

Dear Shareholders and Friends:

October 27, 2017

On behalf of the Board of Directors, our management team and our employees, I am pleased to report on our financial performance for the third quarter of 2017. The financial results for the three and nine months ended September 30, 2017 continue to reflect the execution of our strategic plan related to growth initiatives and the commitment to providing outstanding customer service. Additionally, I am excited to announce the opening of a loan production office in Narvon, Pennsylvania, representing further extension into Lancaster County. In December, we expect to finalize the acquisition of a full service branch in State College, Pennsylvania that will further increase our access to additional growth markets.

For the nine months ended September net income totaled \$10,421,000 which compares to net income of \$9,467,000 for the first nine months of 2016, an increase of \$954,000 or 10.1%. Basic earnings per share of \$2.99 for the first nine months of 2017 compares to \$2.70 for the first nine months last year. Annualized return on equity for the nine months ended September 30, 2017 and 2016 was 10.81% and 10.28%, while annualized return on assets was 1.12% and 1.06%, respectively.

For the three months ended September 30, 2017, net income totaled \$3,650,000 which compares to net income of \$3,153,000 for the third quarter of 2016, an increase of \$497,000, or 15.8%. Basic earnings per share of \$1.05 for the third quarter of 2017 compares to \$.90 for the third quarter last year. Annualized return on equity for the three months ended September 30, 2017 and 2016 was 11.16% and 10.17%, while annualized return on assets was 1.15% and 1.06%, respectively.

Net interest income before the provision for loan loss for the nine months ended September 30, 2017 totaled \$31,018,000 compared to \$28,088,000 for the nine months ended September 30, 2016 resulting in an increase of \$2,930,000, or 10.4%. The net interest margin for the nine months ended September 30, 2017 was 3.78% compared to 3.67% for the same period last year. Loan growth for 2017 has been solid, and has continued through the third quarter increasing \$18.6 million during the third quarter of 2017 and \$106 million since December 31, 2016. The increase in performing loans has resulted in our net interest income growth. Due to the loan growth, the provision for loan losses has increased from \$770,000 for the nine months ended September 30, 2016 to \$1,740,000 for the same period this year.

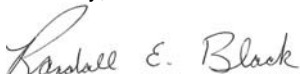
Non-interest expenses for the nine months ended September 30, 2017 totaled \$21,604,000 compared to \$21,413,000 for the same period last year, which is an increase of \$191,000, or 1.0%. Salaries and benefits increased \$813,000 primarily due to the increased costs associated with the additional lending teams hired during the second and third quarters of 2016, branch and loan production office expansion, and normal employee merit increases. For the three months ended September, 2017, non-interest expenses increased only \$47,000 compared to the three months ended September 30, 2016.

At September 30, 2017, total assets were \$1.27 billion which compares to \$1.22 billion at December 31, 2016. Available for sale securities of \$263.6 million at September 30, 2017 decreased \$50.4 million from December 31, 2016 to fund growth in our loan portfolio, which is part of our balance sheet strategy to reallocate other interest earning assets into loans. Net loans as of September 30, 2017 totaled \$896.7 million and have increased \$106 million, or 13.4%, from December 31, 2016 as noted above. Deposits increased \$46.6 million from December 31, 2016, to a total of \$1.05 billion at September 30, 2017. Borrowed funds decreased \$6.0 million from December 31, 2016 to September 30, 2017. This decrease is attributable to the increase in deposits and decrease in investment securities, both of which were offset by loan growth through September 30, 2017.

Stockholders' equity totaled \$129.9 million at September 30, 2017, which compares to \$123.3 million at December 31, 2016, an increase of \$6.6 million. The increase was attributable to net income for the nine months ended September 30, 2017 totaling \$10.4 million and net treasury share transactions of \$300,000. As a result of changes in interest rates impacting the fair value of investment securities, the unrealized gain on available for sale investment securities increased \$.3 million from the end of 2016. These were offset by cash dividends of \$4.4 million. On September 5, 2017, the Board of Directors declared a cash dividend of \$0.43 per share, which was paid on September 29, 2017 to shareholders of record at the close of business on September 15, 2017. The quarterly cash dividend is an increase of 7.5% over the regular cash dividend of \$0.40 per share declared one year ago, as adjusted for the 5% stock dividend declared in June 2017. Dividends are part of our commitment to return value to our shareholders, and reflect our ongoing commitment to remain a strong 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 depends 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

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>.

**Consolidated Balance Sheet**
**(Unaudited - In thousands, except share data)**

	September 30 2017	December 31 2016	September 30 2016
<b>ASSETS:</b>			
Total cash and cash equivalents	\$ 13,815	\$ 17,754	\$ 16,371
Interest bearing time deposits with other banks	10,031	6,955	6,955
Available-for-sale securities	263,588	314,017	349,154
Loans (net of allowance for loan losses: 2017, \$10,447; December 31, 2016, \$8,886; September 30, 2016, \$8,194)	896,715	790,725	743,099
Other assets	85,638	93,567	82,075
<b>TOTAL ASSETS</b>	<b>\$ 1,269,787</b>	<b>\$ 1,223,018</b>	<b>\$ 1,197,654</b>
<b>LIABILITIES:</b>			
Total deposits	\$ 1,052,105	\$ 1,005,503	\$ 1,008,747
Borrowed funds	73,628	79,662	51,859
Other liabilities	14,172	14,585	11,498
<b>TOTAL LIABILITIES</b>	<b>1,139,905</b>	<b>1,099,750</b>	<b>1,072,104</b>
<b>STOCKHOLDERS' EQUITY</b>	<b>129,882</b>	<b>123,268</b>	<b>125,550</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 1,269,787</b>	<b>\$ 1,223,018</b>	<b>\$ 1,197,654</b>

**Consolidated Statement of Income**
**(Unaudited - In thousands)**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Interest income	\$ 12,120	\$ 10,948	\$ 35,198	\$ 31,836
Interest expense	1,503	1,236	4,180	3,748
Net interest income	10,617	9,712	31,018	28,088
Provision for loan losses	500	500	1,740	770
Net interest income after provision for loan losses	10,117	9,212	29,278	27,318
Other non-interest income	1,912	1,908	5,640	5,652
Investment securities gains, net	9	-	204	155
Non-interest expense	7,247	7,200	21,604	21,413
Income before provision for income taxes	4,791	3,920	13,518	11,712
Provision for income taxes	1,141	767	3,097	2,245
<b>NET INCOME</b>	<b>\$ 3,650</b>	<b>\$ 3,153</b>	<b>\$ 10,421</b>	<b>\$ 9,467</b>

**Performance Ratios and Share Data:**

Return on average assets (annualized for the three and nine month periods)	1.15%	1.06%	1.12%	1.06%
Return on average equity (annualized for the three and nine month periods)	11.16%	10.17%	10.81%	10.28%
Return on average tangible equity (annualized for the three and nine month periods)	13.53%	12.51%	13.17%	12.70%
Net interest margin (tax equivalent)	3.79%	3.78%	3.78%	3.67%
Cash dividends paid per share	\$ 0.430	\$ 0.400	\$ 1.240	\$ 1.183
Earnings per share - basic	\$ 1.05	\$ 0.90	\$ 2.99	\$ 2.70
Earnings per share - diluted	\$ 1.05	\$ 0.90	\$ 2.99	\$ 2.69
Number of shares used in computation - basic	3,482,936	3,505,526	3,480,760	3,512,187
Number of shares used in computation - diluted	3,485,221	3,507,220	3,482,634	3,513,885
Book value per share (at end of period)			\$ 37.52	\$ 35.36
Common shares outstanding (at end of period)			3,491,511	3,345,564
Nonperforming assets to total loans (at end of period)			1.50%	1.57%

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