

Dear Shareholders and Friends:

January 27, 2017

On behalf of the Board of Directors and our employees, I am pleased to report on our financial performance for the fourth quarter and year ended December 31, 2016. 2016 was a very exciting time for our Company. We were busy integrating the December 2015 acquisition of the First National Bank of Fredericksburg (FNB) into First Citizen's culture. We experienced significant growth as evidenced by the addition of several lending teams, the opening of a loan production office in Winfield, Pennsylvania, and the opening of a new branch location in Mount Joy, Pennsylvania.

Growth and expansion as most of you are aware, has been a key focus for us. As a result of this focus the company has begun to achieve this initiative, particularly in loan growth, as loans have increased over \$104 million, or 15%. In the fourth quarter alone, loans increased \$48.3 million.

Our financial results remain solid, however they do reflect costs and investments to support our growth initiatives. Year to date through December 31, 2016 our provision for loan loss totaled \$1,520,000 which compares to \$480,000 for last year and is primarily attributable to our overall loan growth. Net income totaled \$12.6 million for the year ended December 31, 2016, which compares to net income of \$11.6 million last year. Results for 2015 were impacted by FNB merger and acquisition costs of \$1.1 million on a pre-tax basis. Basic earnings per share of \$3.78 for the year ended December 31, 2016 compares to \$3.79 per share for last year. Return on equity for the year ended December 31, 2016 and 2015 was 10.24% and 11.20%, while return on assets was 1.06% and 1.22%, respectively.

For the three months ended December 31, 2016, net income totaled \$3.2 million which compares to net income of \$2.5 million for the fourth quarter of 2015, an increase of \$711,000. Fourth quarter 2015 results were impacted by FNB merger related costs of \$698,000 on a pre-tax basis. The provision for loan loss for the quarter ended December 31, 2016 was \$750,000, which compares to \$120,000 for the same quarter last year. Basic earnings per share of \$.95 for the fourth quarter of 2016 compares to \$.79 per share for the fourth quarter last year. Annualized return on equity for the three months ended December 31, 2016 and 2015 was 10.12% and 9.12%, while annualized return on assets was 1.05% and .99%, respectively.

Non-interest expenses for the year ended December 31, 2016 totaled \$28.7 million compared to \$23.4 million last year, an increase of \$5.3 million. Current year expenses reflect the increased costs associated with the acquisition of FNB, the additional lending teams, and branch and loan production office expansion. We have also added administrative costs to support our strategic growth initiatives including investments in technology, administrative support and increased compliance costs.

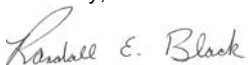
Net interest income before the provision for loan loss has increased from \$30.8 million for the year ended December 31, 2015 to \$38.0 million for 2016, an increase of \$7,131,000 or 23.1%. This increase is attributable to our loan growth, both from the FNB acquisition and significant organic growth during 2016, particularly in the second half of the year. Our net interest margin decreased from 3.76% last year to 3.68% for 2016 primarily due to competitive pressures.

At December 31, 2016, total assets were \$1.22 billion which compares to \$1.16 billion at December 31, 2015. Available for sale securities of \$314 million at December 31, 2016 decreased \$45.7 million from December 31, 2015 to fund growth in our loan portfolio. Net loans have increased \$102.8 million compared to the end of last year. Our loan growth has been funded through the decrease in our investment portfolio, a \$17.5 million increase in deposits, and an increase in borrowed funds of \$38 million.

Stockholders' equity totaled \$123.3 million at December 31, 2016, which compares to \$119.8 million at December 31, 2015, an increase of \$3.5 million. Net income for the year ended December 31, 2016 totaling \$12.6 million was offset by cash dividends of \$5.5 million and net treasury share purchases of \$2.4 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 decreased \$1.2 million from the end of 2015. A cash dividend for the fourth quarter of 2016 of \$.42 per share was paid on December 30, 2016 to shareholders of record on December 16, 2016, 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, independent community bank.

I am extremely proud of our successful growth during 2016 and I remain excited about our continued opportunities. This would not be possible without our team, as 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 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)

	December 31 2016	December 31 2015
<b>ASSETS:</b>		
Total cash and cash equivalents	\$ 17,754	\$ 24,384
Interest bearing time deposits with other banks	6,955	7,696
Available-for-sale securities	314,017	359,737
Loans (net of allowance for loan losses: \$8,886 at December 31, 2016 and \$7,106 at December 31, 2015)	790,725	687,925
Other assets	93,567	83,242
<b>TOTAL ASSETS</b>	<b>\$ 1,223,018</b>	<b>\$ 1,162,984</b>
<b>LIABILITIES:</b>		
Total deposits	\$ 1,005,503	\$ 988,031
Borrowed funds	79,662	41,631
Other liabilities	14,585	13,562
<b>TOTAL LIABILITIES</b>	<b>1,099,750</b>	<b>1,043,224</b>
<b>STOCKHOLDERS' EQUITY</b>	<b>123,268</b>	<b>119,760</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 1,223,018</b>	<b>\$ 1,162,984</b>

**Consolidated Statement of Income**

(Unaudited - In thousands)

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2016	2015	2016	2015
Interest income	\$ 11,169	\$ 9,251	\$ 43,005	\$ 35,653
Interest expense	1,293	1,211	5,041	4,820
Net interest income	9,876	8,040	37,964	30,833
Provision for loan losses	750	120	1,520	480
Net interest income after provision for loan losses	9,126	7,920	36,444	30,353
Investment securities gains (losses), net	100	(1)	255	429
Other non-interest income	1,992	1,876	7,644	6,994
Merger and acquisition costs	-	(698)	-	(1,103)
Non-interest expense	(7,258)	(6,116)	(28,671)	(22,326)
Income before provision for income taxes	3,960	2,981	15,672	14,347
Provision for income taxes	789	521	3,034	2,721
<b>NET INCOME</b>	<b>\$ 3,171</b>	<b>\$ 2,460</b>	<b>\$ 12,638</b>	<b>\$ 11,626</b>

**Performance Ratios and Share Data:**

Return on average assets (annualized for the three month period)	1.05%	0.99%	1.06%	1.22%
Return on average equity (annualized for the three month period)	10.12%	9.12%	10.24%	11.20%
Net interest margin (tax equivalent)	3.75%	3.73%	3.68%	3.76%
Cash dividends paid per share	\$ 0.420	\$ 0.406	\$ 1.662	\$ 1.712
Earnings per share - basic	\$ 0.95	\$ 0.79	\$ 3.78	\$ 3.79
Earnings per share - diluted	\$ 0.95	\$ 0.79	\$ 3.78	\$ 3.79
Number of shares used in computation - basic	3,327,811	3,099,598	3,341,933	3,063,906
Number of shares used in computation - diluted	3,327,854	3,099,731	3,343,489	3,065,266
Book value per share (at end of period)			\$ 37.55	\$ 35.62
Common shares outstanding (at end of period)			3,319,704	3,335,875
Nonperforming assets to total loans (at end of period)			1.61%	1.22%

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