

Dear Shareholders and Friends:

July 27, 2018

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 2018. Results for the three and six months ended June 30, 2018 were outstanding and reflect the efforts of our growth initiatives, the continued implementation of our strategic plan, and our never ending commitment to providing outstanding customer service. Our results for the second quarter 2018 represent the highest level of quarterly profitability in the history of our Company. However, as significant if not more, was our recognition by **Forbes** Magazine, as one of America's Best in State Banks and voted number 1 in the State of Pennsylvania, based upon an independent customer survey regarding customer services and products. Great job TEAM!

For the six months ended June 30, 2018, net income totaled \$8,938,000 which compares to net income of \$6,771,000 for the first six months of 2017, an increase of \$2,167,000 or 32.0%. Basic earnings per share of \$2.55 for the first six months of 2018 compares to \$1.93 for the first six months last year. Annualized return on equity for the six months ended June 30, 2018 and 2017 was 13.15% and 10.63%, while annualized return on assets was 1.29% and 1.10%, respectively. This financial performance is the result of revenue growth as well as the reduction in federal income tax rates. The Tax Cuts and Jobs Act, enacted on December 22, 2017, lowered the federal corporate income tax rate from 34% to 21% effective January 1, 2018. Income before the provision for income taxes was \$10,560,000 for the six months ended June 30, 2018 compared to \$8,727,000 for the six months ended June 30, 2017, an increase of \$1,833,000. The provision for income taxes decreased from \$1,956,000 to \$1,622,000 for the comparative quarters and reflects the lower tax rates.

For the three months ended June 30, 2018, net income totaled \$4,691,000 which compares to net income of \$3,468,000 for the second quarter of 2017, an increase of \$1,222,000. Basic earnings per share of \$1.34 for the second quarter of 2018 compares to \$0.99 for the second quarter last year. Annualized return on equity for the three months ended June 30, 2018 and 2017 was 13.68% and 10.80%, while annualized return on assets was 1.34% and 1.12%, respectively.

Net interest income before the provision for loan loss for the six months ended June 30, 2018 totaled \$23,171,000 compared to \$20,401,000 for the six months ended June 30, 2017 resulting in an increase of \$2,770,000, or 13.6%. The net interest margin on a tax-effected basis for the six months ended June 30, 2018 was 3.67% compared to 3.79% for 2017. A significant portion of this decrease is attributable to the income tax rate decrease from 34% to 21%, due to the impact (less tax benefit) on our tax free investments and loans. Net loan growth for the first six months of 2018 was \$38.9 million, and as a result, the provision for loan losses totaled \$825,000 for the six months ended June 30, 2018. This was \$415,000 lower than the provision for loan losses totaling \$1,240,000 for the first six months of last year.

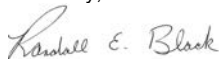
Non-interest income totaling \$3,738,000 for the six months ended June 30, 2018 increased slightly compared to last year's comparable period. Investment securities gains decreased from \$195,000 for the six months ended June 30, 2017 to \$10,000 for the first six months of 2018. Non-interest expenses for the six months ended June, 2018 totaled \$15,534,000 compared to \$14,357,000 for the six months ended June 30, 2017, which represents an increase of \$1,177,000 or 8.2%. Salaries and benefits increased \$830,000, or 9.5%, and is primarily due to merit increases effective at the beginning of 2018 as well as additional payroll costs associated with the State College branch office which we acquired in the fourth quarter of 2017. Occupancy cost and furniture and equipment expenses increased \$80,000 also due mostly to the State College branch addition.

At June 30, 2018, total assets were \$1.398 billion, which compares to \$1.362 billion at December 31, 2017. Available for sale securities of \$250.0 million at June 30, 2018 decreased \$4.8 million from December 31, 2017. Net loans as of June 30, 2018 totaled \$1.028 billion compared to \$989.3 million as of December 31, 2017, an increase of \$38.9 million, or 3.9%. During the second quarter, net loans increased \$8.1 million. Loan originations continued to be relatively strong however the payoff of several loan participations (approximately \$15 million) during the quarter impacted the overall net growth in loans, as we shift our strategy to support our organic loan relationships. Total deposits increased \$13.6 million from December 31, 2017 to \$1.119 billion at June 30, 2018. Borrowed funds increased \$19.0 million from December 31, 2017 to a total of \$133.7 million as of June 30, 2018.

Stockholders' equity totaled \$132.3 million at June 30, 2018 which compares to \$129.0 million at December 31, 2017, an increase of \$3.3 million. The increase was attributable to net income for the six months ended June 30, 2018 totaling \$8.9 million, offset by cash dividends for the first six months totaling \$3.1 million and net treasury stock activity of \$600,000. As a result of changes in interest rates impacting the fair value of investment securities, the unrealized loss on available for sale investment securities increased \$1.9 million from the end of 2017 on an after tax basis. Net treasury share purchases for the second quarter totaled \$300,000. The Board of Directors declared a cash dividend of \$0.435 per share, along with a 1% stock dividend, which was paid on June 29, 2018 to shareholders of record at the close of business on June 15, 2018. The quarterly cash dividend is an increase of 7.5% over the regular cash dividend of \$0.405 per share declared one year ago, as adjusted for the 5% stock dividend declared in June 2017. The Board and Management continues to focus on doing the right thing for our customers, shareholders, communities and employees in order to produce outstanding financial results, which in turn has allowed us to continue to pay an attractive cash dividend.

As I conclude, 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 is dependent upon our entire team of high achieving individuals. I remain excited and optimistic about our continued growth opportunities, as well as our goal to provide outstanding shareholder return. 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, 2018	December 31 2017	June 30, 2017
ASSETS:			
Total cash and cash equivalents	\$ 15,613	\$ 18,517	\$ 19,362
Interest bearing time deposits with other banks	13,762	10,283	8,791
Equity securities	195	-	-
Available-for-sale securities	250,025	254,782	275,208
Loans (net of allowance for loan losses: 2018, \$11,941; December 31, 2017, \$11,190; June 30, 2017 \$9,979)	1,028,259	989,335	878,070
Other assets	89,740	88,969	83,425
TOTAL ASSETS	\$ 1,397,594	\$ 1,361,886	\$ 1,264,856
LIABILITIES:			
Total deposits	\$ 1,118,592	\$ 1,104,943	\$ 1,051,209
Borrowed funds	133,652	114,664	69,998
Other liabilities	13,069	13,268	15,879
TOTAL LIABILITIES	1,265,313	1,232,875	1,137,086
STOCKHOLDERS' EQUITY	132,281	129,011	127,770
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 1,397,594	\$ 1,361,886	\$ 1,264,856

Consolidated Statement of Income
(Unaudited - In thousands)

	Three Months Ended		Six Months Ended	
	June 30, 2018	2017	June 30, 2018	2017
Interest income	\$ 14,028	\$ 11,778	\$ 27,411	\$ 23,078
Interest expense	2,277	1,374	4,240	2,677
Net interest income	11,751	10,404	23,171	20,401
Provision for loan losses	325	625	825	1,240
Net interest income after provision for loan losses	11,426	9,779	22,346	19,161
Other non-interest income	1,838	1,865	3,738	3,728
Investment securities gains, net	4	23	10	195
Non-interest expense	7,702	7,166	15,534	14,357
Income before provision for income taxes	5,566	4,501	10,560	8,727
Provision for income taxes	875	1,033	1,622	1,956
NET INCOME	\$ 4,691	\$ 3,468	\$ 8,938	\$ 6,771

Performance Ratios and Share Data:

Return on average assets (annualized)	1.34%	1.12%	1.29%	1.10%
Return on average equity (annualized)	13.68%	10.80%	13.15%	10.63%
Return on average tangible equity (annualized)	16.74%	13.16%	16.14%	12.98%
Net interest margin (tax equivalent)	3.70%	3.82%	3.67%	3.79%
Cash dividends paid per share	\$ 0.435	\$ 0.401	\$ 0.870	\$ 0.802
Earnings per share - basic	\$ 1.34	\$ 0.99	\$ 2.55	\$ 1.93
Earnings per share - diluted	\$ 1.34	\$ 0.99	\$ 2.55	\$ 1.93
Number of shares used in computation - basic	3,507,242	3,514,394	3,509,882	3,513,925
Number of shares used in computation - diluted	3,508,709	3,515,582	3,510,513	3,514,535
Book value per share (at end of period)			\$ 39.18	\$ 36.54
Common shares outstanding (at end of period)			3,512,653	3,489,164
Nonperforming assets to total loans (at end of period)			1.20%	1.52%

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