

Dear Shareholders and Friends:

February 5, 2021

First and foremost, I hope this correspondence finds you and your loved ones safe and healthy, as we continue to deal with one of the greatest health threats of our generation. These challenging times have strained us as individuals, businesses and as a community in unimaginable ways. Our thoughts and prayers remain with our customers, family members, communities, especially our health care workers and first responders and of course you our shareholders, as we look to a brighter future. As we reflect on our financial results from 2020 they were positively impacted from the acquisition of MidCoast Community Bancorp. Inc and its wholly owned subsidiary MidCoast Community Bank (MidCoast), which closed in the second quarter. As part of our strategy to further support this acquisition, in November, we opened a full-service branch in Kennett Square, Pennsylvania, that also connects with our Lancaster County branches. Our employees have worked tirelessly to meet the needs of our customers, as they navigate government ordered shutdowns and other challenges caused by this pandemic.

Through our COVID loan modification plan, we provided customers with loan modifications to waive principal payments and in some cases interest payments, and as of December 31, 2020, had four loans with a balance of \$8.7 million on modified terms, which compares to \$20.2 million of loans modified terms at September 30, 2020 and \$55.4 million at June 30, 2020. We began processing loan forgiveness for loans issued under the Paycheck Protection Program (PPP) provided under the auspices of the Small Business Administration (SBA) as part of the CARES Act in the fourth quarter. As of December 31, 2020, the Company had 451 loans with a balance of \$37.2 million still outstanding under the program. During 2020, we received payments and forgiveness on 192 loans totaling \$17.1 million with 140 loans being completed paid off or forgiven by December 31, 2020.

For the year ended December 31, 2020, net income totaled \$25,103,000 which compares to net income of \$19,490,000 for 2019, an increase of \$5,613,000 or 28.8%. Basic earnings per share of \$6.60 for the year ended December 31, 2020 compares to \$5.48 last year. Annualized return on equity for the year ended December 31, 2020 and 2019 was 14.21% and 13.00%, while annualized return on assets was 1.46% and 1.34%, respectively. Acquisition expenses totaled \$2,179,000 for 2020. Excluding merger related expenses, return on equity and return on assets for the year ended December 31, 2020 would have been 15.21% and 1.56%, respectively.

For the three months ended December 31, 2020, net income totaled \$7,227,000 which compares to net income of \$5,043,000 for the comparable quarter of 2019. Earnings per share of \$1.85 for the fourth quarter of 2020 compares to \$1.42 for the same period last year. Annualized return on equity for the three months ended December 31, 2020 and 2019 was 15.20% and 13.05%, while return on assets was 1.55% and 1.37%, respectively.

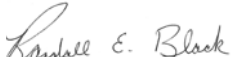
Net interest income before the provision for loan loss has increased from \$49,940,000 for the year ended December 31, 2019 to \$62,191,000 for 2020, an increase of \$12,251,000 or 24.5%. For 2020, interest income increased \$8,316,000, while interest expense decreased \$3,935,000. Our net interest margin increased from 3.72% for the year ended December 31, 2019 to 3.92% for 2020, which was impacted by fees related to PPP. The increase in interest income was due to the assets added as a result of the MidCoast acquisition and organic loan growth in the second half of 2020. The decrease in interest expense was driven by the decrease in the costs of interest-bearing liabilities from 1.09% for the year ended December 31, 2019 to 0.64% for 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 \$189.3 million, while interest-bearing liabilities increased \$167.1 million. The provision for loan losses was \$2,400,000 for the year ended December 31, 2020 increasing \$725,000 from 2019. The provision was higher in 2020 than 2019 primarily due to the economic environment because of the COVID-19 pandemic and the higher levels of unemployment. Gains on the sale of loans have increased \$1,695,000 to \$2,168,000, because of the significant refinancing of mortgages occurring in the low interest rate environment. Other income increased \$1,406,000 due to fee income on derivative transactions for customers.

At December 31, 2020, total assets were \$1.89 billion, an increase of \$425.3 million from assets as of December 31, 2019 and was driven by the acquisition and organic deposit growth that funded loan and investment growth. Available for sale securities increased \$54.5 million from December 31, 2019 as we made additional purchases in 2020 due to limited organic loan growth in relation to deposit growth. Net loans increased \$288.1 million compared to the end of last year, which is attributable to the acquisition and organic growth in the 4th quarter driven by the Delaware market. Deposits increased \$377.7 million, because of the acquisition and customers holding more cash due to the pandemic. The Bank continually monitors asset quality. Non-performing assets totaled \$13.1 million as of December 31, 2020 compared to \$15.4 million at the end of December 2019. Non-performing assets to total loans was 0.93% at December 31, 2020 compared to 1.38% last December.

Stockholders' equity totaled \$194.3 million at December 31, 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 year ended December 31, 2020 totaling \$25.1 million, offset by cash dividends totaling \$7.4 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 \$3.2 million from the end of 2019 on an after-tax basis. Net treasury share purchases for 2020 totaled \$788,000. On December 4, 2020, the Board of Directors declared a cash dividend of \$0.46 per share, which was paid on December 29, 2020 to shareholders of record at the close of business on December 15, 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. 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)

	December 31 2020	December 31 2019
ASSETS:		
Total cash and cash equivalents	\$ 68,707	\$ 18,520
Interest bearing time deposits with other banks	13,758	14,256
Equity securities	1,931	701
Available-for-sale securities	295,189	240,706
Loans (net of allowance for loan losses: 2020 - \$15,815; 2019 - \$13,845)	1,389,466	1,101,724
Other assets	<u>122,623</u>	<u>90,432</u>
TOTAL ASSETS	<u>\$ 1,891,674</u>	<u>\$ 1,466,339</u>
LIABILITIES:		
Total deposits	\$ 1,588,858	\$ 1,211,118
Borrowed funds	88,838	85,117
Other liabilities	<u>19,719</u>	<u>15,330</u>
TOTAL LIABILITIES	<u>1,697,415</u>	<u>1,311,565</u>
STOCKHOLDERS' EQUITY	<u>194,259</u>	<u>154,774</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 1,891,674</u>	<u>\$ 1,466,339</u>

Consolidated Statement of Income
(Unaudited - In thousands)

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2020	2019	2020	2019
Interest income	\$ 18,411	\$ 15,587	\$ 70,296	\$ 61,980
Interest expense	<u>1,866</u>	<u>2,797</u>	<u>8,105</u>	<u>12,040</u>
Net interest income	16,545	12,790	62,191	49,940
Provision for loan losses	<u>900</u>	<u>525</u>	<u>2,400</u>	<u>1,675</u>
Net interest income after provision for loan losses	15,645	12,265	59,791	48,265
Other non-interest income	3,726	2,083	11,158	8,242
Investment securities gains (losses), net	238	66	264	144
Non-interest expense	<u>10,821</u>	<u>8,368</u>	<u>40,847</u>	<u>33,341</u>
Income before provision for income taxes	8,788	6,046	30,366	23,310
Provision for income taxes	<u>1,561</u>	<u>1,003</u>	<u>5,263</u>	<u>3,820</u>
NET INCOME	<u>\$ 7,227</u>	<u>\$ 5,043</u>	<u>\$ 25,103</u>	<u>\$ 19,490</u>

Performance Ratios and Share Data (unaudited):

Return on average assets (annualized for the three month periods)	1.55%	1.37%	1.46%	1.34%
Return on average equity (annualized for the three month periods)	15.20%	13.05%	14.21%	13.00%
Return on average tangible equity (annualized for the three month periods)	18.37%	15.52%	17.16%	15.58%
Net interest margin (tax equivalent)	3.82%	3.74%	3.92%	3.72%
Cash dividends paid per share	\$ 0.460	\$ 0.445	\$ 1.920	\$ 1.762
Earnings per share - basic	\$ 1.85	\$ 1.42	\$ 6.60	\$ 5.48
Earnings per share - diluted	\$ 1.85	\$ 1.42	\$ 6.59	\$ 5.47
Number of shares used in computation - basic	3,912,658	3,554,280	3,805,682	3,559,150
Number of shares used in computation - diluted	3,912,666	3,554,392	3,807,523	3,561,246
Book value per share (at end of period)			\$ 48.87	\$ 43.61
Common shares outstanding (at end of period)			3,921,850	3,525,061
Nonperforming assets to total loans (at end of period)			0.93%	1.38%

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