

Dear Shareholders and Friends:

July 30, 2015

On behalf of the Board of Directors and our team, I am pleased to report on our financial performance for the second quarter of 2015. I am also very excited about our recently announced signing of a definitive merger agreement to acquire The First National Bank of Fredericksburg (FNB). This acquisition provides us with the opportunity to enhance our franchise value and expand into the Lebanon Valley Region of Pennsylvania. Our Board of Directors, management, and employees are confident that this expansion will provide tremendous growth opportunities. Similar to our company, FNB has built a great community bank model focused on customer service and being a true community partner. We are currently beginning the process to obtain regulatory approvals and putting teams together from both First Citizens and FNB to develop a successful closing and conversion in the fourth quarter of 2015.

Despite the ongoing yield curve challenges that we and other banks are forced to deal with, our financial results remain strong and compare favorably to peers. For the six months ended June 30, 2015, net income totaled \$6,309,000 which compares to net income of \$6,541,000 for the comparable 2014 period. This represents a decrease of \$232,000, or 3.5%. Earnings per share of \$2.09 for the first six months of 2015 compares to \$2.15 for the first six months of 2014. Annualized return on equity for the six months ended June 30, 2015 and 2014 was 12.41% and 13.63%, while return on assets was 1.36% and 1.45%, respectively. The 2015 results include \$125,000 of costs associated with the FNB merger.

For the three months ended June 30, 2015 net income totaled \$3,189,000 which compares to net income of \$3,365,000 for the second quarter of 2014, which is a decrease of \$176,000, or 5.2%. Earnings per share of \$1.06 for the second quarter compares to \$1.11 for the second quarter last year. Annualized return on equity for the three months ended June 30, 2015 and 2014 was 12.45% and 13.88%, while return on assets was 1.36% and 1.49%, respectively.

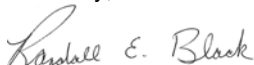
Net interest income before the provision for loan loss has decreased from \$15,162,000 for the six months ended June 30, 2014 to \$15,148,000 for 2015. For the six months ended June 30, 2015, interest income decreased \$131,000, which has been offset by a decrease in interest expense of \$117,000. The margin has decreased from 3.89% last year to 3.81% for 2015. The challenging yield curve has resulted in continued pressure on the tax-effected yield on interest earning assets, which has decreased from 4.48% last year to 4.36% this year. The cost of interest bearing liabilities has also declined, from .71% last year to .67% in 2015. We have been able to mitigate the declining margin with positive growth in interest earning assets, particularly average loans, which have increased by \$25.9 million compared to the first six months of 2014. The provision for loan losses decreased \$90,000 for the six month comparable periods.

At June 30, 2015, total assets were \$942.5 million, up from total assets of \$914.2 million as of June 30, 2014 and up \$17.5 million from total assets of \$925.0 million at December 31, 2014. Compared to December 31, 2014, available for sale investments have decreased \$1.3 million, mostly due to unattractive yields in the market. However, net loans have increased \$17.4 million, or 3.2%, compared to the end of last year. Contributing to this growth is the continued success in growing loans and deposits in the new branch in the Mill Hall / Lock Haven market. Asset quality remains strong, and improving, with non-performing assets to total loans at 1.61% as of June 30, 2015 compared to 1.67% at year end and 1.70% last June. Annualized net charge-offs as a percent of average loans is very low at .03%.

Stockholders' equity totaled \$103.2 million at June 30, 2015, which compares to \$100.5 million at December 31, 2014 and \$98.2 million at June 30, 2014. For 2015, net income of \$6.3 million was offset by cash dividends of \$2.4 million and treasury share purchases of \$1 million. Additionally, the unrealized gain on available for sale investment securities decreased \$500,000 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 June 26, 2015 to shareholders of record on June 19, 2015. This quarterly cash dividend is an increase of 5.2% over the dividend declared a year ago, adjusted for stock dividends. Capital levels are very strong and our continued strong financial performance has permitted us to continue paying 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 are continually committed to servicing the needs of individuals, businesses and communities in our area, and look forward to expanding this commitment to the Lebanon Valley. Remaining a strong, well-capitalized, local community bank, as well as providing exceptional shareholder return and value continue to be our primary focus. I personally welcome you to stop by any of our branches 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)

	June 30 2015	December 31 2014	June 30 2014
ASSETS:			
Total cash and cash equivalents	\$ 10,912	\$ 11,423	\$ 15,740
Interest bearing time deposits with other banks	5,960	5,960	2,480
Available-for-sale securities	304,792	306,146	312,322
Loans (net of allowance for loan losses: 2015, \$6,959; December 31, 2014, \$6,815; June 30, 2014, \$6,751)	564,692	547,290	533,126
Other assets	56,123	54,229	50,501
	<u>942,479</u>	<u>925,048</u>	<u>914,169</u>
TOTAL ASSETS	\$ 942,479	\$ 925,048	\$ 914,169
LIABILITIES:			
Total deposits	\$ 791,887	\$ 773,933	\$ 765,456
Borrowed funds	39,194	41,799	43,075
Other liabilities	8,173	8,788	7,399
	<u>839,254</u>	<u>824,520</u>	<u>815,930</u>
TOTAL LIABILITIES	839,254	824,520	815,930
STOCKHOLDERS' EQUITY	103,225	100,528	98,239
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 942,479	\$ 925,048	\$ 914,169

Consolidated Statement of Income
(Unaudited - In thousands)

	Three Months Ended June 30		Six Months Ended June 30	
	2015	2014	2015	2014
Interest income	\$ 8,768	\$ 8,889	\$ 17,539	\$ 17,670
Interest expense	1,207	1,239	2,391	2,508
	<u>7,561</u>	<u>7,650</u>	<u>15,148</u>	<u>15,162</u>
Net interest income	7,561	7,650	15,148	15,162
Provision for loan losses	120	150	240	330
	<u>7,441</u>	<u>7,500</u>	<u>14,908</u>	<u>14,832</u>
Net interest income after provision for loan losses	7,441	7,500	14,908	14,832
Investment securities gains, net	175	75	301	246
Other non-interest income	1,780	1,680	3,382	3,296
Non-interest expense	5,428	5,000	10,763	10,091
	<u>3,968</u>	<u>4,255</u>	<u>7,828</u>	<u>8,283</u>
Income before provision for income taxes	3,968	4,255	7,828	8,283
Provision for income taxes	779	890	1,519	1,742
	<u>3,189</u>	<u>3,365</u>	<u>6,309</u>	<u>6,541</u>
NET INCOME	\$ 3,189	\$ 3,365	\$ 6,309	\$ 6,541

Performance Ratios and Share Data:

Return on average assets (annualized)	1.36%	1.49%	1.36%	1.45%
Return on average equity (annualized)	12.45%	13.88%	12.41%	13.63%
Net interest margin (tax equivalent)	3.77%	3.92%	3.81%	3.89%
Cash dividends paid per share	\$ 0.405	\$ 0.385	\$ 0.810	\$ 0.770
Earnings per share - basic	\$ 1.06	\$ 1.11	\$ 2.09	\$ 2.15
Earnings per share - diluted	\$ 1.06	\$ 1.11	\$ 2.09	\$ 2.15
Number of shares used in computation - basic	3,019,661	3,039,734	3,022,945	3,040,822
Number of shares used in computation - diluted	3,020,725	3,040,661	3,023,479	3,041,227
Book value per share (at end of period)			\$ 34.03	\$ 31.97
Common shares outstanding (at end of period)			3,028,676	3,038,477
Nonperforming assets to total loans (at end of period)			1.61%	1.70%

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