

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

SEPTEMBER 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 once again pleased to report record results for the third quarter 2017. For the quarter ended September 30, 2017, the Company reported net income of \$729,000 or \$.64 per share as compared to \$536,000 or \$.47 per share during the same period in 2016. The Company's return on assets and return on equity were .74% and 9.26%, respectively. On a year-to-date basis, net income totaled \$2,010,000 or \$1.77 per share as compared to \$1,328,000, or \$1.17 per share in 2016, a 51% increase.

Net interest income before loan loss provision for the third quarter increased \$298,000 or 11.1% to \$2.98 million versus \$2.68 million for the same quarter last year. This increase is due to growth in earning assets, primarily commercial loans, and an improved net interest margin.

The tax-equivalent net interest margin was 3.36% for the third quarter, 2017, compared to 3.30% for the same period last year. Merchants Bank continues to improve its margin by growing loans, improving its yield on earning assets and managing its cost of funds.

Non-interest income increased by \$49,000 to \$419,000 compared to the same period last year. This increase is primarily due to an increase in realized gains on mortgage sales of \$53,000, partially offset by a decrease in other fee-based revenues.

Management's ongoing efforts to reduce operating expenses are also contributing to the profitability of the bank. Total operating expenses for the third quarter were \$2,316,000 compared to \$2,324,000 for the same period last year, a 0.3% reduction. The primary contributors to cost savings have been in occupancy and equipment costs, advertising, regulatory charges, and lower collection-related expenses due to improving credit quality. These reductions in operating expenses have contributed to lowering the Bank's efficiency ratio to a level that is comparable with its peers.

Growth in earning assets has been the primary driver for growth in earnings. This funding was provided by increases in deposits and cash management sweep accounts. These increases were primarily in lower cost core deposits which contributed to the improved net interest margin.

While the pace of loan growth at a vast majority of U.S. financial institutions is dropping, net loan growth at Merchants Bank increased by \$20.8 million, or 10.2%, to \$224.7 million at September 30, 2017, compared to a year ago. This growth, along with recent increases in the Prime Rate is fueling growth in interest income.

MNB Corporation proudly maintains its current quarterly dividend payout rate of \$0.18 per share as a result of its successful performance. Looking forward, MNB Corporation will continue to strive to build strong personal and business relationships in support of the communities in which we operate.

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 Sep. 30, 2017 | Three Months Ended Sep. 30, 2016 | Year To Date Ended Sep. 30, 2017 | Year To Date Ended Sep. 30, 2016 |
|--|---|---|---|---|
| Income Statement Data | | | | |
| Total interest income | \$ 3,220 | \$ 2,930 | \$ 9,468 | \$ 8,523 |
| Total interest expense | 240 | 248 | 738 | 729 |
| Net interest income | 2,980 | 2,682 | 8,730 | 7,794 |
| Provision for loan losses | 120 | 65 | 300 | 110 |
| Net interest income after provision for loan losses | 2,860 | 2,617 | 8,430 | 7,684 |
| Total other income | 419 | 370 | 1,152 | 1,228 |
| Total operating expenses | 2,316 | 2,324 | 6,969 | 7,344 |
| Income before income taxes | \$ 963 | \$ 663 | \$ 2,613 | \$ 1,568 |
| Income tax expense | 234 | 127 | 603 | 240 |
| Net income | \$ 729 | \$ 536 | \$ 2,010 | \$ 1,328 |
| Earnings per share | \$ 0.64 | \$ 0.47 | \$ 1.77 | \$ 1.17 |
| Dividends per share | \$ 0.18 | \$ 0.18 | \$ 0.54 | \$ 0.54 |
| Return on average assets | 0.74% | 0.60% | 0.69% | 0.50% |
| Return on average equity | 9.26% | 6.96% | 8.81% | 5.90% |
| Net interest margin | 3.36% | 3.30% | 3.32% | 3.30% |
| Net charge-offs to average loans | 0.00% | 0.00% | 0.00% | 0.00% |

| | Balance at Sep. 30, 2017 | Balance at Jun. 30, 2017 | Balance at Sep. 30, 2016 |
|---|---|---|---|
| Assets | | | |
| Cash & interest bearing deposits | \$ 10,814 | \$ 9,179 | \$ 16,703 |
| Total investment securities | 133,517 | 140,386 | 130,280 |
| Loans held for sale | 684 | 537 | 0 |
| Net loans | 224,697 | 223,578 | 203,865 |
| Other assets | 19,711 | 19,870 | 20,071 |
| Total assets | \$ 389,423 | \$ 393,550 | \$ 370,919 |
| Liabilities | | | |
| Total deposits | 328,810 | 333,462 | 315,659 |
| Other liabilities | 29,154 | 29,002 | 24,530 |
| Total liabilities | \$ 357,964 | \$ 362,464 | \$ 340,189 |
| 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 | 25,672 | 25,148 | 24,070 |
| Treasury stock at cost, 23,374 shares | (682) | (682) | (682) |
| Accumulated other comprehensive loss | (1,272) | (1,121) | (399) |
| Total shareholders' equity | \$ 31,459 | \$ 31,086 | \$ 30,730 |
| Total liabilities & shareholders' equity | \$ 389,423 | \$ 393,550 | \$ 370,919 |

Balance Sheet Ratios:

| | | | |
|---|---------------|----------------|---------------|
| Nonperforming assets to loans & OREO | 1.02% | 0.98% | 1.66% |
| Loan loss reserve to nonperforming loans | 92.85% | 106.93% | 76.52% |
| Equity to assets | 8.08% | 7.90% | 8.28% |
| Book value per share | \$ 27.77 | \$ 27.44 | \$ 27.12 |

Regulatory Capital Ratios:

| | | | |
|--|---------------|---------------|---------------|
| Tier I leverage capital | 8.42% | 8.14% | 8.56% |
| Common equity tier I risk-based capital | 13.68% | 13.45% | 13.69% |
| Tier I risk-based capital | 13.68% | 13.45% | 13.69% |
| Total risk-based capital | 14.58% | 14.30% | 14.54% |