

Dear Shareholders and Friends:

January 26, 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 fourth quarter and year ended December 31, 2017. Our financial results continue to reflect strong financial performance through the execution of our strategic plan, growth initiatives, and our commitment to providing outstanding customer service in all of our service areas. I am excited to announce that in December, we finalized the acquisition of a full service branch in State College, Pennsylvania that will further increase our access to additional growth markets.

For the year ended December 31, 2017 net income totaled \$13,025,000 which compares to net income of \$12,638,000 for 2016, an increase of \$387,000 or 3.1%. Basic earnings per share of \$3.74 for 2017 compares to \$3.60 for 2016. Return on equity for the year ended December 31, 2017 and 2016 was 10.04% and 10.24%, respectively, while return on assets was 1.03% and 1.06%, respectively.

Fourth quarter and full year income was negatively impacted by an increase in income tax expense. 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. As a result, the carrying value of net deferred tax assets was reduced which increased income tax expense by \$1.5 million, or \$.44 per share. Excluding this write-down, 2017 net income would have been \$14.6 million, or \$4.18 per share on a non GAAP basis. Return on equity and return on assets for 2017 would have been 11.22% and 1.16%, respectively, also on a non GAAP basis. We expect to recover during 2018 all of the \$1.5 million increase in income taxes as a result of the decreased tax rate.

For the three months ended December 31, 2017, net income totaled \$2,604,000 which compares to net income of \$3,171,000 for the fourth quarter of 2016, a decrease of \$567,000, directly related to the increase in income tax expense due to the passage of the Tax Cuts and Jobs Act. Annualized return on equity for the three months ended December 31, 2017 and 2016 was 7.82% and 10.12%, respectively, while annualized return on assets was .80% and 1.05%, respectively.

Net interest income before the provision for loan loss for the year ended December 31, 2017 totaled \$42,254,000 compared to \$37,964,000 for the year ended December 31, 2016 resulting in an increase of \$4,290,000, or 11.3%. The net interest margin for the year ended December 31, 2017 was 3.80% compared to 3.68% for 2016. Net loan growth since December 31, 2016 totaled \$198.6 million, and has resulted in the increase in net interest income. The increase in loans includes \$39.8 million of loan growth attributable to the State College branch acquisition in December. Excluding State College, net loans increased \$52.8 million during the fourth quarter. Due to the loan growth, the provision for loan losses has increased from \$1,520,000 for the year ended December 31, 2016 to \$2,540,000 for 2017.

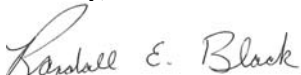
Non-interest expenses for the year ended December 31, 2017 totaled \$29,314,000 compared to \$28,671,000 for 2016, which is an increase of \$643,000, or 2.2%. Salaries and benefits increased \$1.1 million primarily due to the increased costs associated with the additional lending teams hired during the second and third quarters of 2016, branch and loan production office expansion, and normal employee merit increases. For the three months ended December 31, 2017, non-interest expenses increased \$452,000 compared to the three months ended December 31, 2016.

At December 31, 2017, total assets were \$1.36 billion, which compares to \$1.22 billion at December 31, 2016. Available for sale securities of \$254.8 million at December 31, 2017 decreased \$59.2 million from December 31, 2016 to fund growth in our loan portfolio, which is part of our balance sheet strategy to reallocate interest earning assets into loans. Net loans as of December 31, 2017 totaled \$989.3 million compared to \$790.7 million as of December 31, 2016, an increase of \$198.6 million as noted above. Total deposits increased \$99.4 million from December 31, 2016, to \$1.1 billion at December 31, 2017. The increase includes \$37.9 million obtained through the State College branch acquisition. Borrowed funds increased \$35 million from December 31, 2016 to the end of 2017 primarily to fund loan growth.

Stockholders' equity totaled \$129 million at December 31, 2017, which compares to \$123.3 million at December 31, 2016, an increase of \$5.7 million. The increase was attributable to net income for the year ended December 31, 2017 totaling \$13 million, offset by cash dividends for the year totaling \$5.9 million. As a result of changes in interest rates impacting the fair value of investment securities, the unrealized gain on available for sale investment securities decreased \$1.5 million from the end of 2016. On December 5, 2017, the Board of Directors declared a cash dividend of \$0.43 per share, which was paid on December 29, 2017 to shareholders of record at the close of business on December 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. The Board recognizes the importance of providing and maintaining a solid return to our shareholders, and our quarterly dividend is an important component of this return.

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. I remain excited and optimistic about our continued growth opportunities, as well as our goal to provide outstanding shareholder return. 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 2017	December 31 2016
ASSETS:		
Total cash and cash equivalents	\$ 18,517	\$ 17,754
Interest bearing time deposits with other banks	10,283	6,955
Available-for-sale securities	254,782	314,017
Loans (net of allowance for loan losses: 2017, \$11,190; December 31, 2016, \$8,886)	989,335	790,725
Other assets	88,969	93,567
TOTAL ASSETS	\$ 1,361,886	\$ 1,223,018
LIABILITIES:		
Total deposits	\$ 1,104,943	\$ 1,005,503
Borrowed funds	114,664	79,662
Other liabilities	13,268	14,585
TOTAL LIABILITIES	1,232,875	1,099,750
STOCKHOLDERS' EQUITY	129,011	123,268
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 1,361,886	\$ 1,223,018

Consolidated Statement of Income
(Unaudited - In thousands)

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2017	2016	2017	2016
Interest income	\$ 12,895	\$ 11,169	\$ 48,093	\$ 43,005
Interest expense	1,659	1,293	5,839	5,041
Net interest income	11,236	9,876	42,254	37,964
Provision for loan losses	800	750	2,540	1,520
Net interest income after provision for loan losses	10,436	9,126	39,714	36,444
Other non-interest income	1,981	1,992	7,621	7,644
Investment securities gains, net	831	100	1,035	255
Non-interest expense	7,710	7,258	29,314	28,671
Income before provision for income taxes	5,538	3,960	19,056	15,672
Provision for income taxes	2,934	789	6,031	3,034
NET INCOME	\$ 2,604	\$ 3,171	\$ 13,025	\$ 12,638

Performance Ratios and Share Data:

Return on average assets (annualized for the three and twelve month periods)	0.80%	1.05%	1.03%	1.06%
Return on average equity (annualized for the three and twelve month periods)	7.82%	10.12%	10.04%	10.24%
Return on average tangible equity (annualized for the three and twelve month periods)	9.49%	12.40%	12.22%	12.62%
Net interest margin (tax equivalent)	3.88%	3.75%	3.80%	3.68%
Cash dividends paid per share	\$ 0.430	\$ 0.400	\$ 1.670	\$ 1.583
Earnings per share - basic	\$ 0.75	\$ 0.91	\$ 3.74	\$ 3.60
Earnings per share - diluted	\$ 0.75	\$ 0.91	\$ 3.74	\$ 3.60
Number of shares used in computation - basic	3,483,164	3,493,375	3,481,366	3,507,497
Number of shares used in computation - diluted	3,483,577	3,493,418	3,483,090	3,509,053
Book value per share (at end of period)			\$ 37.81	\$ 35.77
Common shares outstanding (at end of period)			3,486,874	3,319,704
Nonperforming assets to total loans (at end of period)			1.18%	1.61%

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