

October 19, 2017

Contact: Charity Frantz
570-724-0225
charityf@cnbankpa.com

C&N DECLARES DIVIDEND AND ANNOUNCES THIRD 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 and nine-month periods ended September 30, 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 November 10, 2017 to shareholders of record as of October 30, 2017. Declaration of the dividend was made at the October 19, 2017 meeting of C&N’s Board of Directors.

Unaudited Financial Information

Basic and diluted earnings per common share were \$0.32 for the third quarter 2017, as compared to \$0.34 in the second quarter 2017 and \$0.34 in the third quarter 2016. For the nine months ended September 30, 2017, basic and diluted earnings per common share were \$0.94 as compared to \$0.95 for the first nine months of 2016. The return on average assets for the first nine months of 2017 was 1.23%, and the return on average equity was 8.13%. Highlights related to C&N’s earnings results for the comparative periods are presented below.

Third Quarter 2017 as Compared to Second Quarter 2017

Net income totaled \$3,936,000 in the third quarter 2017 as compared to \$4,121,000 in the second quarter 2017. Significant variances were as follows:

- Net interest income increased \$279,000 (2.7%) in the third quarter 2017 as compared to the second quarter. The net interest margin was 3.83% for the third quarter 2017, unchanged from the second quarter result. In addition to the benefit of an additional day in the third quarter as compared to the second quarter, the increase in net interest income reflected growth in average earning assets of \$16.3 million, funded from growth in average total deposits of \$30.2 million (3.1%).
- The provision for loan losses was \$322,000 in the third quarter 2017, up from \$4,000 in the second quarter. In the third quarter, the 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 an increase of \$181,000 in the collectively determined allowance for loan losses. The increase in the collectively determined allowance in the third quarter reflected the effects of an increase in outstanding loans, as there were minimal changes in the net charge-off experience and qualitative factors used to estimate that portion of the allowance. In comparison, the second quarter 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. Offsetting a significant portion of the second quarter provision was a \$413,000 reduction in the collectively determined allowance for loan losses. In the third quarter 2017, the net change in total specific allowances on impaired loans included a reduction of \$6,000 in the allowance related to one real estate secured commercial loan for which the

allowance had increased \$205,000 in the second quarter and \$225,000 in the first quarter. At September 30, 2017, the outstanding balance of this loan was \$2,686,000, and the related allowance was \$952,000.

- Noninterest revenue totaled \$4,066,000 in the third quarter 2017, a decrease of \$40,000 (1.0%) from the second quarter total. Trust and financial management revenue of \$1,292,000 in the third quarter was \$205,000 lower than the second quarter amount, as the second quarter included \$215,000 resulting from a change in the frequency of billings. Net gains from sales of loans totaled \$297,000 in the third quarter, an increase of \$109,000 over the second quarter, reflecting increases in sales volume and average profit margin. Service charges on deposit accounts totaled \$1,168,000 in the third quarter, up \$74,000 from the second quarter, consistent with C&N's typical seasonal pattern of increased consumer overdraft and other fees in the summer months.
- Total noninterest expenses in the third quarter 2017 increased \$116,000 (1.3%) as compared to the second quarter amount. Pensions and other employee benefits expense was \$72,000 higher in the third quarter 2017 as health care expenses on C&N's partially self-insured plan increased. Automated teller machine and interchange expense in the third quarter 2017 increased \$41,000 (13.4%) over the second quarter amount, reflecting increased costs related to fraud protection services, higher volume of debit card transactions and other factors.
- The income tax provision was \$1,262,000 in the third quarter 2017 for an effective tax rate of 24.3% of pre-tax income, down \$112,000 from \$1,374,000 (25.0% of pre-tax income) in the second quarter. The lower amount of tax provision and effective tax rate in the third quarter resulted primarily from lower pre-tax income.

Third Quarter 2017 as Compared to Third Quarter 2016

Net income for the third quarter 2017 of \$3,936,000 was lower by \$151,000 (3.7%) than the third quarter 2016 amount. Significant variances were as follows:

- Net interest income increased \$454,000 (4.5%) in the third quarter 2017 as compared to the third quarter 2016. The net interest margin of 3.83% for the third quarter 2017 was higher than the third quarter 2016 level of 3.74%. The improvement in the margin included the impact of a favorable change in the mix of earning assets, including growth in loans and a reduction in securities. Average total loans outstanding were higher by \$55.3 million (7.5%) in the third quarter 2017 as compared to the third quarter 2016, while average total available-for-sale securities were lower by \$41.0 million. Average total deposits were \$26.8 million (2.7%) higher in the third quarter 2017 as compared to the third quarter 2016.
- The third quarter 2017 provision for loan losses was \$216,000 lower than the third quarter 2016 amount. As noted above, 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 an increase of \$181,000 in the collectively determined allowance for loan losses. In comparison, the third quarter 2016 provision included a \$478,000 increase in total specific allowances on impaired loans, as adjusted for net charge-offs during the period, and a \$60,000 increase in the collectively determined portion of the allowance. The increase in total specific allowances on impaired loans in the third quarter 2016 included the initial recognition of an allowance of \$528,000 on the real estate secured loan referred to above, for which the specific allowance had increased to \$952,000 at September 30, 2017.
- Noninterest revenue increased \$182,000 (4.7%) in the third quarter 2017 over the third quarter 2016 amount. Trust and financial management revenue increased \$120,000 (10.2%), reflecting growth in assets under management resulting from market appreciation and new business, as well as a recent increase in fee levels. Interchange revenue from debit card transactions increased \$80,000 (16.6%), reflecting benefits from a consulting project in 2016 that identified opportunities for improvements in card-related volumes and processing. Net gains from sales of loans increased \$61,000 (25.8%) in the third quarter 2017 as compared to the third quarter 2016, reflecting increases in sales volume and average

profit margin. Service charges on deposit accounts decreased \$53,000 (4.3%), as revenue from consumer overdrafts declined due to lower volume.

- Total noninterest expenses increased \$613,000 (7.1%) in the third quarter 2017 over the third quarter 2016 amount. Other operating expense increased \$226,000. The increase in other operating expense included an increase of \$97,000 in attorney fees, mainly related to a commercial loan workout situation, and an increase in accounting and auditing expense of \$46,000 resulting from an increase in outsourced internal audit activity. Pensions and other employee benefits expense increased \$156,000, mainly due to higher health care expenses on C&N's partially self-insured plan. Salaries and wages expense increased \$84,000, or 2.2%. Software subscriptions increased \$62,000, including costs associated with new applications as well as annual licensing increases. Automated teller machine and interchange expense increased \$55,000, including increased costs related to fraud protection services and higher volume of debit card transactions. Pennsylvania shares tax increased \$49,000, reflecting a tax rate increase and an increase in Bank capital. FDIC assessments expense decreased \$58,000, reflecting a lower assessment level.
- The income tax provision of \$1,262,000 in the third quarter 2017 (24.3% of pre-tax income) was \$189,000 lower than the third quarter 2016 tax provision of \$1,451,000 (26.2% of pre-tax income). The lower amount of tax provision and effective tax rate in the third quarter 2017 resulted primarily from lower pre-tax income. Also, in the third quarter 2016, the tax provision included a \$39,000 catch up adjustment for an increase in the New York State tax provision related to a change in tax methodology that first became effective in 2015.

Nine-Month Periods Ended September 30, 2017 and 2016

Net income was \$11,491,000 for the first nine months of 2017, a decrease of \$40,000 (0.4%) from net income for the first nine months of 2016. Significant variances were as follows:

- Net interest income was \$943,000 (3.1%) higher for the first nine months of 2017 as compared to the first nine months of 2016. The net interest margin was 3.81% for the first nine months of 2017, up from 3.77% for the first nine months of 2016. Average total loans outstanding were up \$57.6 million (8.0%) in the first nine months of 2017 as compared to the first nine months of 2016, while average total available-for-sale securities were lower by \$33.0 million. Average total deposits were \$20.4 million (2.1%) higher in the first nine months of 2017 as compared to the first nine months of 2016.
- The provision for loan losses of \$778,000 for the first nine months of 2017 was \$446,000 lower than the amount for the first nine months of 2016. In 2017, the provision 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 the reduction in the collectively determined allowance for loan losses. The reduction in the collectively determined allowance included the effects of an improvement in C&N's aggregate net charge-off experience and a reduction in the qualitative factors used to estimate the allowance as of September 30, 2017. The net increase in specific allowances in the first nine months of 2017 included an increase in the allowance related to one real estate secured commercial loan of \$424,000 to \$952,000 at September 30, 2017 as compared to \$528,000 at December 31, 2016. The increase in the specific allowance for this loan was based on an updated appraisal. In comparison, the provision for the first nine months of 2016 included \$557,000 related to the change in total specific allowances on impaired loans, as adjusted for net charge-offs during the period, a \$29,000 decrease in the unallocated portion of the allowance and an increase in the provision of \$696,000 related to an increase in the collectively determined allowance for loan losses. The increase in the collectively determined portion of the allowance at September 30, 2016 as compared to the end of the preceding year resulted from loan growth and slight increases in the net charge-off and qualitative factors used to estimate the allowance.

- Noninterest revenue increased \$556,000 (4.8%) in the first nine months of 2017 as compared to the first nine months of 2016. Trust and financial management revenue increased \$402,000 (11.3%), reflecting growth in assets under management resulting from market appreciation and new business, as well as a recent increase in fee levels and an estimated \$215,000 of additional revenue from changing the frequency of billings to monthly for certain services. Interchange revenue from debit card transactions increased \$218,000 (15.2%), reflecting improvements in card-related volumes and processing. Loan servicing fees, net, increased \$123,000, as the fair value of mortgage servicing rights decreased by \$145,000 in the first nine months of 2017 as compared to a reduction of \$247,000 in the first nine months of 2016. Service charges on deposit accounts decreased \$177,000 (5.0%), as revenue from consumer overdrafts declined due to lower volume.
- Total noninterest expenses increased \$1,380,000 (5.3%) for the first nine months of 2017 as compared to the first nine months of 2016. Other operating expense increased \$682,000. Within other operating expense, the largest variances included increases of \$182,000 in loan collection expenses, \$129,000 in attorney fees (mainly related to a commercial loan workout situation) and \$94,000 in accounting and auditing expense stemming from increased internal audit outsourcing. Pensions and other employee benefits expense increased \$391,000, primarily as a result of higher health care expenses on C&N's partially self-insured plan. Software subscriptions increased \$141,000, including costs associated with new applications as well as annual licensing increases. Automated teller machine and interchange expense increased \$138,000, including increased costs related to fraud protection services and higher volume of debit card transactions. FDIC assessments expense decreased \$165,000, reflecting a lower assessment level. Professional fees expense decreased \$66,000, reflecting a reduction in information technology and sales and service-related consulting expense.
- The income tax provision was \$3,620,000 for the first nine months of 2017 (24.0% of pre-tax income), down from \$3,847,000 (25.0% of pre-tax income) for the first nine months of 2016. The lower amount of tax provision and effective tax rate in 2017 resulted from lower pre-tax income, along with the effects of a change in accounting for stock-based compensation that requires recognition of the tax benefits as a reduction in the tax provision and a \$30,000 catch up adjustment in 2016 for an increase in the New York State tax provision related to a change in tax methodology that first became effective in 2015.

Other Information:

Changes in other unaudited financial information are as follows:

- Total assets amounted to \$1,259,921,000 at September 30, 2017, as compared to \$1,243,401,000 at June 30, 2017 and \$1,245,333,000 at September 30, 2016.
- Net loans outstanding (excluding mortgage loans held for sale) were \$792,112,000 at September 30, 2017, up from \$771,057,000 at June 30, 2017 and up 7.9% from \$733,917,000 at September 30, 2016. In comparing outstanding balances at September 30, 2017 and 2016, total residential mortgage loans increased \$31.5 million, or 7.7%, and total commercial loans increased \$25.0 million, or 7.8%. At September 30, 2017, the outstanding balance of commercial loan participations with other financial entities was \$53.6 million, up from \$48.7 million at September 30, 2016.
- The outstanding balance of residential mortgages originated by C&N and sold to third parties, with servicing retained, totaled \$169,581,000 at September 30, 2017, up from \$165,789,000 at June 30, 2017 and \$157,845,000 at September 30, 2016.
- Total nonperforming assets as a percentage of total assets was 1.35% at September 30, 2017 as compared to 1.30% at June 30, 2017 and 1.79% at September 30, 2016.
- Deposits and repo sweep accounts totaled \$1,026,364,000 at September 30, 2017, up from \$1,002,137,000 at June 30, 2017, and up 2.8% from \$998,200,000 at September 30, 2016.

- Total shareholders' equity was \$191,013,000 at September 30, 2017 as compared to \$189,859,000 at June 30, 2017 and \$190,603,000 at September 30, 2016. Tangible common equity as a percentage of tangible assets was 14.35% at September 30, 2017 as compared to 14.48% a year earlier. Within shareholders' equity, the portion of accumulated other comprehensive income related to available-for-sale securities was \$227,000 at September 30, 2017 as compared to \$369,000 at June 30, 2017 and \$5,388,000 at September 30, 2016. Fluctuations in accumulated other comprehensive income have been caused by increases in interest rates, which have resulted in an overall net reduction in the fair value of available-for-sale securities.
- Assets under management by C&N's Trust and Financial Management Group amounted to \$924,907,000 at September 30, 2017, up from \$894,669,000 at June 30, 2017, and up 6.6% from \$867,852,000 a year earlier.

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

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

September 30, 2017

QUARTERLY REPORT

Dear Shareholder:

Third quarter 2017 net income was \$0.32 per share, as compared to \$0.34 in the second quarter 2017 and \$0.34 in the third quarter 2016. For the nine months ended September 30, 2017, net income per share was \$0.94 as compared to \$0.95 for the first nine months of 2016. The return on average assets for the first nine months of 2017 was 1.23%, and the return on average equity was 8.13%. Loans, deposits, and trust assets under management continued the steady growth we have experienced over the past several years. This ongoing progress is the result of our focus on building relationships and delivering value to customers across the C&N franchise and was the driver of solid revenue growth during the quarter.

Net interest income increased \$279,000 (2.7%) in the third quarter of 2017 compared to the second quarter, and by \$454,000 (4.5%) compared to the third quarter of 2016. Through the first nine months of 2017, net interest income was \$943,000 (3.1%) higher than in the same period in 2016. Growth in average loans outstanding of approximately \$17 million during the quarter and \$55 million compared to the third quarter of 2016 is the primary driver of these increases. We also experienced solid growth in core deposits and ongoing reductions in higher cost borrowings, improving C&N's funding mix. The yield on earning assets was 4.16% during the third quarter of 2017 compared to 4.07% in 2016 while the overall cost of funds increased by .02% during the same period. As a result, the net interest margin increased .09%, to 3.83% during the third quarter of 2017 from 3.74% a year earlier. Recall that the Federal Reserve raised the federal funds rate by .25% in June to a target of 1.25%, resulting in a flattening of the yield curve throughout most of the third quarter.

The provision for loan losses was \$322,000 during the third quarter of 2017 compared to \$538,000 in 2016. Through the first nine months of 2017, the provision was \$778,000 compared to \$1.224 million for the same period in 2016. The lower provision amounts for both the current quarter and the first nine months of 2017 reflect reductions in reserves related to charge-off experience and qualitative factors used in calculating the allowance for loan losses. Management maintains a robust process to determine the adequacy of the allowance that incorporates these and other factors. C&N's overall credit quality remains strong as reflected in our past due and non-performing loan metrics at September 30, 2017 compared to a year earlier.

Noninterest revenue increased by \$182,000 (4.7%) in the third quarter of 2017 compared to 2016. The most notable increases were Trust revenues reflecting growth in assets under management as well as a recent fee increase, interchange revenue on debit cards, and gains from the sale of mortgage loans, while service charges on deposit account declined due to lower volumes of overdrafts. These same factors contributed to an increase of \$556,000 (4.8%) during the first nine months of 2017 compared to the same period in 2016, with the exception of gains from the sale of mortgage loans which decreased \$48,000.

Noninterest expenses increased \$613,000 (7.1%) in the third quarter of 2017 compared to 2016. The primary drivers of this increase were collection and other real estate expenses, costs associated with health care benefits, ATM and interchange expenses, software subscriptions related to investments in technology, and increased fees for outsourcing internal audit activities. Overall salaries and wages increased 2%, while FDIC premiums declined. These same factors produced a \$1.38 million (5.3%) increase in noninterest expenses for the first nine months of 2017 compared to the same period in 2016.

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 third quarter remained at \$.26 per share

producing a yield of 4.23% based on the September 30, 2017 market price of \$24.56. 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 hope you enjoy this edition of banCnotes and, as always, thank you for your investment and ongoing support.

A handwritten signature in cursive script, reading "J. Bradley Scovill".

J. Bradley Scovill
President and CEO

CONDENSED, CONSOLIDATED EARNINGS INFORMATION

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

	3RD QUARTER 2017 (Current)	3RD QUARTER 2016 (Prior Year)	\$ Incr. (Decr.)	% Incr. (Decr.)
Interest and Dividend Income	\$ 11,626	\$11,131	\$495	4.45%
Interest Expense	985	944	41	4.34%
Net Interest Income	10,641	10,187	454	4.46%
Provision for Loan Losses	322	538	(216)	-40.15%
Net Interest Income After Provision for Loan Losses	10,319	9,649	670	6.94%
Noninterest Revenue	4,066	3,884	182	4.69%
Net Gains on Available-for-sale Securities	5	584	(579)	-99.14%
Noninterest Expenses	9,192	8,579	613	7.15%
Income Before Income Tax Provision	5,198	5,538	(340)	-6.14%
Income Tax Provision	1,262	1,451	(189)	-13.03%
Net Income	\$3,936	\$4,087	(\$151)	-3.69%
Net Income Attributable to Common Shares (1)	\$3,916	\$4,065	(\$149)	-3.67%

PER COMMON SHARE DATA:

Net Income - Basic	\$0.32	\$0.34	(\$0.02)	-5.88%
Net Income - Diluted	\$0.32	\$0.34	(\$0.02)	-5.88%
Dividend Per Share	\$0.26	\$0.26	\$0.00	0.00%
Number of Shares Used in Computation - Basic	12,124,854	12,014,267		
Number of Shares Used in Computation - Diluted	12,162,263	12,044,066		

CONDENSED, CONSOLIDATED EARNINGS INFORMATION

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

	9 MONTHS ENDED SEPTEMBER 30,			
	2017 (Current)	2016 (Prior Year)	\$ Incr. (Decr.)	% Incr. (Decr.)
Interest and Dividend Income	\$ 34,078	\$ 32,992	\$1,086	3.29%
Interest Expense	2,916	2,773	143	5.16%
Net Interest Income	31,162	30,219	943	3.12%
Provision for Loan Losses	778	1,224	(446)	-36.44%
Net Interest Income After Provision for Loan Losses	30,384	28,995	1,389	4.79%
Noninterest Revenue	12,036	11,480	556	4.84%
Net Gains on Available-for-sale Securities	257	1,089	(832)	-76.40%
Noninterest Expenses	27,566	26,186	1,380	5.27%
Income Before Income Tax Provision	15,111	15,378	(267)	-1.74%
Income Tax Provision	3,620	3,847	(227)	-5.90%
Net Income	\$11,491	\$11,531	(\$40)	-0.35%
Net Income Attributable to Common Shares (1)	\$11,432	\$11,468	(\$36)	-0.31%

PER COMMON SHARE DATA:

Net Income - Basic	\$0.94	\$0.95	(\$0.01)	-1.05%
Net Income - Diluted	\$0.94	\$0.95	(\$0.01)	-1.05%
Dividend Per Share	\$0.78	\$0.78	\$0.00	0.00%
Number of Shares Used in Computation - Basic	12,105,673	12,032,619		
Number of Shares Used in Computation - Diluted	12,146,297	12,056,639		

(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

(Dollars In Thousands) (Unaudited)

	SEPTEMBER 30, 2017	SEPTEMBER 30, 2016	SEPTEMBER 30, 2017 vs 2016	
			\$ Incr. (Decr.)	% Incr. (Decr.)
ASSETS				
Cash & Due from Banks	\$32,850	\$34,070	(\$1,220)	-3.58%
Available-for-sale Securities	365,086	409,800	(44,714)	-10.91%
Loans Held for Sale	437	621	(184)	-29.63%
Loans, Net	792,112	733,917	58,195	7.93%
Intangible Assets	11,956	11,963	(7)	-0.06%
Other Assets	57,480	54,962	2,518	4.58%
TOTAL ASSETS	\$1,259,921	\$1,245,333	\$14,588	1.17%
LIABILITIES				
Deposits	\$1,021,625	\$991,880	\$29,745	3.00%
Repo Sweep Accounts	4,739	6,320	(1,581)	-25.02%
Total Deposits and Repo Sweeps	1,026,364	998,200	28,164	2.82%
Borrowed Funds	34,256	46,808	(12,552)	-26.82%
Other Liabilities	8,288	9,722	(1,434)	-14.75%
TOTAL LIABILITIES	1,068,908	1,054,730	14,178	1.34%
SHAREHOLDERS' EQUITY				
Common Shareholders' Equity, Excluding Accumulated				
Other Comprehensive Income	190,639	185,173	5,466	2.95%
Accumulated Other Comprehensive Income:				
Net Unrealized Gains/Losses on				
Available-for-sale Securities	227	5,388	(5,161)	-95.79%
Defined Benefit Plans	147	42	105	250.00%
TOTAL SHAREHOLDERS' EQUITY	191,013	190,603	410	0.22%
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY	\$1,259,921	\$1,245,333	\$14,588	1.17%


CITIZENS & NORTHERN CORPORATION
CONDENSED, CONSOLIDATED FINANCIAL HIGHLIGHTS

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

	AS OF OR FOR THE 9 MONTHS ENDED SEPTEMBER 30,		% INCREASE (DECREASE)
	<u>2017</u>	<u>2016</u>	
EARNINGS PERFORMANCE			
Net Income	\$11,491	\$11,531	-0.35%
Return on Average Assets	1.23%	1.25%	-1.60%
Return on Average Equity	8.13%	8.16%	-0.37%
BALANCE SHEET HIGHLIGHTS			
Total Assets	\$1,259,921	\$1,245,333	1.17%
Available-for-Sale Securities	365,086	409,800	-10.91%
Loans (Net)	792,112	733,917	7.93%
Allowance for Loan Losses	8,900	8,421	5.69%
Deposits and Repo Sweep Accounts	1,026,364	998,200	2.82%
OFF-BALANCE SHEET			
Outstanding Balance of Mortgage Loans Sold with Servicing Retained	169,581	157,845	7.44%
Trust Assets Under Management	924,907	867,852	6.57%
SHAREHOLDERS' VALUE (PER COMMON SHARE)			
Net Income - Basic	\$0.94	\$0.95	-1.05%
Net Income - Diluted	\$0.94	\$0.95	-1.05%
Dividends	\$0.78	\$0.78	0.00%
Common Book Value	\$15.66	\$15.77	-0.70%
Tangible Common Book Value	\$14.68	\$14.78	-0.68%
Market Value (Last Trade)	\$24.56	\$21.97	11.79%
Market Value / Common Book Value	156.83%	139.32%	12.57%
Market Value / Tangible Common Book Value	167.30%	148.65%	12.55%
Price Earnings Multiple (Annualized)	19.60	17.34	13.03%
Dividend Yield (Annualized)	4.23%	4.73%	-10.57%
Common Shares Outstanding, End of Period	12,197,527	12,087,223	0.91%
SAFETY AND SOUNDNESS			
Tangible Common Equity / Tangible Assets	14.35%	14.48%	-0.90%
Nonperforming Assets / Total Assets	1.35%	1.79%	-24.58%
Allowance for Loan Losses / Total Loans	1.11%	1.13%	-1.77%
Total Risk Based Capital Ratio (a)	23.50%	23.56%	-0.25%
Leverage Ratio (a)	14.41%	14.17%	1.69%

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

AVERAGE BALANCES

Average Assets	\$1,243,448	\$1,226,733	1.36%
Average Equity	\$188,448	\$188,424	0.01%

EFFICIENCY RATIO

Net Interest Income on a Fully Taxable-Equivalent Basis	\$33,240	\$32,297	2.92%
Noninterest Revenue	12,036	11,480	4.84%
Total (1)	\$45,276	\$43,777	3.42%
Noninterest Expenses (2)	\$27,566	\$26,186	5.27%
Efficiency ratio = (2)/(1)	60.88%	59.82%	1.78%

QUARTERLY CONDENSED, CONSOLIDATED INCOME STATEMENT INFORMATION

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

For the Three Months Ended:

	Sept. 30, 2017	June 30, 2017	Mar. 31, 2017	Dec. 31, 2016	Sept. 30, 2016	June 30, 2016	Mar. 31, 2016
Interest income	\$11,626	\$11,340	\$11,112	\$11,106	\$11,131	\$10,924	\$10,937
Interest expense	985	978	953	920	944	925	904
Net interest income	10,641	10,362	10,159	10,186	10,187	9,999	10,033
Provision (credit) for loan losses	322	4	452	(3)	538	318	368
Net interest income after provision (credit) for loan losses	10,319	10,358	9,707	10,189	9,649	9,681	9,665
Noninterest revenue	4,066	4,106	3,864	4,031	3,884	3,906	3,690
Net gains on available-for-sale securities	5	107	145	69	584	122	383
Noninterest expenses	9,192	9,076	9,298	8,558	8,579	8,535	9,072
Income before income tax provision	5,198	5,495	4,418	5,731	5,538	5,174	4,666
Income tax provision	1,262	1,374	984	1,500	1,451	1,303	1,093
Net income	\$3,936	\$4,121	\$3,434	\$4,231	\$4,087	\$3,871	\$3,573
Net income attributable to common shares	\$3,916	\$4,100	\$3,416	\$4,209	\$4,065	\$3,850	\$3,553
Basic earnings per common share	\$0.32	\$0.34	\$0.28	\$0.35	\$0.34	\$0.32	\$0.29
Diluted earnings per common share	\$0.32	\$0.34	\$0.28	\$0.35	\$0.34	\$0.32	\$0.29

QUARTERLY CONDENSED, CONSOLIDATED BALANCE SHEET INFORMATION

(In Thousands) (Unaudited)

As of:

	Sept. 30, 2017	June 30, 2017	March 31, 2017	Dec. 31, 2016	Sept. 30, 2016
ASSETS					
Cash & Due from Banks	\$32,850	\$34,643	\$32,543	\$32,109	\$34,070
Available-for-Sale Securities	365,086	364,753	376,919	395,077	409,800
Loans Held for Sale	437	1,708	163	142	621
Loans, Net	792,112	771,057	753,277	743,362	733,917
Intangible Assets	11,956	11,957	11,958	11,959	11,963
Other Assets	57,480	59,283	59,064	59,643	54,962
TOTAL ASSETS	\$1,259,921	\$1,243,401	\$1,233,924	\$1,242,292	\$1,245,333
LIABILITIES					
Deposits	\$1,021,625	\$997,262	\$980,251	\$983,843	\$991,880
Repo Sweep Accounts	4,739	4,875	6,244	5,175	6,320
Total Deposits and Repo Sweeps	1,026,364	1,002,137	986,495	989,018	998,200
Borrowed Funds	34,256	42,321	52,888	59,454	46,808
Other Liabilities	8,288	9,084	7,191	7,812	9,722
TOTAL LIABILITIES	1,068,908	1,053,542	1,046,574	1,056,284	1,054,730
SHAREHOLDERS' EQUITY					
Common Shareholders' Equity, Excluding Accumulated Other Comprehensive Income/ Loss	190,639	189,339	187,825	186,906	185,173
Accumulated Other Comprehensive Income/ Loss: Net Unrealized Gains/Losses on Available-for-sale Securities	227	369	(630)	(949)	5,388
Defined Benefit Plans Adjustment, Net	147	151	155	51	42
TOTAL SHAREHOLDERS' EQUITY	191,013	189,859	187,350	186,008	190,603
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY	\$1,259,921	\$1,243,401	\$1,233,924	\$1,242,292	\$1,245,333

AVAILABLE-FOR-SALE SECURITIES (In Thousands)	September 30, 2017		June 30, 2017		December 31, 2016	
	Amortized	Fair	Amortized	Fair	Amortized	Fair
	Cost	Value	Cost	Value	Cost	Value
Obligations of U.S. Government agencies	\$8,028	\$7,946	\$9,678	\$9,591	\$9,671	\$9,541
Obligations of states and political subdivisions:						
Tax-exempt	108,521	110,557	114,095	116,338	118,140	119,037
Taxable	27,538	27,816	28,162	28,452	30,073	30,297
Mortgage-backed securities issued or guaranteed by U.S. Government agencies or sponsored agencies:						
Residential pass-through securities	55,247	54,917	47,767	47,405	58,922	58,404
Residential collateralized mortgage obligations	130,375	129,243	129,372	128,248	147,915	146,608
Commercial mortgage-backed securities	34,028	33,629	34,112	33,742	30,817	30,219
Total debt securities	363,737	364,108	363,186	363,776	395,538	394,106
Marketable equity securities	1,000	978	1,000	977	1,000	971
Total	\$364,737	\$365,086	\$364,186	\$364,753	\$396,538	\$395,077

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

	Sept. 30, 2017	June 30, 2017	Dec. 31, 2016	Sept. 30, 2016
Residential mortgage:				
Residential mortgage loans - first liens	\$355,285	\$342,603	\$334,102	\$325,533
Residential mortgage loans - junior liens	24,694	24,150	23,706	22,794
Home equity lines of credit	36,534	37,159	38,057	38,623
1-4 Family residential construction	25,286	26,067	24,908	23,310
Total residential mortgage	441,799	429,979	420,773	410,260
Commercial:				
Commercial loans secured by real estate	158,520	155,158	150,468	149,938
Commercial and industrial	83,243	82,815	83,854	86,969
Political subdivisions	54,730	51,495	38,068	38,653
Commercial construction and land	13,937	15,201	14,287	12,809
Loans secured by farmland	7,744	7,432	7,294	6,900
Multi-family (5 or more) residential	7,566	7,497	7,896	8,133
Agricultural loans	6,137	4,454	3,998	4,313
Other commercial loans	12,383	11,038	11,475	11,557
Total commercial	344,260	335,090	317,340	319,272
Consumer	14,953	14,623	13,722	12,806
Total	801,012	779,692	751,835	742,338
Less: allowance for loan losses	(8,900)	(8,635)	(8,473)	(8,421)
Loans, net	\$792,112	\$771,057	\$743,362	\$733,917

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

	Sept. 30, 2017	June 30, 2017	Dec. 31, 2016	Sept. 30, 2016
Residential mortgage loans originated and serviced - outstanding balance	\$170,018	\$167,497	\$163,438	\$158,466
Less: outstanding balance of loans sold	(169,581)	(165,789)	(163,296)	(157,845)
Loans held for sale, net	\$437	\$1,708	\$142	\$621

ANALYSIS OF THE ALLOWANCE FOR LOAN LOSSES
(In Thousands)

	3 Months Ended Sept. 30, 2017	3 Months Ended June 30, 2017	9 Months Ended Sept. 30, 2017	9 Months Ended Sept. 30, 2016
Balance, beginning of period	\$8,635	\$8,744	\$8,473	\$7,889
Charge-offs	(67)	(135)	(402)	(737)
Recoveries	10	22	51	45
Net charge-offs	(57)	(113)	(351)	(692)
Provision for loan losses	322	4	778	1,224
Balance, end of period	\$8,900	\$8,635	\$8,900	\$8,421

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

	Sept. 30, 2017	June 30, 2017	Dec 31, 2016	Sept. 30, 2016
Impaired loans with a valuation allowance	\$3,581	\$3,293	\$3,372	\$3,621
Impaired loans without a valuation allowance	5,388	5,418	7,488	7,514
Total impaired loans	\$8,969	\$8,711	\$10,860	\$11,135
Total loans past due 30-89 days and still accruing	\$5,978	\$3,749	\$7,735	\$4,040
Nonperforming assets:				
Total nonaccrual loans	\$12,400	\$11,504	\$8,736	\$12,481
Total loans past due 90 days or more and still accruing	2,979	2,680	6,838	7,539
Total nonperforming loans	15,379	14,184	15,574	20,020
Foreclosed assets held for sale (real estate)	1,650	2,023	2,180	2,321
Total nonperforming assets	\$17,029	\$16,207	\$17,754	\$22,341
Loans subject to troubled debt restructurings (TDRs):				
Performing	\$658	\$729	\$5,803	\$946
Nonperforming	3,075	3,059	2,874	5,032
Total TDRs	\$3,733	\$3,788	\$8,677	\$5,978
Total nonperforming loans as a % of loans	1.92%	1.82%	2.07%	2.70%
Total nonperforming assets as a % of assets	1.35%	1.30%	1.43%	1.79%
Allowance for loan losses as a % of total loans	1.11%	1.11%	1.13%	1.13%
Allowance for loan losses as a % of nonperforming loans	57.87%	60.88%	54.40%	42.06%

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

	3 Months Ended 9/30/2017 Average Balance	Rate of Return/ Cost of Funds %	3 Months Ended 6/30/2017 Average Balance	Rate of Return/ Cost of Funds %	3 Months Ended 9/30/2016 Average Balance	Rate of Return/ Cost of Funds %
EARNING ASSETS						
Available-for-sale securities, at amortized cost:						
Taxable	\$251,774	2.11%	\$255,806	2.13%	\$291,847	1.98%
Tax-exempt	111,721	4.27%	114,993	4.41%	112,679	4.51%
Total available-for-sale securities	363,495	2.78%	370,799	2.83%	404,526	2.69%
Interest-bearing due from banks	21,260	1.25%	14,873	1.11%	17,138	0.67%
Loans held for sale	781	5.08%	499	4.82%	556	5.01%
Loans receivable:						
Taxable	717,012	4.92%	702,933	4.91%	671,408	4.95%
Tax-exempt	71,334	4.51%	68,439	4.48%	61,608	4.50%
Total loans receivable	788,346	4.88%	771,372	4.87%	733,016	4.91%
Total Earning Assets	1,173,882	4.16%	1,157,543	4.17%	1,155,236	4.07%
Cash	18,325		17,276		17,523	
Unrealized gain/loss on securities	1,449		689		9,654	
Allowance for loan losses	(8,769)		(8,901)		(8,050)	
Bank premises and equipment	15,431		15,714		15,379	
Intangible assets	11,958		11,957		11,966	
Other assets	40,944		41,322		38,225	
Total Assets	\$1,253,220		\$1,235,600		\$1,239,933	
INTEREST-BEARING LIABILITIES						
Interest-bearing deposits:						
Interest checking	\$219,633	0.25%	\$203,256	0.21%	\$200,789	0.15%
Money market	194,947	0.19%	190,703	0.19%	205,158	0.17%
Savings	145,025	0.10%	142,978	0.10%	133,269	0.10%
Certificates of deposit	119,351	0.85%	116,450	0.82%	123,475	0.77%
Individual Retirement Accounts	96,934	0.45%	98,004	0.43%	103,259	0.42%
Other time deposits	1,472	0.27%	1,107	0.00%	1,523	0.26%
Total interest-bearing deposits	777,362	0.33%	752,498	0.31%	767,473	0.28%
Borrowed funds:						
Short-term	7,139	0.44%	21,205	0.85%	18,655	0.64%
Long-term	36,469	3.67%	38,353	3.74%	38,571	3.76%
Total borrowed funds	43,608	3.14%	59,558	2.71%	57,226	2.75%
Total Interest-bearing Liabilities	820,970	0.48%	812,056	0.48%	824,699	0.46%
Demand deposits	232,839		227,488		215,880	
Other liabilities	8,801		7,573		9,057	
Total Liabilities	1,062,610		1,047,117		1,049,636	
Shareholders' equity, excluding other comprehensive income/loss						
	189,520		187,882		183,966	
Accumulated other comprehensive income/loss	1,090		601		6,331	
Total Shareholders' Equity	190,610		188,483		190,297	
Total Liabilities and Shareholders' Equity	\$1,253,220		\$1,235,600		\$1,239,933	
Interest Rate Spread		3.68%		3.69%		3.61%
Net Interest Income/Earning Assets		3.83%		3.83%		3.74%
Total Deposits (Interest-bearing and Demand)	\$1,010,201		\$979,986		\$983,353	

(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 have been presented on an annualized basis.

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

	9 Months Ended 9/30/2017 Average Balance	Rate of Return/ Cost of Funds %	9 Months Ended 9/30/2016 Average Balance	Rate of Return/ Cost of Funds %
EARNING ASSETS				
Available-for-sale securities, at amortized cost:				
Taxable	\$259,539	2.12%	\$298,421	2.03%
Tax-exempt	114,759	4.37%	108,926	4.83%
Total available-for-sale securities	374,298	2.81%	407,347	2.78%
Interest-bearing due from banks	17,042	1.10%	20,566	0.58%
Loans held for sale	496	5.39%	516	5.44%
Loans receivable:				
Taxable	706,065	4.90%	654,256	4.98%
Tax-exempt	67,073	4.51%	61,319	4.51%
Total loans receivable	773,138	4.87%	715,575	4.94%
Total Earning Assets	1,164,974	4.15%	1,144,004	4.09%
Cash	17,213		16,548	
Unrealized gain/loss on securities	402		8,154	
Allowance for loan losses	(8,755)		(7,913)	
Bank premises and equipment	15,618		15,409	
Intangible assets	11,958		11,968	
Other assets	42,038		38,563	
Total Assets	\$1,243,448		\$1,226,733	
INTEREST-BEARING LIABILITIES				
Interest-bearing deposits:				
Interest checking	\$208,071	0.21%	\$197,628	0.14%
Money market	192,265	0.18%	199,211	0.17%
Savings	142,292	0.10%	131,880	0.10%
Certificates of deposit	116,500	0.82%	118,256	0.75%
Individual Retirement Accounts	97,981	0.44%	104,280	0.42%
Other time deposits	1,126	0.12%	1,157	0.12%
Total interest-bearing deposits	758,235	0.31%	752,412	0.28%
Borrowed funds:				
Short-term	23,118	0.75%	25,828	0.69%
Long-term	37,740	3.72%	38,648	3.77%
Total borrowed funds	60,858	2.59%	64,476	2.53%
Total Interest-bearing Liabilities	819,093	0.48%	816,888	0.45%
Demand deposits	227,726		213,172	
Other liabilities	8,181		8,249	
Total Liabilities	1,055,000		1,038,309	
Shareholders' equity, excluding other comprehensive income/loss				
Accumulated other comprehensive income/loss	188,041		183,078	
Accumulated other comprehensive income/loss	407		5,346	
Total Shareholders' Equity	188,448		188,424	
Total Liabilities and Shareholders' Equity	\$1,243,448		\$1,226,733	
Interest Rate Spread		3.67%		3.64%
Net Interest Income/Earning Assets		3.81%		3.77%
Total Deposits (Interest-bearing and Demand)	\$985,961		\$965,584	

(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 have been presented on an annualized basis.

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

	Three Months Ended			Nine Months Ended	
	Sept. 30, 2017	June 30, 2017	Sept. 30, 2016	Sept. 30, 2017	Sept. 30, 2016
Service charges on deposit accounts	\$1,168	\$1,094	\$1,221	\$3,346	\$3,523
Service charges and fees	115	104	118	316	335
Trust and financial management revenue	1,292	1,497	1,172	3,969	3,567
Brokerage revenue	187	208	216	551	569
Insurance commissions, fees and premiums	26	31	26	98	74
Interchange revenue from debit card transactions	561	568	481	1,649	1,431
Net gains from sales of loans	297	188	236	651	699
Loan servicing fees, net	35	55	28	162	39
Increase in cash surrender value of life insurance	97	94	97	281	286
Other operating income	288	267	289	1,013	957
Total other operating income, before realized gains on available-for-sale securities, net	\$4,066	\$4,106	\$3,884	\$12,036	\$11,480

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

	Three Months Ended			Nine Months Ended	
	Sept. 30, 2017	June 30, 2017	Sept. 30, 2016	Sept. 30, 2017	Sept. 30, 2016
Salaries and wages	\$3,985	\$3,972	\$3,901	\$11,825	\$11,701
Pensions and other employee benefits	1,216	1,144	1,060	3,890	3,499
Occupancy expense, net	580	600	601	1,758	1,770
Furniture and equipment expense	471	448	435	1,372	1,301
FDIC Assessments	93	96	151	283	448
Pennsylvania shares tax	336	336	287	1,008	932
Professional fees	269	254	245	750	816
Automated teller machine and interchange expense	346	305	291	945	807
Software subscriptions	299	291	237	870	729
Other operating expense	1,597	1,630	1,371	4,865	4,183
Total noninterest expense	\$9,192	\$9,076	\$8,579	\$27,566	\$26,186