

Dear Shareholders and Friends:

November 5, 2020

On behalf of the Board of Directors and our management team, first and foremost, I hope everyone has remained safe and healthy, as we navigate through these challenging times. Our quarterly results reflect the first full quarter that includes the acquisition of MidCoast Community Bancorp. Inc and its wholly owned subsidiary MidCoast Community Bank, (MidCoast) without any acquisition fees. I am excited to announce that in the fourth quarter, we will be opening a full-service branch in Kennett Square, Pennsylvania, which will further support our acquisition and connects with our Lancaster County branches. I continue to be amazed by our employees who have worked tirelessly to meet the needs of our customers during these unprecedented times. With that, I am pleased to share our financial performance for the third quarter of 2020.

Through our COVID loan modification plan, we provided customers with loan modifications to waive principal payments and in some cases interest payments, and currently have approximately \$20.2 million of loans still on modified terms, which compares to \$55.4 million at June 30, 2020. In the fourth quarter, we will begin processing forgiveness for loans issued under the Paycheck Protection Program provided under the auspices of the Small Business Administration (SBA) as part of the CARES Act. As of September 30, 2020, we issued 591 loans under this program with a balance of \$53.9 million.

For the nine months ended September 30, 2020, net income totaled \$17,876,000 which compares to net income of \$14,447,000 for the first nine months of 2019, an increase of \$3,429,000 or 23.7%. Basic earnings per share of \$4.74 for the first nine months of 2020 compares to \$4.05 for the first nine months last year. Annualized return on equity for the nine months ended September 30, 2020 and 2019 was 13.85% and 12.99%, while annualized return on assets was 1.43% and 1.33%, respectively. Acquisition expenses totaled \$2,179,000 for the first nine months of 2020. Excluding merger expenses, return on equity and return on assets for the period ended September 30, 2020 would have been 15.22% and 1.57%, respectively.

For the three months ended September 30, 2020, net income totaled \$8,007,000 which compares to net income of \$5,196,000 for the comparable quarter of 2019. Earnings per share of \$2.04 for the third quarter of 2020 compares to \$1.46 for the same period last year. Annualized return on equity for the three months ended September 30, 2020 and 2019 was 17.36% and 13.74%, while return on assets was 1.75% and 1.43%, respectively.


Net interest income before the provision for loan loss has increased from \$37,150,000 for the nine months ended September 30, 2019 to \$44,146,000 for 2020, an increase of \$8,496,000 or 22.9%. For 2020, interest income increased \$5,492,000, while interest expense decreased \$3,004,000. Our net interest margin increased from 3.71% for the nine months ended September 30, 2019 to 3.96% for same period in 2020. The increase in interest income was due to the assets added as a result of the MidCoast acquisition. The decrease in interest expense was driven by the decrease in the costs of interest-bearing liabilities from 1.12% for the nine months ended September 30, 2019 to 0.68% for the nine months ended September 30, 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 \$161.7 million, while interest-bearing liabilities increased \$131.3 million. The provision for loan losses was \$1,500,000 for the nine months ended September 30, 2020 increasing \$350,000 from the comparable 2019 period. The provision was higher in 2020 than 2019 primarily due to the economic environment as a result of the COVID-19 pandemic and the higher levels of unemployment, which offsets the fact that loans, excluding the acquisition and PPP loans guaranteed by the SBA, decreased during the first half of 2020. Gains on the sale of loans have increased \$943,000 to \$1,282,000, as a result of the significant refinancing of mortgages occurring in the low interest rate environment.

At September 30, 2020, total assets were \$1.86 billion, an increase of \$392.0 million from assets as of December 31, 2019 and was driven by the acquisition, PPP program and organic deposit growth. Available for sale securities increased \$47.1 million from December 31, 2019 as we made additional purchases in 2020 due to limited organic loan growth. Net loans increased \$249.0 million compared to the end of last year, which is attributable to the acquisition and PPP program. Deposits increased \$341.6 million, as a result of the acquisition and customers holding more cash due to the pandemic. The Bank continually monitors asset quality. Non-performing assets totaled \$15.6 million as of September 30, 2020 compared to \$15.4 million at the end of December 2019. Non-performing assets to total loans was 1.14% at September 30, 2020 compared to 1.38% last December.

Stockholders' equity totaled \$189.1 million at September 30, 2020, which compares to \$154.8 million at December 31, 2019. The increase was attributable to \$19.2 million of capital being issued as part of the acquisition, net income for the nine months ended September 30, 2020 totaling \$17.9 million, offset by cash dividends totaling \$5.6 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 \$3.7 million from the end of 2019 on an after-tax basis. Net treasury share purchases for 2020 totaled \$809,000. On September 1, 2020, the Board of Directors declared a cash dividend of \$0.46 per share, which was paid on September 25, 2020 to shareholders of record at the close of business on September 11, 2020. The quarterly cash dividend is an increase of 3.3% over the regular cash dividend of \$0.445 per share declared one year ago, as adjusted for the 1% stock dividend declared in June 2020.

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 during these turbulent times. I hope that everyone remains safe and healthy as we move into the Holidays. 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)

	September 30, 2020	December 31 2019	September 30, 2019
ASSETS:			
Total cash and cash equivalents	\$ 75,309	\$ 18,520	\$ 20,086
Interest bearing time deposits with other banks	13,758	14,256	14,256
Equity securities	1,696	701	650
Available-for-sale securities	287,838	240,706	247,027
Loans (net of allowance for loan losses: 2020, \$15,169; December 31, 2019, \$13,845; September 30, 2019, \$13,679)	1,350,710	1,101,724	1,101,355
Other assets	<u>129,033</u>	<u>90,432</u>	<u>91,631</u>
TOTAL ASSETS	<u>\$ 1,858,344</u>	<u>\$ 1,466,339</u>	<u>\$ 1,475,005</u>
LIABILITIES:			
Total deposits	\$ 1,552,753	\$ 1,211,118	\$ 1,199,304
Borrowed funds	99,602	85,117	109,840
Other liabilities	<u>16,938</u>	<u>15,330</u>	<u>14,183</u>
TOTAL LIABILITIES	<u>1,669,293</u>	<u>1,311,565</u>	<u>1,323,327</u>
STOCKHOLDERS' EQUITY	<u>189,051</u>	<u>154,774</u>	<u>151,678</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 1,858,344</u>	<u>\$ 1,466,339</u>	<u>\$ 1,475,005</u>

Consolidated Statement of Income
(Unaudited - In thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Interest income	\$ 18,386	\$ 15,874	\$ 51,885	\$ 46,393
Interest expense	<u>1,916</u>	<u>2,975</u>	<u>6,239</u>	<u>9,243</u>
Net interest income	16,470	12,899	45,646	37,150
Provision for loan losses	<u>550</u>	<u>400</u>	<u>1,500</u>	<u>1,150</u>
Net interest income after provision for loan losses	15,920	12,499	44,146	36,000
Other non-interest income	3,386	2,140	7,432	6,159
Investment securities gains (losses), net	152	37	26	78
Non-interest expense	<u>9,692</u>	<u>8,414</u>	<u>30,026</u>	<u>24,973</u>
Income before provision for income taxes	9,766	6,262	21,578	17,264
Provision for income taxes	<u>1,759</u>	<u>1,066</u>	<u>3,702</u>	<u>2,817</u>
NET INCOME	<u>\$ 8,007</u>	<u>\$ 5,196</u>	<u>\$ 17,876</u>	<u>\$ 14,447</u>

Performance Ratios and Share Data (unaudited):

Return on average assets (annualized for the three month periods)	1.75%	1.43%	1.43%	1.33%
Return on average equity (annualized for the three month periods)	17.36%	13.74%	13.85%	12.99%
Return on average tangible equity (annualized for the three month periods)	21.11%	16.42%	16.72%	15.60%
Net interest margin (tax equivalent)	3.88%	3.82%	3.96%	3.71%
Cash dividends paid per share	\$ 0.460	\$ 0.445	\$ 1.460	\$ 1.317
Earnings per share - basic	\$ 2.04	\$ 1.46	\$ 4.74	\$ 4.06
Earnings per share - diluted	\$ 2.04	\$ 1.46	\$ 4.74	\$ 4.05
Number of shares used in computation - basic	3,918,438	3,553,996	3,769,705	3,560,695
Number of shares used in computation - diluted	3,918,438	3,553,996	3,771,730	3,562,975
Book value per share (at end of period)			\$ 47.48	\$ 42.64
Common shares outstanding (at end of period)			3,921,408	3,525,315
Nonperforming assets to total loans (at end of period)			1.14%	1.51%

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