

Dear Shareholders and Friends:

January 30, 2015

On behalf of the Board of Directors and our employees, it is my pleasure to report to you, our shareholders, our financial performance for 2014. Despite managing multiple challenges throughout the year, including margin compression, sluggish loan demand, and ongoing and increasing regulatory burdens, we finished 2014 with our second highest net income on record. I believe this represents exceptional financial performance, particularly compared to peer, and is the direct result of our commitment to outstanding customer service and dedication to serving our communities and customers. We remain focused on remaining a strong, well-capitalized, local community bank, as well as providing exceptional shareholder return and value.

For the three months ended December 31, 2014, net income totaled \$3,476,000 which compares to net income of \$3,296,000 for the fourth quarter of 2013. This represents an increase of \$180,000, or 5.5% over the fourth quarter of 2013. Basic earnings per share of \$1.14 for the fourth quarter compares to \$1.08 last year. Annualized return on equity was 14.01% and 14.21% for the three months ended December 31, 2014 and 2013, while return on assets was 1.52% and 1.47%, respectively.

For the year ended December 31, 2014, net income totaled \$13,385,000 which compares to \$13,375,000 for last year. This represents an increase of \$10,000, or .1%. Basic earnings per share increased from \$4.38 per share last year to \$4.41 per share this year, an increase of 1%. Annualized return on equity for the comparable periods was 13.73% and 14.89%, while return on assets was 1.48% and 1.51%, respectively.

Net interest income, before the provision for loan losses, increased 1.4% from \$29,919,000 for the year ended December 31, 2013, to \$30,338,000 for 2014. While interest income for the year decreased \$943,000, interest expense decreased \$1,362,000 resulting in an overall increase in net interest income of \$419,000 over the comparable period. Partially impacting the comparison for interest income is the recognition in the third quarter last year of \$305,000 of interest income from a loan that paid off that was previously on non-accrual status. Our margin compressed slightly from 3.87% last year to 3.84% this year. Yields on interest earning assets, on a tax-effected basis, declined from 4.62% last year to 4.42% this year. As interest earning assets roll off or re-price, they are being replaced with lower yielding assets due to the continued low interest rate environment.

At December 31, 2014, total assets were \$925 million, an increase of \$10.1 million from total assets of \$914.9 million at December 31, 2013. Our investment portfolio, including interest bearing time deposits, has decreased \$7.7 million from year-end 2013, while net loans of \$547.3 million as of the end of December have increased \$13.8 million, or 2.6%. In the fourth quarter alone, net loans have increased \$10.4 million. Loan quality remains strong and continues to improve from the end of last year. At December 31, 2014, non-performing loans as a percent of total loans was 1.34%, which compares to 1.63% as of December 31, 2013. Our annualized net charge-offs to average loans remains low at .16%.

Stockholders' equity totaled \$100.5 million at December 31, 2014, which compares to \$92.1 million at December 31, 2013. Net income of \$13.4 million was offset by cash dividends of \$6.6 million. Also, accumulated other comprehensive income increased \$2.0 million from the end of 2013, which represents the net change in the unrealized gain on available for sale investment securities and unrecognized pension costs. The regular, quarterly cash dividend of \$.40 per share was paid on December 22, 2014 to shareholders of record on December 15, 2014 and represents an increase of 3.9% over the quarterly cash dividend paid a year ago. For the year, adjusted for stock dividends, the cash dividend was \$2.17 per share compared to last year's cash dividend of \$1.21 per share. Dividends in 2014 include a one-time special dividend of \$.60 per share paid in the third quarter. Our sustained outstanding financial performance and strong capital position has permitted us to increase our dividends and reflects the Board of Directors' desire to provide total shareholder return to our shareholder base. We remain well-capitalized under regulatory capital guidelines.

We are currently putting the finishing touches on our new branch facility in Mill Hall, PA, with an anticipated opening in early February. The new facility has been well received within the Mill Hall community and reflects our brand of community banking, one that is based on providing an ongoing commitment to customer service. It is our exceptional customer service that we believe will result in the successful expansion of our branch network into this market. I cordially invite you to visit our new facility.

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 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 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 2014	December 31 2013
ASSETS:		
Total cash and cash equivalents	\$ 11,423	\$ 10,083
Interest bearing time deposits with other banks	5,960	2,480
Available-for-sale securities	306,146	317,301
Loans (net of allowance for loan losses: \$6,815 at December 31, 2014 and \$7,098 at December 31, 2013)	547,590	533,514
Other assets	54,229	51,556
TOTAL ASSETS	\$ 925,048	\$ 914,934
LIABILITIES:		
Total deposits	\$ 773,933	\$ 748,316
Borrowed funds	41,799	66,932
Other liabilities	8,788	7,630
TOTAL LIABILITIES	824,520	822,878
STOCKHOLDERS' EQUITY	100,528	92,056
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 925,048	\$ 914,934

Consolidated Statement of Income

(Unaudited - In thousands)

	Three Months Ended December 31		Twelve Months Ended December 31	
	2014	2013	2014	2013
Interest income	\$ 8,813	\$ 8,980	\$ 35,291	\$ 36,234
Interest expense	1,211	1,470	4,953	6,315
Net interest income	7,602	7,510	30,338	29,919
Provision for loan losses	105	90	585	405
Net interest income after provision for loan losses	7,497	7,420	29,753	29,514
Investment securities gains, net	128	56	616	441
Other non-interest income	1,762	1,857	6,740	6,982
Non-interest expense	5,007	5,127	20,165	19,810
Income before provision for income taxes	4,380	4,206	16,944	17,127
Provision for income taxes	904	910	3,559	3,752
NET INCOME	\$ 3,476	\$ 3,296	\$ 13,385	\$ 13,375

Performance Ratio and Share Data:

	2014	2013	2014	2013
Return on average assets (annualized)	1.52%	1.47%	1.48%	1.51%
Return on average equity (annualized)	14.01%	14.21%	13.73%	14.89%
Net interest margin (tax equivalent)	3.84%	3.78%	3.84%	3.87%
Cash dividends per share	\$ 0.400	\$ 0.382	\$ 2.173	\$ 1.210
Earnings per share - basic	\$ 1.14	\$ 1.08	\$ 4.41	\$ 4.38
Earnings per share - diluted	\$ 1.14	\$ 1.08	\$ 4.40	\$ 4.38
Number of shares used in computation - basic	3,036,175	3,041,721	3,038,298	3,055,033
Number of shares used in computation - diluted	3,036,176	3,041,946	3,039,593	3,056,203
Book value per share (at end of period)			\$ 32.83	\$ 30.64
Common shares outstanding (at end of period)			3,038,956	3,015,049
Nonperforming assets to total loans (at end of period)			1.67%	1.88%

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