

Dear Shareholders and Friends:

August 5, 2021

On behalf of the Board of Directors and our TEAM, I am pleased to report on our financial performance for the second quarter of 2021. The first six months of 2021 has the feel for another great year for your company. As expected the continued government stimulus and low interest rates continue to be a challenge and as a result has contributed to some margin compression. Our financial performance remains strong and continues to compare favorably to peer. We continue to remain focused on implementing our strategic plan and our expansion into the Delaware and surrounding markets. Our efforts and growth reflect the commitment to remain a strong, well-capitalized, local community bank committed to serving our communities and customers, as well as providing exceptional return and value to you our shareholders.

For the six months ended June 30, 2021, net income totaled \$15,110,000 which compares to net income of \$9,869,000 for the first six months of 2020, an increase of \$5,241,000 or 53.1%. Basic earnings per share of \$3.83 for the first six months of 2021 compares to \$2.64 for the first six months last year. Annualized return on equity for the six months ended June 30, 2021 and 2020 was 15.19% and 11.90%, while annualized return on assets was 1.54% and 1.24%, respectively. For the three months ended June 30, 2021, net income totaled \$6,647,000 which compares to net income of \$5,338,000 for the second quarter of 2020. Earnings per share of \$1.69 for the second quarter of 2021 compares to \$1.37 for the comparable period last year. Annualized return on equity for the three months ended June 30, 2021 and 2020 was 13.19% and 12.28%, while return on assets was 1.32% and 1.25%, respectively.

Net interest income before the provision for loan loss has increased from \$29,176,000 for the six months ended June 30, 2020 to \$32,653,000 for 2021, an increase of \$3,477,000 or 11.9%. For 2021, interest income increased \$2,871,000, while interest expense decreased \$606,000. The increase in interest income was due to the assets added because of the MidCoast acquisition completed in the second quarter of 2020 and organic loan growth in the second half of 2020 and first half of 2021. Our net interest margin decreased from 4.01% for the six months ended June 30, 2020 to 3.59% for same period in 2021. The decrease was driven by the decrease in the yield on interest-bearing assets from 4.59% for the six months ended June 30, 2020 to 3.99% for the six months ended June 30, 2021. This decrease was the result of earnings on the Company's cash and investment holdings due to interest rate cuts made by the Federal Reserve in 2020 in response to the Covid-19 pandemic. The provision for loan losses was \$1,150,000 for the six months ended June 30, 2021 compared to \$950,000 for the comparable period of 2020.

Non-interest income for the Company increased \$3.1 million and totaled \$6.9 million for the six months ended June 30, 2021 with increases associated with investment gains due to improved market conditions, gains on loans sold because of the low interest rate environment, bank owned life insurance income because of the passing of two former employees and fee income from derivative contracts offered to customers. Non-interest expenses decreased \$67,000 due to the one-time acquisition costs associated with the MidCoast merger completed in the second quarter of 2020. Salary and benefit costs and occupancy costs have increased year over year due to the additional employees and facilities acquired as part of the MidCoast acquisition.

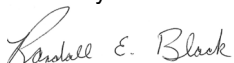
At June 30, 2021, total assets were \$2.0 billion, an increase of \$111.6 million from assets as of December 31, 2020. Available for sale securities increased \$73.8 million from December 31, 2020. Net loans increased \$8.7 million from December 31, 2020, primarily due to growth in the Delaware market. During 2021, we issued 388 loans under the Paycheck Protection Program (PPP) provided under the auspices of the Small Business Administration (SBA) as part of the CARES Act that totaled \$24.3 million. We also processed forgiveness on \$34.4 million of PPP loans issued in 2020 and 2021. Deposits increased \$93.5 million, primarily as a result of government stimulus funds provided to customers in the first half of 2021.

The Banks asset quality continues to trend positive with, non-performing assets totaling \$10.9 million as of June 30, 2021 compared to \$13.1 million at the end of December 2020. Non-performing assets to total loans was 0.77% at June 30, 2021 compared to 0.93% last December and 1.04% last June. During 2021, we have provided forbearance on 19 relationships totaling \$26.7 million as part of our COVID-19 loan modification program.

Stockholders' equity totaled \$204.4 million at June 30, 2021, which compares to \$194.3 million at December 31, 2020. The increase was attributable to net income for the six months ended June 30, 2021 totaling \$15.1 million, offset by cash dividends in the year totaling \$3.7 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 \$2.1 million from the end of 2020 on an after-tax basis, while the change in the unrealized gain on interest rate swaps increased \$1.0 million on an after-tax basis. Net treasury share purchases for the first half of 2021 totaled \$493,000. On June 1, 2021, the Board of Directors declared a cash dividend of \$0.465 per share, which was paid on June 25, 2021 to shareholders of record at the close of business on June 11, 2021. Additionally, a 1% stock dividend was also distributed on June 25, 2021. This quarterly cash dividend is an increase of 3.20% over the regular cash dividend of \$0.446 per share declared one year ago, as adjusted for the 1% stock dividend. 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.

We continue to remain committed to meet our customer needs through our branch network and electronic channels. I hope that you remain diligent and safe as things continue to open up and thank you for continuing to put your trust in us as we go down this journey together.

Sincerely CZFS Strong,



Randall E. Black

Chief Executive Officer and President

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

	June 30, 2021	December 31 2020	June 30, 2020
ASSETS:			
Total cash and cash equivalents	\$ 108,194	\$ 68,707	\$ 39,030
Interest bearing time deposits with other banks	12,266	13,758	14,256
Equity securities	2,148	1,931	703
Available-for-sale securities	369,002	295,189	272,360
Loans (net of allowance for loan losses: 2021, \$16,931; December 31, 2020, \$15,815; June 30, 2020, \$14,827)	1,398,178	1,389,466	1,348,806
Other assets	<u>113,512</u>	<u>122,623</u>	<u>124,961</u>
TOTAL ASSETS	<u>\$ 2,003,300</u>	<u>\$ 1,891,674</u>	<u>\$ 1,800,116</u>
LIABILITIES:			
Total deposits	\$ 1,682,387	\$ 1,588,858	\$ 1,513,284
Borrowed funds	97,830	88,838	85,135
Other liabilities	<u>18,664</u>	<u>19,719</u>	<u>18,602</u>
TOTAL LIABILITIES	<u>1,798,881</u>	<u>1,697,415</u>	<u>1,617,021</u>
STOCKHOLDERS' EQUITY	<u>204,419</u>	<u>194,259</u>	<u>183,095</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 2,003,300</u>	<u>\$ 1,891,674</u>	<u>\$ 1,800,116</u>

Consolidated Statement of Income
(Unaudited - In thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Interest income	\$ 18,075	\$ 18,160	\$ 36,370	\$ 33,499
Interest expense	<u>1,863</u>	<u>1,874</u>	<u>3,717</u>	<u>4,323</u>
Net interest income	16,212	16,286	32,653	29,176
Provision for loan losses	<u>500</u>	<u>550</u>	<u>1,150</u>	<u>950</u>
Net interest income after provision for loan losses	15,712	15,736	31,503	28,226
Other non-interest income	2,677	1,941	6,675	4,046
Investment securities gains (losses), net	29	128	266	(126)
Non-interest expense	<u>10,320</u>	<u>11,413</u>	<u>20,267</u>	<u>20,334</u>
Income before provision for income taxes	8,098	6,392	18,177	11,812
Provision for income taxes	<u>1,451</u>	<u>1,054</u>	<u>3,067</u>	<u>1,943</u>
NET INCOME	<u>\$ 6,647</u>	<u>\$ 5,338</u>	<u>\$ 15,110</u>	<u>\$ 9,869</u>

Performance Ratios and Share Data (unaudited):

Return on average assets (annualized for the three and six month periods)	1.32%	1.25%	1.54%	1.24%
Return on average equity (annualized for the three and six month periods)	13.19%	12.28%	15.19%	11.90%
Return on average tangible equity (annualized for the three and six month periods)	15.77%	14.98%	18.22%	14.31%
Net interest margin (tax equivalent)	3.46%	4.15%	3.59%	4.01%
Cash dividends paid per share	\$ 0.460	\$ 0.446	\$ 0.920	\$ 0.989
Earnings per share - basic	\$ 1.69	\$ 1.37	\$ 3.83	\$ 2.64
Earnings per share - diluted	\$ 1.69	\$ 1.37	\$ 3.83	\$ 2.64
Number of shares used in computation - basic	3,944,488	3,883,734	3,946,184	3,737,759
Number of shares used in computation - diluted	3,944,560	3,884,763	3,946,219	3,738,273
Book value per share (at end of period)			\$ 51.32	\$ 45.45
Common shares outstanding (at end of period)			3,951,573	3,925,745
Nonperforming assets to total loans (at end of period)			0.77%	1.04%

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