

Dear Shareholders and Friends:

February 5, 2016

On behalf of the Board of Directors and our management team, I am pleased to report on our financial performance for the fourth quarter of 2015. As expected, in December we successfully closed and converted our acquisition of The First National Bank of Fredericksburg (FNB). This is a very exciting time for our Company as we expand into the Lebanon Valley Region of Pennsylvania. We remain optimistic about the tremendous growth opportunities this new market provides. I am extremely proud of the efforts of our dedicated employees who made this acquisition a success. We also look forward to welcoming and serving FNB's customers with the same commitment to service that we currently provide to our customers today.

For the year ended December 31, 2015, net income totaled \$11,626,000 which compares to net income of \$13,385,000 for 2014. Earnings per share of \$3.84 for 2015 compares to \$4.41 last year. Return on equity for the years ended December 31, 2015 and 2014 was 11.20% and 13.73%, while return on assets was 1.22% and 1.48%, respectively.

For the three months ended December 31, 2015, net income totaled \$2,460,000 which compares to net income of \$3,476,000 for the fourth quarter of 2014. Earnings per share of \$.80 for the fourth quarter of 2015 compares to \$1.14 for the fourth quarter last year. Annualized return on equity for the three months ended December 31, 2015 and 2014 was 9.12% and 14.01%, while return on assets was .99% and 1.52%, respectively.

Our financial performance for the year and the fourth quarter were significantly impacted by merger related costs for the FNB acquisition, which were expected. These include costs for professional fees, legal expenses, system conversion costs and employee severance expenses. Year to date results include \$1.1 million of acquisition costs and fourth quarter results include \$698,000 of acquisition costs. Excluding merger expenses, return on equity, return on assets and earnings per share for the year ended December 31, 2015 would have been 12.03%, 1.31% and \$4.12 per share, respectively. 2015 expenses have also been impacted by additional costs related to our first quarter branch expansion into the Lock Haven market as well as increased costs related to foreclosed properties.

Net interest income before the provision for loan loss has increased from \$30,338,000 for the twelve months ended December 31, 2014 to \$30,833,000 for 2015, an increase of \$495,000, or 1.6%. For 2015, interest income increased \$362,000, while interest expense decreased \$133,000. Our net interest margin decreased from 3.84% last year to 3.76% for 2015. This is a decrease of only 8 basis points while we continue to manage through the ongoing effects of a difficult and flattening yield curve. The interest rate environment has resulted in continued pressure on the tax-effected yield on interest earning assets, which has decreased from 4.42% last year to 4.29% this year. The cost of interest bearing liabilities has also declined, from .70% last year to .66% in 2015. To offset the declining margin, we have been successful in increasing interest earning assets, particularly loans. For 2015, average loans have increased by \$37.5 million, including loans acquired in the FNB acquisition, which has impacted the average since the closing in December. The provision for loan losses decreased \$105,000 for the twelve month comparable periods.

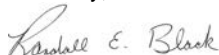
At December 31, 2015, total assets were \$1.2 billion, up from total assets of \$925.0 million as of December 31, 2014, an increase of \$238 million primarily attributable to the FNB acquisition. Available for sale securities increased \$53.6 million from December 31, 2014 as excess cash acquired in the acquisition was invested. Net loans increased \$140.6 million compared to the end of last year, of which \$114.3 million is attributable to FNB. The remaining \$26.3 million of growth has come from the continued success in growing loans in the Mill Hall / Lock Haven market and the hard work of our seasoned lenders in our existing markets. Excluding the addition of \$225.2 million in deposits from the acquisition of FNB, total deposits decreased \$11.1 million from December 31, 2014. A significant portion of this decrease is related to state and political deposits, mostly local school districts, whose balances were temporarily impacted by the lack of an approved budget by the Commonwealth of Pennsylvania.

Asset quality remains strong, with non-performing assets totaling \$8.5 million as of December 31, 2015 compared to \$9.2 million at the end of December, 2014. Non-performing assets to total loans was 1.22% at December 31, 2015 compared to 1.67% last December. The decrease in the percentage can be attributable to the overall decrease in non-performing assets as well as the increase in total loans attributable to the FNB acquisition and organic growth. Annualized net charge-offs as a percent of average loans remains very low at .03%.

Stockholders' equity totaled \$119.8 million at December 31, 2015, which compares to \$100.5 million at December 31, 2014. For 2015, net income of \$11.6 million was offset by cash dividends of \$5.3 million and net treasury share purchases and re-issues of \$2.0 million. Also, stockholders' equity increased \$15.9 million, which includes issuing 336,515 shares to FNB shareholders for the acquisition. A cash dividend of \$.41 per share was paid on December 30, 2015 to shareholders of record on December 18, 2015. This regular quarterly cash dividend is an increase of 2.5% over the regular dividend declared a year ago, 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. As we proudly welcome our new shareholders associated with FNB, we also are very excited about our opportunity to grow our business in Lebanon and the surrounding counties. I 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)

	December 31 2015	December 31 2014
ASSETS:		
Total cash and cash equivalents	\$ 24,384	\$ 11,423
Interest bearing time deposits with other banks	7,696	5,960
Available-for-sale securities	359,737	306,146
Loans (net of allowance for loan losses: \$7,106 at December 31, 2015 and \$6,815 at December 31, 2014)	687,925	547,290
Other assets	83,242	54,229
TOTAL ASSETS	\$ 1,162,984	\$ 925,048
LIABILITIES:		
Total deposits	\$ 988,031	\$ 773,933
Borrowed funds	41,631	41,799
Other liabilities	13,562	8,788
TOTAL LIABILITIES	1,043,224	824,520
STOCKHOLDERS' EQUITY	119,760	100,528
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 1,162,984	\$ 925,048

Consolidated Statement of Income
(Unaudited - In thousands)

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2015	2014	2015	2014
Interest income	\$ 9,251	\$ 8,813	\$ 35,653	\$ 35,291
Interest expense	1,211	1,211	4,820	4,953
Net interest income	8,040	7,602	30,833	30,338
Provision for loan losses	120	105	480	585
Net interest income after provision for loan losses	7,920	7,497	30,353	29,753
Investment securities gains (losses), net	(1)	128	429	616
Other non-interest income	1,876	1,762	6,994	6,740
Merger and acquisition costs	(698)	-	(1,103)	(237)
Non-interest expense	(6,116)	(5,007)	(22,326)	(19,928)
Income before provision for income taxes	2,981	4,380	14,347	16,944
Provision for income taxes	521	904	2,721	3,559
NET INCOME	\$ 2,460	\$ 3,476	\$ 11,626	\$ 13,385

Performance Ratios and Share Data:

Return on average assets (annualized)	0.99%	1.52%	1.22%	1.48%
Return on average equity (annualized)	9.12%	14.01%	11.20%	13.73%
Net interest margin (tax equivalent)	3.73%	3.84%	3.76%	3.84%
Cash dividends paid per share	\$ 0.410	\$ 0.400	\$ 1.730	\$ 2.170
Earnings per share - basic	\$ 0.80	\$ 1.14	\$ 3.84	\$ 4.41
Earnings per share - diluted	\$ 0.80	\$ 1.14	\$ 3.83	\$ 4.40
Number of shares used in computation - basic	3,066,974	3,036,175	3,031,282	3,038,298
Number of shares used in computation - diluted	3,067,107	3,036,176	3,032,642	3,039,593
Book value per share (at end of period)			\$ 35.97	\$ 32.83
Common shares outstanding (at end of period)			3,335,875	3,038,956
Nonperforming assets to total loans (at end of period)			1.22%	1.67%

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