

Dear Shareholders and Friends:

April 30, 2015

On behalf of the board, I am pleased to report to you, our shareholders, our financial performance for the first quarter of 2015. With economic and regulatory challenges confronting us daily, our financial results continue to remain strong and compare favorably to peers. Producing results above peer in this environment is directly tied to our commitment to outstanding customer service and dedication to serving our communities and customers.

I would like to note that as anticipated we have opened our new branch facility in Mill Hall, PA. The new facility is beautiful and definitely reflects our brand of community banking. Short term results have been positive and we continue to believe that we will be successful in this new market based upon our unending commitment to customer service.

For the three months ended March 31, 2015, net income totaled \$3,120,000 which compares to net income of \$3,176,000 for the first quarter of 2014. This represents a decrease of \$56,000, or 1.8%. Earnings per share of \$1.03 for the first quarter compares to \$1.04 last year. Annualized return on equity for the comparable periods was 12.38% and 13.38%, while return on assets was 1.36% and 1.41%, respectively.

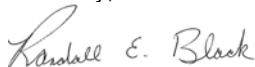
Net interest income after the provision for loan loss has increased from \$7,332,000 for the three months ended March 31, 2014, to \$7,467,000 for 2015. Although interest income decreased \$10,000, interest expense decreased \$85,000 from last year's first quarter. Additionally, the provision for loan losses decreased \$60,000 for the comparable periods. Our margin has actually increased from 3.87% last year to 3.89%, which is impressive given the difficult economic environment that has been persistent in impacting us and others in our industry. The prolonged interest rate environment has resulted in continued pressure on the tax-effected yield on interest earning assets, which has decreased from 4.47% last year to 4.44% this year. On a positive note, average interest earning assets has increased by \$10.2 million compared to last year, which helped significantly in offsetting the decline in yields. Most notably, our loan growth in the first quarter has resulted in an increase in average loans compared to last year of \$20.9 million. The cost of interest bearing liabilities has continued to decline, from .72% last year to .67% in 2015.

At March 31, 2015, total assets were \$930.0 million, up from total assets of \$902.6 million as of March 31, 2014 and up slightly from total assets of \$925.0 million at December 31, 2014. From year end 2014, our investment portfolio has decreased \$14.2 million mostly due to unattractive yields in the market. However, net loans of \$558.3 million as of March 31, 2015 have increased \$11.0 million, or 2%, compared to the end of last year. The increase is partly attributable to our success in opening the new branch in the Mill Hall / Lock Haven market. Asset quality remains strong with non-performing assets to total loans being 1.65% as of March 31, 2015 compared to 1.67% at year end and 1.98% last March. Annualized net charge-offs as a percent of average loans is very low at .01%.

Stockholders' equity totaled \$102.3 million at March 31, 2015, which compares to \$100.5 million at December 31, 2014 and \$95.6 million at March 31, 2014. For 2015, net income of \$3.1 million was offset by cash dividends of \$1.2 million and treasury share purchases of \$1 million. Additionally, the unrealized gain on available for sale investment securities increased \$.8 million from the end of 2014 as a result of changes in interest rates impacting the fair value of investment securities. A cash dividend of \$.405 per share was paid on March 27, 2015 to shareholders of record on March 20, 2015. This quarterly cash dividend is an increase of 6% over the dividend declared a year ago, adjusted for stock dividends. The continued strength of our financial performance has permitted us to continue to pay an attractive cash dividend and reflects the Board of Directors' desire to provide total shareholder return to our shareholder base.

I would like to personally express my sincere thanks to our employees, local board members, management team and the Board of Directors for their efforts and dedication. We remain focused on remaining a strong, well-capitalized, local community bank, as well as providing exceptional shareholder return and value. And as always, we remain committed to servicing the needs of individuals, businesses and communities in our area, and to being a high performing organization. I personally welcome you to stop by any of our branches, particularly our new facility in Mill Hall, to see what we are all about and what we have to offer you.

Sincerely,



Randall E. Black

Chief Executive Officer and President

**Consolidated Balance Sheet**  
(Unaudited - In thousands, except share data)

	March 31 2015	December 31 2014	March 31 2014
<b>ASSETS:</b>			
Total cash and cash equivalents	\$ 18,783	\$ 11,423	\$ 11,409
Interest bearing time deposits with other banks	5,960	5,960	2,480
Available-for-sale securities	291,904	306,146	310,983
Loans (net of allowance for loan losses: 2015, \$6,922; December 31, 2014, \$6,815; March 31, 2014, \$7,233)	558,257	547,290	525,990
Other assets	<u>55,068</u>	<u>54,229</u>	<u>51,764</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 929,972</u></b>	<b><u>\$ 925,048</u></b>	<b><u>\$ 902,626</u></b>
<b>LIABILITIES:</b>			
Total deposits	\$ 788,776	\$ 773,933	\$ 753,643
Borrowed funds	29,388	41,799	45,728
Other liabilities	<u>9,519</u>	<u>8,788</u>	<u>7,671</u>
<b>TOTAL LIABILITIES</b>	<b><u>827,683</u></b>	<b><u>824,520</u></b>	<b><u>807,042</u></b>
<b>STOCKHOLDERS' EQUITY</b>	<b><u>102,289</u></b>	<b><u>100,528</u></b>	<b><u>95,584</u></b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b><u>\$ 929,972</u></b>	<b><u>\$ 925,048</u></b>	<b><u>\$ 902,626</u></b>

**Consolidated Statement of Income**  
(Unaudited - In thousands)

	Three Months Ended March 31	
	2015	2014
Interest income	\$ 8,771	\$ 8,781
Interest expense	<u>1,184</u>	<u>1,269</u>
Net interest income	7,587	7,512
Provision for loan losses	<u>120</u>	<u>180</u>
Net interest income after provision for loan losses	7,467	7,332
Investment securities gains, net	126	171
Other non-interest income	1,602	1,616
Non-interest expense	<u>5,335</u>	<u>5,091</u>
Income before provision for income taxes	3,860	4,028
Provision for income taxes	<u>740</u>	<u>852</u>
<b>NET INCOME</b>	<b><u>\$ 3,120</u></b>	<b><u>\$ 3,176</u></b>

**Performance Ratios and Share Data:**

Return on average assets (annualized)	1.36%	1.41%
Return on average equity (annualized)	12.38%	13.38%
Net interest margin (tax equivalent)	3.89%	3.87%
Cash dividends paid per share	\$ 0.405	\$ 0.382
Earnings per share - basic	\$ 1.03	\$ 1.04
Earnings per share - diluted	\$ 1.03	\$ 1.04
Number of shares used in computation - basic	3,026,265	3,041,923
Number of shares used in computation - diluted	3,026,265	3,042,117
Book value per share (at end of period)	\$ 33.33	\$ 31.33
Common shares outstanding (at end of period)	3,020,532	3,016,695
Nonperforming assets to total loans (at end of period)	1.65%	1.98%

*Per share calculations give retroactive effect to stock dividends declared by the Company*