

Dear Shareholders and Friends:

April 28, 2017

On behalf of the Board of Directors and our employees, I am pleased to report on our financial performance for the first quarter of 2017. During the quarter, we continued our momentum of solid growth, particularly loan growth, which is a focus of our strategic efforts. Notably, we continue to be successful with loan growth especially in our central and south central Pennsylvania markets, which is a direct result of our commitment to customer service and the addition of exceptional lending teams during 2016.

Financial results for the first quarter of 2017 remain solid and improving. For the three months ended March 31, 2017, net income totaled \$3,303,000 which compares to net income of \$3,283,000 for the first quarter of 2016, an increase of \$20,000. Basic earnings per share of \$1.00 for the first quarter of 2017 compares to \$.98 per share for the first quarter last year. Annualized return on equity for the three months ended March 31, 2017 and 2016 was 10.45% and 10.81%, while annualized return on assets was 1.08% and 1.11%, respectively. The slight decrease in these profitability ratios was impacted by the provision for loan loss, which was \$615,000 for the quarter ended March 31, 2017 compared to \$135,000 for the same quarter last year, which is directly tied to our loan growth. Annualized return on equity and return on assets for the quarter ended March 31, 2017 were improved compared to the three months ended December 31, 2016, which were 10.12% and 1.05%, respectively. Similarly, net income for the first quarter of 2017 of \$3,303,000, exceeded the fourth quarter of 2016's net income by \$132,000, or 4.1%.

Net interest income before the provision for loan loss totaled \$9,997,000 for the three months ended March 31, 2017 compared to \$9,205,000 for the three months ended March 31, 2016, which is an increase of \$792,000, or 8.6%. The net interest margin for the three months ended March 31, 2017 was 3.78% compared to 3.64% for the same period last year. Our strategy has been to shift interest earning assets from the investment portfolio into the loan portfolio. This strategy has and should continue to result in higher yields on interest earning assets and also help us manage the balance sheet from an interest rate risk perspective in a rising rate environment. The increase in the provision for loan loss is reflective of the strong loan growth during the first quarter of 2017, and although it impacts short-term profitability, the origination of high quality loans positions us for future revenue growth.

Non-interest expenses for the three months ended March 31, 2017 totaled \$7,191,000 compared to \$6,912,000 last year, an increase of \$279,000. Current year expenses reflect the increased costs associated with the additional lending teams, and branch and loan production office expansion, which were not yet added as of March of last year.

At March 31, 2017, total assets were \$1.225 billion which compares to \$1.223 billion at December 31, 2016. Available for sale securities of \$281.8 million at March 31, 2017 decreased \$32.2 million from December 31, 2016 to fund growth in our loan portfolio, which is part of our balance sheet strategy to shift interest earning assets into loans. Net loans as of March 31, 2017 totaled \$835.9 million and have increased \$45.2 million from December 31, 2016. Deposits have increased \$32.1 million, from December 31, 2016 to a total of \$1.038 billion at March 31, 2017. Borrowed funds decreased \$32.8 from December 31, 2016 to March 31, 2017, which is attributable to the increase in deposits and decrease in investment securities, offset by the first quarter 2017 loan growth.

Stockholders' equity totaled \$125.0 million at March 31, 2017, which compares to \$123.3 million at December 31, 2016, an increase of \$1.7 million. Net income for the three months ended March 31, 2017 totaling \$3.3 million was offset by cash dividends of \$1.4 million and net treasury share purchases of \$200,000. A cash dividend for the first quarter of 2017 of \$0.425 per share was paid on March 31, 2017 to shareholders of record on March 17, 2017, and represents an increase of 2.4% over the regular cash dividend paid a year ago. The dividend payout reflects our commitment to providing a solid return for shareholders, while maintaining our position as a strong, well-capitalized independent community bank.

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. Our success is dependent upon our team of high achieving individuals and together, I remain excited and optimistic about our continued growth opportunities. I 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

Quarterly Shareholder Letter (Revised Format)**Consolidated Balance Sheet**

(Unaudited - In thousands, except share data)

	March 31 2017	December 31 2016	March 31 2016
<b>ASSETS:</b>			
Total cash and cash equivalents	\$ 14,797	\$ 17,754	\$ 37,379
Interest bearing time deposits with other banks	6,708	6,955	7,697
Available-for-sale securities	281,773	314,017	371,925
Loans (net of allowance for loan losses: 2017, \$9,405; December 31, 2016, \$8,886; March 31, 2016, \$7,275)	835,902	790,725	692,428
Other assets	85,344	93,567	83,135
<b>TOTAL ASSETS</b>	<b>\$ 1,224,524</b>	<b>\$ 1,223,018</b>	<b>\$ 1,192,564</b>
<b>LIABILITIES:</b>			
Total deposits	\$ 1,037,609	\$ 1,005,503	\$ 1,017,811
Borrowed funds	46,836	79,662	39,996
Other liabilities	15,123	14,585	12,786
<b>TOTAL LIABILITIES</b>	<b>1,099,568</b>	<b>1,099,750</b>	<b>1,070,593</b>
<b>STOCKHOLDERS' EQUITY</b>	<b>124,956</b>	<b>123,268</b>	<b>121,971</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 1,224,524</b>	<b>\$ 1,223,018</b>	<b>\$ 1,192,564</b>

**Consolidated Statement of Income**

(Unaudited - In thousands)

	Three Months Ended March 31,	
	2017	2016
Interest income	\$ 11,300	\$ 10,462
Interest expense	1,303	1,257
Net interest income	9,997	9,205
Provision for loan losses	615	135
Net interest income after provision for loan losses	9,382	9,070
Investment securities gains, net	172	27
Other non-interest income	1,863	1,889
Non-interest expense	7,191	6,912
Income before provision for income taxes	4,226	4,074
Provision for income taxes	923	791
<b>NET INCOME</b>	<b>\$ 3,303</b>	<b>\$ 3,283</b>

**Performance Ratios and Share Data:**

Return on average assets (annualized for the three month period)	1.08%	1.11%
Return on average equity (annualized for the three month period)	10.45%	10.81%
Net interest margin (tax equivalent)	3.78%	3.64%
Cash dividends paid per share	\$ 0.425	\$ 0.411
Earnings per share - basic	\$ 1.00	\$ 0.98
Earnings per share - diluted	\$ 1.00	\$ 0.98
Number of shares used in computation - basic	3,313,616	3,356,573
Number of shares used in computation - diluted	3,313,636	3,356,573
Book value per share (at end of period)	\$ 38.11	\$ 36.13
Common shares outstanding (at end of period)	3,316,185	3,318,351
Nonperforming assets to total loans (at end of period)	1.51%	1.25%

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