

Dear Shareholders and Friends:

July 26, 2019

On behalf of the Board of Directors, our management team and our employees, I am pleased to report on our financial performance for the second quarter of 2019. Our financial results remain strong and reflect our profitable growth initiatives. We are super excited that we have been recognized by Forbes Magazine as one of America's Best in State Banks and voted number 1 in the Commonwealth of Pennsylvania for the second consecutive year, based upon an independent customer survey regarding customer services and products. This is a testament to our never-ending commitment to provide outstanding customer service.

For the six months ended June 30, 2019, net income totaled \$9,251,000 which compares to net income of \$8,938,000 for the first six months of 2018, an increase of \$313,000 or 3.5%. Basic earnings per share of \$2.62 for the first six months of 2019 compares to \$2.52 for the first six months last year. Annualized return on equity for the six months ended June 30, 2019 and 2018 was 12.61% and 13.15%, while annualized return on assets was 1.28% and 1.29%, respectively.

For the three months ended June 30, 2019, net income totaled \$4,846,000 which compares to net income of \$4,691,000 for the comparable period in 2018, an increase of \$155,000 or 3.3%. Basic earnings per share of \$1.38 for three months ended June 30, 2019 compares to \$1.32 for the 2018 comparable period. Annualized return on equity for the three months ended June 30, 2019 and 2018 was 13.09% and 13.68%, respectively, while annualized return on assets was 1.34% for both periods.

Net interest income before the provision for loan loss for the six months ended June 30, 2019 totaled \$24,251,000 compared to \$23,171,000 for the six months ended June 30, 2018, resulting in an increase of \$1,080,000, or 4.7%. Average interest earning assets increased \$62.9 million for the six months ended June 30, 2019 compared to the same period last year. Average loans increased \$66.8 million while average investment securities decreased \$9.2 million. The tax effected net interest margin for the six months ended June 30, 2019 was 3.66% compared to 3.67% for the same period last year. The provision for loan losses for the six months ended June 30, 2019 was \$750,000 compared to \$825,000 for the six months ended June 30, 2018, which reflects the lower level of loan growth experienced during 2019 compared to 2018.

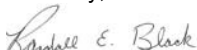
Total non-interest income was \$4,060,000 for the six months ended June 30, 2019, which is \$312,000 more than the non-interest income of \$3,748,000 for the same period last year. The increase was driven by revenue increases in our wealth management division, which includes trust fees and brokerage and insurance commissions. Total non-interest expenses for the six months ended June 30, 2019 totaled \$16,559,000 compared to \$15,534,000 for the same period last year, which is an increase of \$1,025,000, or 6.6%. Salaries and benefits increased \$461,000 primarily due to merit increases, employee commissions, health insurance costs and profit sharing. Other expenses increased \$426,000, which includes an increase in costs as a result of the decision to terminate a pension plan acquired as part the First National Bank of Fredericksburg acquisition in 2015.

At June 30, 2019, total assets were \$1.45 billion, compared to \$1.43 billion at December 31, 2018 and \$1.40 billion at June 30, 2018. Available for sale securities of \$236.7 million at June 30, 2019 decreased \$4.3 million from December 31, 2018 and \$13.3 million from June 30, 2018. Net loans as of June 30, 2019 totaled \$1.09 billion and increased \$17.3 million from December 31, 2018 and \$58.1 million from June 30, 2018. Loan growth has been impacted by several large loan pay-offs and transfers to other real estate owned as the result of a settlement with a customer in bankruptcy. Deposits decreased \$1.5 million from December 31, 2018, to \$1.18 billion at June 30, 2019, primarily due to timing differences and a municipal customer withdrawing funds to start a large construction project. Borrowed funds increased \$9.8 million from December 31, 2018 to \$101.0 million at June 30, 2019.

Stockholders' equity totaled \$148.0 million at June 30, 2019, compared to \$139.2 million at December 31, 2018, an increase of \$8,792,000. The increase was attributable to net income for the six months ended June 30, 2019 totaling \$9.3 million, offset by cash dividends of \$3.1 million. As a result of changes in interest rates impacting the fair value of investment securities, the unrealized gain on available for sale investment securities, net of tax, increased \$3.5 million from December 31, 2018. On June 4, 2019, the Board of Directors declared a cash dividend of \$0.445 per share, which was paid on June 28, 2019 to shareholders of record at the close of business on June 14, 2019. The quarterly cash dividend is an increase of 3.3% over the quarterly cash dividend of \$0.431 per share declared one year ago, as adjusted for the 1% stock dividend declared in June 2018. The Board also declared a 1% stock dividend, payable on June 28, 2019 to shareholders of record at the close of business on June 14, 2019.

For the remainder of 2019, we remain committed to the execution of our strategic plan and growth strategies, and as always, continue to focus on providing outstanding shareholder return. I would like to personally express my sincere thanks to our employees, local board members, management team and the Board of Directors for their continued efforts and dedication, as our ongoing success depends upon our entire team of high achieving individuals. Together, we welcome you to share in this excitement and 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, 2019	December 31 2018	June 30, 2018
ASSETS:			
Total cash and cash equivalents	\$ 16,469	\$ 16,797	\$ 15,613
Interest bearing time deposits with other banks	15,498	15,498	13,762
Equity securities	557	516	195
Available-for-sale securities	236,740	241,010	250,025
Loans (net of allowance for loan losses: 2019, \$13,304; December 31, 2018, \$12,884; June 30, 2018, \$11,941)	1,086,318	1,068,999	1,028,259
Other assets	<u>91,588</u>	<u>87,892</u>	<u>89,740</u>
TOTAL ASSETS	<u>\$ 1,447,170</u>	<u>\$ 1,430,712</u>	<u>\$ 1,397,594</u>
LIABILITIES:			
Total deposits	\$ 1,183,658	\$ 1,185,156	\$ 1,118,592
Borrowed funds	100,984	91,194	133,652
Other liabilities	<u>14,507</u>	<u>15,133</u>	<u>13,069</u>
TOTAL LIABILITIES	<u>1,299,149</u>	<u>1,291,483</u>	<u>1,265,313</u>
STOCKHOLDERS' EQUITY	<u>148,021</u>	<u>139,229</u>	<u>132,281</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 1,447,170</u>	<u>\$ 1,430,712</u>	<u>\$ 1,397,594</u>

Consolidated Statement of Income
(Unaudited - In thousands)

	Three Months Ended		Six Months Ended	
	June 30, 2019	2018	June 30, 2019	2018
Interest income	\$ 15,502	\$ 14,028	\$ 30,519	\$ 27,411
Interest expense	<u>3,166</u>	<u>2,277</u>	<u>6,268</u>	<u>4,240</u>
Net interest income	12,336	11,751	24,251	23,171
Provision for loan losses	<u>350</u>	<u>325</u>	<u>750</u>	<u>825</u>
Net interest income after provision for loan losses	11,986	11,426	23,501	22,346
Other non-interest income	1,997	1,835	4,019	3,735
Investment securities gains (losses), net	30	7	41	13
Non-interest expense	<u>8,237</u>	<u>7,702</u>	<u>16,559</u>	<u>15,534</u>
Income before provision for income taxes	5,776	5,566	11,002	10,560
Provision for income taxes	<u>930</u>	<u>875</u>	<u>1,751</u>	<u>1,622</u>
NET INCOME	<u>\$ 4,846</u>	<u>\$ 4,691</u>	<u>\$ 9,251</u>	<u>\$ 8,938</u>

Performance Ratios and Share Data (unaudited):

Return on average assets (annualized for the three periods)	1.34%	1.34%	1.28%	1.29%
Return on average equity (annualized for the three month periods)	13.09%	13.68%	12.61%	13.15%
Return on average tangible equity (annualized for the three periods)	15.72%	16.74%	15.17%	16.14%
Net interest margin (tax equivalent)	3.74%	3.70%	3.66%	3.67%
Cash dividends paid per share	\$ 0.441	\$ 0.427	\$ 0.881	\$ 0.853
Earnings per share - basic	\$ 1.38	\$ 1.32	\$ 2.62	\$ 2.52
Earnings per share - diluted	\$ 1.38	\$ 1.32	\$ 2.62	\$ 2.52
Number of shares used in computation - basic	3,523,135	3,541,703	3,525,788	3,544,343
Number of shares used in computation - diluted	3,524,517	3,543,170	3,526,483	3,544,974
Book value per share (at end of period)			\$ 42.08	\$ 38.80
Common shares outstanding (at end of period)			3,525,320	3,512,653
Nonperforming assets to total loans (at end of period)			1.51%	1.20%

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