

Dear Shareholders and Friends:

October 28, 2016

On behalf of the Board of Directors and our employees, I am pleased to report on our financial performance for the third quarter of 2016. The investment in our future continues, as evidenced by our September opening of our new branch in Mount Joy, Pennsylvania. This new location is a key extension to our southcentral market and will significantly add to our ability to better serve our new customer base in Lancaster County.

It's been no secret that a major part of our strategy has been our ongoing focus on profitable growth initiatives. In July, we were able to complete another segment of our strategy, by adding an additional team of experienced agricultural lenders that will serve both the Lebanon, Lancaster and surrounding markets. This additional team compliments the agricultural team that was added in the spring based in Winfield, PA, and adds to our outstanding core of experienced agricultural lenders to become one of the leading agricultural teams in Pennsylvania. We have already begun to see the benefits of our strategy, as net loan growth during the third quarter of 2016 exceeded \$42 million. For the year, loan growth totals \$55 million which represents an annualized increase of 10.8%.

Our financial results remain solid, but do reflect costs and investments to support our growth initiatives. For the nine months ended September 30, 2016, net income totaled \$9,467,000 which compares to net income of \$9,166,000 for the first nine months of 2015. Year to date through September 30, 2016 our provision for loan loss totals \$770,000, which compares to \$360,000 for the same period last year and is attributable primarily to our overall loan growth. Basic earnings per share of \$2.83 for the first nine months of 2016 compares to \$3.00 per share for the first nine months last year. Annualized return on equity for the nine months ended September 30, 2016 and 2015 was 10.28% and 11.93%, while return on assets was 1.06% and 1.31%, respectively.

For the three months ended September 30, 2016, net income totaled \$3,153,000 which compares to net income of \$2,857,000 for the third quarter of 2015, an increase of \$296,000. Basic earnings per share of \$.94 for the third quarter of 2016 compares to \$.94 per share for the third quarter last year. Annualized return on equity for the three months ended September 30, 2016 and 2015 was 10.17% and 11.00%, while return on assets was 1.06% and 1.21%, respectively.

Non-interest expenses for the nine months ended September 30, 2016 totaled \$21.4 million compared to \$16.6 million last year, an increase of \$4.8 million. In addition to the increased costs associated with the acquisition of The First National Bank of Fredericksburg (FNB), the two lending teams have resulted in increased operating expenses. We have also added administrative costs to support our strategic growth initiatives. We also continue to invest in technology, and so during the quarter, we transitioned to a new debit card processing system which includes up to date technology to help fight debit card fraud.

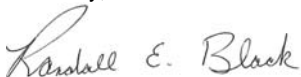
Net interest income before the provision for loan loss has increased from \$22,793,000 for the nine months ended September 30, 2015 to \$28,088,000 for 2016, an increase of \$5,295,000 or 23.2%. This increase is attributable to our growth, both from the FNB acquisition and loan growth during 2016. The persistent interest rate environment and competitive pressures have resulted in a decrease in the net interest margin, from 3.78% last year to 3.67% for 2016.

At September 30, 2016, total assets were \$1.19 billion which compares to \$1.16 billion at December 31, 2015. Available for sale securities of \$349.2 million at September 30, 2016 decreased \$10.5 million from December 31, 2015 due to the unfavorable investment environment and the growth in our loan portfolio. Net loans have increased \$55.2 million compared to the end of last year, and we expect continued growth for the remainder of the year due to our increased lending staff and strategic efforts. Since December 31, 2015, deposits have increased \$20.7 million, to a total of \$1.0 billion at September 30, 2016.

Stockholders' equity totaled \$125.6 million at September 30, 2016, which compares to \$119.8 million at December 31, 2015, an increase of \$5.8 million. Net income for the nine months of 2016 totaling \$9.5 million was offset by cash dividends of \$4.2 million and net treasury share purchases of \$1.1 million. As a result of changes in interest rates impacting the fair value of investment securities, accumulated other comprehensive income attributable to the unrealized gain on available for sale investment securities increased \$1.5 million from the end of 2015. A cash dividend for the third quarter of 2016 of \$.42 per share was paid on September 30, 2016 to shareholders of record on September 16, 2016, and represents an increase of 2.5% over the regular cash dividend paid a year ago, excluding the \$.10 one-time special dividend paid in the third quarter of 2015. Our dividend payout continues to reflect the Board of Directors' desire to provide total shareholder return to our shareholder base.

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. I remain very excited about our Company's growth opportunities and the execution of our strategic plan. 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

For assistance regarding a change in registration of stock certificates, replacing lost certificates/dividend checks, or address changes, please contact either Gina Boor, Shareholder Services at 800-326-9486 or our transfer agent – Broadridge Corporate Issuer Solutions, Inc., 1717 Arch Street, Suite 1300, Philadelphia, PA 19103 / toll free: 877-830-4936 / website: <https://investor.broadridge.com>.

Quarterly Shareholder Letter

Consolidated Balance Sheet
(Unaudited - In thousands)

	September 30 2016	December 31 2015	September 30 2015
ASSETS:			
Total cash and cash equivalents	\$ 16,371	\$ 24,384	\$ 10,314
Interest bearing time deposits with other banks	6,955	7,696	6,460
Available-for-sale securities	349,154	359,737	300,630
Loans (net of allowance for loan losses: 2016, \$8,194; December 31, 2015, \$7,106; September 30, 2015, \$7,045)	743,099	687,925	575,964
Other assets	82,075	83,242	60,609
TOTAL ASSETS	\$ 1,197,654	\$ 1,162,984	\$ 953,977
LIABILITIES:			
Total deposits	\$ 1,008,747	\$ 988,031	\$ 797,848
Borrowed funds	51,859	41,631	44,657
Other liabilities	11,498	13,562	7,568
TOTAL LIABILITIES	1,072,104	1,043,224	850,073
STOCKHOLDERS' EQUITY	125,550	119,760	103,904
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 1,197,654	\$ 1,162,984	\$ 953,977

Consolidated Statement of Income
(Unaudited - In thousands)

	Three Months Ended September 30		Nine Months Ended September 30	
	2016	2015	2016	2015
Interest income	\$ 10,948	\$ 8,863	\$ 31,836	\$ 26,402
Interest expense	1,236	1,218	3,748	3,609
Net interest income	9,712	7,645	28,088	22,793
Provision for loan losses	500	120	770	360
Net interest income after provision for loan losses	9,212	7,525	27,318	22,433
Investment securities gains, net	-	129	155	430
Other non-interest income	1,908	1,736	5,652	5,118
Non-interest expense	(7,200)	(5,852)	(21,413)	(16,615)
Income before provision for income taxes	3,920	3,538	11,712	11,366
Provision for income taxes	767	681	2,245	2,200
NET INCOME	\$ 3,153	\$ 2,857	\$ 9,467	\$ 9,166

Performance Ratios and Share Data (Unaudited):

Return on average assets (annualized)	1.06%	1.21%	1.06%	1.31%
Return on average equity (annualized)	10.17%	11.00%	10.28%	11.93%
Net interest margin (tax equivalent)	3.78%	3.73%	3.67%	3.78%
Cash dividends paid per share	\$ 0.420	\$ 0.503	\$ 1.250	\$ 1.304
Earnings per share - basic	\$ 0.94	\$ 0.94	\$ 2.83	\$ 3.00
Earnings per share - diluted	\$ 0.94	\$ 0.94	\$ 2.83	\$ 3.00
Number of shares used in computation - basic	3,339,962	3,044,311	3,346,623	3,051,826
Number of shares used in computation - diluted	3,341,656	3,045,775	3,348,321	3,053,294
Book value per share (at end of period)			\$ 37.11	\$ 33.97
Common shares outstanding (at end of period)			3,345,564	3,001,071
Nonperforming assets to total loans (at end of period)			1.57%	1.44%