

Dear Shareholders and Friends:

January 31, 2019

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, 2018. Our financial results for 2018 by far represent the highest level of profitability in the Company's history. It is a testament to the hard work and dedication of our employees, our growth initiatives and relentless commitment to providing outstanding customer service.

For the year ended December 31, 2018, net income totaled \$18,034,000 which compares to net income of \$13,025,000 for the year ended December 31, 2017, an increase of \$5,009,000 or 38.5%. Basic earnings per share of \$5.14 for 2018 compares to \$3.70 last year. Return on equity for the years ended December 31, 2018 and 2017 was 13.00% and 10.04%, while return on assets was 1.29% and 1.03%, respectively. Financial results for 2018 were significantly impacted by strong revenue growth as total interest income increased \$8,665,000, or 18.1%, for the year ended December 31, 2018 compared to the prior year. Net income for 2017 was negatively impacted by The Tax Cuts and Jobs Act enacted last December which lowered the federal corporate income tax rate from 35% 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. For 2018 however, the decrease in the federal corporate income tax rate contributed favorably to our financial performance. While income before provision for income taxes increased \$2,381,000 for the year ended December 31, 2018 compared to the prior year, the provision for income taxes decreased from \$6,031,000 to \$2,403,000 which reflects the lower tax rates and the \$1.5 reduction in deferred tax assets recorded in the prior year.

For the three months ended December 31, 2018, net income totaled \$4,515,000 which compares to net income of \$2,604,000 for the fourth quarter of 2017, an increase of \$1,911,000. Basic earnings per share of \$1.29 for the fourth quarter of 2018 compares to \$.74 for the fourth quarter last year. Annualized return on equity for the three months ended December 31, 2018 and 2017 was 12.65% and 7.82%, respectively, while annualized return on assets was 1.27% and .80%, respectively. Again, the fourth quarter of 2017 was negatively impacted by the reduction in the federal corporate income tax rate.

Net interest income before the provision for loan loss for the year ended December 31, 2018 totaled \$47,184,000 compared to \$42,254,000 for the prior year resulting in an increase of \$4,930,000, or 11.7%. This increase is directly attributable to our growth strategies as net loan growth for 2018 was \$79.7 million, or 8.1%. We continue to focus on growth opportunities in our various markets as a means to increasing income.

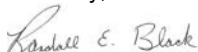
Non-interest income totaled \$7,735,000 for the year ended December 31, 2018, which is a decrease compared to \$8,656,000 last year. The decrease of \$921,000 was mostly attributable to available for sale security gains recognized in 2017. Non-interest expenses for the year ended December 31, 2018 totaled \$31,557,000 compared to \$29,314,000 in 2017, which is an increase of \$2,243,000 or 7.7%. Much of this is in salaries and benefits which increased \$1,439,000, or 8.2%. This is due to primarily 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.

At December 31, 2018, total assets were \$1.431 billion, which compares to \$1.362 billion at December 31, 2017. Available for sale securities of \$241 million decreased \$13.8 million from December 31, 2017. As noted above, net loans increased \$79.7 million to a total of \$1.069 billion as of December 31, 2018. Deposits increased \$80.2 million from December 31, 2017 to a total of \$1.185 billion at December 31, 2018, of which \$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 December 31, 2018 borrowed funds totaled \$91.2 million, which is a decrease of \$23.5 million from December 31, 2017.

Stockholders' equity totaled \$139.2 million at December 31, 2018 which compares to \$129.0 million at December 31, 2017, an increase of \$10.2 million. The increase was attributable to net income for the year ended December 31, 2018 totaling \$18.0 million, offset by cash dividends totaling \$6.1 million and net treasury stock activity of \$1.0 million. The Board of Directors declared a cash dividend of \$0.44 per share, which was paid on December 28, 2018 to shareholders of record at the close of business on December 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.

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, as our ongoing success is dependent upon our entire team of high achieving individuals. With 2018 behind us, I remain excited and optimistic about the coming year with a renewed focus on growth opportunities, and our never ending goal to provide outstanding shareholder return. Together, 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)

	December 31 2018	December 31 2017
ASSETS:		
Total cash and cash equivalents	\$ 16,797	\$ 18,517
Interest bearing time deposits with other banks	15,498	10,283
Equity securities	516	-
Available-for-sale securities	241,010	254,782
Loans (net of allowance for loan losses: 2018 - \$12,884; 2017 - \$11,190)	1,068,999	989,335
Other assets	<u>87,892</u>	<u>88,969</u>
TOTAL ASSETS	<u>\$ 1,430,712</u>	<u>\$ 1,361,886</u>
LIABILITIES:		
Total deposits	\$ 1,185,156	\$ 1,104,943
Borrowed funds	91,194	114,664
Other liabilities	<u>15,133</u>	<u>13,268</u>
TOTAL LIABILITIES	<u>1,291,483</u>	<u>1,232,875</u>
STOCKHOLDERS' EQUITY	<u>139,229</u>	<u>129,011</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 1,430,712</u>	<u>\$ 1,361,886</u>

Consolidated Statement of Income
(Unaudited - In thousands)

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2018	2017	2018	2017
Interest income	\$ 15,088	\$ 12,895	\$ 56,758	\$ 48,093
Interest expense	<u>2,845</u>	<u>1,659</u>	<u>9,574</u>	<u>5,839</u>
Net interest income	12,243	11,236	47,184	42,254
Provision for loan losses	<u>625</u>	<u>800</u>	<u>1,925</u>	<u>2,540</u>
Net interest income after provision for loan losses	11,618	10,436	45,259	39,714
Other non-interest income	1,997	1,981	7,754	7,621
Investment securities gains (losses), net	(20)	831	(19)	1,035
Non-interest expense	<u>8,235</u>	<u>7,710</u>	<u>31,557</u>	<u>29,314</u>
Income before provision for income taxes	5,360	5,538	21,437	19,056
Provision for income taxes	<u>845</u>	<u>2,934</u>	<u>3,403</u>	<u>6,031</u>
NET INCOME	<u>\$ 4,515</u>	<u>\$ 2,604</u>	<u>\$ 18,034</u>	<u>\$ 13,025</u>

Performance Ratios and Share Data:

Return on average assets (annualized for the three month periods)	1.27%	0.80%	1.29%	1.03%
Return on average equity (annualized for the three month periods)	12.65%	7.82%	13.00%	10.04%
Return on average tangible equity (annualized for the three month periods)	15.33%	9.49%	15.87%	12.22%
Net interest margin (tax equivalent)	3.73%	3.88%	3.66%	3.80%
Cash dividends paid per share	\$ 0.440	\$ 0.426	\$ 1.742	\$ 1.653
Earnings per share - basic	\$ 1.29	\$ 0.74	\$ 5.14	\$ 3.70
Earnings per share - diluted	\$ 1.29	\$ 0.74	\$ 5.14	\$ 3.70
Number of shares used in computation - basic	3,498,402	3,517,436	3,505,218	3,515,638
Number of shares used in computation - diluted	3,498,565	3,517,849	3,507,206	3,517,362
Book value per share (at end of period)			\$ 40.85	\$ 37.60
Common shares outstanding (at end of period)			3,504,596	3,486,874
Nonperforming assets to total loans (at end of period)			1.33%	1.18%

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