certain accruals. While we felt the impact of these forces in the first three months of 2017, we generated \$10 million of loan growth during the period and maintain solid pipelines entering the second quarter.

Net interest income increased \$126,000 in the first quarter of 2017 compared to the same period in 2016, driven primarily by loan growth of almost \$60 million. This growth produced a steady yield on earning assets and the overall cost of funds increased by only .02% in the first three months of 2017 as compared to 2016. As a result, the net interest margin was virtually unchanged, declining by .03%, to 3.78% during the first three months of 2017 from 3.81% a year earlier. We continue to operate in a historically low interest rate environment despite the Federal Reserve's December 2016 and March 2017 rate hikes. Consistent with the prior Fed rate hike in late 2015, subsequent to these recent increases, the yield curve has flattened which makes it more challenging to expand margins.

The provision for loan losses was \$452,000 during the first quarter of 2017 compared to \$368,000 in 2016. The 2017 provision includes \$388,000 related to specific allowances and net charge-offs on impaired loans and a \$64,000 increase in the allowance for loan losses primarily to support ongoing loan growth. C&N's overall credit quality remains strong as reflected in our past due and non-performing loan metrics at March 31, 2017 compared to a year earlier.

Noninterest revenue increased by \$174,000, or 4.7%, in the first quarter of 2017 compared to 2016. Most notably, interchange revenue on debit cards, loan servicing fees, and Trust revenues produced solid gains, when comparing the first quarter of 2017 with 2016. Gains from the sale of mortgage loans were essentially unchanged and service charges on deposit account declined due to lower volume of consumer overdrafts.

Noninterest expenses increased 2.5% to \$9.3 million from \$9.1 million in the first quarter of 2016. The primary drivers of this increase were collection and other real estate expenses, costs associated with health care benefits, ATM and interchange expenses, and software subscriptions related to investments in technology. Overall salaries and wages were essentially unchanged while FDIC premiums and professional fees declined. We continue building capacity to deliver value to our customers through investments in sales and service training, employee development, information technology, and marketing. As noted in the Fourth Quarter "banCNnotes", the pace of increase in the related expenses has been declining and we expect operating leverage to improve as we move through 2017 and into 2018.

C&N's strong capital position provides the ability to pursue a strategy of growth and expansion while continuing to support shareholder value. The dividend paid during the first quarter remained at \$.26 per share producing a yield of 4.47% based on the March 31, 2017 market price of \$23.28. 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.

On March 1<sup>st</sup> we officially opened the Elmira, New York Loan Production Office, an important step in our plans to expand our presence in the southern-tier market. We have established a number of strong relationships in the early weeks of

this effort, maintain a strong pipeline of potential business, and are heartened by the market's reception to C&N's Team and value driven business model.

In closing, we extend our sincere thanks to Director Ann Tyler who is retiring from the Board of Directors in April. Ann has served the Corporation for fifteen years on a variety of committees and has provided valuable insight and counsel, as well as leadership in the Lycoming County market. At the same time, we welcome Aaron Singer, President & CEO of MetalKraft Industries to the Board following the Annual Meeting of Shareholders on April 20, 2017. Aaron operates a successful, family-owned business located in Wellsboro and Emporium and is a recognized leader in the community. We wish Ann the best as she retires from the Board and look forward to Aaron's engagement and counsel as we pursue our mission of Creating Value Through Lifelong Relationships in the years ahead.

As always, thank you for your investment and ongoing support.

A handwritten signature in cursive script that reads "J. Bradley Scovill".

J. Bradley Scovill  
President and CEO

**CONDENSED, CONSOLIDATED EARNINGS INFORMATION**

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

	1ST QUARTER 2017 <u>(Current)</u>	1ST QUARTER 2016 <u>(Prior Year)</u>	<u>\$ Incr. (Decr.)</u>	<u>% Incr. (Decr.)</u>
Interest and Dividend Income	\$11,112	\$10,937	\$175	1.60%
Interest Expense	953	904	49	5.42%
Net Interest Income	10,159	10,033	126	1.26%
Provision for Loan Losses	452	368	84	22.83%
Net Interest Income After Provision for Loan Losses	9,707	9,665	42	0.43%
Noninterest Revenue	3,864	3,690	174	4.72%
Net Gains on Available-for-sale Securities	145	383	(238)	-62.14%
Noninterest Expenses	9,298	9,072	226	2.49%
Income Before Income Tax Provision	4,418	4,666	(248)	-5.32%
Income Tax Provision	984	1,093	(109)	-9.97%
<b>Net Income</b>	<b>\$3,434</b>	<b>\$3,573</b>	<b>(\$139)</b>	<b>-3.89%</b>
<b>Net Income Attributable to Common Shares (1)</b>	<b>\$3,416</b>	<b>\$3,553</b>	<b>(\$137)</b>	<b>-3.86%</b>
<b>PER COMMON SHARE DATA:</b>				
Net Income - Basic	\$0.28	\$0.29	(\$0.01)	-3.45%
Net Income - Diluted	\$0.28	\$0.29	(\$0.01)	-3.45%
Dividend Per Share	\$0.26	\$0.26	\$0.00	0.00%
Number of Shares Used in Computation - Basic	12,085,729	12,087,290		
Number of Shares Used in Computation - Diluted	12,131,410	12,108,060		

(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, 2017 <u>2017</u>	MARCH 31, 2016 <u>2016</u>	MARCH 31, 2017 vs 2016	
			<u>\$ Incr. (Decr.)</u>	<u>% Incr. (Decr.)</u>
<b>ASSETS</b>				
Cash & Due from Banks	\$32,543	\$41,173	(\$8,630)	-20.96%
Available-for-sale Securities	376,919	413,606	(36,687)	-8.87%
Loans Held for Sale	163	526	(363)	-69.01%
Loans, Net	753,277	693,944	59,333	8.55%
Intangible Assets	11,958	11,969	(11)	-0.09%
Other Assets	59,064	55,326	3,738	6.76%
<b>TOTAL ASSETS</b>	<b>\$1,233,924</b>	<b>\$1,216,544</b>	<b>\$17,380</b>	<b>1.43%</b>
<b>LIABILITIES</b>				
Deposits	\$980,251	\$955,848	\$24,403	2.55%
Repo Sweep Accounts	6,244	7,141	(897)	-12.56%
Total Deposits and Repo Sweeps	986,495	962,989	23,506	2.44%
Borrowed Funds	52,888	57,503	(4,615)	-8.03%
Other Liabilities	7,191	7,742	(551)	-7.12%
<b>TOTAL LIABILITIES</b>	<b>1,046,574</b>	<b>1,028,234</b>	<b>18,340</b>	<b>1.78%</b>
<b>SHAREHOLDERS' EQUITY</b>				
Common Shareholders' Equity, Excluding Accumulated				
Other Comprehensive Income	187,825	182,914	4,911	2.68%
Accumulated Other Comprehensive Income:				
Net Unrealized Gains/Losses on				
Available-for-sale Securities	(630)	5,347	(5,977)	-111.78%
Defined Benefit Plans	155	49	106	216.33%
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>187,350</b>	<b>188,310</b>	<b>(960)</b>	<b>-0.51%</b>
<b>TOTAL LIABILITIES &amp; SHAREHOLDERS' EQUITY</b>	<b>\$1,233,924</b>	<b>\$1,216,544</b>	<b>\$17,380</b>	<b>1.43%</b>


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

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

	<b>3 MONTHS ENDED</b>		<b>% INCREASE (DECREASE)</b>
	<b><u>2017</u></b>	<b><u>2016</u></b>	
<b>EARNINGS PERFORMANCE</b>			
Net Income	\$3,434	\$3,573	-3.89%
Return on Average Assets	1.11%	1.18%	-5.93%
Return on Average Equity	7.38%	7.60%	-2.89%
<b>BALANCE SHEET HIGHLIGHTS</b>			
Total Assets	\$1,233,924	\$1,216,544	1.43%
Available-for-Sale Securities	376,919	413,606	-8.87%
Loans (Net)	753,277	693,944	8.55%
Allowance for Loan Losses	8,744	7,661	14.14%
Deposits and Repo Sweep Accounts	986,495	962,989	2.44%
<b>OFF-BALANCE SHEET HIGHLIGHTS</b>			
Outstanding Balance of Mortgage Loans Sold with Servicing Retained	164,291	153,778	6.84%
Trust Assets Under Management	880,979	826,470	6.60%
<b>SHAREHOLDERS' VALUE (PER COMMON SHARE)</b>			
Net Income - Basic	\$0.28	\$0.29	-3.45%
Net Income - Diluted	\$0.28	\$0.29	-3.45%
Dividends	\$0.26	\$0.26	0.00%
Common Book Value	\$15.41	\$15.59	-1.15%
Tangible Common Book Value	\$14.42	\$14.60	-1.23%
Market Value (Last Trade)	\$23.28	\$19.88	17.10%
Market Value / Common Book Value	151.07%	127.52%	18.47%
Market Value / Tangible Common Book Value	161.44%	136.16%	18.57%
Price Earnings Multiple (Annualized)	20.79	17.14	21.30%
Dividend Yield (Annualized)	4.47%	5.23%	-14.53%
Common Shares Outstanding, End of Period	12,159,607	12,081,030	0.65%
<b>SAFETY AND SOUNDNESS</b>			
Tangible Common Equity / Tangible Assets	14.35%	14.64%	-1.98%
Nonperforming Assets / Total Assets	1.28%	1.36%	-5.88%
Allowance for Loan Losses / Total Loans	1.15%	1.09%	5.50%
Total Risk Based Capital Ratio (a)	23.65%	24.19%	-2.23%
Tier 1 Risk Based Capital Ratio (a)	22.50%	23.12%	-2.68%
Common Equity Tier 1 Risk Based Capital Ratio (a)	22.50%	23.12%	-2.68%
Leverage Ratio (a)	14.30%	14.26%	0.28%
<b>AVERAGE BALANCES</b>			
Total Assets	\$1,241,392	\$1,214,392	2.22%
Total Equity	\$186,202	\$188,007	-0.96%

(a) 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:**

	<b>Mar. 31, 2017</b>	<b>Dec. 31, 2016</b>	<b>Sept. 30, 2016</b>	<b>June 30, 2016</b>	<b>Mar. 31, 2016</b>
Interest income	\$11,112	\$11,106	\$11,131	\$10,924	\$10,937
Interest expense	953	920	944	925	904
Net interest income	10,159	10,186	10,187	9,999	10,033
Provision (credit) for loan losses	452	(3)	538	318	368
Net interest income after provision (credit) for loan losses	9,707	10,189	9,649	9,681	9,665
Noninterest revenue	3,864	4,031	3,884	3,906	3,690
Net gains on available-for-sale securities	145	69	584	122	383
Noninterest expenses	9,298	8,558	8,579	8,535	9,072
Income before income tax provision	4,418	5,731	5,538	5,174	4,666
Income tax provision	984	1,500	1,451	1,303	1,093
Net income	\$3,434	\$4,231	\$4,087	\$3,871	\$3,573
Net income attributable to common shares	\$3,416	\$4,209	\$4,065	\$3,850	\$3,553
Net income per share – basic	\$0.28	\$0.35	\$0.34	\$0.32	\$0.29
Net income per share – diluted	\$0.28	\$0.35	\$0.34	\$0.32	\$0.29

**QUARTERLY CONDENSED, CONSOLIDATED BALANCE SHEET INFORMATION****(In Thousands) (Unaudited)**

	<b>As of:</b>		
	<b>March 31, 2017</b>	<b>Dec. 31, 2016</b>	<b>March 31, 2016</b>
<b>ASSETS</b>			
Cash & Due from Banks	\$32,543	\$32,109	\$41,173
Available-for-Sale Securities	376,919	395,077	413,606
Loans Held for Sale	163	142	526
Loans, Net	753,277	743,362	693,944
Intangible Assets	11,958	11,959	11,969
Other Assets	59,064	59,643	55,326
<b>TOTAL ASSETS</b>	<b>\$1,233,924</b>	<b>\$1,242,292</b>	<b>\$1,216,544</b>
<b>LIABILITIES</b>			
Deposits	\$980,251	\$983,843	\$955,848
Repo Sweep Accounts	6,244	5,175	7,141
Total Deposits and Repo Sweeps	986,495	989,018	962,989
Borrowed Funds	52,888	59,454	57,503
Other Liabilities	7,191	7,812	7,742
<b>TOTAL LIABILITIES</b>	<b>1,046,574</b>	<b>1,056,284</b>	<b>1,028,234</b>
<b>SHAREHOLDERS' EQUITY</b>			
Common Shareholders' Equity, Excluding Accumulated Other Comprehensive Income/ Loss	187,825	186,906	182,914
Accumulated Other Comprehensive Income/ Loss: Net Unrealized Gains/Losses on Available-for-sale Securities	(630)	(949)	5,347
Defined Benefit Plans Adjustment, Net	155	51	49
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>187,350</b>	<b>186,008</b>	<b>188,310</b>
<b>TOTAL LIABILITIES &amp; SHAREHOLDERS' EQUITY</b>	<b>\$1,233,924</b>	<b>\$1,242,292</b>	<b>\$1,216,544</b>

<b>AVAILABLE-FOR-SALE SECURITIES</b> <b>(In Thousands)</b>	<b>March 31, 2017</b>		<b>December 31, 2016</b>	
	<b>Amortized Cost</b>	<b>Fair Value</b>	<b>Amortized Cost</b>	<b>Fair Value</b>
Obligations of U.S. Government agencies	\$9,674	\$9,568	\$9,671	\$9,541
Obligations of states and political subdivisions:				
Tax-exempt	117,272	118,710	118,140	119,037
Taxable	28,559	28,805	30,073	30,297
Mortgage-backed securities issued or guaranteed by U.S. Government agencies or sponsored agencies:				
Residential pass-through securities	49,896	49,359	58,922	58,404
Residential collateralized mortgage obligations	137,077	135,681	147,915	146,608
Commercial mortgage-backed securities	34,411	33,825	30,817	30,219
Total debt securities	376,889	375,948	395,538	394,106
Marketable equity securities	1,000	971	1,000	971
<b>Total</b>	<b>\$377,889</b>	<b>\$376,919</b>	<b>\$396,538</b>	<b>\$395,077</b>

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

	<b>March 31, 2017</b>	<b>Dec. 31, 2016</b>	<b>March 31, 2016</b>
Residential mortgage:			
Residential mortgage loans - first liens	\$340,431	\$334,102	\$306,753
Residential mortgage loans - junior liens	23,717	23,706	21,622
Home equity lines of credit	36,810	38,057	38,627
1-4 Family residential construction	24,041	24,908	20,010
Total residential mortgage	424,999	420,773	387,012
Commercial:			
Commercial loans secured by real estate	153,385	150,468	154,646
Commercial and industrial	79,493	83,854	71,628
Political subdivisions	44,625	38,068	38,364
Commercial construction and land	15,252	14,287	7,445
Loans secured by farmland	7,497	7,294	7,168
Multi-family (5 or more) residential	7,622	7,896	8,393
Agricultural loans	3,992	3,998	4,492
Other commercial loans	11,131	11,475	11,387
Total commercial	322,997	317,340	303,523
Consumer	14,025	13,722	11,070
Total	762,021	751,835	701,605
Less: allowance for loan losses	(8,744)	(8,473)	(7,661)
Loans, net	\$753,277	\$743,362	\$693,944

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

	<b>March 31, 2017</b>	<b>Dec. 31, 2016</b>	<b>March 31, 2016</b>
Residential mortgage loans originated and serviced - outstanding balance	\$164,454	\$163,438	\$154,304
Less: outstanding balance of loans sold	(164,291)	(163,296)	(153,778)
Loans held for sale, net	\$163	\$142	\$526

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

	<b>3 Months Ended March 31, 2017</b>	<b>3 Months Ended Dec. 31, 2016</b>	<b>Year Ended Dec. 31, 2016</b>	<b>3 Months Ended March 31, 2016</b>
Balance, beginning of period	\$8,473	\$8,421	\$7,889	\$7,889
Charge-offs	(200)	(20)	(757)	(613)
Recoveries	19	75	120	17
Net (charge-offs) recoveries	(181)	55	(637)	(596)
Provision (credit) for loan losses	452	(3)	1,221	368
Balance, end of period	\$8,744	\$8,473	\$8,473	\$7,661

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

	<b>March 31, 2017</b>	<b>Dec 31, 2016</b>	<b>March 31, 2016</b>
Impaired loans with a valuation allowance	\$3,319	\$3,372	\$1,420
Impaired loans without a valuation allowance	5,380	7,488	8,210
Total impaired loans	\$8,699	\$10,860	\$9,630
Total loans past due 30-89 days and still accruing	\$6,476	\$7,735	\$11,373
Nonperforming assets:			
Total nonaccrual loans	\$11,231	\$8,736	\$10,944
Total loans past due 90 days or more and still accruing	2,714	6,838	3,957
Total nonperforming loans	13,945	15,574	14,901
Foreclosed assets held for sale (real estate)	1,878	2,180	1,584
Total nonperforming assets	\$15,823	\$17,754	\$16,485
Loans subject to troubled debt restructurings (TDRs):			
Performing	\$752	\$5,803	\$1,167
Nonperforming	3,083	2,874	5,146
Total TDRs	\$3,835	\$8,677	\$6,313
Total nonperforming loans as a % of loans	1.83%	2.07%	2.12%
Total nonperforming assets as a % of total assets	1.28%	1.43%	1.36%
Allowance for loan losses as a % of total loans	1.15%	1.13%	1.09%
Allowance for loan losses as a % of nonperforming loans	62.70%	54.40%	51.41%

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

	3 Months Ended 3/31/2017 Average Balance	Rate of Return/ Cost of Funds %	3 Months Ended 12/31/2016 Average Balance	Rate of Return/ Cost of Funds %	3 Months Ended 3/31/2016 Average Balance	Rate of Return/ Cost of Funds %
<b>EARNING ASSETS</b>						
Available-for-sale securities, at amortized cost:						
Taxable	\$271,251	2.11%	\$279,385	1.96%	\$305,880	2.09%
Tax-exempt	117,628	4.44%	118,541	4.36%	105,406	5.23%
<b>Total available-for-sale securities</b>	<b>388,879</b>	<b>2.81%</b>	<b>397,926</b>	<b>2.67%</b>	<b>411,286</b>	<b>2.89%</b>
Interest-bearing due from banks	14,923	0.87%	14,424	0.74%	20,348	0.47%
Loans held for sale	201	8.07%	341	7.00%	452	5.34%
Loans receivable:						
Taxable	698,042	4.87%	688,123	4.87%	640,959	5.00%
Tax-exempt	61,336	4.55%	57,293	4.53%	60,677	4.54%
<b>Total loans receivable</b>	<b>759,378</b>	<b>4.84%</b>	<b>745,416</b>	<b>4.84%</b>	<b>701,636</b>	<b>4.96%</b>
<b>Total Earning Assets</b>	<b>1,163,381</b>	<b>4.11%</b>	<b>1,158,107</b>	<b>4.05%</b>	<b>1,133,722</b>	<b>4.13%</b>
Cash	16,013		16,636		15,588	
Unrealized gain/loss on securities	(958)		4,223		7,055	
Allowance for loan losses	(8,593)		(8,585)		(7,932)	
Bank premises and equipment	15,712		15,425		15,458	
Intangible assets	11,959		11,960		11,971	
Other assets	43,878		41,431		38,530	
<b>Total Assets</b>	<b>\$1,241,392</b>		<b>\$1,239,197</b>		<b>\$1,214,392</b>	
<b>INTEREST-BEARING LIABILITIES</b>						
Interest-bearing deposits:						
Interest checking	\$201,120	0.16%	\$212,463	0.16%	\$195,142	0.12%
Money market	191,103	0.17%	199,983	0.18%	191,514	0.17%
Savings	138,805	0.10%	135,059	0.10%	130,003	0.10%
Certificates of deposit	113,636	0.80%	113,776	0.78%	113,411	0.72%
Individual Retirement Accounts	99,028	0.43%	101,046	0.43%	105,562	0.41%
Other time deposits	791	0.00%	676	0.00%	804	0.00%
<b>Total interest-bearing deposits</b>	<b>744,483</b>	<b>0.28%</b>	<b>763,003</b>	<b>0.28%</b>	<b>736,436</b>	<b>0.26%</b>
Borrowed funds:						
Short-term	41,386	0.75%	18,182	0.48%	35,683	0.70%
Long-term	38,419	3.75%	38,497	3.75%	38,725	3.77%
<b>Total borrowed funds</b>	<b>79,805</b>	<b>2.20%</b>	<b>56,679</b>	<b>2.70%</b>	<b>74,408</b>	<b>2.30%</b>
<b>Total Interest-bearing Liabilities</b>	<b>824,288</b>	<b>0.47%</b>	<b>819,682</b>	<b>0.45%</b>	<b>810,844</b>	<b>0.45%</b>
Demand deposits	222,740		221,928		208,163	
Other liabilities	8,162		9,366		7,378	
<b>Total Liabilities</b>	<b>1,055,190</b>		<b>1,050,976</b>		<b>1,026,385</b>	
Stockholders' equity, excluding accumulated other comprehensive income/loss	186,689		185,437		183,376	
Accumulated other comprehensive income/loss	(487)		2,784		4,631	
<b>Total Stockholders' Equity</b>	<b>186,202</b>		<b>188,221</b>		<b>188,007</b>	
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$1,241,392</b>		<b>\$1,239,197</b>		<b>\$1,214,392</b>	
Interest Rate Spread		3.64%		3.60%		3.68%
Net Interest Income/Earning Assets		3.78%		3.73%		3.81%
<b>Total Deposits (Interest-bearing and Demand)</b>	<b>\$967,223</b>		<b>\$984,931</b>		<b>\$944,599</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 35%.

(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, 2017	Dec. 31, 2016	March 31, 2016
Service charges on deposit accounts	\$1,084	\$1,172	\$1,138
Service charges and fees	97	104	94
Trust and financial management revenue	1,180	1,193	1,144
Brokerage revenue	156	187	173
Insurance commissions, fees and premiums	41	28	21
Interchange revenue from debit card transactions	520	512	463
Net gains from sales of loans	166	330	168
Loan servicing fees, net	72	64	22
Increase in cash surrender value of life insurance	90	96	96
Other operating income	458	345	371
Total noninterest income, before realized gains on available-for-sale securities, net	\$3,864	\$4,031	\$3,690

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

	Three Months Ended		
	March 31, 2017	Dec. 31, 2016	March 31, 2016
Salaries and wages	\$3,868	\$3,710	\$3,887
Pensions and other employee benefits	1,530	1,218	1,437
Occupancy expense, net	578	570	609
Furniture and equipment expense	453	429	427
FDIC Assessments	94	40	142
Pennsylvania shares tax	336	342	322
Professional fees	227	310	289
Automated teller machine and interchange expense	294	330	249
Software subscriptions	280	252	241
Other operating expense	1,638	1,357	1,469
Total noninterest expense	\$9,298	\$8,558	\$9,072