

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
JAMES S. GAROFALO
President
KEITH HEARD
Vice President
ROCCO A. DEL VECCHIO
Chief Executive Officer
DAVID J. JORDAN, JR., Esq.
Vice Chairman & Secretary
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

MARCH 31
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 First Quarter 2017. Last year was a transition year in which the Company installed a new executive team, re-aligned responsibilities, and booked several non-recurring expenses. As we begin a new year, the board of directors and management are excited to see our employees, the community, and shareholders embrace the vision and opportunities that lie ahead. This vision is focused on growing revenue and reducing operating costs so we can give you our shareholders the performance you expect and deserve.

For the quarter ended March 31, 2017, the Company reported net income of \$572,000 or \$.50 per share as compared to \$442,000 or \$.39 per share during the same period in 2016, a 29.4% increase. The Company's return on assets and return on equity were .61% and 7.80%, respectively. This is a substantial improvement over the average of .50% return on assets and 6% return on equity reported over the past five years.

Net interest income for the First Quarter increased \$243,000 or 9.6% over the same quarter last year. This is the result of strong growth in earning assets, primarily loans. Net interest margin is slightly lower at 3.28% versus 3.35% last year. The increase in the Fed Funds and Prime rates did not materially affect results as loan and investment rates remain at historically low levels.

Non-interest income, exclusive of gains and losses on sales of investment securities, decreased \$6,000 or 1.7% to \$352,000 compared to the same period last year. A decrease in gains on the sale of residential mortgage loans was the reason for the change. This category also includes gains and losses on sales of investment securities, which were \$10,000 in 2017 versus \$129,000 in 2016.

Operating costs for the First Quarter were \$134,000 lower than the same period in 2016. This was due to management implementing a number of cost-cutting initiatives as well as lower expenses due to improving credit quality.

Year-over-year, deposit balances increased by \$32.0 million or 10.8%. Growth in core deposits such as checking, savings, and money market accounts were wholly responsible for the change. Although the Federal Reserve Bank has gradually begun to raise short-term rates, the Company has been able to maintain a very stable cost of funds by reducing its reliance on higher cost certificates of deposit.

With the rise in interest rates, businesses have been actively seeking to lock in low rates. As a result, net loan growth over the past year has been very strong, and particularly in the last two quarters. Year-over-year growth in loan balances totaled \$28.1 million or 14.5%, excluding the loan loss reserve. This increase in loan balances consisted of \$24.5 million in commercial loans, \$3.0 million in mortgage loans and \$0.6 million in consumer loans.

MNB Corporation continues to build strong personal and business relationships in support of the communities in which we operate. MNB is proud to maintain its current quarterly dividend pay-out rate of \$0.18 per share. Looking forward, MNB and the banking industry in general continue to be faced with challenges given the uncertain economy and ongoing regulatory challenges. In spite of these challenges, MNB remains committed to reward our shareholders and customers with the level of shareholder value and customer service that is expected and deserved.

Richard M. Hotchkiss
Chairman of the Board

James S. Garofalo
President

Rocco Del Vecchio
Chief Executive Officer

V. Daniel Smoker
Chief Financial Officer

MNB Corporation's sole subsidiary is Merchants Bank of Bangor. Established in 1890, Merchants Bank is a locally owned and operated community bank headquartered in Bangor, Pennsylvania.

FINANCIAL HIGHLIGHTS

Unaudited In Thousands (except per share amounts)

Income Statement Data

	Three Months Ended Mar. 31, 2017	Three Months Ended Dec. 31, 2016	Three Months Ended Mar. 31, 2016
Total interest income	\$ 3,030	\$ 3,013	\$ 2,771
Total interest expense	251	253	235
Net interest income	2,779	2,760	2,536
Provision for loan losses	75	75	15
Net interest income after provision for loan losses	2,704	2,685	2,521
Total other income	362	381	487
Total operating expenses	2,349	2,600	2,483
Income before income taxes	717	466	525
Income tax expense	145	58	83
Net income	\$ 572	\$ 408	\$ 442
Earnings per share	\$ 0.50	\$ 0.36	\$ 0.39
Dividends per share	\$ 0.18	\$ 0.18	\$ 0.18
Return on average assets	0.61%	0.44%	0.52%
Return on average equity	7.80%	5.34%	5.98%
Net interest margin	3.28%	3.27%	3.35%
Net charge-offs to average loans	0.00%	0.07%	0.00%

	Balance at Mar. 31, 2017	Balance at Dec. 31, 2016	Balance at Mar. 31, 2016
Assets			
Cash & interest bearing deposits	\$ 17,578	\$ 4,345	\$ 16,664
Total investment securities	135,053	135,606	120,113
Loans held for sale	0	106	232
Net loans	220,528	212,004	192,483
Other assets	20,381	20,698	20,900
Total assets	\$ 393,540	\$ 372,759	\$ 350,392
Liabilities			
Total deposits	328,382	312,672	296,295
Other liabilities	35,152	30,514	24,417
Total liabilities	363,534	343,186	320,712
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	24,642	24,275	23,592
Treasury stock at cost, 23,374 shares	(682)	(682)	(682)
Accumulated other comprehensive loss	(1,695)	(1,761)	(971)
Total shareholders' equity	30,006	29,573	29,680
Total liabilities & shareholders' equity	\$ 393,540	\$ 372,759	\$ 350,392
Balance Sheet Ratios:			
Nonperforming assets to loans & OREO	1.17%	1.23%	1.89%
Loan loss reserve to nonperforming loans	93.64%	103.98%	70.13%
Equity to assets	7.62%	7.93%	8.47%
Book value per share	\$ 26.48	\$ 26.10	\$ 26.20
Regulatory Capital Ratios:			
Tier I leverage capital	8.38%	8.44%	8.93%
Common equity tier I risk-based capital	13.19%	13.31%	13.80%
Tier I risk-based capital	13.19%	13.31%	13.80%
Total risk-based capital	13.99%	14.10%	14.62%