

July 20, 2017

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C&N DECLARES DIVIDEND AND ANNOUNCES SECOND 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 six-month periods ended June 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 August 11, 2017 to shareholders of record as of July 31, 2017. Declaration of the dividend was made at the July 20, 2017 meeting of C&N’s Board of Directors.

Unaudited Financial Information

Second quarter 2017 net income was \$0.34 per basic and diluted share, as compared to \$0.28 in the first quarter 2017 and \$0.32 in the second quarter 2016. For the six months ended June 30, 2017, net income per basic and diluted share was \$0.62 as compared to \$0.61 for the first six months of 2016. The return on average assets for the first six months of 2017 was 1.22%, and the return on average equity was 8.07%. Highlights related to C&N’s earnings results for the comparative periods are presented below.

Second Quarter 2017 as Compared to First Quarter 2017

Net income was \$4,121,000 in the second quarter 2017, up from \$3,434,000 in the first quarter 2017. Significant variances were as follows:

- Net interest income increased \$203,000 (2.0%), in the second quarter 2017 as compared to the first quarter. In addition to the benefit of an additional day in the second quarter, the net interest margin improved to 3.83% for the second quarter 2017 as compared to 3.78% for the first quarter.
- The provision for loan losses totaled \$4,000 in the second quarter 2017, down from \$452,000 in the first quarter. In the second quarter, the 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 provision was a \$413,000 reduction in the collectively determined allowance for loan losses. The reduction in the collectively determined allowance included the effects of a 4 basis point improvement (reduction) in C&N’s aggregate net charge-off experience, along with a 4 basis point reduction in the qualitative factors used to estimate the allowance as of the end of the quarter. The reductions in the qualitative factors were determined by a management committee that noted improvements in loan delinquency levels along with a reduction in the unemployment rate over the previous 12 months throughout most of C&N’s market area. The net increase in specific allowances in the second quarter 2017 included an increase of \$205,000 in the allowance related to one real estate secured commercial loan. In the first quarter, the specific allowance associated with this loan increased \$225,000. At June 30, 2017, the outstanding balance of this loan was \$2,718,000, and the related allowance was \$958,000.

- Noninterest revenue totaled \$4,106,000 in the second quarter 2017, an increase of \$242,000 (6.3%) from the first quarter total. Trust and financial management revenue totaled \$1,497,000 in the second quarter, an increase of \$317,000 over the first quarter amount. The increase in Trust and financial management revenue (which is recognized on a cash basis) included \$215,000 resulting from a change in the frequency of billings that occurred in the quarter. Other operating income of \$267,000 was \$191,000 lower in the second quarter as compared to the first quarter as the total for the first quarter included revenue from tax credit programs totaling \$190,000.
- Total noninterest expenses in the second quarter 2017 decreased \$222,000 (2.4%) as compared to the first quarter amount. Pensions and other employee benefits expense was \$386,000 lower in the second quarter 2017 as compared to the first quarter, as payroll taxes and similar expenses decreased, consistent with the normal pattern of such costs being highest in the beginning of the calendar year.
- The income tax provision was \$1,374,000 in the second quarter 2017 for an effective tax rate of 25.0% of pre-tax income, up from \$984,000 in the first quarter for an effective tax rate of 22.3% of pre-tax income, primarily as a result of higher pre-tax income.

Second Quarter 2017 as Compared to Second Quarter 2016

Net income for the second quarter 2017 was higher by \$250,000 (6.5%) than the second quarter 2016 amount. Significant variances were as follows:

- Net interest income increased \$363,000 (3.6%) in the second quarter 2017 as compared to the second quarter 2016. The net interest margin of 3.83% for the second quarter 2017 was higher than the second quarter 2016 level of 3.76%. 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 \$59.5 million (8.4%) in the second quarter 2017 as compared to the second quarter 2016, while average total available-for-sale securities were lower by \$35.5 million. Average total deposits were \$11.4 million (1.2%) higher in the second quarter 2017 as compared to the second quarter 2016.
- The second quarter 2017 provision for loan losses was \$314,000 lower than the second quarter 2016 amount. As noted above, the second quarter 2017 provision included \$315,000 related to the change in total specific allowances on impaired loans, as adjusted for net charge-offs during the period and a \$102,000 increase in the unallocated portion of the allowance, offset by a \$413,000 reduction in the collectively determined portion of the allowance at June 30, 2017. In comparison, the second quarter 2016 provision included a \$3,000 reduction in total specific allowances on impaired loans, as adjusted for net charge-offs during the period and a \$29,000 decrease in the unallocated portion of the allowance, with a \$350,000 increase in the collectively determined portion of the allowance. The increase in the collectively determined portion of the allowance in the second quarter 2016 resulted from growth in outstanding loans and the use of slightly higher qualitative factors to estimate the required allowance.
- Noninterest revenue increased \$200,000 (5.1%) in the second quarter 2017 over the second quarter 2016 amount. Trust and financial management revenue increased \$246,000, including \$215,000 from changing the frequency of billings as noted above. Interchange revenue from debit card transactions increased \$81,000 (16.6%), reflecting benefits from a consulting project in 2016 that identified opportunities for improvements in card-related volumes and processing. Loan servicing fees, net, increased \$66,000, as the fair value of mortgage servicing rights decreased by \$47,000 in the second quarter 2017 as compared to a reduction of \$108,000 in the first quarter 2016. Net gains from sales of loans decreased \$107,000 in the second quarter 2017 as compared to the second quarter 2016, due to a reduction in volume. Service charges on deposit accounts decreased \$70,000 (6.0%), as revenue from consumer overdrafts declined due to lower volume.
- Total noninterest expenses increased \$541,000 (6.3%) in the second quarter 2017 over the second quarter 2016 amount. Other operating expense increased \$287,000, including increases of \$77,000 in loan

collection expenses, \$65,000 related to a sales tax audit and \$52,000 in losses associated with other real estate. Pensions and other employee benefits expense increased \$142,000, including the effect of higher health care expenses on C&N's partially self-insured plan. Software subscriptions increased \$40,000, including costs associated with new applications as well as annual licensing increases. Automated teller machine and interchange expense increased \$38,000, including costs associated with issuing new debit cards with EMV functionality. FDIC assessments expense decreased \$59,000, reflecting a lower assessment level.

Six-Month Periods Ended June 30, 2017 and 2016

Net income was \$7,555,000 in first six months of 2017, an increase of 1.5% over net income for the first six months of 2016 of \$7,444,000. Significant variances were as follows:

- Net interest income was \$489,000 (2.4%) higher for the first six months of 2017 as compared to the first six months of 2016. The net interest margin was 3.81% for the first six months of 2017, up from 3.79% for the first six months of 2016. Average total loans outstanding were up \$58.6 million (8.3%) in the first six months of 2017 as compared to the first six months of 2016, while average total available-for-sale securities were lower by \$29.0 million. Average total deposits were \$17.0 million (1.8%) higher in the first six months of 2017 as compared to the first six months of 2016.
- The provision for loan losses of \$456,000 for the first six months of 2017 was \$230,000 lower than the amount for the first six months of 2016. In 2017, the provision included \$703,000 related to the change in total specific allowances on impaired loans, as adjusted for net charge-offs during the period and a \$102,000 increase in the unallocated portion of the allowance, with a reduction in the provision of \$349,000 related to the reduction in the collectively determined allowance for loan losses. As described in more detail above, 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 June 30, 2017. The net increase in specific allowances in the first six months of 2017 included an increase in the allowance related to one real estate secured commercial loan of \$430,000 to \$958,000 at June 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 six months of 2016 included \$79,000 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 \$636,000 related to an increase in the collectively determined allowance for loan losses. The increase in the collectively determined portion of the allowance at June 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 \$374,000 (4.9%) in the first six months of 2017 as compared to the first six months of 2016. Trust and financial management revenue increased \$282,000, including the effects of changing the frequency of billings as described above. Interchange revenue from debit card transactions increased \$138,000 (14.5%), reflecting improvements in card-related volumes and processing. Loan servicing fees, net, increased \$116,000, as the fair value of mortgage servicing rights decreased by \$78,000 in the first six months of 2017 as compared to a reduction of \$179,000 in the first six months of 2016. Service charges on deposit accounts decreased \$124,000 (5.4%), as revenue from consumer overdrafts declined due to lower volume. Net gains from sales of loans were \$109,000 lower for the first six months of 2017 as compared to 2016, due to a reduction in sales volume.

- Total noninterest expenses increased \$767,000 (4.4%) for the first six months of 2017 as compared to the first six months of 2016. Other operating expense increased \$456,000. Within other operating expense, the largest variances included increases of \$169,000 in loan collection expenses, \$70,000 in losses and expenses associated with other real estate and \$65,000 related to a sales tax audit. Pensions and other employee benefits expense increased \$235,000, primarily as a result of higher health care expenses on C&N's partially self-insured plan. Automated teller machine and interchange expense increased \$83,000, including costs associated with issuing new debit cards with EMV functionality. Software subscriptions increased \$79,000, including costs associated with new applications as well as annual licensing increases. FDIC assessments expense decreased \$107,000, reflecting a lower assessment level. Professional fees expense decreased \$90,000, reflecting a reduction in information technology and sales and service-related consulting expense.

Other Information:

Changes in other unaudited financial information are as follows:

- Total assets amounted to \$1,243,401,000 at June 30, 2017, as compared to \$1,233,924,000 at March 31, 2017 and \$1,231,018,000 at June 30, 2016.
- Net loans outstanding (excluding mortgage loans held for sale) were \$771,057,000 at June 30, 2017, up from \$753,277,000 at March 31, 2017 and up 7.1% from \$719,913,000 at June 30, 2016. In comparing outstanding balances at June 30, 2017 and 2016, total residential mortgage loans increased \$31.3 million, or 7.9%, and total commercial loans increased \$18.0 million, or 5.7%. At June 30, 2017, the outstanding balance of commercial loan participations with other financial entities was \$42.9 million, down from \$47.1 million at June 30, 2016.
- The outstanding balance of residential mortgages originated by C&N and sold to third parties, with servicing retained, totaled \$165,789,000 at June 30, 2017, up from \$164,291,000 at March 31, 2017 and \$156,417,000 at June 30, 2016.
- Total nonperforming assets as a percentage of total assets was 1.30% at June 30, 2017 as compared to 1.28% at March 31, 2017 and 1.40% at June 30, 2016.
- Deposits and repo sweep accounts totaled \$1,002,137,000 at June 30, 2017, up from \$986,495,000 at March 31, 2017, and up 2.9% from \$973,612,000 at June 30, 2016.
- Total shareholders' equity was \$189,859,000 at June 30, 2017 as compared to \$187,350,000 at March 31, 2017 and \$190,530,000 at June 30, 2016. Tangible common equity as a percentage of tangible assets was 14.45% at June 30, 2017 as compared to 14.65% a year earlier. Within shareholders' equity, the portion of accumulated other comprehensive income (loss) related to available-for-sale securities was in a gain position of \$369,000 at June 30, 2017 as compared to a loss position of (\$630,000) at March 31, 2017 and a gain position of \$6,849,000 at June 30, 2016. Fluctuations in accumulated other comprehensive income (loss) have been caused by changes in interest rates, which have resulted in changes in the fair value of available-for-sale securities.
- Assets under management by C&N's Trust and Financial Management Group amounted to \$894,669,000 at June 30, 2017, up from \$880,979,000 at March 31, 2017, and up 5.6% from \$847,280,000 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.

June 30, 2017

QUARTERLY REPORT

Dear Shareholder:

Second quarter 2017 net income was \$0.34 per share, as compared to \$0.28 in the first quarter 2017 and \$0.32 in the second quarter 2016. For the six months ended June 30, 2017, net income per share was \$0.62 as compared to \$0.61 for the first six months of 2016. The return on average assets for the first six months of 2017 was 1.22%, and the return on average equity was 8.07%. Our trends of growth in loans, deposits, and trust assets under management continued during the second quarter and produced steady, if somewhat modest, revenue growth. The C&N Team continues to focus on our mission of creating value through lifelong relationships and their commitment to this philosophy is driving our results.

Net interest income increased \$203,000 (2.0%) in the second quarter of 2017 compared to the first quarter, and by \$363,000 (3.6%) compared to the second quarter of 2016. Through the first six months of 2017, net interest income was \$489,000 (2.4%) higher than the same period in 2016. Growth in average loans outstanding of approximately \$59 million compared to both the second quarter of 2016 and the first six months of 2016 is the primary driver of these increases. In addition, growth in core deposits and ongoing reductions in higher cost borrowings have improved C&N's funding mix. The yield on earning assets was 4.17% during the second quarter of 2017 compared to 4.09% in 2016 while the overall cost of funds increased by only .02% during the same period. As a result, the net interest margin increased .07%, to 3.83% during the second quarter of 2017 from 3.76% a year earlier. The Federal Reserve raised the federal funds rate by .25% in June, the third such move in the past three quarters. Despite these actions, we continue to operate with historically low interest rates and a flat yield curve, which makes it challenging to expand margins.

The provision for loan losses was \$4,000 during the second quarter of 2017 compared to \$452,000 in 2016. Through the first six months of 2017, the provision was \$456,000 compared to \$686,000 for the same period in 2016. The lower provision amounts for both the current quarter and the first six 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 June 30, 2017 compared to a year earlier.

Noninterest revenue increased by \$200,000 (5.1%) in the second quarter of 2017 compared to 2016. Most notably, interchange revenue on debit cards, loan servicing fees, and Trust revenues produced solid gains, when comparing the second quarter of 2017 with 2016. Gains from the sale of mortgage loans declined and service charges on deposit account declined due to lower volumes. These same factors contributed to an increase of \$374,000 (4.9%) during the first six months of 2017 compared to the same period in 2016.

Noninterest expenses increased \$541,000 (6.3%) in the second 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, and software subscriptions related to investments in technology. Overall salaries and wages were essentially unchanged while FDIC premiums and professional fees declined. These same factors produced a \$767,000 (4.4%) increase in noninterest expenses for the first six months of 2017 compared to the same period in 2016. It should be noted that total expenses declined by \$222,000 (2.39%) during the second quarter of 2017 compared to the first quarter. This reduction reflects the impact of certain employee benefits-related expenses that typically impact the first quarter and some moderation in health care

costs that were partially offset by an increase in collection and other real estate expenses. While we continue building capacity to deliver value to our customers through investments in sales and service training, employee development, information technology, and marketing, the pace of increase in the related expenses has been declining. We expect operating leverage to improve as we move through 2017 and into 2018.

C&N's strong capital position provides the ability to pursue a strategy of growth and expansion while continuing to support shareholder value. The dividend paid during the second quarter remained at \$.26 per share producing a yield of 4.47% based on the June 30, 2017 market price of \$23.26. 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.

Please take a few minutes to review the remainder of this edition of banCNotes to learn more about our new credit card offerings, C&N's commitment to supporting our communities, and recognition of members of the C&N Team.

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



J. Bradley Scovill
President and CEO

CONDENSED, CONSOLIDATED EARNINGS INFORMATION

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

	2ND QUARTER 2017 <u>(Current)</u>	2ND QUARTER 2016 <u>(Prior Year)</u>	<u>\$ Incr. (Decr.)</u>	<u>% Incr. (Decr.)</u>
Interest and Dividend Income	\$ 11,340	\$10,924	\$416	3.81%
Interest Expense	978	925	53	5.73%
Net Interest Income	10,362	9,999	363	3.63%
Provision for Loan Losses	4	318	(314)	-98.74%
Net Interest Income After Provision for Loan Losses	10,358	9,681	677	6.99%
Noninterest Revenue	4,106	3,906	200	5.12%
Net Gains on Available-for-sale Securities	107	122	(15)	-12.30%
Noninterest Expenses	9,076	8,535	541	6.34%
Income Before Income Tax Provision	5,495	5,174	321	6.20%
Income Tax Provision	1,374	1,303	71	5.45%
Net Income	\$4,121	\$3,871	\$250	6.46%
Net Income Attributable to Common Shares (1)	\$4,100	\$3,850	\$250	6.49%

PER COMMON SHARE DATA:

Net Income – Basic	\$0.34	\$0.32	\$0.02	6.25%
Net Income – Diluted	\$0.34	\$0.32	\$0.02	6.25%
Dividend Per Share	\$0.26	\$0.26	\$0.00	0.00%
Number of Shares Used in Computation - Basic	12,106,008	11,996,500		
Number of Shares Used in Computation - Diluted	12,144,706	12,018,040		

CONDENSED, CONSOLIDATED EARNINGS INFORMATION

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

6 MONTHS ENDED**JUNE 30,**

	2017 <u>(Current)</u>	2016 <u>(Prior Year)</u>	<u>\$ Incr. (Decr.)</u>	<u>% Incr. (Decr.)</u>
Interest and Dividend Income	\$ 22,452	\$ 21,861	\$591	2.70%
Interest Expense	1,931	1,829	102	5.58%
Net Interest Income	20,521	20,032	489	2.44%
Provision for Loan Losses	456	686	(230)	-33.53%
Net Interest Income After Provision for Loan Losses	20,065	19,346	719	3.72%
Noninterest Revenue	7,970	7,596	374	4.92%
Net Gains on Available-for-sale Securities	252	505	(253)	-50.10%
Noninterest Expenses	18,374	17,607	767	4.36%
Income Before Income Tax Provision	9,913	9,840	73	0.74%
Income Tax Provision	2,358	2,396	(38)	-1.59%
Net Income	\$7,555	\$7,444	\$111	1.49%
Net Income Attributable to Common Shares (1)	\$7,516	\$7,403	\$113	1.53%

PER COMMON SHARE DATA:

Net Income - Basic	\$0.62	\$0.61	\$0.01	1.64%
Net Income - Diluted	\$0.62	\$0.61	\$0.01	1.64%
Dividend Per Share	\$0.52	\$0.52	\$0.00	0.00%
Number of Shares Used in Computation - Basic	12,095,926	12,041,896		
Number of Shares Used in Computation - Diluted	12,138,189	12,063,054		

(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)

	JUNE 30, 2017	JUNE 30, 2016	JUNE 30, 2017 vs 2016	
			\$ Incr. (Decr.)	% Incr. (Decr.)
ASSETS				
Cash & Due from Banks	\$34,643	\$27,436	\$7,207	26.27%
Available-for-sale Securities	364,753	417,205	(52,452)	-12.57%
Loans Held for Sale	1,708	381	1,327	348.29%
Loans, Net	771,057	719,913	51,144	7.10%
Intangible Assets	11,957	11,966	(9)	-0.08%
Other Assets	59,283	54,117	5,166	9.55%
TOTAL ASSETS	\$1,243,401	\$1,231,018	\$12,383	1.01%
LIABILITIES				
Deposits	\$997,262	\$967,951	\$29,311	3.03%
Repo Sweep Accounts	4,875	5,661	(786)	-13.88%
Total Deposits and Repo Sweeps	1,002,137	973,612	28,525	2.93%
Borrowed Funds	42,321	58,656	(16,335)	-27.85%
Other Liabilities	9,084	8,220	864	10.51%
TOTAL LIABILITIES	1,053,542	1,040,488	13,054	1.25%
SHAREHOLDERS' EQUITY				
Common Shareholders' Equity, Excluding Accumulated Other Comprehensive Income	189,339	183,636	5,703	3.11%
Accumulated Other Comprehensive Income:				
Net Unrealized Gains/Losses on				
Available-for-sale Securities	369	6,849	(6,480)	-94.61%
Defined Benefit Plans	151	45	106	235.56%
TOTAL SHAREHOLDERS' EQUITY	189,859	190,530	(671)	-0.35%
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY	\$1,243,401	\$1,231,018	\$12,383	1.01%


CITIZENS & NORTHERN CORPORATION
CONDENSED, CONSOLIDATED FINANCIAL HIGHLIGHTS

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

	AS OF OR FOR THE 6 MONTHS ENDED JUNE 30,		% INCREASE (DECREASE)
	<u>2017</u>	<u>2016</u>	
EARNINGS PERFORMANCE			
Net Income	\$7,555	\$7,444	1.49%
Return on Average Assets	1.22%	1.22%	0.00%
Return on Average Equity	8.07%	7.94%	1.64%
BALANCE SHEET HIGHLIGHTS			
Total Assets	\$1,243,401	\$1,231,018	1.01%
Available-for-Sale Securities	364,753	417,205	-12.57%
Loans (Net)	771,057	719,913	7.10%
Allowance for Loan Losses	8,635	7,929	8.90%
Deposits and Repo Sweep Accounts	1,002,137	973,612	2.93%
OFF-BALANCE SHEET			
Outstanding Balance of Mortgage Loans Sold with Servicing Retained	165,789	156,417	5.99%
Trust Assets Under Management	894,669	847,280	5.59%
SHAREHOLDERS' VALUE (PER COMMON SHARE)			
Net Income - Basic	\$0.62	\$0.61	1.64%
Net Income - Diluted	\$0.62	\$0.61	1.64%
Dividends	\$0.52	\$0.52	0.00%
Common Book Value	\$15.59	\$15.79	-1.27%
Tangible Common Book Value	\$14.61	\$14.79	-1.22%
Market Value (Last Trade)	\$23.26	\$20.22	15.03%
Market Value / Common Book Value	149.20%	128.06%	16.51%
Market Value / Tangible Common Book Value	159.21%	136.71%	16.46%
Price Earnings Multiple (Annualized)	18.76	16.57	13.22%
Dividend Yield (Annualized)	4.47%	5.14%	-13.04%
Common Shares Outstanding, End of Period	12,176,693	12,070,195	0.88%
SAFETY AND SOUNDNESS			
Tangible Common Equity / Tangible Assets	14.45%	14.65%	-1.37%
Nonperforming Assets / Total Assets	1.30%	1.40%	-7.14%
Allowance for Loan Losses / Total Loans	1.11%	1.09%	1.83%
Total Risk Based Capital Ratio (a)	23.76%	23.47%	1.24%
Tier 1 Risk Based Capital Ratio (a)	22.63%	22.41%	0.98%
Common Equity Tier 1 Risk Based Capital Ratio (a)	22.63%	22.41%	0.98%
Leverage Ratio (a)	14.50%	14.19%	2.18%
AVERAGE BALANCES			
Average Assets	\$1,238,481	\$1,220,061	1.51%
Average Equity	\$187,349	\$187,477	-0.07%

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

QUARTERLY CONDENSED, CONSOLIDATED INCOME STATEMENT INFORMATION
(Dollars In Thousands, Except Per Share Data) (Unaudited) For the Three Months Ended:

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

QUARTERLY CONDENSED, CONSOLIDATED BALANCE SHEET INFORMATION
(In Thousands) (Unaudited)
As of:

	June 30, 2017	March 31, 2017	Dec. 31, 2016	June 30, 2016
ASSETS				
Cash & Due from Banks	\$34,643	\$32,543	\$32,109	\$27,436
Available-for-Sale Securities	364,753	376,919	395,077	417,205
Loans Held for Sale	1,708	163	142	381
Loans, Net	771,057	753,277	743,362	719,913
Intangible Assets	11,957	11,958	11,959	11,966
Other Assets	59,283	59,064	59,643	54,117
TOTAL ASSETS	\$1,243,401	\$1,233,924	\$1,242,292	\$1,231,018
LIABILITIES				
Deposits	\$997,262	\$980,251	\$983,843	\$967,951
Repo Sweep Accounts	4,875	6,244	5,175	5,661
Total Deposits and Repo Sweeps	1,002,137	986,495	989,018	973,612
Borrowed Funds	42,321	52,888	59,454	58,656
Other Liabilities	9,084	7,191	7,812	8,220
TOTAL LIABILITIES	1,053,542	1,046,574	1,056,284	1,040,488
SHAREHOLDERS' EQUITY				
Common Shareholders' Equity, Excluding Accumulated Other Comprehensive Income/ Loss	189,339	187,825	186,906	183,636
Accumulated Other Comprehensive Income/ Loss: Net Unrealized Gains/Losses on Available-for-sale Securities	369	(630)	(949)	6,849
Defined Benefit Plans Adjustment, Net	151	155	51	45
TOTAL SHAREHOLDERS' EQUITY	189,859	187,350	186,008	190,530
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY	\$1,243,401	\$1,233,924	\$1,242,292	\$1,231,018

AVAILABLE-FOR-SALE SECURITIES (In Thousands)	June 30, 2017		March 31, 2017		December 31, 2016	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Obligations of U.S. Government agencies	\$9,678	\$9,591	\$9,674	\$9,568	\$9,671	\$9,541
Obligations of states and political subdivisions:						
Tax-exempt	114,095	116,338	117,272	118,710	118,140	119,037
Taxable	28,162	28,452	28,559	28,805	30,073	30,297
Mortgage-backed securities issued or guaranteed by U.S. Government agencies or sponsored agencies:						
Residential pass-through securities	47,767	47,405	49,896	49,359	58,922	58,404
Residential collateralized mortgage obligations	129,372	128,248	137,077	135,681	147,915	146,608
Commercial mortgage-backed securities	34,112	33,742	34,411	33,825	30,817	30,219
Total debt securities	363,186	363,776	376,889	375,948	395,538	394,106
Marketable equity securities	1,000	977	1,000	971	1,000	971
Total	\$364,186	\$364,753	\$377,889	\$376,919	\$396,538	\$395,077

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

	June 30, 2017	March 31, 2017	Dec. 31, 2016	June 30, 2016
Residential mortgage:				
Residential mortgage loans - first liens	\$342,603	\$340,431	\$334,102	\$315,191
Residential mortgage loans - junior liens	24,150	23,717	23,706	22,159
Home equity lines of credit	37,159	36,810	38,057	39,054
1-4 Family residential construction	26,067	24,041	24,908	22,241
Total residential mortgage	429,979	424,999	420,773	398,645
Commercial:				
Commercial loans secured by real estate	155,158	153,385	150,468	153,070
Commercial and industrial	82,815	79,493	83,854	82,390
Political subdivisions	51,495	44,625	38,068	41,026
Commercial construction and land	15,201	15,252	14,287	9,193
Loans secured by farmland	7,432	7,497	7,294	6,615
Multi-family (5 or more) residential	7,497	7,622	7,896	8,173
Agricultural loans	4,454	3,992	3,998	4,692
Other commercial loans	11,038	11,131	11,475	11,904
Total commercial	335,090	322,997	317,340	317,063
Consumer	14,623	14,025	13,722	12,134
Total	779,692	762,021	751,835	727,842
Less: allowance for loan losses	(8,635)	(8,744)	(8,473)	(7,929)
Loans, net	\$771,057	\$753,277	\$743,362	\$719,913

Loans Held for Sale
(In Thousands)

	June 30, 2017	March 31, 2017	Dec. 31, 2016	June 30, 2016
Residential mortgage loans originated and serviced - outstanding balance	\$167,497	\$164,454	\$163,438	\$156,798
Less: outstanding balance of loans sold	(165,789)	(164,291)	(163,296)	(156,417)
Loans held for sale, net	\$1,708	\$163	\$142	\$381

ANALYSIS OF THE ALLOWANCE FOR LOAN LOSSES
(In Thousands)

	3 Months Ended June 30, 2017	3 Months Ended March 31, 2017	6 Months Ended June 30, 2017	6 Months Ended June 30, 2016
Balance, beginning of period	\$8,744	\$8,473	\$8,473	\$7,889
Charge-offs	(135)	(200)	(335)	(676)
Recoveries	22	19	41	30
Net charge-offs	(113)	(181)	(294)	(646)
Provision for loan losses	4	452	456	686
Balance, end of period	\$8,635	\$8,744	\$8,635	\$7,929

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

	June 30, 2017	March 31, 2017	Dec 31, 2016	June 30, 2016
Impaired loans with a valuation allowance	\$3,293	\$3,319	\$3,372	\$1,275
Impaired loans without a valuation allowance	5,418	5,380	7,488	8,055
Total impaired loans	\$8,711	\$8,699	\$10,860	\$9,330
Total loans past due 30-89 days and still accruing	\$3,749	\$6,476	\$7,735	\$6,945
Nonperforming assets:				
Total nonaccrual loans	\$11,504	\$11,231	\$8,736	\$10,504
Total loans past due 90 days or more and still accruing	2,680	2,714	6,838	4,654
Total nonperforming loans	14,184	13,945	15,574	15,158
Foreclosed assets held for sale (real estate)	2,023	1,878	2,180	2,052
Total nonperforming assets	\$16,207	\$15,823	\$17,754	\$17,210
Loans subject to troubled debt restructurings (TDRs):				
Performing	\$729	\$752	\$5,803	\$1,047
Nonperforming	3,059	3,083	2,874	5,102
Total TDRs	\$3,788	\$3,835	\$8,677	\$6,149
Total nonperforming loans as a % of loans	1.82%	1.83%	2.07%	2.08%
Total nonperforming assets as a % of assets	1.30%	1.28%	1.43%	1.40%
Allowance for loan losses as a % of total loans	1.11%	1.15%	1.13%	1.09%
Allowance for loan losses as a % of nonperforming loans	60.88%	62.70%	54.40%	52.31%

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

	3 Months Ended 6/30/2017 Average Balance	Rate of Return/ Cost of Funds %	3 Months Ended 3/31/2017 Average Balance	Rate of Return/ Cost of Funds %	3 Months Ended 6/30/2016 Average Balance	Rate of Return/ Cost of Funds %
EARNING ASSETS						
Available-for-sale securities, at amortized cost:						
Taxable	\$255,806	2.13%	\$271,251	2.11%	\$297,608	2.02%
Tax-exempt	114,993	4.41%	117,628	4.44%	108,652	4.79%
Total available-for-sale securities	370,799	2.83%	388,879	2.81%	406,260	2.76%
Interest-bearing due from banks	14,873	1.11%	14,923	0.87%	24,250	0.60%
Loans held for sale	499	4.82%	201	8.07%	540	5.96%
Loans receivable:						
Taxable	702,933	4.91%	698,042	4.87%	650,213	5.00%
Tax-exempt	68,439	4.48%	61,336	4.55%	61,669	4.50%
Total loans receivable	771,372	4.87%	759,378	4.84%	711,882	4.96%
Total Earning Assets	1,157,543	4.17%	1,163,381	4.11%	1,142,932	4.09%
Cash	17,276		16,013		16,522	
Unrealized gain/loss on securities	689		(958)		7,737	
Allowance for loan losses	(8,901)		(8,593)		(7,756)	
Bank premises and equipment	15,714		15,712		15,390	
Intangible assets	11,957		11,959		11,967	
Other assets	41,322		43,878		38,938	
Total Assets	\$1,235,600		\$1,241,392		\$1,225,730	
INTEREST-BEARING LIABILITIES						
Interest-bearing deposits:						
Interest checking	\$203,256	0.21%	\$201,120	0.16%	\$196,918	0.15%
Money market	190,703	0.19%	191,103	0.17%	200,896	0.17%
Savings	142,978	0.10%	138,805	0.10%	132,353	0.10%
Certificates of deposit	116,450	0.82%	113,636	0.80%	117,825	0.75%
Individual Retirement Accounts	98,004	0.43%	99,028	0.43%	104,030	0.42%
Other time deposits	1,107	0.00%	791	0.00%	1,140	0.00%
Total interest-bearing deposits	752,498	0.31%	744,483	0.28%	753,162	0.28%
Borrowed funds:						
Short-term	21,205	0.85%	41,386	0.75%	23,225	0.71%
Long-term	38,353	3.74%	38,419	3.75%	38,649	3.77%
Total borrowed funds	59,558	2.71%	79,805	2.20%	61,874	2.62%
Total Interest-bearing Liabilities	812,056	0.48%	824,288	0.47%	815,036	0.46%
Demand deposits	227,488		222,740		215,443	
Other liabilities	7,573		8,162		8,304	
Total Liabilities	1,047,117		1,055,190		1,038,783	
Shareholders' equity, excluding other comprehensive income/loss						
Other comprehensive income/loss	187,882		186,689		181,882	
Other comprehensive income/loss	601		(487)		5,065	
Total Shareholders' Equity	188,483		186,202		186,947	
Total Liabilities and Shareholders' Equity	\$1,235,600		\$1,241,392		\$1,225,730	
Interest Rate Spread		3.69%		3.64%		3.63%
Net Interest Income/Earning Assets		3.83%		3.78%		3.76%
Total Deposits (Interest-bearing and Demand)	\$979,986		\$967,223		\$968,605	

(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)**

	6 Months Ended 6/30/2017 Average Balance	Rate of Return/ Cost of Funds %	6 Months Ended 6/30/2016 Average Balance	Rate of Return/ Cost of Funds %
EARNING ASSETS				
Available-for-sale securities, at amortized cost:				
Taxable	\$263,486	2.12%	\$301,744	2.06%
Tax-exempt	116,303	4.42%	107,029	5.01%
Total available-for-sale securities	379,789	2.82%	408,773	2.83%
Interest-bearing due from banks	14,898	0.99%	22,299	0.54%
Loans held for sale	351	5.75%	496	5.68%
Loans receivable:				
Taxable	700,501	4.89%	645,586	5.00%
Tax-exempt	64,907	4.51%	61,173	4.52%
Total loans receivable	765,408	4.86%	706,759	4.96%
Total Earning Assets	1,160,446	4.14%	1,138,327	4.11%
Cash	16,648		16,055	
Unrealized gain/loss on securities	(130)		7,396	
Allowance for loan losses	(8,748)		(7,844)	
Bank premises and equipment	15,713		15,424	
Intangible assets	11,958		11,969	
Other assets	42,594		38,734	
Total Assets	\$1,238,481		\$1,220,061	
INTEREST-BEARING LIABILITIES				
Interest-bearing deposits:				
Interest checking	\$202,194	0.18%	\$196,030	0.14%
Money market	190,902	0.18%	196,205	0.17%
Savings	140,903	0.10%	131,178	0.10%
Certificates of deposit	115,051	0.81%	115,618	0.73%
Individual Retirement Accounts	98,513	0.43%	104,796	0.42%
Other time deposits	950	0.00%	972	0.00%
Total interest-bearing deposits	748,513	0.30%	744,799	0.27%
Borrowed funds:				
Short-term	31,240	0.79%	29,454	0.70%
Long-term	38,386	3.75%	38,687	3.77%
Total borrowed funds	69,626	2.42%	68,141	2.44%
Total Interest-bearing Liabilities	818,139	0.48%	812,940	0.45%
Demand deposits	225,127		211,803	
Other liabilities	7,866		7,841	
Total Liabilities	1,051,132		1,032,584	
Shareholders' equity, excluding other comprehensive income/loss				
Other comprehensive income/loss	187,289		182,629	
Other comprehensive income/loss	60		4,848	
Total Shareholders' Equity	187,349		187,477	
Total Liabilities and Shareholders' Equity	\$1,238,481		\$1,220,061	
Interest Rate Spread		3.66%		3.66%
Net Interest Income/Earning Assets		3.81%		3.79%
Total Deposits (Interest-bearing and Demand)	\$973,640		\$956,602	

(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			Six Months Ended	
	June 30, 2017	March 31, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Service charges on deposit accounts	\$1,094	\$1,084	\$1,164	\$2,178	\$2,302
Service charges and fees	104	97	123	201	217
Trust and financial management revenue	1,497	1,180	1,251	2,677	2,395
Brokerage revenue	208	156	180	364	353
Insurance commissions, fees and premiums	31	41	27	72	48
Interchange revenue from debit card transactions	568	520	487	1,088	950
Net gains from sales of loans	188	166	295	354	463
Loan servicing fees	55	72	(11)	127	11
Increase in cash surrender value of life insurance	94	90	93	184	189
Other operating income	267	458	297	725	668
Total noninterest revenue, before realized gains on available-for-sale securities, net	\$4,106	\$3,864	\$3,906	\$7,970	\$7,596

COMPARISON OF NONINTEREST EXPENSES
(In Thousands)

	Three Months Ended			Six Months Ended	
	June 30, 2017	March 31, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Salaries and wages	\$3,972	\$3,868	\$3,913	\$7,840	\$7,800
Pensions and other employee benefits	1,144	1,530	1,002	2,674	2,439
Occupancy expense, net	600	578	560	1,178	1,169
Furniture and equipment expense	448	453	439	901	866
FDIC Assessments	96	94	155	190	297
Pennsylvania shares tax	336	336	323	672	645
Professional fees	254	227	282	481	571
Automated teller machine and interchange expense	305	294	267	599	516
Software subscriptions	291	280	251	571	492
Other operating expense	1,630	1,638	1,343	3,268	2,812
Total noninterest expenses	\$9,076	\$9,298	\$8,535	\$18,374	\$17,607