

Dear Shareholders and Friends:

May 5, 2020

On behalf of the Board of Directors and our management team, first and foremost, I hope all of you and your families are safe and healthy as we navigate through these uncharted times. With that, I am pleased to report on our financial performance for the first quarter to 2020. In April, we completed the acquisition of MidCoast Community Bancorp. Inc and its wholly owned subsidiary MidCoast Community Bank, (MidCoast). This acquisition allowed us to expand into the State of Delaware and we are very optimistic about the tremendous growth opportunities this new market provides. I am extremely proud of the efforts of our dedicated employees who allowed us to complete this acquisition in these unprecedented times. We look forward to welcoming and serving MidCoast's customers with the same commitment to service that we currently provide to our customers today.

During this Covid-19 pandemic, we have continued to meet the needs of our customers through our branch network and electronic offerings. As a response to the pandemic, we have put in place programs to waive late fees on loans, ATM fees, Reg D excess fees and early withdrawal fees on certificates of deposit. We have also provided customers with loan modifications to waive principal payments and in some cases interest payments as well for terms of up to 120 days. We are participating in the Paycheck Protection Program for loans provided under the auspices of the Small Business Administration (SBA) as part of the CARES Act. Through April 29, 2020, we received approval for 555 loans totaling \$52.6 million, a portion of which maybe forgivable by SBA depending on the customers usage of the funds.

For the three months ended March 31, 2020, net income totaled \$4,531,000 which compares to net income of \$4,405,000 for the first quarter of 2019. Earnings per share of \$1.29 for the first quarter of 2020 compares to \$1.25 for the first quarter last year. Annualized return on equity for the three months ended March 31, 2020 and 2019 was 11.48% and 12.12%, while return on assets was 1.24% and 1.22%, respectively. Our financial performance for the first quarter was impacted by merger related expenses for the MidCoast acquisition, which were expected. These costs will continue into the second quarter and include professional fees, legal fees, system conversion costs and employee severance expenses. Acquisition expenses totaled \$376,000 in the first quarter of 2020. Excluding merger expenses, return on equity, return on assets and earnings per share for the period ended March 31, 2020 would have been 12.34%, 1.34% and \$1.39 per share, respectively.

Net interest income before the provision for loan loss has increased from \$11,915,000 for the three months ended March 31, 2019 to \$12,890,000 for 2020, an increase of \$975,000 or 8.2%. For 2020, interest income increased \$322,000, while interest expense decreased \$653,000. Our net interest margin increased from 3.62% for the three months ended March 31, 2019 to 3.84% for same period in 2020. The increase was driven by the decrease in the costs of interest-bearing liabilities from 1.14% for the three months ended March 31, 2019 to 0.91% for the three months ended March 31, 2020. This decrease was driven by moves made by the Federal Reserve in 2019 and 2020, with the moves in 2020 being in response to the Covid-19 pandemic. For 2020, average loans have increased by \$21.4 million, while interest-bearing liabilities decreased slightly. The provision for loan losses was \$400,000 for the three months ended March 31, 2020 and 2019, decreasing \$105,000 for the twelve-month comparable periods. The provision for 2020 was based on the potential impact of the Covid-19 pandemic and the impact it may have on the local and national economies.

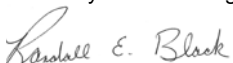
At March 31, 2020, total assets were \$1.46 billion, down slightly from assets as of December 31, 2019. Available for sale securities increased \$17.1 million from December 31, 2019 as turbulence in the bond market provided buying opportunities. Net loans decreased \$22.3 million compared to the end of last year, which is attributable to several large loan pay-offs. Deposits decreased \$6.0 million, as a result of an approximately \$10.0 million decrease in brokered certificates of deposits.

The Bank continually monitors asset quality. Non-performing assets totaled \$14.5 million as of March 31, 2020 compared to \$15.4 million at the end of December, 2019. Non-performing assets to total loans was 1.33% at March 31, 2020 compared to 1.38% last December. Through the Covid-19 program, we have provided forbearance on 147 loans totaling \$47.2 million as of April 29, 2020, which represents approximately 3.5% of the total loan portfolio.

Stockholders' equity totaled \$159.9 million at March 31, 2020, which compares to \$154.8 million at December 31, 2019. The increase was attributable to net income for the three months ended March 31, 2020 totaling \$4.5 million, offset by cash dividends in the quarter totaling \$2.0 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 increased \$3.4 million from the end of 2019 on an after-tax basis. Net treasury share purchases for the first quarter totaled \$1.0 million. On March 3, 2020, the Board of Directors declared a cash dividend of \$0.55 per share, which was paid on March 27, 2020 to shareholders of record at the close of business on March 13, 2020. The quarterly cash dividend included a \$0.10 special dividend, and in total is an increase of 26.0% over the regular cash dividend of \$0.441 per share declared one year ago, as adjusted for the 1% stock dividend declared in June 2019. The Board recognizes the importance of providing and maintaining a solid return to our shareholders, and our financial performance allows us to continually 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 especially during these times, for their efforts and dedication. During this unprecedented time, our employees have allowed us to continue to serve our customers and complete the merger with MidCoast. As we proudly welcome our new shareholders associated with MidCoast, we also are very excited about our opportunity to grow our business in the Delaware market. I ask that all of you to continue to be safe and practice social distancing as we beat this virus, in hope of returning back to a new norm as soon as possible. Thank you for continuing to put your trust in us, we will get through this together! Be Strong, Be Safe and Hold your love ones tight!

Sincerely CZFS Strong,



Randall E. Black
Chief Executive Officer and President

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

	March 31, 2020	December 31 2019	March 31, 2019
ASSETS:			
Total cash and cash equivalents	\$ 21,521	\$ 18,520	\$ 17,834
Interest bearing time deposits with other banks	14,506	14,256	15,498
Equity securities	649	701	527
Available-for-sale securities	257,788	240,706	244,437
Loans (net of allowance for loan losses: 2020, \$14,247; December 31, 2019, \$13,845; March 31, 2019, \$13,084)	1,079,473	1,101,724	1,077,833
Other assets	<u>90,792</u>	<u>90,432</u>	<u>91,925</u>
TOTAL ASSETS	<u>\$ 1,464,729</u>	<u>\$ 1,466,339</u>	<u>\$ 1,448,054</u>
LIABILITIES:			
Total deposits	\$ 1,205,150	\$ 1,211,118	\$ 1,181,654
Borrowed funds	83,563	85,117	108,263
Other liabilities	<u>16,093</u>	<u>15,330</u>	<u>15,292</u>
TOTAL LIABILITIES	<u>1,304,806</u>	<u>1,311,565</u>	<u>1,305,209</u>
STOCKHOLDERS' EQUITY	<u>159,923</u>	<u>154,774</u>	<u>142,845</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 1,464,729</u>	<u>\$ 1,466,339</u>	<u>\$ 1,448,054</u>

Consolidated Statement of Income
(Unaudited - In thousands)

	Three Months Ended March 31,	
	2020	2019
Interest income	\$ 15,339	\$ 15,017
Interest expense	<u>2,449</u>	<u>3,102</u>
Net interest income	12,890	11,915
Provision for loan losses	<u>400</u>	<u>400</u>
Net interest income after provision for loan losses	12,490	11,515
Other non-interest income	2,105	2,022
Investment securities gains (losses), net	(254)	11
Non-interest expense	<u>8,921</u>	<u>8,322</u>
Income before provision for income taxes	5,420	5,226
Provision for income taxes	<u>889</u>	<u>821</u>
NET INCOME	<u>\$ 4,531</u>	<u>\$ 4,405</u>

Performance Ratios and Share Data (unaudited):

Return on average assets (annualized for the three month periods)	1.24%	1.22%
Return on average equity (annualized for the three month periods)	11.48%	12.12%
Return on average tangible equity (annualized for the three month periods)	13.59%	14.62%
Net interest margin (tax equivalent)	3.84%	3.62%
Cash dividends paid per share	\$ 0.550	\$ 0.441
Earnings per share - basic	\$ 1.29	\$ 1.25
Earnings per share - diluted	\$ 1.29	\$ 1.25
Number of shares used in computation - basic	3,515,500	3,528,466
Number of shares used in computation - diluted	3,515,500	3,528,466
Book value per share (at end of period)	\$ 44.78	\$ 41.23
Common shares outstanding (at end of period)	3,506,009	3,498,834
Nonperforming assets to total loans (at end of period)	1.33%	1.47%

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