

October 18, 2018

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**C&N DECLARES DIVIDEND AND ANNOUNCES THIRD 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 nine-month periods ended September 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 November 9, 2018 to shareholders of record as of October 29, 2018. Declaration of the dividend was made at the October 18, 2018 meeting of C&N’s Board of Directors.

Unaudited Financial Information

Third quarter 2018 net income was \$0.45 per diluted share, as compared to \$0.52 in the second quarter 2018 and \$0.32 in the third quarter 2017. Third quarter 2018 earnings included a net benefit of \$0.03 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, while second quarter 2018 earnings included a net benefit of \$0.10 per diluted share from a gain on Visa Class B stock, partially offset by a loss on available-for-sale debt securities. For the nine months ended September 30, 2018, net income was \$1.33 per diluted share, including a net benefit of \$0.13 per diluted share from the gain on Visa Class B stock and the loss on available-for-sale debt securities. In comparison, for the nine months ended September 30, 2017, net income was \$0.94 per diluted share including a benefit of \$0.01 per diluted share from a gain on available-for-sale debt securities.

In 2018, C&N has recorded pre-tax gains on Visa Class B stock totaling \$2,321,000, including gains of \$1,750,000 in the second quarter and \$571,000 in the third quarter. Prior to the sales, C&N held 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. In the second quarter 2018, C&N sold 10,000 of the shares, for a realized gain of \$884,000, and recorded an unrealized gain (on the 9,789 shares still held at June 30, 2018) of \$866,000. In the third quarter 2018, C&N sold 9,789 shares for total proceeds of \$1,437,000, and holds no more shares as of September 30, 2018.

The table below provides a reconciliation of C&N's third quarter and September 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)

	3rd Quarter 2018				3rd 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	\$6,697	\$1,111	\$5,586	\$0.45	\$5,198	\$1,262	\$3,936	\$0.32
Less: Gain on Restricted Equity Security	(571)	(119)	(452)		0	0	0	
Net Losses (Gains) on Available-for-sale Debt Securities	2	0	2		(5)	(2)	(3)	
Earnings Information, Excluding Effect of Gain on Restricted Equity Security and Net Gains and Losses on Available-for-sale Debt Securities	\$6,128	\$992	\$5,136	\$0.42	\$5,193	\$1,260	\$3,933	\$0.32

	9 Months Ended Sept. 30, 2018				9 Months Ended Sept. 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	\$19,561	\$3,229	\$16,332	\$1.33	\$15,111	\$3,620	\$11,491	\$0.94
Less: Gain on Restricted Equity Security	(2,321)	(487)	(1,834)		0	0	0	
Net Losses (Gains) on Available-for-sale Debt Securities	284	59	225		(257)	(90)	(167)	
Earnings Information, Excluding Effect of Gain on Restricted Equity Security and Net Gains and Losses on Available-for-sale Debt Securities	\$17,524	\$2,801	\$14,723	\$1.20	\$14,854	\$3,530	\$11,324	\$0.93

(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 third quarter and September 30, 2018 year-to-date unaudited earnings results as compared to the second quarter 2018 and comparative periods of 2017 are presented below.

Third Quarter 2018 as Compared to Second Quarter 2018

Net income was \$5,586,000 in the third quarter 2018, including an estimated after-tax benefit from securities gains (primarily Visa Class B stock) of \$450,000. In comparison, net income was \$6,371,000 in the second quarter, including an estimated after-tax benefit from securities gains, net of losses, of \$1,159,000. 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 16.6% for the third quarter 2018, down from 17.8% for the second quarter 2018. The lower effective tax rate in the third quarter 2018 reflected lower pre-tax income, including the effects of lower securities gains, while tax-exempt interest was down slightly in the third quarter from the second quarter amount. Other significant variances were as follows:

- Net interest income increased \$304,000 (2.7%) in the third quarter 2018 as compared to the second quarter. The increase in net interest income reflected the benefits of an increase of \$19,005,000 in average earning assets, funded by an increase in average deposits of \$19,060,000. In the third quarter 2018, average brokered deposits (CDs) totaled \$3,207,000 as compared to \$1,813,000 in the second quarter. Average loans outstanding decreased \$5,073,000 (0.6%) from the second quarter, while average available-for-sale debt securities and interest-bearing deposits in other banks increased by a total of

\$24,173,000. The net interest margin was 3.87% for the third quarter 2018, unchanged from the second quarter. The average yield on earning assets increased 0.04% while the average rate paid on interest-bearing liabilities increased 0.07%. The increased yield on earning assets included an increase in yield on loans to 5.06% from 5.00%, reflecting the effects of recent increases in market rates. The average rate paid on interest-bearing deposits increased to 0.52% in the third quarter 2018 from 0.45% in the second quarter.

- The provision for loan losses was \$60,000 in the third quarter 2018 as compared to a credit (reduction in expense) of \$20,000 in the second quarter 2018. The third quarter 2018 provision included a net charge of \$40,000 related to specific allowances on loans, as adjusted for net charge-offs during the period. In comparison, 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.
- Noninterest income totaled \$4,462,000 in the third quarter 2018, down \$227,000 (4.8%) from the second quarter amount. Trust and financial management revenue was \$99,000 (6.5%) lower than the second quarter total. Other noninterest income decreased \$168,000, including a \$153,000 reduction in revenue from tax credits. In the second quarter, C&N recognized a Pennsylvania state tax credit of \$154,000 related to a donation of real estate in Towanda.
- Noninterest expense totaled \$9,833,000 in the third quarter 2018, up \$149,000 (1.5%) from the second quarter total. Third quarter 2018 results included pre-tax merger-related expenses totaling \$200,000 (\$100,000 included in professional fees and \$100,000 included in other noninterest expense). On September 28, 2018, C&N and Monument Bancorp, Inc., headquartered in Doylestown, Pennsylvania, announced the execution of an agreement and plan of merger pursuant to which Monument will merge with and into C&N, subject to closing conditions including receipt of regulatory approvals and approval by Monument's shareholders. It is anticipated the transaction will close in the second quarter 2019. Other significant fluctuations in noninterest expense in the third quarter 2018 as compared to the second quarter included the following:
 - Salaries and wages expense increased \$70,000 (1.7%), including an increase of \$33,000 in incentive-related compensation expense.
 - Donations expense (included in other noninterest expense) decreased \$253,000. In the second quarter 2018, C&N recorded expense of \$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 to a nonprofit organization and entered into a lease that enables banking operations to continue at the facility until a new location in the Towanda market can be obtained and prepared for use.
 - Within other noninterest expense, expenses and losses from other real estate properties increased by a total of \$265,000, while loan collections expense decreased \$106,000 from recoveries of expenses previously incurred.

Third Quarter 2018 as Compared to Third Quarter 2017

Net income of \$5,586,000 in the third quarter 2018 was \$1,650,000 higher than the third 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 third quarter 2018 net income of \$5,136,000 exceeded adjusted third quarter 2017 net income of \$3,933,000 by \$1,203,000 (30.6%). 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 16.6% for the third quarter 2018 was significantly lower than the third quarter 2017 effective tax rate of 24.3%. Pre-tax income, excluding the gain on Visa Class B stock and net (losses) gains on available-for-sale debt securities, totaled \$6,128,000 in the third quarter 2018, an increase of \$935,000 (18.0%) over adjusted pre-tax income of \$5,193,000 in the third quarter 2017. Other significant earnings-related variances were as follows:

- Net interest income increased \$918,000 (8.6%) in the third quarter 2018 over the third quarter 2017 amount. Total interest and dividend income increased \$1,174,000, while interest expense increased

\$256,000. The net interest margin of 3.87% for the third quarter 2018 was 0.04% higher than the third quarter 2017 level. The average fully taxable equivalent yield on earning assets increased to 4.27% in the third quarter 2018 from 4.16% in the third quarter 2017, as the average yield on loans increased to 5.06% from 4.88%. The improvement in average yield reflects the effects of recent increases in interest rates. Average total loans outstanding were higher by \$32.1 million (4.1%) in the third quarter 2018 as compared to the third quarter 2017. Average total deposits were \$37.4 million (3.7%) higher in the third quarter 2018 as compared to the third quarter 2017. In the third quarter 2018, average brokered deposits totaled \$3,207,000, while there were no brokered deposits in the third quarter 2017. The average rate paid on interest-bearing liabilities was 0.59% in the third quarter 2018, up 0.11% from the third quarter 2017. The average rate paid on deposits was up 0.19% in the third quarter 2018 as compared to the third quarter 2017, while the average cost of borrowed funds dropped to 1.90% from 3.14% because of the pay-off of higher-cost borrowings that matured in the latter portion of 2017.

- The provision for loan losses was \$60,000 in the third quarter 2018, down from \$322,000 in the third quarter 2017. The second quarter 2018 provision included a charge of \$40,000 related to specific loans (net charge-offs of \$76,000, less a reduction in specific allowances on loans of \$36,000) and a net \$20,000 charge attributable mainly to loan growth. In comparison, the third quarter 2017 provision included \$141,000 related to the change in total specific allowances on impaired loans, as adjusted for net charge-offs during the period and a \$181,000 charge attributable mainly to increases in qualitative factors used in estimating the collectively determined portion of the allowance at September 30, 2017.
- Noninterest income increased \$396,000 (9.7%) in the third quarter 2018 over the third quarter 2017 amount. Service charges on deposit accounts increased \$145,000 (12.2%) in the third quarter 2018 over the second quarter 2017 total, mainly due to increased fees from the overdraft privilege program and reflecting the impact of changes to the program that were instituted early in 2018. Trust and financial management revenue increased \$135,000 (10.4%), reflecting growth in assets under management resulting from market appreciation and new business. Interchange revenue from debit card transactions increased \$99,000 (17.6%), reflecting an increase in transaction volume. Other noninterest income increased \$73,000, including increases in dividends received on Federal Home Loan Bank of Pittsburgh stock and interchange revenue from credit card transactions. Net gains from sales of loans decreased \$133,000 (44.8%), reflecting a reduction in volume of residential mortgage loans originated and sold.
- Total noninterest expense increased \$641,000 (7.0%) in the third quarter 2018 over the third quarter 2017 amount. As noted above, third quarter 2018 results included expenses related to the pending merger with Monument Bancorp, Inc. totaling \$200,000 (\$100,000 included in professional fees and \$100,000 included in other noninterest expense). Salaries and wages expense increased \$278,000 (7.0%), including the effects of annual performance-based salary adjustments for employees along with an increase of \$108,000 in estimated cash and stock-based compensation expense and an increase in the average number of full-time equivalent employees (FTEs) to 298 in the third quarter 2018 from 293 in the third quarter 2017. Occupancy expense increased \$68,000 (11.7%), including the effects of accelerated depreciation on the Ralston, Pennsylvania branch scheduled to close in November 2018 and an increase in repairs and maintenance expense at several locations. 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 third quarter 2018 as compared to the third quarter 2017.

Nine Months Ended September 30, 2018 as Compared to Nine Months Ended September 30, 2017

For the nine months ended September 30, 2018, net income of \$16,332,000 was \$4,841,000 higher than the corresponding amount for the first nine months of 2017. 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 \$14,723,000 exceeded adjusted net income for the first nine months of 2017 of \$11,324,000 by \$3,399,000 (30.0%). 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 nine months of 2018, down from 24.0% for the first nine 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 \$17,524,000 for the first nine months of 2018, an

increase of \$2,670,000 (18.0%) over adjusted pre-tax income of \$14,854,000 for the first nine months of 2017. Other significant earnings-related variances were as follows:

- Net interest income was higher by \$2,549,000 (8.2%) for the first nine months of 2018 as compared to the amount for the first nine months of 2017. The net interest margin was 3.86% for the first nine months of 2018, up from 3.81% for the first nine months of 2017. The average yield on earning assets was 4.23% in the first nine months of 2018, up from 4.15% in the first nine months of 2017, reflecting an increase in average yield on loans of 0.12%. Average total loans outstanding were higher by \$47.8 million (6.2%) for the first nine months of 2018 as compared to the first nine months of 2017, while average total available-for-sale debt securities were lower by \$17.9 million. Average total deposits were \$38.8 million (3.9%) higher for the first nine months of 2018 as compared to 2017. In the first nine months of 2018, average brokered deposits totaled \$1,685,000, while there were no brokered deposits in the first nine months of 2017. The average rate paid on interest-bearing liabilities was 0.53% in the first nine months of 2018, up 0.05% as compared to 2017. The average rate paid on deposits was up 0.14% in the first nine months of 2018 as compared to 2017, while the average cost of borrowed funds dropped to 1.75% from 2.59% because of the pay-off of higher-cost borrowings that matured in the latter portion of 2017.
- The provision for loan losses was \$332,000 for the first nine months of 2018, down from \$778,000 in 2017. The 2018 provision included a charge of \$153,000 related to specific loans (net charge-offs of \$373,000, less a reduction in specific allowances on loans of \$220,000) and a net \$179,000 charge attributable mainly to loan growth. In comparison, the provision in 2017 included \$844,000 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 \$168,000 related to a reduction in the collectively determined allowance for loan losses.
- Noninterest income increased \$1,521,000 (12.6%) for the first nine months of 2018 over the amount for the first nine months of 2017. Service charges on deposit accounts increased \$438,000 (12.9%), mainly due to increased fees from the overdraft privilege program. Trust and financial management revenue increased \$406,000 (10.2%), reflecting growth in assets under management resulting from market appreciation and new business. Other noninterest income increased \$327,000, including an increase in tax credits of \$122,000 resulting from the state tax credit related to the real estate donation described above, along with increases in dividends received on Federal Home Loan Bank of Pittsburgh stock, credit card interchange fees and revenue from merchant services. Interchange revenue from debit card transactions increased \$231,000 and brokerage revenue increased \$167,000, reflecting increases in volume. Net gains from sales of loans decreased \$137,000 (21.0%), reflecting a reduction in volume of residential mortgage loans originated and sold.
- Total noninterest expense increased \$1,846,000 (6.7%) for the first nine months of 2018 over the amount for the first nine months of 2017. Significant fluctuations include the following:
 - Salaries and wages expense increased \$755,000 (6.4%), including the effects of annual performance-based salary adjustments for employees along with an increase of \$268,000 in estimated cash and stock-based compensation expense and an increase in the average number of full-time equivalent employees (FTEs) to 296 in 2018 from 291 in 2017.
 - Pensions and other employee benefits expense increased \$177,000 (4.6%), consistent with the increase in salaries and wages and including an increase of \$124,000 (9.0%) in health insurance expense from C&N's partially self-insured plan.
 - Professional fees increased \$261,000 (43.6%), including \$100,000 of merger-related expense as noted above, along with consulting costs related to Board governance and committee structures, implementation of new accounting standards, certification of a compliance-related software system and other corporate projects.
 - Other noninterest expense increased \$171,000, including an increase in donations expense of \$228,000 due mainly to the real estate donation described above, \$100,000 of merger-related expenses, an increase in consulting services related to the overdraft privilege program and an increase in credit card processing and rewards expenses,

partially offset by a \$216,000 decrease in loan collection expense and a decrease in other taxes of \$118,000 from sales tax refunds received.

- Occupancy expense increased \$140,000 (8.0%), including the effects of accelerated depreciation on the Ralston, Pennsylvania branch scheduled to close in November 2018 and an increase in repairs and maintenance expense at several locations.
- In addition to items previously described, costs associated with new telephone and loan origination systems contributed to increases in professional fees, data processing, telecommunications and other noninterest expense in 2018.

Other Information:

Changes in other unaudited financial information are as follows:

- Total assets amounted to \$1,285,439,000 at September 30, 2018, as compared to \$1,284,007,000 at June 30, 2018 and \$1,259,921,000 at September 30, 2017.
- Net loans outstanding (excluding mortgage loans held for sale) were \$813,717,000 at September 30, 2018, up from \$809,816,000 at June 30, 2018 and up 2.7% from \$792,112,000 at September 30, 2017. In comparing outstanding balances at September 30, 2018 and 2017, total residential mortgage loans increased \$12.4 million (2.8%), total commercial loans increased \$6.7 million (1.9%) and total consumer loans increased \$2.4 million (16.2%). At September 30, 2018, the outstanding balance of commercial loan participations with other financial entities was \$65.7 million, up from \$62.9 million at June 30, 2018 and \$53.6 million at September 30, 2017.
- The outstanding balance of residential mortgages originated by C&N and sold to third parties, with servicing retained, totaled \$171,516,000 at September 30, 2018 as compared to \$171,543,000 at June 30, 2018 and \$169,581,000 at September 30, 2017.
- Total nonperforming assets as a percentage of total assets was 1.30% at September 30, 2018 as compared to 1.35% at June 30, 2018 and September 30, 2017.
- Deposits and repo sweep accounts totaled \$1,049,368,000 at September 30, 2018, up from \$1,046,068,000 at June 30, 2018 and up 2.2% from \$1,026,364,000 at September 30, 2017. There were no brokered deposits outstanding at September 30, 2018 and 2017, while there were outstanding brokered deposits of \$5,000,000 at June 30, 2018.
- Total shareholders' equity was \$189,987,000 at September 30, 2018 as compared to \$189,179,000 at June 30, 2018 and \$191,013,000 at September 30, 2017. Within shareholders' equity, the portion of accumulated other comprehensive (loss) income related to available-for-sale debt securities was (\$8,502,000) at September 30, 2018 as compared to (\$6,476,000) at June 30, 2018 and \$227,000 at September 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.
- C&N and Citizens & Northern Bank are subject to various regulatory capital requirements. At September 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 \$952,824,000 at September 30, 2018, up from \$927,089,000 at June 30, 2018 and up 3.0% from \$924,907,000 a year earlier.

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

Safe Harbor Statement: Except for historical information contained herein, the matters discussed in this release are forward-looking statements. Investors are cautioned that all forward-looking statements involve risks and uncertainty, including without limitation, the following: changes in monetary and fiscal policies of the Federal Reserve Board and the U.S. Government, particularly related to changes in interest rates; changes in general economic conditions; legislative or regulatory changes; downturn in demand for loan, deposit and other financial services in the Corporation's market area; increased competition from other banks and non-bank providers of financial services; technological changes and increased technology-related costs; changes in management's assessment of the likelihood of closing the pending merger transaction with Monument Bancorp, Inc.; 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.



September 30, 2018

QUARTERLY REPORT

Dear Shareholder:

On September 28, 2018 Citizens & Northern Corporation announced its agreement to acquire Monument Bancorp, Inc. and its subsidiary Monument Bank. Monument is a \$348 million community bank with two community bank offices and one loan production office in Bucks County, PA. Monument is a strong, reputable community bank that shares a similar culture and common strategic vision based on creating value through lifelong relationships. The franchise is in one of the most vibrant counties in Pennsylvania, and the combination of C&N's resources and Monument's market presence positions our Company for growth. This is a significant first step in our strategic plan to enter attractive markets through acquisition to leverage our exceptional capital position and operating platforms.

The team that creates value in each of our regional markets is critical to the success of our business model and will be especially important as we expand into Bucks County. Monument Bank's current management team of Chris Nardo, as Market President, Michelle Pedersen, as Regional Director of Commercial Lending, and Ben Crowley, as Regional Manager of Retail Banking, will continue as market leaders for C&N to strengthen and build upon local relationships. In addition, Clark Frame, Monument's Board Chair, will be joining the C&N Board providing continuity, experience, and institutional knowledge. We believe this is a great fit and are pleased to welcome the Monument team and customers to C&N. We expect to close the transaction in the second quarter of 2019. The combined organization is projected to have total assets of \$1.7 billion.

We are also pleased to report C&N's quarterly results that extended the Company's strong performance through the first three quarters of 2018. Year-over-year increases in net interest income and non-margin income continued to drive revenue growth, while solid credit quality tempered the provision for loan losses and operating expenses remained in line with budget. Loan growth during the quarter and for the year has been below expectations primarily due to several significant payoffs. Deposit growth has been very solid led by increases in demand deposits, savings accounts and CDs. This positive mix produced a third quarter net interest margin of 3.87%, unchanged from the second quarter of this year and an improvement from 3.83% during the third quarter of 2017. Maintaining the margin has been a key driver of our earnings growth.

The Federal Reserve continued its stated policy of raising short term interest rates with another .25% increase in the Fed Funds rate during the quarter to a target of 2.00% to 2.25%. This is the fourth such increase in the last four calendar quarters and the Fed has expressed its intention to raise rates further over the next several quarters. It is important to note, as we have in the past, that the yield curve remains historically flat which creates a challenging environment for expanding the margin.

In 2018, C&N has recorded pre-tax gains on Visa Class B stock totaling \$2,321,000, including gains of \$1,750,000 which we reported in the second quarter, and an additional \$571,000 in the third quarter. Prior to the sales, C&N held 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. In the second quarter 2018, C&N sold 10,000 of the shares, for a realized gain of \$884,000, and recorded an unrealized gain (on the 9,789 shares still held at June 30, 2018) of \$866,000. In the third quarter 2018, C&N sold the remaining 9,789 shares, and holds no more shares as of September 30, 2018.

Earnings per share was \$0.45 in the third quarter 2018, up 40.6% from \$0.32 per share in the third quarter 2017. Net income was \$5,586,000 in the third quarter 2018, an increase of \$1,650,000 (41.9%) over third quarter 2017 net income of \$3,916,000. 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 third quarter 2018 net income of \$5,136,000, or \$.42 per share, exceeded adjusted third quarter 2017 net income of \$3,933,000, or \$.32 per share, by \$1,203,000 (30.6%). Pre-tax income, excluding the gain on Visa Class B stock and net (losses) gains on available-for-sale debt securities, totaled \$6,128,000 in the third quarter 2018, an increase of \$935,000 (18.0%) over adjusted pre-tax income of \$5,193,000 in the third quarter 2017. Consistent with the reduction in the federal corporate income tax rate in 2018, the effective tax rate of 16.6% for the third quarter 2018 was significantly lower than the third quarter 2017 effective tax rate of 24.3%.

Net income for the nine-month period ended September 30, 2018 totaled \$16,332,000, an increase of \$4.84 million (42.1%) over net income for the first nine 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 \$14,723,000, or \$1.20 per share, exceeded adjusted net income for the first nine months of 2017 of \$11,324,000, or \$.93 per share, by \$3,399,000 (30.0%). Excluding the securities gains and losses, pre-tax income was \$17,524,000 for the first nine months of 2018, an increase of \$2,670,000 (18.0%) over 2017. The effective income tax rate was 16.5% YTD in 2018 as compared to 24.0% for the first nine months of 2017.

As mentioned earlier, C&N's strong capital position supports the Company's ability to pursue expansion and 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. On October 18, 2018, the Board of Directors again declared a dividend of \$.27 per share payable on November 9, 2018 to shareholders of record as of October 29, 2018. On an annualized basis, the quarterly payment produces a dividend yield of 4.13% on the September 30, 2018 market price of \$26.15.

Thank you for your ongoing support of C&N and we look forward to reporting progress on the Monument acquisition in the months ahead.



J. Bradley Scovill
President and CEO

CONDENSED, CONSOLIDATED EARNINGS INFORMATION

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

	3RD QUARTER 2018 <u>(Current)</u>	3RD QUARTER 2017 <u>(Prior Year)</u>	<u>\$ Incr. (Decr.)</u>	<u>% Incr. (Decr.)</u>
Interest and Dividend Income	\$12,800	\$11,626	\$1,174	10.10%
Interest Expense	1,241	985	256	25.99%
Net Interest Income	11,559	10,641	918	8.63%
Provision for Loan Losses	60	322	(262)	-81.37%
Net Interest Income After Provision for Loan Losses	11,499	10,319	1,180	11.44%
Noninterest Income	4,462	4,066	396	9.74%
Gain on Restricted Equity Security	571	0	571	
Net (Losses) Gains on Available-for-sale Debt Securities	(2)	5	(7)	-140.00%
Noninterest Expense	9,833	9,192	641	6.97%
Income Before Income Tax Provision	6,697	5,198	1,499	28.84%
Income Tax Provision	1,111	1,262	(151)	-11.97%
Net Income	\$5,586	\$3,936	\$1,650	41.92%
Net Income Attributable to Common Shares (1)	\$5,558	\$3,916	\$1,642	41.93%
PER COMMON SHARE DATA:				
Net Income - Basic	\$0.45	\$0.32	\$0.13	40.63%
Net Income - Diluted	\$0.45	\$0.32	\$0.13	40.63%
Dividend Per Share	\$0.27	\$0.26	\$0.01	3.85%
Number of Shares Used in Computation - Basic	12,228,833	12,124,854		
Number of Shares Used in Computation - Diluted	12,271,536	12,162,263		

CONDENSED, CONSOLIDATED EARNINGS INFORMATION

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

	9 MONTHS ENDED SEPTEMBER 30,			
	2018 <u>(Current)</u>	2017 <u>(Prior Year)</u>	<u>\$ Incr. (Decr.)</u>	<u>% Incr. (Decr.)</u>
Interest and Dividend Income	\$37,024	\$34,078	\$2,946	8.64%
Interest Expense	3,313	2,916	397	13.61%
Net Interest Income	33,711	31,162	2,549	8.18%
Provision for Loan Losses	332	778	(446)	-57.33%
Net Interest Income After Provision for Loan Losses	33,379	30,384	2,995	9.86%
Noninterest Income	13,557	12,036	1,521	12.64%
Gain on Restricted Equity Security	2,321	0	2,321	
Net (Losses) Gains on Available-for-sale Debt Securities	(284)	257	(541)	-210.51%
Noninterest Expense	29,412	27,566	1,846	6.70%
Income Before Income Tax Provision	19,561	15,111	4,450	29.45%
Income Tax Provision	3,229	3,620	(391)	-10.80%
Net Income	\$16,332	\$11,491	\$4,841	42.13%
Net Income Attributable to Common Shares (1)	\$16,249	\$11,432	\$4,817	42.14%
PER COMMON SHARE DATA:				
Net Income - Basic	\$1.33	\$0.94	\$0.39	41.49%
Net Income - Diluted	\$1.33	\$0.94	\$0.39	41.49%
Dividend Per Share	\$0.81	\$0.78	\$0.03	3.85%
Number of Shares Used in Computation - Basic	12,209,879	12,105,673		
Number of Shares Used in Computation - Diluted	12,248,669	12,146,297		

(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)

	SEPTEMBER 30, 2018	SEPTEMBER 30, 2017	SEPTEMBER 30, 2018 vs 2017	
			\$ Incr. (Decr.)	% Incr. (Decr.)
ASSETS				
Cash & Due from Banks	\$38,341	\$32,850	\$5,491	16.72%
Available-for-sale Debt Securities	358,706	364,108	(5,402)	-1.48%
Loans Held for Sale	551	437	114	26.09%
Loans, Net	813,717	792,112	21,605	2.73%
Intangible Assets	11,951	11,956	(5)	-0.04%
Other Assets	62,173	58,458	3,715	6.35%
TOTAL ASSETS	\$1,285,439	\$1,259,921	\$25,518	2.03%
LIABILITIES				
Deposits	\$1,043,947	\$1,021,625	\$22,322	2.18%
Repo Sweep Accounts	5,421	4,739	682	14.39%
Total Deposits and Repo Sweeps	1,049,368	1,026,364	23,004	2.24%
Borrowed Funds	35,985	34,256	1,729	5.05%
Other Liabilities	10,099	8,288	1,811	21.85%
TOTAL LIABILITIES	1,095,452	1,068,908	26,544	2.48%
SHAREHOLDERS' EQUITY				
Common Shareholders' Equity, Excluding Accumulated Other Comprehensive Income (Loss)	198,355	190,639	7,716	4.05%
Accumulated Other Comprehensive Income (Loss):				
Net Unrealized Gains/Losses on				
Available-for-sale Debt Securities	(8,502)	227	(8,729)	-3845.37%
Defined Benefit Plans	134	147	(13)	-8.84%
TOTAL SHAREHOLDERS' EQUITY	189,987	191,013	(1,026)	-0.54%
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY	\$1,285,439	\$1,259,921	\$25,518	2.03%


CITIZENS & NORTHERN CORPORATION
CONDENSED, CONSOLIDATED FINANCIAL HIGHLIGHTS

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

	AS OF OR FOR THE NINE MONTHS ENDED		% INCREASE (DECREASE)
	SEPTEMBER 30, 2018	2017	
EARNINGS PERFORMANCE			
Net Income	\$16,332	\$11,491	42.13%
Return on Average Assets (Annualized)	1.71%	1.23%	39.02%
Return on Average Equity (Annualized)	11.64%	8.13%	43.17%
BALANCE SHEET HIGHLIGHTS			
Total Assets	\$1,285,439	\$1,259,921	2.03%
Available-for-Sale Debt Securities	358,706	364,108	-1.48%
Loans (Net)	813,717	792,112	2.73%
Allowance for Loan Losses	8,815	8,900	-0.96%
Deposits and Repo Sweep Accounts	1,049,368	1,026,364	2.24%
OFF-BALANCE SHEET			
Outstanding Balance of Mortgage Loans Sold with Servicing Retained	171,516	169,581	1.14%
Trust Assets Under Management	952,824	924,907	3.02%
SHAREHOLDERS' VALUE (PER COMMON SHARE)			
Net Income - Basic	\$1.33	\$0.94	41.49%
Net Income - Diluted	\$1.33	\$0.94	41.49%
Dividends	\$0.81	\$0.78	3.85%
Common Book Value	\$15.45	\$15.66	-1.34%
Tangible Common Book Value (a)	\$14.48	\$14.68	-1.36%
Market Value (Last Trade)	\$26.15	\$24.56	6.47%
Market Value / Common Book Value	169.26%	156.83%	7.93%
Market Value / Tangible Common Book Value	180.59%	167.30%	7.94%
Price Earnings Multiple (Annualized)	14.75	19.60	-24.74%
Dividend Yield (Annualized)	4.13%	4.23%	-2.36%
Common Shares Outstanding, End of Period	12,297,274	12,197,527	0.82%

CONDENSED, CONSOLIDATED FINANCIAL HIGHLIGHTS (Continued)

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

	AS OF OR FOR THE NINE MONTHS ENDED		%
	SEPTEMBER 30,		INCREASE
	<u>2018</u>	<u>2017</u>	<u>(DECREASE)</u>
SAFETY AND SOUNDNESS			
Tangible Common Equity / Tangible Assets (a)	13.98%	14.35%	-2.56%
Nonperforming Assets / Total Assets	1.30%	1.35%	-3.70%
Allowance for Loan Losses / Total Loans	1.07%	1.11%	-3.60%
Total Risk Based Capital Ratio (b)	24.00%	23.56%	1.87%
Tier 1 Risk Based Capital Ratio (b)	22.88%	22.42%	2.05%
Common Equity Tier 1 Risk Based Capital Ratio (b)	22.88%	22.42%	2.05%
Leverage Ratio (b)	14.50%	14.40%	0.69%
AVERAGE BALANCES			
Average Assets	\$1,272,867	\$1,243,448	2.37%
Average Equity	\$187,056	\$188,448	-0.74%
EFFICIENCY RATIO (c)			
Net Interest Income on a Fully Taxable-Equivalent Basis (c)	\$34,692	\$33,240	4.37%
Noninterest Income	13,557	12,036	12.64%
Total (1)	\$48,249	\$45,276	6.57%
Noninterest Expense (2)	\$29,412	\$27,566	6.70%
Efficiency Ratio = (2)/(1)	60.96%	60.88%	0.13%

(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	\$1,285,439	\$1,259,921
Less: Intangible Assets, Primarily Goodwill	(11,951)	(11,956)
Tangible Assets	\$1,273,488	\$1,247,965
Total Shareholders' Equity	\$189,987	\$191,013
Less: Intangible Assets, Primarily Goodwill	(11,951)	(11,956)
Tangible Common Equity (3)	\$178,036	\$179,057
Common Shares Outstanding, End of Period (4)	12,297,274	12,197,527
Tangible Common Book Value per Share = (3)/(4)	\$14.48	\$14.68

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

(c) The efficiency ratio is a non-GAAP ratio that is calculated as shown above. For purposes of calculating the efficiency ratio, net interest income on a fully taxable-equivalent basis includes amounts of interest income on tax-exempt securities and loans that have been increased to a fully taxable-equivalent basis, using the Corporation's marginal federal income tax rate of 21% for 2018 and 35% for 2017.

**QUARTERLY CONDENSED, CONSOLIDATED
INCOME STATEMENT INFORMATION**

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

For the Three Months Ended:

	Sept. 30, 2018	June 30, 2018	March 31, 2018	Dec. 31, 2017	Sept. 30, 2017	June 30, 2017	March 31, 2017
Interest income	\$12,800	\$12,334	\$11,890	\$11,785	\$11,626	\$11,340	\$11,112
Interest expense	1,241	1,079	993	999	985	978	953
Net interest income	11,559	11,255	10,897	10,786	10,641	10,362	10,159
Provision (credit) for loan losses	60	(20)	292	23	322	4	452
Net interest income after provision (credit) for loan losses	11,499	11,275	10,605	10,763	10,319	10,358	9,707
Noninterest income	4,462	4,689	4,406	4,117	4,066	4,106	3,864
Net gains on securities	569	1,468	0	0	5	107	145
Noninterest expense	9,833	9,684	9,895	9,401	9,192	9,076	9,298
Income before income tax provision	6,697	7,748	5,116	5,479	5,198	5,495	4,418
Income tax provision	1,111	1,377	741	3,536	1,262	1,374	984
Net income	\$5,586	\$6,371	\$4,375	\$1,943	\$3,936	\$4,121	\$3,434
Net income attributable to common shares	\$5,558	\$6,339	\$4,352	\$1,933	\$3,916	\$4,100	\$3,416
Basic earnings per common share	\$0.45	\$0.52	\$0.36	\$0.16	\$0.32	\$0.34	\$0.28
Diluted earnings per common share	\$0.45	\$0.52	\$0.36	\$0.16	\$0.32	\$0.34	\$0.28

**QUARTERLY CONDENSED, CONSOLIDATED
BALANCE SHEET INFORMATION**

(In Thousands) (Unaudited)

As of:

	Sept. 30, 2018	June 30, 2018	March 31, 2018	Dec. 31, 2017	Sept. 30, 2017	June 30, 2017	March 31, 2017
ASSETS							
Cash & Due from Banks	\$38,341	\$51,475	\$36,860	\$40,244	\$32,850	\$34,643	\$32,543
Available-for-Sale Debt Securities	358,706	348,044	341,133	355,937	364,108	363,776	375,948
Loans Held for Sale	551	177	225	765	437	1,708	163
Loans, Net	813,717	809,816	808,300	806,857	792,112	771,057	753,277
Intangible Assets	11,951	11,952	11,953	11,954	11,956	11,957	11,958
Other Assets	62,173	62,543	59,645	61,202	58,458	60,260	60,035
TOTAL ASSETS	\$1,285,439	\$1,284,007	\$1,258,116	\$1,276,959	\$1,259,921	\$1,243,401	\$1,233,924
LIABILITIES							
Deposits	\$1,043,947	\$1,040,899	\$1,018,081	\$1,008,449	\$1,021,625	\$997,262	\$980,251
Repo Sweep Accounts	5,421	5,169	5,482	3,766	4,739	4,875	6,244
Total Deposits and Repo Sweeps	1,049,368	1,046,068	1,023,563	1,012,215	1,026,364	1,002,137	986,495
Borrowed Funds	35,985	39,054	39,122	67,189	34,256	42,321	52,888
Other Liabilities	10,099	9,706	9,049	9,112	8,288	9,084	7,191
TOTAL LIABILITIES	1,095,452	1,094,828	1,071,734	1,088,516	1,068,908	1,053,542	1,046,574
SHAREHOLDERS' EQUITY							
Common Shareholders' Equity, Excluding Accumulated Other Comprehensive Income (Loss)	198,355	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	(8,502)	(6,476)	(5,679)	(1,566)	227	369	(630)
Defined Benefit Plans Adjustment, Net	134	137	141	59	147	151	155
TOTAL SHAREHOLDERS' EQUITY	189,987	189,179	186,382	188,443	191,013	189,859	187,350
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY	\$1,285,439	\$1,284,007	\$1,258,116	\$1,276,959	\$1,259,921	\$1,243,401	\$1,233,924

AVAILABLE-FOR-SALE DEBT SECURITIES (In Thousands)	September 30, 2018		June 30, 2018		December 31, 2017	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Obligations of U.S. Government agencies	\$4,815	\$4,768	\$7,779	\$7,779	\$8,026	\$7,873
Obligations of states and political subdivisions:						
Tax-exempt	92,837	91,712	101,956	101,700	103,673	105,111
Taxable	27,975	27,642	26,248	26,066	25,431	25,573
Mortgage-backed securities issued or guaranteed by U.S. Government agencies or sponsored agencies:						
Residential pass-through securities	57,279	55,131	60,130	58,330	52,992	52,347
Residential collateralized mortgage obligations	148,074	142,631	126,457	121,933	134,314	131,814
Commercial mortgage-backed securities	38,488	36,822	33,671	32,236	33,881	33,219
Total Available-for-Sale Debt Securities	\$369,468	\$358,706	\$356,241	\$348,044	\$358,317	\$355,937

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

	Sept. 30, 2018	June 30, 2018	Dec. 31, 2017	Sept. 30, 2017
Residential mortgage:				
Residential mortgage loans - first liens	\$366,516	\$361,592	\$359,987	\$355,285
Residential mortgage loans - junior liens	25,748	26,594	25,325	24,694
Home equity lines of credit	34,283	34,852	35,758	36,534
1-4 Family residential construction	27,661	26,722	26,216	25,286
Total residential mortgage	454,208	449,760	447,286	441,799
Commercial:				
Commercial loans secured by real estate	159,212	159,392	159,266	158,520
Commercial and industrial	91,472	88,499	88,276	83,243
Political subdivisions	53,294	56,690	59,287	54,730
Commercial construction and land	12,278	13,066	14,527	13,937
Loans secured by farmland	7,208	7,397	7,255	7,744
Multi-family (5 or more) residential	7,670	7,860	7,713	7,566
Agricultural loans	5,670	5,622	6,178	6,137
Other commercial loans	14,140	14,455	10,986	12,383
Total commercial	350,944	352,981	353,488	344,260
Consumer	17,380	15,906	14,939	14,953
Total	822,532	818,647	815,713	801,012
Less: allowance for loan losses	(8,815)	(8,831)	(8,856)	(8,900)
Loans, net	\$813,717	\$809,816	\$806,857	\$792,112

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

	Sept. 30, 2018	June 30, 2018	Dec. 31, 2017	Sept. 30, 2017
Residential mortgage loans originated and serviced - outstanding balance	\$172,067	\$171,720	\$170,490	\$170,018
Less: outstanding balance of loans sold	(171,516)	(171,543)	(169,725)	(169,581)
Loans held for sale, net	\$551	\$177	\$765	\$437

ANALYSIS OF THE ALLOWANCE FOR LOAN LOSSES
(In Thousands)

	3 Months Ended Sept. 30, 2018	3 Months Ended June 30, 2018	9 Months Ended Sept. 30, 2018	9 Months Ended Sept. 30, 2017
Balance, beginning of period	\$8,831	\$9,049	\$8,856	\$8,473
Charge-offs	(92)	(211)	(418)	(402)
Recoveries	16	13	45	51
Net charge-offs	(76)	(198)	(373)	(351)
Provision (credit) for loan losses	60	(20)	332	778
Balance, end of period	\$8,815	\$8,831	\$8,815	\$8,900

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

	Sept. 30, 2018	June 30, 2018	Dec 31, 2017	Sept. 30, 2017
Impaired loans with a valuation allowance	\$3,623	\$3,652	\$4,100	\$3,581
Impaired loans without a valuation allowance	4,455	4,346	5,411	5,388
Total impaired loans	\$8,078	\$7,998	\$9,511	\$8,969

Total loans past due 30-89 days and still accruing	\$4,455	\$3,921	\$9,449	\$5,978
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Nonperforming assets:				
Total nonaccrual loans	\$10,911	\$11,230	\$13,404	\$12,400
Total loans past due 90 days or more and still accruing	3,124	3,195	3,724	2,979
Total nonperforming loans	14,035	14,425	17,128	15,379
Foreclosed assets held for sale (real estate)	2,678	2,897	1,598	1,650
Total nonperforming assets	\$16,713	\$17,322	\$18,726	\$17,029

Loans subject to troubled debt restructurings (TDRs):				
Performing	\$698	\$753	\$636	\$658
Nonperforming	2,925	2,951	3,027	3,075
Total TDRs	\$3,623	\$3,704	\$3,663	\$3,733

Total nonperforming loans as a % of loans	1.71%	1.76%	2.10%	1.92%
Total nonperforming assets as a % of assets	1.30%	1.35%	1.47%	1.35%
Allowance for loan losses as a % of total loans	1.07%	1.08%	1.09%	1.11%
Allowance for loan losses as a % of nonperforming loans	62.81%	61.22%	51.70%	57.87%

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

	3 Months Ended 9/30/2018 Average Balance	Rate of Return/ Cost of Funds %	3 Months Ended 6/30/2018 Average Balance	Rate of Return/ Cost of Funds %	3 Months Ended 9/30/2017 Average Balance	Rate of Return/ Cost of Funds %
EARNING ASSETS						
Available-for-sale debt securities, at amortized cost:						
Taxable	\$269,054	2.39%	\$247,809	2.24%	\$250,774	2.11%
Tax-exempt	93,475	3.63%	102,801	3.50%	111,721	4.27%
Total available-for-sale debt securities	362,529	2.71%	350,610	2.61%	362,495	2.78%
Marketable equity security	945	2.10%	952	2.53%	1,000	2.38%
Interest-bearing due from banks	34,540	1.99%	22,286	1.73%	21,260	1.25%
Loans held for sale	179	6.65%	267	6.01%	781	5.08%
Loans receivable:						
Taxable	744,793	5.20%	747,889	5.14%	717,012	4.92%
Tax-exempt	75,639	3.70%	77,616	3.65%	71,334	4.51%
Total loans receivable	820,432	5.06%	825,505	5.00%	788,346	4.88%
Total Earning Assets	1,218,625	4.27%	1,199,620	4.23%	1,173,882	4.16%
Cash	18,697		18,010		18,325	
Unrealized gain/loss on securities	(8,641)		(8,242)		1,449	
Allowance for loan losses	(8,984)		(9,161)		(8,769)	
Bank premises and equipment	15,023		15,425		15,431	
Intangible assets	11,953		11,952		11,958	
Other assets	44,675		41,575		40,944	
Total Assets	\$1,291,348		\$1,269,179		\$1,253,220	
INTEREST-BEARING LIABILITIES						
Interest-bearing deposits:						
Interest checking	\$223,105	0.49%	\$217,607	0.39%	\$219,633	0.25%
Money market	185,267	0.33%	180,667	0.27%	194,947	0.19%
Savings	153,514	0.10%	152,663	0.10%	145,025	0.10%
Certificates of deposit	141,481	1.24%	135,429	1.15%	119,351	0.85%
Individual Retirement Accounts	90,693	0.52%	92,899	0.51%	96,934	0.45%
Other time deposits	1,446	0.27%	1,092	0.00%	1,472	0.27%
Total interest-bearing deposits	795,506	0.52%	780,357	0.45%	777,362	0.33%
Borrowed funds:						
Short-term	13,062	1.18%	23,610	1.39%	7,139	0.44%
Long-term	30,375	2.21%	22,174	2.13%	36,469	3.67%
Total borrowed funds	43,437	1.90%	45,784	1.75%	43,608	3.14%
Total Interest-bearing Liabilities	838,943	0.59%	826,141	0.52%	820,970	0.48%
Demand deposits	252,093		248,182		232,839	
Other liabilities	11,147		8,848		8,801	
Total Liabilities	1,102,183		1,083,171		1,062,610	
Stockholders' equity, excluding accumulated other comprehensive income/loss						
Accumulated other comprehensive income/loss	195,854		192,375		189,520	
	(6,689)		(6,367)		1,090	
Total Shareholders' Equity	189,165		186,008		190,610	
Total Liabilities and Shareholders' Equity	\$1,291,348		\$1,269,179		\$1,253,220	
Interest Rate Spread		3.68%		3.71%		3.68%
Net Interest Income/Earning Assets		3.87%		3.87%		3.83%
Total Deposits (Interest-bearing and Demand)						
	\$1,047,599		\$1,028,539		\$1,010,201	

(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)

	9 Months Ended 9/30/2018 Average Balance	Rate of Return/ Cost of Funds %	9 Months Ended 9/30/2017 Average Balance	Rate of Return/ Cost of Funds %
EARNING ASSETS				
Available-for-sale debt securities, at amortized cost:				
Taxable	\$255,638	2.28%	\$258,539	2.12%
Tax-exempt	99,782	3.55%	114,759	4.37%
Total available-for-sale debt securities	355,420	2.64%	373,298	2.81%
Marketable equity security	953	2.24%	1,000	2.14%
Interest-bearing due from banks	23,727	1.80%	17,042	1.10%
Loans held for sale	205	5.87%	496	5.39%
Loans receivable:				
Taxable	744,461	5.12%	706,065	4.90%
Tax-exempt	76,497	3.69%	67,073	4.51%
Total loans receivable	820,958	4.99%	773,138	4.87%
Total Earning Assets	1,201,263	4.23%	1,164,974	4.15%
Cash	17,867		17,213	
Unrealized gain/loss on securities	(7,482)		402	
Allowance for loan losses	(9,049)		(8,755)	
Bank premises and equipment	15,298		15,618	
Intangible assets	11,953		11,958	
Other assets	43,017		42,038	
Total Assets	\$1,272,867		\$1,243,448	
INTEREST-BEARING LIABILITIES				
Interest-bearing deposits:				
Interest checking	\$217,935	0.41%	\$208,071	0.21%
Money market	181,972	0.27%	192,265	0.18%
Savings	151,946	0.10%	142,292	0.10%
Certificates of deposit	133,692	1.14%	116,500	0.82%
Individual Retirement Accounts	92,621	0.51%	97,981	0.44%
Other time deposits	1,106	0.12%	1,126	0.12%
Total interest-bearing deposits	779,272	0.45%	758,235	0.31%
Borrowed funds:				
Short-term	29,515	1.45%	23,118	0.75%
Long-term	21,931	2.15%	37,740	3.72%
Total borrowed funds	51,446	1.75%	60,858	2.59%
Total Interest-bearing Liabilities	830,718	0.53%	819,093	0.48%
Demand deposits	245,463		227,726	
Other liabilities	9,630		8,181	
Total Liabilities	1,085,811		1,055,000	
Stockholders' equity, excluding accumulated other comprehensive income/loss				
Accumulated other comprehensive income/loss	192,807		188,041	
Accumulated other comprehensive income/loss	(5,751)		407	
Total Shareholders' Equity	187,056		188,448	
Total Liabilities and Shareholders' Equity	\$1,272,867		\$1,243,448	
Interest Rate Spread		3.70%		3.67%
Net Interest Income/Earning Assets		3.86%		3.81%
Total Deposits (Interest-bearing and Demand)	\$1,024,735		\$985,961	

(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.

COMPARISON OF NONINTEREST INCOME
(In Thousands)

	Three Months Ended			Nine Months Ended	
	Sept. 30, 2018	June 30, 2018	Sept 30, 2017	Sept. 30, 2018	Sept 30, 2017
Trust and financial management revenue	\$1,427	\$1,526	\$1,292	\$4,375	\$3,969
Brokerage revenue	235	271	187	718	551
Insurance commissions, fees and premiums	15	13	26	72	98
Service charges on deposit accounts	1,331	1,302	1,186	3,837	3,399
Service charges and fees	95	82	97	263	263
Interchange revenue from debit card transactions	660	641	561	1,880	1,649
Net gains from sales of loans	164	166	297	514	651
Loan servicing fees, net	74	61	35	263	162
Increase in cash surrender value of life insurance	100	98	97	295	281
Other noninterest income	361	529	288	1,340	1,013
Total noninterest income, excluding realized gains (losses) on securities, net	\$4,462	\$4,689	\$4,066	\$13,557	\$12,036

COMPARISON OF NONINTEREST EXPENSE
(In Thousands)

	Three Months Ended			Nine Months Ended	
	Sept. 30, 2018	June 30, 2018	Sept 30, 2017	Sept. 30, 2018	Sept 30, 2017
Salaries and wages	\$4,263	\$4,193	\$3,985	\$12,580	\$11,825
Pensions and other employee benefits	1,237	1,200	1,209	4,047	3,870
Occupancy expense, net	648	613	580	1,898	1,758
Furniture and equipment expense	317	313	340	901	968
Data processing expenses	667	694	595	2,002	1,785
Automated teller machine and interchange expense	347	319	346	988	945
Pennsylvania shares tax	326	336	336	998	1,008
Professional fees	305	279	224	860	599
Telecommunications	177	157	143	567	409
Directors' fees	197	168	177	549	548
Other noninterest expense	1,349	1,412	1,257	4,022	3,851
Total noninterest expense	\$9,833	\$9,684	\$9,192	\$29,412	\$27,566