

Dear Shareholders and Friends:

October 25, 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 third quarter of 2018. Our financial results for the three and nine months ended September 30, 2018 remain outstanding and continue to reflect our growth initiatives and relentless commitment to providing outstanding customer service.

For the nine months ended September 30, 2018, net income totaled \$13,519,000 which compares to net income of \$10,421,000 for the first nine months of 2017, an increase of \$3,098,000 or 29.7%. Basic earnings per share of \$3.85 for the first nine months of 2018 compares to \$2.96 for the first nine months last year. Annualized return on equity for the nine months ended September 30, 2018 and 2017 was 13.13% and 10.81%, while annualized return on assets was 1.30% and 1.12%, respectively. Revenue growth has contributed significantly to our financial performance as total interest income has increased \$6,472,000, or 18.4%, for the nine months ended September 30, 2018 compared to the same period last year. The decreased federal corporate income tax rate from 35% to 21% effective January 1, 2018 has also contributed to our financial performance. While income before provision for income taxes has increased \$2,559,000 for the nine months ended September 30, 2018 compared to last year, the provision for income taxes decreased from \$3,097,000 to \$2,558,000 which reflects the lower tax rates.

For the three months ended September 30, 2018, net income totaled \$4,581,000 which compares to net income of \$3,650,000 for the third quarter of 2017, an increase of \$931,000. Basic earnings per share of \$1.31 for the third quarter of 2018 compares to \$1.04 for the third quarter last year. Annualized return on equity for the three months ended September 30, 2018 and 2017 was 13.08% and 11.16%, while annualized return on assets was 1.30% and 1.15%, respectively.

Net interest income before the provision for loan loss for the nine months ended September 30, 2018 totaled \$34,941,000 compared to \$31,018,000 for the nine months ended September 30, 2017 resulting in an increase of \$3,923,000, or 12.6%. The net interest margin on a tax-effected basis for the nine months ended September 30, 2018 was 3.65% compared to 3.78% for 2017. A large portion of this decrease is attributable to the income tax rate decrease from 35% to 21%, due to the impact (less tax benefit) on our tax free investments and loans. Net loan growth for the first nine months of 2018 was \$58.6 million, and as a result, the provision for loan losses totaled \$1,300,000 for the nine months ended September 30, 2018. This was \$440,000 lower than the provision for loan losses totaling \$1,740,000 for the first nine months of last year.

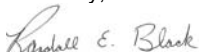
Non-interest income totaled \$5,758,000 for the nine months ended September 30, 2018, which is a slight decrease compared to last year's comparable period. Increases in service charges of \$132,000 and brokerage / insurance fees of \$112,000 were offset by a decrease in investment securities gains of \$203,000. Non-interest expenses for the nine months ended September 30, 2018 totaled \$23,322,000 compared to \$21,604,000 for the nine months ended September 30, 2017, which is an increase of \$1,718,000 or 8%. Salaries and benefits increased \$1,221,000, or 9.4%, which is 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 \$77,000 also due to the State College branch addition. ORE expenses have increased \$198,000.

At September 30, 2018, total assets were \$1.408 billion, which compares to \$1.362 billion at December 31, 2017. Available for sale securities of \$240.4 million at September 30, 2018 decreased \$14.4 million from December 31, 2017. Net loans as of September 30, 2018 totaled \$1.048 billion compared to \$989.3 million as of December 31, 2017, an increase of \$58.6 million. For the third quarter, net loans increased \$19.7 million, which represents an annualized growth rate of 7.7%. Total deposits increased \$69.9 million from December 31, 2017 to a total of \$1.174 billion at September 30, 2018. \$20 million of this increase is attributable to brokered certificate of deposits that we received during the third quarter as part of our strategy to help mitigate interest rate risk in a rising interest rate environment. As of September 30, 2018 borrowed funds totaled \$86.1 million, which is a decrease of \$28.6 million from December 31, 2017. Again, this decrease is directly related to the brokered deposits.

Stockholders' equity totaled \$134.4 million at September 30, 2018 which compares to \$129.0 million at December 31, 2017, an increase of \$5.4 million. The increase was attributable to net income for the nine months ended September 30, 2018 totaling \$13.5 million, offset by cash dividends for the first nine months totaling \$4.6 million and net treasury stock activity of \$750,000. As a result of increases in interest rates impacting the fair value of investment securities, the unrealized loss on available for sale investment securities increased \$2.7 million from the end of 2017 on an after tax basis. The Board of Directors declared a cash dividend of \$0.44 per share, which was paid on September 28, 2018 to shareholders of record at the close of business on September 14, 2018. The quarterly cash dividend is an increase of 3.3% over the regular cash dividend of \$0.426 per share declared one year ago, as adjusted for the 1% stock dividend declared in June 2018. The Board and Management continue to focus on producing outstanding financial results, which in turn has allowed us to continue to pay an attractive cash dividend. Our expansion into the south central and central Pennsylvania markets has continued to contribute to our financial results.

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 ongoing success is dependent upon our entire team of high achieving individuals, as we all remain focused on providing outstanding shareholder return. 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)

	September 30, 2018	December 31 2017	September 30, 2017
ASSETS:			
Total cash and cash equivalents	\$ 16,500	\$ 18,517	\$ 13,815
Interest bearing time deposits with other banks	14,754	10,283	10,031
Equity securities	291	-	-
Available-for-sale securities	240,426	254,782	263,588
Loans (net of allowance for loan losses: 2018, \$12,383; December 31, 2017, \$11,190; September 30, 2017 \$10,447)	1,047,948	989,335	896,715
Other assets	87,961	88,969	85,638
TOTAL ASSETS	\$ 1,407,880	\$ 1,361,886	\$ 1,269,787
LIABILITIES:			
Total deposits	\$ 1,174,843	\$ 1,104,943	\$ 1,052,105
Borrowed funds	86,097	114,664	73,628
Other liabilities	12,540	13,268	14,172
TOTAL LIABILITIES	1,273,480	1,232,875	1,139,905
STOCKHOLDERS' EQUITY	134,400	129,011	129,882
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 1,407,880	\$ 1,361,886	\$ 1,269,787

Consolidated Statement of Income
(Unaudited - In thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Interest income	\$ 14,259	\$ 12,120	\$ 41,670	\$ 35,198
Interest expense	2,489	1,503	6,729	4,180
Net interest income	11,770	10,617	34,941	31,018
Provision for loan losses	475	500	1,300	1,740
Net interest income after provision for loan losses	11,295	10,117	33,641	29,278
Other non-interest income	2,022	1,912	5,757	5,640
Investment securities gains (losses), net	(12)	9	1	204
Non-interest expense	7,788	7,247	23,322	21,604
Income before provision for income taxes	5,517	4,791	16,077	13,518
Provision for income taxes	936	1,141	2,558	3,097
NET INCOME	\$ 4,581	\$ 3,650	\$ 13,519	\$ 10,421

Performance Ratios and Share Data:

Return on average assets (annualized)	1.30%	1.15%	1.30%	1.12%
Return on average equity (annualized)	13.08%	11.16%	13.13%	10.81%
Return on average tangible equity (annualized)	15.92%	13.53%	16.06%	13.17%
Net interest margin (tax equivalent)	3.64%	3.79%	3.65%	3.78%
Cash dividends paid per share	\$ 0.440	\$ 0.426	\$ 1.302	\$ 1.228
Earnings per share - basic	\$ 1.31	\$ 1.04	\$ 3.85	\$ 2.96
Earnings per share - diluted	\$ 1.31	\$ 1.04	\$ 3.85	\$ 2.96
Number of shares used in computation - basic	3,502,859	3,517,208	3,507,515	3,515,032
Number of shares used in computation - diluted	3,503,020	3,519,493	3,509,676	3,516,906
Book value per share (at end of period)			\$ 40.03	\$ 37.16
Common shares outstanding (at end of period)			3,509,142	3,491,511
Nonperforming assets to total loans (at end of period)			1.46%	1.50%

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