

January 17, 2019

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**C&N DECLARES QUARTERLY AND SPECIAL DIVIDENDS AND ANNOUNCES 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 annual periods ended December 31, 2018.

**Dividend Declared**

C&N’s Board of Directors has declared a regular quarterly cash dividend of \$0.27 per share and a special cash dividend of \$0.10 per share. The dividends are payable on February 8, 2019 to shareholders of record as of January 28, 2019. Declaration of the dividend was made at the January 17, 2019 meeting of C&N’s Board of Directors.

**Unaudited Financial Information**

Net income was \$0.46 per diluted share in the fourth quarter 2018, up from \$0.45 in the third quarter 2018 and \$0.16 in the fourth quarter 2017. For the year ended December 31, 2018, net income was \$1.79 per diluted share as compared to \$1.10 in 2017. Annual earnings for 2018 included a net benefit of \$0.13 per diluted share from gains on a restricted equity security (Visa Class B stock) and a loss on available-for-sale debt securities. Fourth quarter 2017 and annual 2017 earnings were negatively impacted by a reduction in the federal corporate income tax rate to 21%, effective January 1, 2018, from the 35% marginal tax rate prior to the change. In the fourth quarter 2017, C&N recorded additional income tax expense of \$0.18 per share related to a reduction in the carrying value of the net deferred tax asset due to the change in tax rate. Annual 2017 earnings also included a net benefit of \$0.02 per share from net gains on sales of available-for-sale debt securities.

As described in more detail below, C&N’s 2018 earnings results, as compared to 2017, include a significant benefit from the reduction in the federal income tax rate.

The following table provides a reconciliation of C&N’s fourth quarter and annual unaudited 2018 and 2017 earnings under U.S. generally accepted accounting principles (U.S. GAAP) to comparative non-U.S. GAAP results excluding the 2017 impact of the change in the federal income tax rate as well as the 2018 gain on Visa Class B stock and gains and losses on available-for-sale debt securities in both years. Management believes disclosure of 2018 and 2017 earnings results, adjusted to exclude the impact of these items, provides useful information to investors for comparative purposes.

**RECONCILIATION OF NET INCOME AND  
DILUTED EARNINGS PER SHARE TO NON-U.S.  
GAAP MEASURE**

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

	4th Quarter 2018				4th 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	\$6,702	\$1,021	\$5,681	\$0.46	\$5,479	\$3,536	\$1,943	\$0.16
Additional Income Tax Provision Resulting from Change in Tax Rate		0	0			(2,159)	2,159	
Net Losses on Available-for-sale Debt Securities	4	1	3		0	0	0	
Adjusted Earnings, Excluding Effect of Change in Tax Rate and Net Losses on Available-for-sale Debt Securities (Non-U.S. GAAP)	\$6,706	\$1,022	\$5,684	\$0.46	\$5,479	\$1,377	\$4,102	\$0.34

	Year Ended Dec. 31, 2018				Year Ended Dec. 31, 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	\$26,263	\$4,250	\$22,013	\$1.79	\$20,590	\$7,156	\$13,434	\$1.10
Additional Income Tax Provision Resulting from Change in Tax Rate		0	0			(2,159)	2,159	
Less: Gain on Restricted Equity Security	(2,321)	(487)	(1,834)		0	0	0	
Net Losses (Gains) on Available-for-sale Debt Securities	288	60	228		(257)	(90)	(167)	
Adjusted Earnings, Excluding Effect of Change in Tax Rate, Gain on Restricted Equity Security and Net Gains and Losses on Available-for-sale Debt Securities (Non-U.S. GAAP)	\$24,230	\$3,823	\$20,407	\$1.66	\$20,333	\$4,907	\$15,426	\$1.26

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

Additional highlights related to C&N's fourth quarter and annual 2018 unaudited U.S. GAAP earnings results as compared to the third quarter 2018 and comparative periods of 2017 are presented below.

**Fourth Quarter 2018 as Compared to Third Quarter 2018**

Net income was \$5,681,000 in the fourth quarter 2018. In comparison, third quarter 2018 net income was \$5,586,000, including an after-tax benefit from securities gains (primarily Visa Class B stock) of \$450,000. 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 15.2% for the fourth quarter 2018, down from 16.6% for the third quarter 2018. The lower effective tax rate in the fourth quarter 2018 included the effect of tax-exempt noninterest income from a split-dollar life insurance claim as described in more detail below. Other significant variances were as follows:

- Net interest income increased \$433,000 (3.7%) in the fourth quarter 2018 as compared to the third quarter. The net interest margin was 4.01% in the fourth quarter 2018, up from 3.87% for the third quarter. The average yield on earning assets increased 0.17% while the average rate paid on interest-bearing liabilities increased 0.04%. The increased yield on earning assets included the effects of an increase in yield on loans to 5.21% in the fourth quarter from 5.06% in the third quarter, reflecting the

effects of increases in yields on new transactions and an estimated 0.07% benefit from an increase in fees and other adjustments from commercial loan pay-offs. The average yield on available-for-sale debt securities was 2.83% in the fourth quarter 2018, up from 2.71% in the third quarter 2018. The average rate paid on interest-bearing deposits increased to 0.54% in the fourth quarter 2018 from 0.52% in the third quarter. Average earning assets decreased slightly in the fourth quarter 2018, as seasonal reductions in municipal deposits contributed to a \$10,581,000 reduction in average total deposits. Average loans outstanding increased \$6,033,000 (0.7%) from the third quarter, and average available-for-sale debt securities increased \$11,550,000 while interest-bearing deposits in other banks decreased by \$18,458,000.

- The provision for loan losses was \$252,000 in the fourth quarter 2018, up from \$60,000 in the third quarter. The fourth quarter 2018 provision included the effects of establishing a specific allowance of \$584,000 on a commercial loan relationship with total loans outstanding of \$1,266,000 at December 31, 2018. The fourth quarter 2018 provision was effectively reduced by the impact of a partial recovery of a previous charge-off, as settlement was reached and payments totaling approximately \$703,000 received on a commercial participation loan for which a partial charge-off of \$595,000 had been recorded in 2016, resulting in a fourth quarter 2018 recovery of \$311,000.
- Noninterest income totaled \$5,040,000 in the fourth quarter 2018, up \$578,000 from the third quarter amount. Other noninterest income increased \$452,000. Within this category C&N recognized income totaling \$438,000 from a life insurance arrangement in which benefits were split between the Company and the heirs of a former employee. Total Trust and brokerage revenue increased \$101,000 in the fourth quarter 2018 over the third quarter total.
- Noninterest expense totaled \$10,074,000 in the fourth quarter 2018, up \$241,000 (2.5%) from the third quarter total. Salaries and wages expense increased \$348,000, including an increase of \$260,000 in incentive-related compensation expense based on higher 2018 earnings performance as compared to identified peer levels than had been assumed in estimates used to record expense in the first nine months of 2018.

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

Net income of \$5,681,000 in the fourth quarter 2018 was \$3,738,000 higher than the fourth quarter 2017 amount. Excluding the effect of the income tax rate change on fourth quarter 2017 earnings and the after-tax impact of net (losses) gains on available-for-sale debt securities as described above, adjusted fourth quarter 2018 net income of \$5,684,000 exceeded adjusted fourth quarter 2017 net income of \$4,102,000 by \$1,582,000 (38.6%). Pre-tax income, excluding net (losses) gains on available-for-sale debt securities, totaled \$6,706,000 in the fourth quarter 2018, an increase of \$1,227,000 (22.4%) over adjusted pre-tax income of \$5,479,000 in the fourth quarter 2017. Excluding the additional income tax provision in the fourth quarter 2017 resulting from the change in the federal income tax rate and net losses on available-for-sale debt securities, the effective tax rate of 15.2% for the fourth quarter 2018 was significantly lower than the comparative fourth quarter 2017 effective tax rate of 25.1%. Other significant earnings-related variances were as follows:

- Net interest income increased \$1,206,000 (11.2%) in the fourth quarter 2018 over the fourth quarter 2017 amount. Total interest and dividend income increased \$1,519,000, while interest expense increased \$313,000. The net interest margin of 4.01% for the fourth quarter 2018 was 0.17% higher than the fourth quarter 2017 level. The average fully taxable equivalent yield on earning assets increased to 4.44% in the fourth quarter 2018 from 4.18% in the fourth quarter 2017, as the average yield on loans increased to 5.21% from 4.88%. The improvement in average yield includes the effects of increases in interest rates. Average total loans outstanding were higher by \$23.6 million (2.9%) in the fourth quarter 2018 as compared to the fourth quarter 2017. The average balance of available-for-sale debt securities was higher by \$10.6 million in the fourth quarter 2018 over the fourth quarter 2017. Average total deposits were \$31.4 million (3.1%) higher in the fourth quarter 2018 as compared to the fourth quarter 2017. The average rate paid on interest-bearing liabilities was 0.63% in the fourth quarter 2018, up 0.15% from the fourth quarter 2017. The average rate paid on interest-bearing deposits was up 0.19% in the fourth

quarter 2018 over the fourth quarter 2017, while the average cost of borrowed funds dropped to 2.10% from 2.39% because of the pay-off of higher-cost borrowings that matured in the latter portion of 2017.

- The provision for loan losses of \$252,000 in the fourth quarter 2018 was higher than the fourth quarter 2017 amount by \$229,000. As noted above, the fourth quarter 2018 provision included the net impact of a newly established specific allowance of \$584,000 on a commercial loan relationship, partially offset by the effect of a \$311,000 recovery related to a commercial participation loan with a prior charge-off. In comparison, the fourth quarter 2017 provision included \$179,000 related to the change in total specific allowances on impaired loans, as adjusted for net charge-offs during the period and reductions totaling \$156,000 in the collectively determined and unallocated portions of the allowance for loan losses.
- Noninterest income increased \$923,000 (22.4%) in the fourth quarter 2018 over the fourth quarter 2017 amount. Other noninterest income increased \$551,000, including \$438,000 from the life insurance transaction described above as well as an increase of \$41,000 in dividends received on Federal Home Loan Bank of Pittsburgh stock. Service charges on deposit accounts increased \$173,000 (14.9%) in the fourth quarter 2018 over the fourth 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. Interchange revenue from debit card transactions increased \$94,000 (16.4%), reflecting an increase in transaction volume. Total Trust and brokerage revenue increased \$87,000 (5.2%), including increased volume-related growth in brokerage revenue of \$54,000.
- Total noninterest expense increased \$673,000 (7.2%) in the fourth quarter 2018 over the fourth quarter 2017 amount. The more significant variances were as follows:
  - Salaries and wages expense increased \$630,000, including an increase of \$431,000 in estimated cash and stock-based compensation expense and an increase in the average number of full-time equivalent employees (FTEs) to 299 in the fourth quarter 2018 from 294 in the fourth quarter 2017.
  - Other noninterest expense increased \$218,000, including increases in attorney fees associated with loan collection activities and related to C&N's pending acquisition of Monument Bancorp, Inc.(Monument), as well as increases in consulting fees related to the overdraft privilege program and expenses related to the credit card program.
  - Data processing expenses increased \$127,000, including increases in costs related to document imaging and a new loan origination system implemented in 2018.
  - Pensions and other benefits expense decreased \$266,000, reflecting a significantly lower level of claims under the partially self-insured plan in the fourth quarter 2018 as compared to the fourth quarter 2017.

### **Year Ended December 31, 2018 as Compared to 2017**

For the year ended December 31, 2018, net income totaled \$22,013,000, an increase of \$8,579,000 over 2017. Excluding the effect of the income tax rate change on 2017 earnings and 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 annual 2018 net income of \$20,407,000 exceeded adjusted net income for 2017 of \$15,426,000 by \$4,981,000 (32.3%). Pre-tax income, excluding the gain on Visa Class B stock and net (losses) gains on available-for-sale debt securities, totaled \$24,230,000 in 2018, an increase of \$3,897,000 (19.2%) over adjusted pre-tax income of \$20,333,000 in 2017. Excluding the additional income tax provision in 2017 resulting from the change in the federal income tax rate as well as the gain on Visa Class B stock and net (losses) gains on available-for-sale debt securities, the effective tax rate was 15.8% in 2018, significantly lower than the comparative adjusted 2017 effective tax rate of 24.1%. Other significant earnings-related variances were as follows:

- Net interest income was higher by \$3,755,000 (9.0%) for 2018 as compared to 2017. The net interest margin was 3.90% for 2018, up from 3.82% for 2017. The average yield on earning assets was 4.28% in 2018, up from 4.16% in 2017, reflecting an increase in average yield on loans of 0.18%. Average total loans outstanding were higher by \$41.7 million (5.3%) for 2018 as compared to 2017, while average total available-for-sale debt securities were lower by \$10.7 million. Average total deposits were \$36.9 million (3.7%) higher in 2018 as compared to 2017. The average rate paid on interest-bearing liabilities was

0.56% in 2018, up 0.08% as compared to 2017. The average rate paid on interest-bearing deposits was up 0.16% in 2018 as compared to 2017, while the average cost of borrowed funds dropped to 1.83% from 2.54% because of the pay-off of higher-cost borrowings that matured in the latter portion of 2017.

- The provision for loan losses was \$584,000 in 2018, down from \$801,000 in 2017. The 2018 provision included a charge of \$457,000 related to specific loans (net increase in specific allowances on loans of \$326,000 and net charge-offs of \$131,000) and a net \$127,000 charge attributable mainly to loan growth. In comparison, the provision in 2017 included \$1,023,000 related to the change in total specific allowances on impaired loans, as adjusted for net charge-offs during the period and a \$101,000 increase in the unallocated portion of the allowance, with a reduction in the provision of \$323,000 related to a reduction in the collectively determined allowance for loan losses.
- Noninterest income increased \$2,444,000 (15.1%) in 2018 over the 2017 amount. Other noninterest income increased \$878,000, including \$438,000 from the life insurance transaction described above as well as increases in dividends received on Federal Home Loan Bank of Pittsburgh stock, income from state tax credits, credit card interchange fees and revenue from merchant services. Total Trust and brokerage revenue increased \$660,000 (10.7%), reflecting growth in the average value of assets under management as well as increased volume of brokerage transactions. Service charges on deposit accounts increased \$611,000 (13.4%), mainly due to increased fees from the overdraft privilege program. Interchange revenue from debit card transactions increased \$325,000 (14.6%), reflecting increases in volume. Loan servicing fees, net, increased \$103,000, as the fair value of mortgage loan servicing rights decreased \$83,000 in 2018 as compared to a decrease of \$168,000 in 2017. Net gains from sales of loans decreased \$136,000 (16.6%), reflecting a reduction in volume of residential mortgage loans originated and sold.
- Total noninterest expense increased \$2,519,000 (6.8%) in 2018 over the 2017 amount. Significant fluctuations include the following:
  - Salaries and wages expense increased \$1,385,000 (8.8%), including the effects of annual performance-based salary adjustments for employees along with an increase of \$672,000 in estimated cash and stock-based compensation expense and an increase in the average number of full-time equivalent employees (FTEs) to 297 in 2018 from 292 in 2017.
  - Pensions and other employee benefits expense decreased \$89,000, reflecting a reduction of \$202,000 in health insurance expense due to lower claims from C&N's partially self-insured plan.
  - Other noninterest expense increased \$389,000. Donations expense increased \$229,000, including \$250,000 from the June 2018 donation of the Towanda banking facility to a nonprofit organization. C&N entered into a lease with the nonprofit organization and continues to provide banking services there until a new location in the Towanda market can be obtained and prepared for use. Other significant variances within this category include an increase of \$118,000 in consulting expense related to the overdraft privilege program, an increase of \$104,000 in credit card processing and rewards expenses, a decrease of \$247,000 in net loan collection expense and a decrease in other taxes of \$118,000 from sales tax refunds received.
  - Data processing expenses increased \$344,000 (14.3%), including increases in costs associated with document imaging and a new loan origination system implemented in 2018.
  - Professional fees increased \$268,000 (30.7%). The increase in professional fees expense included \$158,000 related to the pending acquisition of Monument, 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.
  - Telecommunications expense increased \$173,000, including higher costs associated with data lines from a new telephone system.

- Occupancy expense increased \$157,000 (6.7%), including the effects of accelerated depreciation on the Ralston, Pennsylvania branch closed in November 2018 and an increase in repairs and maintenance expense at several locations.

**Other Information:**

Changes in other unaudited financial information are as follows:

- Total assets amounted to \$1,290,893,000 at December 31, 2018, as compared to \$1,285,439,000 at September 30, 2018 and \$1,276,959,000 at December 31, 2017.
- Net loans outstanding (excluding mortgage loans held for sale) were \$818,254,000 at December 31, 2018, up from \$813,717,000 at September 30, 2018 and up 1.4% from \$806,857,000 at December 31, 2017. In comparing outstanding balances at December 31, 2018 and 2017, total residential mortgage loans increased \$9.5 million (2.1%) and total consumer loans increased \$2.2 million (14.7%), while total commercial loans were flat. At December 31, 2018, the outstanding balance of commercial loan participations with other financial entities was \$67.3 million, up from \$65.7 million at September 30, 2018 and \$61.2 million at December 31, 2017.
- The outstanding balance of residential mortgages originated by C&N and sold to third parties, with servicing retained, totaled \$171,742,000 at December 31, 2018 as compared to \$171,516,000 at September 30, 2018 and \$169,725,000 at December 31, 2017.
- Total nonperforming assets as a percentage of total assets was 1.37% at December 31, 2018 as compared to 1.30% at September 30, 2018 and 1.47% at December 31, 2017.
- Deposits and repo sweep accounts totaled \$1,039,625,000 at December 31, 2018, down from \$1,049,368,000 at September 30, 2018 and up 2.7% from \$1,012,215,000 at December 31, 2017.
- Total shareholders' equity was \$197,368,000 at December 31, 2018 as compared to \$189,987,000 at September 30, 2018 and \$188,443,000 at December 31, 2017. Within shareholders' equity, the portion of accumulated other comprehensive (loss) income related to available-for-sale debt securities was (\$4,307,000) at December 31, 2018 as compared to (\$8,502,000) at September 30, 2018 and (\$1,566,000) at December 31, 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 December 31, 2018, C&N and Citizens & Northern Bank continue to maintain regulatory capital ratios that exceed all capital adequacy requirements.
- Assets under management by C&N's Trust and Financial Management Group amounted to \$862,517,000 at December 31, 2018, down 5.9% from \$916,580,000 at December 31, 2017. The reduction in Trust assets under management reflects the effects of significant reductions in U.S and many international equity market valuations in the fourth quarter 2018.

Citizens & Northern Corporation is the parent company of Citizens & Northern Bank, a local, independent community bank providing complete financial, investment and insurance services through 25 full service offices throughout Tioga, Bradford, Sullivan, Lycoming, Potter, Cameron and McKean counties in Pennsylvania and in Canisteo and South Hornell, New York. C&N's most recently opened location, in Elmira, New York, offers commercial, residential and consumer lending services. C&N can be found on the worldwide web at [www.cnbankpa.com](http://www.cnbankpa.com). The Company's stock is listed on NASDAQ Capital Market Securities under the symbol CZNC.

**Safe Harbor Statement:** Except for historical information contained herein, the matters discussed in this release are forward-looking statements. Investors are cautioned that all forward-looking statements involve risks and uncertainty, including without limitation, the following: changes in monetary and fiscal policies of the Federal Reserve Board and the U.S. Government, particularly related to changes in interest rates; changes in general economic conditions; legislative or regulatory changes; downturn in demand for loan,

deposit and other financial services in the Corporation's market area; increased competition from other banks and non-bank providers of financial services; technological changes and increased technology-related costs; changes in management's assessment of 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.

 **CITIZENS & NORTHERN CORPORATION**

December 31, 2018

**QUARTERLY REPORT**

Dear Shareholder:

C&N's unaudited fourth quarter 2018 results remained strong and continued the momentum in our core business that we experienced throughout the year. Unaudited earnings per share (EPS) were \$.46 in the fourth quarter 2018, up from \$.16 in the fourth quarter 2017, and unaudited annual 2018 EPS of \$1.79 exceeded 2017 EPS of \$1.10. In addition to significant growth in pre-tax earnings, 2018 earnings have benefited from a lower corporate tax rate than had been in effect in 2017.

It is helpful to discuss our earnings on a pre-tax basis, after adjusting for the impact of the fourth quarter 2017 tax law changes and net securities gains/losses, as both have had a significant impact on bottom-line performance. With these adjustments, pre-tax income during the quarter increased 22.4% to \$6.7 million compared to \$5.5 million during the fourth quarter of 2017. Annual pre-tax earnings for 2018, similarly adjusted, increased 19.2% to \$24.2 million from \$20.6 million during 2017. Sustained revenue growth was the primary driver, as both net interest income and non-interest income increased at a substantially faster pace than noninterest expenses during both periods. This operating leverage is the result of ongoing investment in our Team and technology that aligns with our mission of "Creating value through lifelong relationships."

Growth in net interest income and expansion of the net interest margin are the result of modest overall growth in loans outstanding and the strength of C&N's core deposits. Loan growth during the fourth quarter and for all of 2018 was muted due to lower production levels and several larger commercial loan payoffs, however the mix of new loan business and repricing in the portfolio produced higher yields and revenue. Total deposits declined slightly during the fourth quarter but showed solid growth for the year. Demand deposits were the primary source of deposit growth which further improved our funding mix and controlled the related costs.

Generation of core noninterest income is another strength for C&N and is one of the positive outcomes of our focus on developing value-based relationships with customers. Trust and brokerage revenues from our wealth management business continued to grow in the fourth quarter and compared to 2017 as we added new business and we received the full year benefit of a modest fee increase implemented in mid-2017. Investment returns contributed to revenue growth for most of 2018, however the broad equity market decline during the fourth quarter tempered the increase at the end of the year. Service charges and fees related to our core deposits, including interchange revenue from debit cards, also increased substantially, as did loan servicing fees. Net gains from the sale of loans were flat during the quarter and declined for the year, as conforming mortgages declined as a percentage of overall originations resulting in fewer sales.

Noninterest expenses increased approximately 7% during the fourth quarter and for the year in 2018 as compared to the corresponding periods of 2017. Additional staff, salaries and incentive compensation were all higher during the quarter, and ultimately for the year. Pensions and employee benefits declined during both periods primarily due to lower costs in our partially self-funded health care plan. Data processing and telecommunications increases resulted from investment in systems and technology and their ongoing costs. Professional fees were higher due to acquisition expenses and various other projects, and the mid-year donation of the Towanda Office to a non-profit pushed contributions higher for the year.



Activities related to the Monument Bank acquisition are moving forward. All regulatory applications have been submitted and we expect that closing will occur in the second quarter of 2019. In addition, the Teams from both banks are fully engaged in planning for systems conversions and integration efforts that will follow closing. The interaction of the two groups is serving to validate the cultural fit between the organizations and establish relationships that will drive success over time. It is an exciting time for C&N as we take an initial step in expanding our business model into new markets and begin to leverage our capital position to create additional value for our shareholders.

Leveraging capital and paying off our investments in C&N's capacity for growth have been core elements of our strategic plan over the past several years. We have also focused on producing earnings that support a strong dividend and positive stock valuation, and ultimately a "currency" that underpins our capacity for growth. During 2018, C&N produced exceptional earnings and increased the quarterly dividend on common stock from \$.26 to \$.27 per share. The result was an annual dividend of \$1.08 and annualized yield of 4.09% based on C&N's 2018 closing price of \$26.43. This closing price was a 10.1% increase from the \$24.00 close a year earlier.

On January 17, 2019, the Board of Directors again declared a regular dividend of \$.27 per share payable February 8, 2019 to shareholders of record as of January 28, 2019. In addition, the Board declared a special dividend of \$.10 per share with the same payable and record dates, in recognition of C&N's overall performance during 2018 and the Company's ongoing strength.

Thank you for your continued interest and support as we look forward to a successful 2019 for everyone connected to C&N.

A handwritten signature in cursive script, appearing to read "Brad Scovill".

J. Bradley Scovill  
President and CEO

**CONDENSED, CONSOLIDATED EARNINGS INFORMATION**

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

	4TH QUARTER 2018 <u>(Current)</u>	4TH QUARTER 2017 <u>(Prior Year)</u>	<u>\$ Incr. (Decr.)</u>	<u>% Incr. (Decr.)</u>
Interest and Dividend Income	\$13,304	\$11,785	\$1,519	12.89%
Interest Expense	1,312	999	313	31.33%
Net Interest Income	11,992	10,786	1,206	11.18%
Provision for Loan Losses	252	23	229	995.65%
Net Interest Income After Provision for Loan Losses	11,740	10,763	977	9.08%
Noninterest Income	5,040	4,117	923	22.42%
Net Losses on Available-for-sale Debt Securities	(4)	0	(4)	
Noninterest Expense	10,074	9,401	673	7.16%
Income Before Income Tax Provision	6,702	5,479	1,223	22.32%
Income Tax Provision	1,021	3,536	(2,515)	-71.13%
<b>Net Income</b>	<b>\$5,681</b>	<b>\$1,943</b>	<b>\$3,738</b>	<b>192.38%</b>
<b>Net Income Attributable to Common Shares (1)</b>	<b>\$5,653</b>	<b>\$1,933</b>	<b>\$3,720</b>	<b>192.45%</b>
<b>PER COMMON SHARE DATA:</b>				
Net Income - Basic	\$0.46	\$0.16	\$0.30	187.50%
Net Income - Diluted	\$0.46	\$0.16	\$0.30	187.50%
Dividend Per Share	\$0.27	\$0.26	\$0.01	3.85%
Number of Shares Used in Computation - Basic	12,246,900	12,146,006		
Number of Shares Used in Computation - Diluted	12,283,041	12,178,853		

**CONDENSED, CONSOLIDATED EARNINGS INFORMATION**

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

	YEARS ENDED DECEMBER 31,			
	2018 <u>(Current)</u>	2017 <u>(Prior Year)</u>	<u>\$ Incr. (Decr.)</u>	<u>% Incr. (Decr.)</u>
Interest and Dividend Income	\$50,328	\$45,863	\$4,465	9.74%
Interest Expense	4,625	3,915	710	18.14%
Net Interest Income	45,703	41,948	3,755	8.95%
Provision for Loan Losses	584	801	(217)	-27.09%
Net Interest Income After Provision for Loan Losses	45,119	41,147	3,972	9.65%
Noninterest Income	18,597	16,153	2,444	15.13%
Gain on Restricted Equity Security	2,321	0	2,321	
Net (Losses) Gains on Available-for-sale Debt Securities	(288)	257	(545)	-212.06%
Noninterest Expense	39,486	36,967	2,519	6.81%
Income Before Income Tax Provision	26,263	20,590	5,673	27.55%
Income Tax Provision	4,250	7,156	(2,906)	-40.61%
<b>Net Income</b>	<b>\$22,013</b>	<b>\$13,434</b>	<b>\$8,579</b>	<b>63.86%</b>
<b>Net Income Attributable to Common Shares (1)</b>	<b>\$21,903</b>	<b>\$13,365</b>	<b>\$8,538</b>	<b>63.88%</b>
<b>PER COMMON SHARE DATA:</b>				
Net Income - Basic	\$1.79	\$1.10	\$0.69	62.73%
Net Income - Diluted	\$1.79	\$1.10	\$0.69	62.73%
Dividend Per Share	\$1.08	\$1.04	\$0.04	3.85%
Number of Shares Used in Computation - Basic	12,219,209	12,115,840		
Number of Shares Used in Computation - Diluted	12,257,368	12,155,136		

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

**CONDENSED, CONSOLIDATED BALANCE SHEET DATA**

(In Thousands) (Unaudited)

	<b>DECEMBER 31, 2018</b>	<b>DECEMBER 31, 2017</b>	<b>DECEMBER 31, 2018 vs 2017</b>	
			<b>\$ Incr. (Decr.)</b>	<b>% Incr. (Decr.)</b>
<b>ASSETS</b>				
Cash & Due from Banks	\$37,487	\$40,244	(\$2,757)	-6.85%
Available-for-sale Debt Securities	363,273	355,937	7,336	2.06%
Loans Held for Sale	213	765	(552)	-72.16%
Loans, Net	818,254	806,857	11,397	1.41%
Intangible Assets	11,951	11,954	(3)	-0.03%
Other Assets	59,715	61,202	(1,487)	-2.43%
<b>TOTAL ASSETS</b>	<b>\$1,290,893</b>	<b>\$1,276,959</b>	<b>\$13,934</b>	<b>1.09%</b>
<b>LIABILITIES</b>				
Deposits	\$1,033,772	\$1,008,449	\$25,323	2.51%
Repo Sweep Accounts	5,853	3,766	2,087	55.42%
Total Deposits and Repo Sweeps	1,039,625	1,012,215	27,410	2.71%
Borrowed Funds	42,915	67,189	(24,274)	-36.13%
Other Liabilities	10,985	9,112	1,873	20.56%
<b>TOTAL LIABILITIES</b>	<b>1,093,525</b>	<b>1,088,516</b>	5,009	0.46%
<b>SHAREHOLDERS' EQUITY</b>				
Common Shareholders' Equity, Excluding Accumulated Other Comprehensive Income (Loss)	201,538	189,950	11,588	6.10%
Accumulated Other Comprehensive Income (Loss):				
Net Unrealized Gains/Losses on				
Available-for-sale Debt Securities	(4,307)	(1,566)	(2,741)	175.03%
Defined Benefit Plans	137	59	78	132.20%
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>197,368</b>	<b>188,443</b>	<b>8,925</b>	<b>4.74%</b>
<b>TOTAL LIABILITIES &amp; SHAREHOLDERS' EQUITY</b>	<b>\$1,290,893</b>	<b>\$1,276,959</b>	<b>\$13,934</b>	<b>1.09%</b>


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

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

	AS OF OR FOR THE YEARS ENDED DECEMBER 31,		% INCREASE (DECREASE)
	<u>2018</u>	<u>2017</u>	
<b>EARNINGS PERFORMANCE</b>			
Net Income	\$22,013	\$13,434	63.86%
Return on Average Assets	1.72%	1.08%	59.26%
Return on Average Equity	11.72%	7.11%	64.84%
<b>BALANCE SHEET HIGHLIGHTS</b>			
Total Assets	\$1,290,893	\$1,276,959	1.09%
Available-for-Sale Debt Securities	363,273	355,937	2.06%
Loans (Net)	818,254	806,857	1.41%
Allowance for Loan Losses	9,309	8,856	5.12%
Deposits and Repo Sweep Accounts	1,039,625	1,012,215	2.71%
<b>OFF-BALANCE SHEET</b>			
Outstanding Balance of Mortgage Loans Sold with Servicing Retained	\$171,750	\$169,725	1.19%
Trust Assets Under Management	862,517	916,580	-5.90%
<b>SHAREHOLDERS' VALUE (PER COMMON SHARE)</b>			
Net Income - Basic	\$1.79	\$1.10	62.73%
Net Income - Diluted	\$1.79	\$1.10	62.73%
Dividends	\$1.08	\$1.04	3.85%
Common Book Value	\$16.02	\$15.43	3.82%
Tangible Common Book Value (a)	\$15.05	\$14.45	4.15%
Market Value (Last Trade)	\$26.43	\$24.00	10.13%
Market Value / Common Book Value	164.98%	155.54%	6.07%
Market Value / Tangible Common Book Value	175.61%	166.09%	5.73%
Price Earnings Multiple (Annualized)	14.77	21.82	-32.31%
Dividend Yield (Annualized)	4.09%	4.33%	-5.54%
Common Shares Outstanding, End of Period	12,319,330	12,214,525	0.86%

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

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

	AS OF OR FOR THE YEARS ENDED DECEMBER 31,		% INCREASE (DECREASE)
	<u>2018</u>	<u>2017</u>	
<b>SAFETY AND SOUNDNESS</b>			
Tangible Common Equity / Tangible Assets (a)	14.50%	13.95%	3.91%
Nonperforming Assets / Total Assets	1.37%	1.47%	-6.80%
Allowance for Loan Losses / Total Loans	1.12%	1.09%	2.75%
Total Risk Based Capital Ratio (b)	24.35%	23.07%	5.55%
Tier 1 Risk Based Capital Ratio (b)	23.17%	21.95%	5.56%
Common Equity Tier 1 Risk Based Capital Ratio (b)	23.17%	21.95%	5.56%
Leverage Ratio (b)	14.78%	14.23%	3.87%
<b>AVERAGE BALANCES</b>			
Average Assets	\$1,276,139	\$1,247,759	2.27%
Average Equity	\$187,895	\$188,958	-0.56%
<b>EFFICIENCY RATIO (c)</b>			
Net Interest Income on a Fully Taxable-Equivalent Basis (c)	\$47,006	\$44,708	5.14%
Noninterest Income	18,597	16,153	15.13%
Total (1)	\$65,603	\$60,861	7.79%
Noninterest Expense (2)	\$39,486	\$36,967	6.81%
Efficiency Ratio = (2)/(1)	60.19%	60.74%	-0.91%

(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	\$1,290,893	\$1,276,959
Less: Intangible Assets, Primarily Goodwill	(11,951)	(11,954)
<b>Tangible Assets</b>	<b>\$1,278,942</b>	<b>\$1,265,005</b>
Total Shareholders' Equity	\$197,368	\$188,443
Less: Intangible Assets, Primarily Goodwill	(11,951)	(11,954)
<b>Tangible Common Equity (3)</b>	<b>\$185,417</b>	<b>\$176,489</b>
Common Shares Outstanding, End of Period (4)	12,319,330	12,214,525
<b>Tangible Common Book Value per Share = (3)/(4)</b>	<b>\$15.05</b>	<b>\$14.45</b>

(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:

	Dec. 31, 2018	Sept. 30, 2018	June 30, 2018	March 31, 2018	Dec. 31, 2017	Sept. 30, 2017	June 30, 2017	March 31, 2017
Interest income	\$13,304	\$12,800	\$12,334	\$11,890	\$11,785	\$11,626	\$11,340	\$11,112
Interest expense	1,312	1,241	1,079	993	999	985	978	953
Net interest income	11,992	11,559	11,255	10,897	10,786	10,641	10,362	10,159
Provision (credit) for loan losses	252	60	(20)	292	23	322	4	452
Net interest income after provision (credit) for loan losses	11,740	11,499	11,275	10,605	10,763	10,319	10,358	9,707
Noninterest income	5,040	4,462	4,689	4,406	4,117	4,066	4,106	3,864
Net (losses) gains on securities	(4)	569	1,468	0	0	5	107	145
Noninterest expense	10,074	9,833	9,684	9,895	9,401	9,192	9,076	9,298
Income before income tax provision	6,702	6,697	7,748	5,116	5,479	5,198	5,495	4,418
Income tax provision	1,021	1,111	1,377	741	3,536	1,262	1,374	984
Net income	\$5,681	\$5,586	\$6,371	\$4,375	\$1,943	\$3,936	\$4,121	\$3,434
Net income attributable to common shares	\$5,653	\$5,558	\$6,339	\$4,352	\$1,933	\$3,916	\$4,100	\$3,416
Basic earnings per common share	\$0.46	\$0.45	\$0.52	\$0.36	\$0.16	\$0.32	\$0.34	\$0.28
Diluted earnings per common share	\$0.46	\$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:

	Dec. 31, 2018	Sept. 30, 2018	June 30, 2018	March 31, 2018	Dec. 31, 2017
<b>ASSETS</b>					
Cash & Due from Banks	\$37,487	\$38,341	\$51,475	\$36,860	\$40,244
Available-for-Sale Debt Securities	363,273	358,706	348,044	341,133	355,937
Loans Held for Sale	213	551	177	225	765
Loans, Net	818,254	813,717	809,816	808,300	806,857
Intangible Assets	11,951	11,951	11,952	11,953	11,954
Other Assets	59,715	62,173	62,543	59,645	61,202
<b>TOTAL ASSETS</b>	<b>\$1,290,893</b>	<b>\$1,285,439</b>	<b>\$1,284,007</b>	<b>\$1,258,116</b>	<b>\$1,276,959</b>
<b>LIABILITIES</b>					
Deposits	\$1,033,772	\$1,043,947	\$1,040,899	\$1,018,081	\$1,008,449
Repo Sweep Accounts	5,853	5,421	5,169	5,482	3,766
Total Deposits and Repo Sweeps	1,039,625	1,049,368	1,046,068	1,023,563	1,012,215
Borrowed Funds	42,915	35,985	39,054	39,122	67,189
Other Liabilities	10,985	10,099	9,706	9,049	9,112
<b>TOTAL LIABILITIES</b>	<b>1,093,525</b>	<b>1,095,452</b>	<b>1,094,828</b>	<b>1,071,734</b>	<b>1,088,516</b>
<b>SHAREHOLDERS' EQUITY</b>					
Common Shareholders' Equity, Excluding Accumulated Other Comprehensive Income (Loss)	201,538	198,355	195,518	191,920	189,950
Accumulated Other Comprehensive Income (Loss):					
Net Unrealized Gains (Losses) on					
Available-for-sale Securities	(4,307)	(8,502)	(6,476)	(5,679)	(1,566)
Defined Benefit Plans Adjustment, Net	137	134	137	141	59
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>197,368</b>	<b>189,987</b>	<b>189,179</b>	<b>186,382</b>	<b>188,443</b>
<b>TOTAL LIABILITIES &amp; SHAREHOLDERS' EQUITY</b>	<b>\$1,290,893</b>	<b>\$1,285,439</b>	<b>\$1,284,007</b>	<b>\$1,258,116</b>	<b>\$1,276,959</b>

AVAILABLE-FOR-SALE DEBT SECURITIES (In Thousands)	December 31, 2018		September 30, 2018		December 31, 2017	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Obligations of U.S. Government agencies	\$12,331	\$12,500	\$4,815	\$4,768	\$8,026	\$7,873
Obligations of states and political subdivisions:						
Tax-exempt	84,204	83,952	92,837	91,712	103,673	105,111
Taxable	27,618	27,699	27,975	27,642	25,431	25,573
Mortgage-backed securities issued or guaranteed by U.S. Government agencies or sponsored agencies:						
Residential pass-through securities	54,827	53,445	57,279	55,131	52,992	52,347
Residential collateralized mortgage obligations	148,964	145,912	148,074	142,631	134,314	131,814
Commercial mortgage-backed securities	40,781	39,765	38,488	36,822	33,881	33,219
<b>Total Available-for-Sale Debt Securities</b>	<b>\$368,725</b>	<b>\$363,273</b>	<b>\$369,468</b>	<b>\$358,706</b>	<b>\$358,317</b>	<b>\$355,937</b>

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

	Dec. 31, 2018	Sept. 30, 2018	Dec. 31, 2017
Residential mortgage:			
Residential mortgage loans - first liens	\$372,339	\$366,516	\$359,987
Residential mortgage loans - junior liens	25,450	25,748	25,325
Home equity lines of credit	34,319	34,283	35,758
1-4 Family residential construction	24,698	27,661	26,216
<b>Total residential mortgage</b>	<b>456,806</b>	<b>454,208</b>	<b>447,286</b>
Commercial:			
Commercial loans secured by real estate	162,611	159,212	159,266
Commercial and industrial	91,856	91,472	88,276
Political subdivisions	53,263	53,294	59,287
Commercial construction and land	11,962	12,278	14,527
Loans secured by farmland	7,146	7,208	7,255
Multi-family (5 or more) residential	7,180	7,670	7,713
Agricultural loans	5,659	5,670	6,178
Other commercial loans	13,950	14,140	10,986
<b>Total commercial</b>	<b>353,627</b>	<b>350,944</b>	<b>353,488</b>
Consumer	17,130	17,380	14,939
<b>Total</b>	<b>827,563</b>	<b>822,532</b>	<b>815,713</b>
Less: allowance for loan losses	(9,309)	(8,815)	(8,856)
<b>Loans, net</b>	<b>\$818,254</b>	<b>\$813,717</b>	<b>\$806,857</b>

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

	Dec. 31, 2018	Sept. 30, 2018	Dec. 31, 2017
Residential mortgage loans originated and serviced - outstanding balance	\$171,955	\$172,067	\$170,490
Less: outstanding balance of loans sold	(171,742)	(171,516)	(169,725)
<b>Loans held for sale, net</b>	<b>\$213</b>	<b>\$551</b>	<b>\$765</b>

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

	<b>3 Months Ended Dec. 31, 2018</b>	<b>3 Months Ended Sept. 30, 2018</b>	<b>Year Ended Dec. 31, 2018</b>	<b>Year Ended Dec. 31, 2017</b>
Balance, beginning of period	\$8,815	\$8,831	\$8,856	\$8,473
Charge-offs	(79)	(92)	(497)	(479)
Recoveries	321	16	366	61
Net charge-offs	242	(76)	(131)	(418)
Provision for loan losses	252	60	584	801
Balance, end of period	\$9,309	\$8,815	\$9,309	\$8,856

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

	<b>Dec 31, 2018</b>	<b>Sept. 30, 2018</b>	<b>Dec 31, 2017</b>
Impaired loans with a valuation allowance	\$4,851	\$3,623	\$4,100
Impaired loans without a valuation allowance	4,923	4,455	5,411
Total impaired loans	\$9,774	\$8,078	\$9,511
Total loans past due 30-89 days and still accruing	\$7,142	\$4,455	\$9,449

Nonperforming assets:

Total nonaccrual loans	\$13,113	\$10,911	\$13,404
Total loans past due 90 days or more and still accruing	2,906	3,124	3,724
Total nonperforming loans	16,019	14,035	17,128
Foreclosed assets held for sale (real estate)	1,703	2,678	1,598
Total nonperforming assets	\$17,722	\$16,713	\$18,726

Loans subject to troubled debt restructurings (TDRs):

Performing	\$655	\$698	\$636
Nonperforming	2,884	2,925	3,027
Total TDRs	\$3,539	\$3,623	\$3,663

Total nonperforming loans as a % of loans	1.94%	1.71%	2.10%
Total nonperforming assets as a % of assets	1.37%	1.30%	1.47%
Allowance for loan losses as a % of total loans	1.12%	1.07%	1.09%
Allowance for loan losses as a % of nonperforming loans	58.11%	62.81%	51.70%



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

	3 Months Ended 12/31/2018 Average Balance	Rate of Return/ Cost of Funds %	3 Months Ended 9/30/2018 Average Balance	Rate of Return/ Cost of Funds %	3 Months Ended 12/31/2017 Average Balance	Rate of Return/ Cost of Funds %
<b>EARNING ASSETS</b>						
Available-for-sale debt securities, at amortized cost:						
Taxable	\$282,708	2.56%	\$269,054	2.39%	\$256,714	2.14%
Tax-exempt	91,371	3.68%	93,475	3.63%	106,773	4.23%
<b>Total available-for-sale debt securities</b>	<b>374,079</b>	<b>2.83%</b>	<b>362,529</b>	<b>2.71%</b>	<b>363,487</b>	<b>2.76%</b>
Marketable equity security	941	2.53%	945	2.10%	1,000	2.38%
Interest-bearing due from banks	16,082	2.37%	34,540	1.99%	15,423	1.29%
Loans held for sale	225	8.82%	179	6.65%	393	5.05%
Loans receivable:						
Taxable	751,793	5.35%	744,793	5.20%	729,219	4.92%
Tax-exempt	74,672	3.78%	75,639	3.70%	73,683	4.56%
<b>Total loans receivable</b>	<b>826,465</b>	<b>5.21%</b>	<b>820,432</b>	<b>5.06%</b>	<b>802,902</b>	<b>4.88%</b>
<b>Total Earning Assets</b>	<b>1,217,792</b>	<b>4.44%</b>	<b>1,218,625</b>	<b>4.27%</b>	<b>1,183,205</b>	<b>4.18%</b>
Cash	17,101		18,697		17,645	
Unrealized gain/loss on securities	(10,898)		(8,641)		(844)	
Allowance for loan losses	(8,986)		(8,984)		(9,013)	
Bank premises and equipment	14,735		15,023		15,313	
Intangible assets	11,949		11,953		11,954	
Other assets	44,159		44,675		42,294	
<b>Total Assets</b>	<b>\$1,285,852</b>		<b>\$1,291,348</b>		<b>\$1,260,554</b>	
<b>INTEREST-BEARING LIABILITIES</b>						
Interest-bearing deposits:						
Interest checking	\$216,757	0.51%	\$223,105	0.49%	\$215,300	0.28%
Money market	177,461	0.40%	185,267	0.33%	188,659	0.19%
Savings	155,687	0.10%	153,514	0.10%	147,382	0.10%
Certificates of deposit	136,810	1.28%	141,481	1.24%	119,936	0.92%
Individual Retirement Accounts	88,519	0.55%	90,693	0.52%	96,148	0.46%
Other time deposits	666	0.00%	1,446	0.27%	682	0.00%
<b>Total interest-bearing deposits</b>	<b>775,900</b>	<b>0.54%</b>	<b>795,506</b>	<b>0.52%</b>	<b>768,107</b>	<b>0.35%</b>
Borrowed funds:						
Short-term	12,499	1.46%	13,062	1.18%	25,669	1.28%
Long-term	34,936	2.33%	30,375	2.21%	29,480	3.35%
<b>Total borrowed funds</b>	<b>47,435</b>	<b>2.10%</b>	<b>43,437</b>	<b>1.90%</b>	<b>55,149</b>	<b>2.39%</b>
<b>Total Interest-bearing Liabilities</b>	<b>823,335</b>	<b>0.63%</b>	<b>838,943</b>	<b>0.59%</b>	<b>823,256</b>	<b>0.48%</b>
Demand deposits	261,118		252,093		237,518	
Other liabilities	11,015		11,147		9,308	
<b>Total Liabilities</b>	<b>1,095,468</b>		<b>1,102,183</b>		<b>1,070,082</b>	
Stockholders' equity, excluding accumulated other comprehensive income/loss						
Accumulated other comprehensive income/loss	198,861		195,854		190,878	
	(8,477)		(6,689)		(406)	
<b>Total Shareholders' Equity</b>	<b>190,384</b>		<b>189,165</b>		<b>190,472</b>	
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$1,285,852</b>		<b>\$1,291,348</b>		<b>\$1,260,554</b>	
Interest Rate Spread		3.81%		3.68%		3.70%
Net Interest Income/Earning Assets		4.01%		3.87%		3.84%
Total Deposits (Interest-bearing and Demand)						
	\$1,037,018		\$1,047,599		\$1,005,625	

(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)**

	Year Ended 12/31/2018 Average Balance	Rate of Return/ Cost of Funds %	Year Ended 12/31/2017 Average Balance	Rate of Return/ Cost of Funds %
<b>EARNING ASSETS</b>				
Available-for-sale debt securities, at amortized cost:				
Taxable	\$262,461	2.36%	\$258,079	2.12%
Tax-exempt	97,662	3.58%	112,746	4.34%
<b>Total available-for-sale debt securities</b>	<b>360,123</b>	<b>2.69%</b>	<b>370,825</b>	<b>2.80%</b>
Marketable equity security	950	2.32%	1,000	2.10%
Interest-bearing due from banks	21,800	1.90%	16,634	1.14%
Loans held for sale	210	6.67%	470	5.32%
Loans receivable:				
Taxable	746,309	5.18%	711,901	4.90%
Tax-exempt	76,037	3.71%	68,739	4.52%
<b>Total loans receivable</b>	<b>822,346</b>	<b>5.05%</b>	<b>780,640</b>	<b>4.87%</b>
<b>Total Earning Assets</b>	<b>1,205,429</b>	<b>4.28%</b>	<b>1,169,569</b>	<b>4.16%</b>
Cash	17,674		17,322	
Unrealized gain/loss on securities	(8,343)		88	
Allowance for loan losses	(9,033)		(8,820)	
Bank premises and equipment	15,156		15,541	
Intangible assets	11,952		11,957	
Other assets	43,305		42,102	
<b>Total Assets</b>	<b>\$1,276,140</b>		<b>\$1,247,759</b>	
<b>INTEREST-BEARING LIABILITIES</b>				
Interest-bearing deposits:				
Interest checking	\$217,638	0.44%	\$209,893	0.23%
Money market	180,835	0.30%	191,356	0.19%
Savings	152,889	0.10%	143,575	0.10%
Certificates of deposit	134,478	1.17%	117,366	0.85%
Individual Retirement Accounts	91,587	0.52%	97,519	0.45%
Other time deposits	995	0.10%	1,014	0.10%
<b>Total interest-bearing deposits</b>	<b>778,422</b>	<b>0.48%</b>	<b>760,723</b>	<b>0.32%</b>
Borrowed funds:				
Short-term	25,226	1.45%	23,761	0.90%
Long-term	25,209	2.21%	35,658	3.64%
<b>Total borrowed funds</b>	<b>50,435</b>	<b>1.83%</b>	<b>59,419</b>	<b>2.54%</b>
<b>Total Interest-bearing Liabilities</b>	<b>828,857</b>	<b>0.56%</b>	<b>820,142</b>	<b>0.48%</b>
Demand deposits	249,409		230,194	
Other liabilities	9,979		8,465	
<b>Total Liabilities</b>	<b>1,088,245</b>		<b>1,058,801</b>	
Stockholders' equity, excluding accumulated other comprehensive income/loss				
other comprehensive income/loss	194,333		188,756	
Accumulated other comprehensive income/loss	(6,438)		202	
<b>Total Shareholders' Equity</b>	<b>187,895</b>		<b>188,958</b>	
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$1,276,140</b>		<b>\$1,247,759</b>	
Interest Rate Spread		3.72%		3.68%
Net Interest Income/Earning Assets		3.90%		3.82%
Total Deposits (Interest-bearing and Demand)				
	\$1,027,831		\$990,917	

(1) 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.

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

	Three Months Ended			Years Ended	
	Dec. 31, 2018	Sept. 30, 2018	Dec. 31, 2017	Dec. 31, 2018	Dec. 31, 2017
Trust and financial management revenue	\$1,463	\$1,427	\$1,430	\$5,838	\$5,399
Brokerage revenue	300	235	246	1,018	797
Insurance commissions, fees and premiums	33	15	17	105	115
Service charges on deposit accounts	1,334	1,331	1,161	5,171	4,560
Service charges and fees	80	95	82	343	345
Interchange revenue from debit card transactions	666	660	572	2,546	2,221
Net gains from sales of loans	168	164	167	682	818
Loan servicing fees, net	84	74	82	347	244
Increase in cash surrender value of life insurance	99	100	98	394	379
Other noninterest income	813	361	262	2,153	1,275
Total noninterest income, excluding realized gains (losses) on securities, net	\$5,040	\$4,462	\$4,117	\$18,597	\$16,153

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

	Three Months Ended			Years Ended	
	Dec. 31, 2018	Sept. 30, 2018	Dec. 31, 2017	Dec. 31, 2018	Dec. 31, 2017
Salaries and wages	\$4,611	\$4,263	\$3,981	\$17,191	\$15,806
Pensions and other employee benefits	1,212	1,237	1,478	5,259	5,348
Occupancy expense, net	599	648	582	2,497	2,340
Furniture and equipment expense	295	317	331	1,196	1,299
Data processing expenses	748	667	621	2,750	2,406
Automated teller machine and interchange expense	316	347	339	1,304	1,284
Pennsylvania shares tax	320	326	321	1,318	1,329
Professional fees	280	305	273	1,140	872
Telecommunications	181	177	166	748	575
Directors' fees	157	197	172	706	720
Other noninterest expense	1,355	1,349	1,137	5,377	4,988
Total noninterest expense	\$10,074	\$9,833	\$9,401	\$39,486	\$36,967