

Dear Shareholders and Friends:

January 30, 2020

On behalf of the Board of Directors, our management team and our employees, I am pleased to report on our financial performance for the fourth quarter and year ended December 31, 2019. Our financial results for 2019 were outstanding, representing the continued execution of our strategic plan, total commitment of our Board of Directors, and unending hard work and dedication of our employees. With our continued emphasis on profitable growth initiatives, we remain focused on community banking and outstanding customer service.

Our TEAM continues to work diligently toward completing the merger with MidCoast Community Bank headquartered in Wilmington, DE., which is expected to close in the second quarter. The MidCoast markets are robust and healthy with economic growth. This market is just 45 miles from our Fivepointville, Lancaster County, PA branch and will serve to bolster our Southeastern, PA presence and position the combined Company for continued growth. We remain very optimistic that the acquisition will enable us to leverage our existing products, services and expertise in an attractive market, while at the same time adding a very talented banking team and contributing significantly to our strategic growth initiatives.

For the year ended December 31, 2019, net income totaled \$19,490,000 which compares to net income of \$18,034,000 for the year ended December 31, 2018, an increase of \$1,456,000 or 8.1%. Basic earnings per share for the year ended December 31, 2019 was \$5.54, which compares to \$5.09 last year. Annualized return on equity for the year ended December 31, 2019 and 2018 was 13.00% for both years, while annualized return on assets was 1.34% and 1.29%, respectively.

For the three months ended December 31, 2019, net income totaled \$5,043,000 which compares to net income of \$4,515,000 for the comparable period in 2018, an increase of \$528,000 or 11.7%. Basic earnings per share of \$1.43 for three months ended December 31, 2019 compares to \$1.28 for the 2018 comparable period. Annualized return on equity for the three months ended December 31, 2019 and 2018 was 13.05% and 12.65%, respectively, while annualized return on assets was 1.37% and 1.27%, respectively.

Net interest income before the provision for loan loss for the year ended December 31, 2019 totaled \$49,940,000 compared to \$47,184,000 for the year ended December 31, 2018, resulting in an increase of \$2,756,000, or 5.8%. Average interest earning assets increased \$52.0 million in 2019 compared to last year. Average loans increased \$58.3 million while average investment securities decreased \$9.4 million. The tax effected net interest margin for 2019 was 3.72% compared to 3.66% for 2018. The provision for loan losses for the year ended December 31, 2019 was \$1,675,000 compared to \$1,925,000 for the year ended December 31, 2018, which reflects the lower level of loan growth experienced during 2019 compared to 2018.

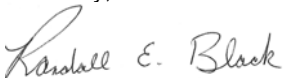
Total non-interest income was \$8,386,000 for the year ended December 31, 2019, which is \$651,000 more than the non-interest income of \$7,735,000 for 2018. The increase was driven by revenue increases in our wealth management division, which includes trust fees and brokerage and insurance commissions. Total non-interest expenses for the year ended December 31, 2019 totaled \$33,341,000 compared to \$31,557,000 for the same period last year, which is an increase of \$1,784,000, or 5.7%.

At December 31, 2019, total assets were \$1.47 billion, compared to \$1.43 billion at December 31, 2018. Net loans as of December 31, 2019 totaled \$1.10 billion and increased \$32.7 million from December 31, 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 increased \$25.9 million from December 31, 2018, to \$1.21 billion at December 31, 2019.

Stockholders' equity totaled \$154.8 million at December 31, 2019, compared to \$139.2 million at December 31, 2018, an increase of \$15.6 million. The increase was attributable to net income of \$19.5 million for 2019, offset by cash dividends of \$6.3 million and net treasury stock activity of \$845,000. 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 \$3.3 million from December 31, 2018. On December 5, 2019, the Board of Directors declared a cash dividend of \$0.450 per share, which was paid on December 27, 2019 to shareholders of record at the close of business on December 13, 2019. The quarterly cash dividend is an increase of 3.3% over the quarterly cash dividend of \$0.436 per share declared one year ago, as adjusted for the 1% stock dividend declared in June 2019.

With the close of another very successful year for our Company, we look forward to embracing the challenges that our ambitious strategic plan presents for this New Year. Our major initiatives include the completion of the acquisition and full integration of MidCoast, a complete upgrade of our internal imaging system, increase our digital banking alternatives, and continued execution on our growth strategies within existing markets. All of our efforts are geared towards achieving outstanding shareholder return and providing customer service second to none. 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)

	December 31 2019	December 31 2018
ASSETS:		
Total cash and cash equivalents	\$ 18,520	\$ 16,797
Interest bearing time deposits with other banks	14,256	15,498
Equity securities	701	516
Available-for-sale securities	240,706	241,010
Loans (net of allowance for loan losses: 2019 - \$13,845; 2018 - \$12,884)	1,101,724	1,068,999
Other assets	<u>90,432</u>	<u>87,892</u>
TOTAL ASSETS	<u>\$ 1,466,339</u>	<u>\$ 1,430,712</u>
LIABILITIES:		
Total deposits	\$ 1,211,118	\$ 1,185,156
Borrowed funds	85,117	91,194
Other liabilities	<u>15,330</u>	<u>15,133</u>
TOTAL LIABILITIES	<u>1,311,565</u>	<u>1,291,483</u>
STOCKHOLDERS' EQUITY	<u>154,774</u>	<u>139,229</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 1,466,339</u>	<u>\$ 1,430,712</u>

Consolidated Statement of Income
(Unaudited - In thousands)

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2019	2018	2019	2018
Interest income	\$ 15,587	\$ 15,088	\$ 61,980	\$ 56,758
Interest expense	<u>2,797</u>	<u>2,845</u>	<u>12,040</u>	<u>9,574</u>
Net interest income	12,790	12,243	49,940	47,184
Provision for loan losses	<u>525</u>	<u>625</u>	<u>1,675</u>	<u>1,925</u>
Net interest income after provision for loan losses	12,265	11,618	48,265	45,259
Other non-interest income	2,083	1,997	8,242	7,754
Investment securities gains (losses), net	66	(20)	144	(19)
Non-interest expense	<u>8,368</u>	<u>8,235</u>	<u>33,341</u>	<u>31,557</u>
Income before provision for income taxes	6,046	5,360	23,310	21,437
Provision for income taxes	<u>1,003</u>	<u>845</u>	<u>3,820</u>	<u>3,403</u>
NET INCOME	<u>\$ 5,043</u>	<u>\$ 4,515</u>	<u>\$ 19,490</u>	<u>\$ 18,034</u>

Performance Ratios and Share Data (unaudited):

Return on average assets (annualized for the three month periods)	1.37%	1.27%	1.34%	1.29%
Return on average equity (annualized for the three month periods)	13.05%	12.65%	13.00%	13.00%
Return on average tangible equity (annualized for the three month periods)	15.52%	15.33%	15.58%	15.87%
Net interest margin (tax equivalent)	3.74%	3.73%	3.72%	3.66%
Cash dividends paid per share	\$ 0.450	\$ 0.436	\$ 1.781	\$ 1.725
Earnings per share - basic	\$ 1.43	\$ 1.28	\$ 5.54	\$ 5.09
Earnings per share - diluted	\$ 1.43	\$ 1.28	\$ 5.53	\$ 5.09
Number of shares used in computation - basic	3,515,962	3,532,858	3,520,832	3,539,674
Number of shares used in computation - diluted	3,516,076	3,533,021	3,522,928	3,541,662
Book value per share (at end of period)			\$ 44.08	\$ 40.45
Common shares outstanding (at end of period)			3,525,061	3,504,596
Nonperforming assets to total loans (at end of period)			1.38%	1.33%

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