

MNB CORPORATION DIRECTORS

JOHN D. BERKHEIMER
ROCCO A. DEL VECCHIO
JAMES S. GAROFALO
KEITH HEARD
RICHARD M. HOTCHKISS
DAVID J. JORDAN, JR., Esq.
PAUL B. OBERBECK
JAMES J. PALMERI

MNB CORPORATION OFFICERS

RICHARD M. HOTCHKISS
Chairman of the Board
DAVID J. JORDAN, JR., Esq.
Vice Chairman & Secretary
ROCCO A. DEL VECCHIO
Chief Executive Officer
JAMES S. GAROFALO
President
KEITH HEARD
Vice President
V. DANIEL SMOKER
Treasurer and Chief Financial Officer
CURTIS A. KEMMERER
Assistant Secretary

CORPORATION PROFILE

Headquartered in Bangor, Pennsylvania, Merchants Bank of Bangor was chartered on October 8, 1890. In April 1995, the Bank reorganized under its Holding Company, MNB Corporation, also headquartered in Bangor. The Bank operates under a State Charter. Today the Bank has nine offices throughout Northampton County and offers a full array of financial services including personal and business checking, deposit services, wealth management services, installment loans, commercial industrial loans, and commercial and residential real estate loans. The Bank also offers many electronic banking products like online and mobile banking for individuals and businesses, which can be accessed through the web at merchantsbangor.com. MNB Corporation trades under the ticker "MNBC".



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QUARTERLY REPORT

JUNE 30
2017

This report contains forward-looking statements. Actual results and trends could differ materially from those set forth in such statements due to various factors. Such factors include the possibility that increased demand or prices for Merchant's financial services and products may not occur, changing economic and competitive conditions, volatility in interest rates, technological developments, costs associated with complying with laws, rules and regulations, and other risks and uncertainties.

Dear Shareholders, Customers and Employees,

MNB Corporation is proud to report record results for the Second Quarter 2017, as the executive team continues its vision of increasing revenues and reducing operating costs.

For the quarter ended June 30, 2017, the Company reported net income of \$709,000 or \$.63 per share as compared to \$350,000 or \$.31 per share during the same period in 2016. Return on assets and return on equity were .72% and 9.32%, respectively. On a year-to-date basis, net income totaled \$1,281,000 or \$1.13 per share as compared to \$792,000, or \$0.70 per share in 2016.

Net interest income before loan loss provision for the 2nd quarter increased \$395,000 or 15.3% to \$2.97 million versus \$2.58 million for the same quarter last year due to growth in earning assets, primarily commercial loans, and an improved net interest margin.

The tax-equivalent net interest margin was 3.31% for the second quarter 2017, compared to 3.26% for the same period last year. Merchants Bank was able to improve its margin by growing loans and managing to achieve a marginal reduction in its cost of funds.

Fee-based revenue continues to underperform due to the strengthening economy and a slow-down in mortgage refinancing activity. Non-interest income, exclusive of gains and losses on sales of investment securities, decreased by \$4,000 to \$368,000 compared to the same period last year.

Total operating expenses for the Second Quarter were \$2,304,000 compared to \$2,537,000 for the same period last year, a 9.2% reduction. The primary contributors to cost savings have been in staffing, occupancy and equipment costs, advertising, regulatory charges, and collection-related expenses, driving down the bank's efficiency ratio to levels comparable to its peers.

Growth in earning assets has been fueled by significant increases in deposit balances as total deposits, including cash management sweep accounts, are \$35 million ahead of June 30, 2016, an 11.2% increase. This growth comes in core checking, savings and money market account balances as opposed to higher-costing certificates of deposit. Since year-end 2016, the bank's cost of funds has actually gone down, which is also contributing to an improving net interest margin.

Net loan growth at Merchants Bank increased by \$23 million, or 11.4%, to a record \$224 million at June 30, 2017, compared to a year ago. This growth, along with another .25% increase in the Prime Rate during the quarter, is fueling growth in interest income.

For a brief period in early June 2017, total assets exceeded \$400 million before dropping back under this important milestone. Since December 31, 2015, total assets have increased by \$53 million, which is equivalent to an annual growth rate of approximately ten percent.

MNB is proud to maintain its current quarterly dividend payout rate of \$0.18 per share. MNB remains committed to rewarding our shareholders and our customers with the optimal level of shareholder value and customer service that is expected and deserved.

Richard M. Hotchkiss
Chairman of the Board

Rocco A. Del Vecchio
Chief Executive Officer

James S. Garafalo
President

V. Daniel Smoker
Chief Financial Officer

FINANCIAL HIGHLIGHTS

Unaudited In Thousands (except per share amounts)	Three Months Ended	Three Months Ended	Year To Date Ended	Year To Date Ended
	Jun. 30, 2017	Jun. 30, 2016	Jun. 30, 2017	Jun. 30, 2016
Income Statement Data				
Total interest income	\$ 3,218	\$ 2,822	\$ 6,248	\$ 5,593
Total interest expense	247	246	498	481
Net interest income	2,971	2,576	5,750	5,112
Provision for loan losses	105	30	180	45
Net interest income after provision for loan losses	2,866	2,546	5,570	5,067
Total other income	371	371	733	858
Total operating expenses	2,304	2,537	4,653	5,020
Income before income taxes	\$ 933	\$ 380	\$ 1,650	\$ 905
Income tax expense	224	30	369	113
Net income	\$ 709	\$ 350	\$ 1,281	\$ 792
Earnings per share	\$ 0.63	\$ 0.31	\$ 1.13	\$ 0.70
Dividends per share	\$ 0.18	\$ 0.18	\$ 0.36	\$ 0.36

Return on average assets	0.72%	0.40%	0.67%	0.46%
Return on average equity	9.32%	4.71%	8.58%	5.34%
Net interest margin	3.31%	3.26%	3.30%	3.31%
Net charge-offs to average loans	0.00%	0.00%	0.00%	0.00%

	Balance at Jun. 30, 2017	Balance at Mar. 31, 2017	Balance at Jun. 30, 2016
Assets			
Cash & interest bearing deposits	\$ 9,179	\$ 17,578	\$ 10,641
Total investment securities	140,386	135,053	127,808
Loans held for sale	537	0	0
Net loans	223,578	220,528	200,709
Other assets	19,870	20,381	20,134
Total assets	\$ 393,550	\$ 393,540	\$ 359,292
Liabilities			
Total deposits	333,462	328,382	304,030
Other liabilities	29,002	35,152	24,768
Total liabilities	\$ 362,464	\$ 363,534	\$ 328,798

	Balance at Jun. 30, 2017	Balance at Mar. 31, 2017	Balance at Jun. 30, 2016
Shareholders' equity			
Common stock, \$.125 par value; 1,156,247 shares issued	145	145	145
Additional paid-in capital	7,596	7,596	7,596
Retained earnings	25,148	24,642	23,739
Treasury stock at cost, 23,374 shares	(682)	(682)	(682)
Accumulated other comprehensive loss	(1,121)	(1,695)	(304)
Total shareholders' equity	\$ 31,086	\$ 30,006	\$ 30,494
Total liabilities & shareholders' equity	\$ 393,550	\$ 393,540	\$ 359,292

Balance Sheet Ratios:				
Nonperforming assets to loans & OREO	0.98%	1.17%	1.80%	
Loan loss reserve to nonperforming loans	106.93%	93.64%	67.72%	
Equity to assets	7.90%	7.62%	8.49%	
Book value per share	\$ 27.44	\$ 26.48	\$ 26.91	

Regulatory Capital Ratios:				
Tier I leverage capital	8.14%	8.38%	8.64%	
Common equity tier I risk-based capital	13.45%	13.19%	13.67%	
Tier I risk-based capital	13.45%	13.19%	13.67%	
Total risk-based capital	14.30%	13.99%	14.50%	