



July 22, 2021

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C&N DECLARES DIVIDEND AND ANNOUNCES SECOND QUARTER 2021 UNAUDITED FINANCIAL RESULTS FOR IMMEDIATE RELEASE:

Wellsboro, PA – Citizens & Northern Corporation (“C&N”) (NASDAQ: CZNC) announced its most recent dividend declaration and its unaudited, consolidated financial results for the three-month and six-month periods ended June 30, 2021.

Dividend Declared

On July 22, 2021, C&N’s Board of Directors declared a regular quarterly cash dividend of \$0.28 per share. The dividend is payable on August 13, 2021 to shareholders of record as of August 2, 2021.

Unaudited Financial Information

Net income was \$0.44 per diluted share in the second quarter 2021, down from \$0.55 in the first quarter 2021 and up \$0.05 (12.8%) from \$0.39 in the second quarter 2020. For the six months ended June 30, 2021, net income per diluted share was \$0.99, up from \$0.70 per share for the first six months of 2020. As described below, earnings of \$0.44 per share for the second quarter 2021 were 0.2% lower than second quarter 2020 non-U.S. generally accepted accounting principles (U.S. GAAP) earnings per share of \$0.45 as adjusted to exclude the impact of merger-related expenses. For the six months ended June 30, 2021, earnings of \$0.99 per share were 30.3% higher than the first six months of 2020 non-U.S. GAAP earnings per share of \$0.76 as adjusted to exclude the impact of merger-related expenses.

The following table provides a reconciliation of C&N’s unaudited earnings results under U.S. GAAP to comparative non-U.S. GAAP results excluding merger-related expenses. Management believes disclosure of unaudited earnings results for the periods presented, adjusted to exclude the impact of these items, provides useful information to investors for comparative purposes.

**RECONCILIATION OF UNAUDITED U.S. GAAP NET INCOME AND
DILUTED EARNINGS PER SHARE TO NON-U.S. GAAP MEASURE**

(Dollars In Thousands, Except Per Share Data)
(Unaudited)

	2nd Quarter 2021				2nd Quarter 2020			
	Income Before Income Tax Provision	Income Tax Provision	Net Income	Diluted Earnings per Common Share	Income Before Income Tax Provision	Income Tax Provision	Net Income	Diluted Earnings per Common Share
	Earnings Under U.S. GAAP	\$ 8,840	\$ 1,780	\$ 7,060	\$ 0.44	\$ 6,693	\$ 1,255	\$ 5,438
Add: Merger-Related Expenses (1)	0	0	0		983	200	783	
Adjusted Earnings (Non-U.S. GAAP)	<u>\$ 8,840</u>	<u>\$ 1,780</u>	<u>\$ 7,060</u>	<u>\$ 0.44</u>	<u>\$ 7,676</u>	<u>\$ 1,455</u>	<u>\$ 6,221</u>	<u>\$ 0.45</u>

	Six Months Ended June 30, 2021				Six Months Ended June 30, 2020			
	Income Before Income Tax Provision	Income Tax Provision	Net Income	Diluted Earnings per Common Share	Income Before Income Tax Provision	Income Tax Provision	Net Income	Diluted Earnings per Common Share
	Earnings Under U.S. GAAP	\$ 19,737	\$ 3,890	\$ 15,847	\$ 0.99	\$ 11,675	\$ 2,071	\$ 9,604
Add: Merger-Related Expenses (1)	0	0	0		1,124	229	895	
Adjusted Earnings (Non-U.S. GAAP)	<u>\$ 19,737</u>	<u>\$ 3,890</u>	<u>\$ 15,847</u>	<u>\$ 0.99</u>	<u>\$ 12,799</u>	<u>\$ 2,300</u>	<u>\$ 10,499</u>	<u>\$ 0.76</u>

- (1) Income tax has been allocated based on a marginal income tax rate of 21%. The effect on the income tax provision is adjusted for the estimated nondeductible portion of the expenses.

Acquisition of Covenant Financial, Inc.

On July 1, 2020, C&N completed its acquisition of Covenant Financial, Inc. (“Covenant”). Covenant was the holding company for Covenant Bank, which operated banking offices in Bucks and Chester Counties of Pennsylvania. The Covenant acquisition has contributed significantly to growth in the size of C&N’s balance sheet and in net interest income and noninterest expenses.

Merger-related expenses related to the acquisition of Covenant totaled \$983,000 in the second quarter 2020 and \$1,124,000 in the six months ended June 30, 2020.

Highlights related to C&N's second quarter and June 30, 2021 year-to-date unaudited U.S. GAAP earnings results as compared to the first quarter 2021 and the second quarter of 2020 are presented below.

Second Quarter 2021 as Compared to First Quarter 2021

Net income was \$7,060,000, or \$0.44 per diluted share, for the second quarter 2021 as compared to \$8,787,000, or \$0.55 per diluted share, in the first quarter 2021. Significant variances were as follows:

- Net interest income totaled \$18,681,000 in the second quarter 2021, down \$1,402,000 from the first quarter 2021 amount of \$20,083,000. Significant variances included the following:
 - Total interest and fees from loans originated under the U.S. Small Business Administration (SBA) Paycheck Protection Program (PPP) were \$1,249,000 in the second quarter 2021, a decrease of \$749,000 from the first quarter 2021 total. The decrease in income from PPP loans resulted from a reduction in volume of loans processed for the SBA's repayment tied to the forgiveness of the underlying borrowers. Total fee income from PPP loans amounted to \$921,000 in the second quarter 2021 (included in the \$1,249,000 noted above) and \$1,645,000 in the first quarter 2021.
 - Accretion and amortization of purchase accounting adjustments had a net positive impact on net interest income of \$713,000 in the second quarter 2021 as compared to a net positive impact of \$952,000 in the first quarter 2021.
 - Average loans outstanding totaled \$1.607 billion in the second quarter 2021, down \$27.5 million from the prior quarter, including a \$13.1 million decrease in average PPP loans as well as decreases in other commercial loans and residential mortgage loans.
 - Average total deposits increased \$87.9 million, including an increase in average noninterest-bearing demand deposits of \$50.3 million and average interest-bearing deposits of \$37.6 million. Average total borrowed funds increased \$3.4 million as new issuances of subordinated debt and senior notes increased \$17.3 million and other average short-term and long-term borrowings decreased \$13.9 million.
 - The net interest rate spread decreased 0.49%, as the average yield on earning assets decreased 0.48% while the average rate on interest-bearing liabilities increased 0.01%. The net interest margin was 3.52% in the second quarter 2021, down from 4.00% in the first quarter 2021. In addition to other factors, the second quarter 2021 net interest margin was impacted by: (1) an increase in the average balance of lower-yielding interest-bearing deposits with the Federal Reserve and other banks of \$90.0 million, to \$182.6 million or 8.5% of average interest-earning assets, from 4.5% in the prior quarter; (2) a reduction in average loans to 74.5% of average earning assets as compared to 79.1% in the prior quarter; (3) a reduction in interest and fees on PPP loans, as an annualized percentage of average earning assets, to 0.23% in the second quarter 2021 from 0.39% in the prior quarter; and (4) a reduction in net interest income from purchase accounting adjustments to 0.13% of average earning assets in the second quarter 2021 from 0.19% in the prior quarter.
- The provision for loan losses was \$744,000 in the second quarter 2021, an increase in expense of \$485,000 from the first quarter 2021 provision of \$259,000. The second quarter provision included a net charge of \$383,000 related to specific loans (net increase in specific allowances on loans of \$353,000 and net charge-offs of \$30,000), an increase of \$337,000 in the collectively determined portion of the allowance and a \$6,000 decrease in the unallocated portion.

- Noninterest income was \$6,300,000 in the second quarter 2021, down \$482,000 from the first quarter 2021 amount. Significant variances included the following:
 - Other noninterest income totaled \$700,000, a decrease of \$772,000 from the first quarter 2021 total including a decrease in income from tax credits of \$765,000. Income from tax credits in the first quarter included 90% credits on the PA Educational Improvement Tax Credit Program donations noted below.
 - Net gains from sales of loans totaled \$925,000 in the second quarter 2021, a decrease of \$139,000 from the first quarter 2021 total, reflecting a reduction in volume of residential mortgage loans sold.
 - Loan servicing fees, net, were \$146,000 in the second quarter 2021 as compared to \$248,000 in the first quarter 2021. The fair value of mortgage servicing rights decreased \$39,000 in the second quarter as compared to a \$75,000 increase in the first quarter.
 - Trust revenue of \$1,807,000 increased \$181,000 from the first quarter 2021 total, reflecting the impact of growth in trust assets under management including the impact of market value appreciation.
 - Brokerage and insurance revenue of \$506,000 increased \$180,000 from the first quarter 2021 total, due to commissions on higher transaction volume.
 - Interchange revenue from debit card transactions of \$998,000 increased \$117,000 from the first quarter 2021 total, as transaction volume increased over the quarter.
- Noninterest expense of \$15,399,000 decreased \$310,000 in the second quarter 2021 from the first quarter 2021 amount. Significant variances included the following:
 - Other noninterest expense of \$1,751,000 decreased \$1,004,000 from the first quarter 2021 total, including a decrease in donations expense of \$803,000. In the first quarter 2021, donations under the PA Educational Improvement Tax Credit Program totaled \$800,000.
 - Salaries and employee benefits of \$9,499,000 increased \$604,000 from the first quarter 2021 total, including increases in lending and information technology personnel, severance and estimated incentive compensation expense, partially offset by a cyclical reduction in payroll taxes and other benefit expenses.
 - Data processing and telecommunications of \$1,487,000 increased \$107,000 from the first quarter 2021 total, including increases in software maintenance and subscription expenses.
- The income tax provision was \$1,780,000 for the second quarter 2021, down from \$2,110,000 for the first quarter 2021, consistent with lower pre-tax income.

Second Quarter 2021 as Compared to Second Quarter 2020

As described above, second quarter 2021 net income was \$7,060,000. In comparison, second quarter 2020 net income was \$5,438,000, and excluding merger-related expenses, adjusted (non-U.S. GAAP) earnings were \$6,221,000. Other significant variances were as follows:

- Second quarter 2021 net interest income of \$18,681,000 was \$4,435,000 higher than the second quarter 2020 total, reflecting the impact of growth mainly attributable to the Covenant acquisition. Average outstanding loans increased \$375.7 million, and average total deposits increased \$569.9 million. The net interest margin for the second quarter 2021 was 3.52% as compared to 3.65% for the second quarter 2020. The average yield on earning assets of 3.85% for the second quarter 2021 was down 0.37% from the second

quarter 2020, while the average rate on interest-bearing liabilities of 0.48% in the second quarter 2021 was 0.35% lower than the comparable second quarter 2020 average rate. Accretion and amortization of purchase accounting adjustments had a net positive impact on net interest income of \$713,000 in the second quarter 2021 as compared to a net positive impact of \$285,000 in the second quarter 2020.

- The provision for loan losses was \$744,000 in the second quarter 2021 as compared to a credit for loan losses of \$176,000 in the second quarter 2020. Details concerning the second quarter 2021 provision for loan losses were described previously. The credit for loan losses in the second quarter 2020 included the benefit of repayment of a loan for less than the full principal balance, resulting in a charge-off of \$107,000 on a commercial loan for which an allowance for loan losses of \$674,000 had been recorded at March 31, 2020.
- Noninterest income for the second quarter 2021 was up \$772,000 from the second quarter 2020 total. Significant variances included the following:
 - Loan servicing fees, net, were \$146,000 in the second quarter 2021, an increase of \$304,000 over the second quarter 2020 reduction in revenue of \$158,000. The fair value of servicing rights decreased \$39,000 in the second quarter 2021 as compared to a reduction in fair value of \$270,000 in the second quarter 2020.
 - Interchange revenue from debit card transactions totaled \$998,000 in the second quarter 2021, an increase of \$280,000 over the second quarter 2020 total.
 - Service charges on deposit accounts of \$1,073,000 in the second quarter 2021 were up \$242,000 from the second quarter 2020 amount, as the volume of consumer and business overdraft activity increased.
 - Trust revenue of \$1,807,000 increased \$242,000 reflecting the impact of growth in trust assets under management including the impact of market value appreciation.
 - Other noninterest income totaled \$700,000, an increase of \$174,000 from the second quarter 2020. In the second quarter 2021, fee income for providing credit enhancement on sale of mortgage loans increased \$45,000, credit card interchange income increased \$41,000, merchant services income increased \$28,000 and income from a full-service title agency acquired from Covenant increased \$26,000.
 - Brokerage and insurance revenue of \$506,000 increased \$122,000 from the second quarter 2020 total, due to commissions on higher transaction volume.
 - Net gains from sales of loans of \$925,000 for the second quarter 2021 were down \$639,000 from the total for the second quarter 2020, as the volume of residential mortgage loans sold in the second quarter 2021 was down from the second quarter 2020 level.
- Noninterest expense, excluding merger-related expenses, increased \$3,125,000 in the second quarter 2021 over the second quarter 2020 amount. Significant variances included the following:
 - Salaries and employee benefits of \$9,499,000 increased \$2,516,000, reflecting an increase in personnel primarily from the Covenant acquisition.
 - Net occupancy and equipment expense increased \$244,000, primarily reflecting an increase due to the Covenant acquisition.

- Data processing and telecommunications expenses increased \$234,000, including the impact of growth related to the Covenant acquisition, increased costs from outsourced support services and other increases in software licensing and maintenance costs.
- The income tax provision of \$1,780,000 for the second quarter 2021 was up \$525,000 from \$1,255,000 for the second quarter 2020, reflecting higher pre-tax income and an increase in city of Philadelphia and state tax provisions.

Six Months Ended June 30, 2021 as Compared to Six Months Ended June 30, 2020

Net income for the six-month period ended June 30, 2021 was \$15,847,000, or \$0.99 per diluted share, while net income for the first six months of 2020 was \$9,604,000, or \$0.70 per share. Excluding the impact of merger-related expenses, adjusted (non-U.S. GAAP) earnings for the first six months of 2020 would be \$10,499,000 or \$0.76 per share. Other significant variances were as follows:

- Net interest income was up \$10,236,000 (35.9%) for the first six months of 2021 over the same period in 2020, reflecting the growth mainly attributable to the Covenant acquisition. Average outstanding loans increased \$420.8 million, and average total deposits increased \$570.6 million. The net interest margin was 3.75% for the six months ended June 30, 2021, up from 3.73% for the first six months of 2020. Accretion and amortization of purchase accounting adjustments had a net positive impact on net interest income of \$1,665,000 in the first six months of 2021 as compared to a net positive impact of \$702,000 in the first six months of 2020.
- For the first six months of 2021, the provision for loan losses was \$1,003,000, a decrease in expense of \$349,000 as compared to \$1,352,000 recorded in the first six months of 2020. The provision for the first six months of 2021 includes a net charge of \$565,000 related to specific loans (increase in specific allowances on loans of \$552,000 and net charge-offs of \$13,000), an increase of \$352,000 in the collectively determined portion of the allowance and an \$86,000 increase in the unallocated portion. In comparison, the provision for loan losses in the first six months of 2020 included the effects of recording a specific allowance of \$1,193,000 on a commercial loan for which a charge-off of \$2,219,000 was subsequently recorded in the third quarter 2020.
- Noninterest income for the first six months of 2021 was up \$2,273,000 from the total for the first six months of 2020. Significant variances included the following:
 - Other noninterest income totaled \$2,172,000, an increase of \$585,000 over 2020. Income from realization of tax credits was \$265,000 higher in the first six months of 2021 as compared to 2020 due to higher PA Educational Improvement Tax Credit Program donations. Other increases include: fee income for providing credit enhancement on sale of mortgage loans increased \$144,000, income from a full-service title agency acquired from Covenant increased \$73,000, credit card interchange income increased \$69,000 and merchant services income increased \$43,000.
 - Loan servicing fees, net, were \$394,000 in the first six months of 2021, an increase of \$566,000 over the 2020 total of negative \$172,000 (a decrease in revenue). The fair value of servicing rights increased \$36,000 in the first six months of 2021 as compared to a reduction in fair value of \$396,000 in 2020 mainly due to changes in assumptions related to prepayments of mortgage loans.
 - Interchange revenue from debit card transactions totaled \$1,879,000 for the first six months of 2021, an increase of \$430,000, reflecting an increase in transaction volumes.
 - Trust revenue of \$3,433,000 increased \$389,000 reflecting the impact of growth in trust assets under management including the impact of market value appreciation.

- Net gains from sales of loans totaled \$1,989,000 in the first six months of 2021, an increase of \$110,000 over the total for the first six months of 2020. The increase reflects an increase in volume of mortgage loans sold, resulting mainly from lower interest rates.
- Noninterest expense, excluding merger-related expenses, increased \$5,922,000 for the six months ended June 30, 2021 over the total for the first six months of 2020. Significant variances included the following:
 - Total salaries and wages and benefits expenses increased \$4,033,000, reflecting inclusion of the former Covenant operations in 2021.
 - Other noninterest expense increased \$496,000. Within this category, significant variances included the following:
 - Donations expense increased \$232,000, mainly due to an increase in donations associated with the PA Educational Improvement Tax Credit program.
 - Business development expenses totaled \$260,000, an increase of \$169,000, due primarily to an increase in public relations expense.
 - FDIC insurance expense totaled \$275,000, an increase of \$162,000.
 - Amortization of core deposit intangibles increased \$143,000 related to the Covenant acquisition.
 - Other operational losses totaled \$149,000, a decrease of \$195,000. Expenses associated with trust department tax compliance matters totaled \$107,000 in the first six months of 2021 as compared to \$300,000 in the first six months of 2020.
 - Net occupancy and equipment expense increased \$445,000, primarily reflecting an increase due to the Covenant acquisition.
 - Data processing and telecommunications expenses increased \$390,000, including the impact of growth related to the Covenant acquisition, increased costs from outsourced support services and other increases in software licensing and maintenance costs.
 - Professional fees expense increased \$302,000, mainly due to increases in recruiting services and PPP loan processing professional fees.
- The income tax provision was \$3,890,000 for the six months ended June 30, 2021, up from \$2,071,000 for the first six months of 2020. Pre-tax income was \$8,062,000 higher in the first six months of 2021 as compared to 2020. The effective tax rate was 19.7% for the first six months of 2021, higher than the 17.7% effective tax rate for the first six months of 2020. The tax benefit of tax-exempt interest income was 2.3% of pre-tax income in the first six months of 2021 as compared to a 3.3% benefit in 2020. Also, city and state income taxes, net of federal benefit, totaled 1.6% of pre-tax income in the first six months of 2021, up from 0.7% in 2020.

Other Information:

Changes in other unaudited financial information are as follows:

- Total assets amounted to \$2,339,063,000 at June 30, 2021, up from \$2,333,595,000 at March 31, 2021 and up 34.0% from \$1,745,466,000 at June 30, 2020.
- Net loans outstanding (excluding mortgage loans held for sale) were \$1,585,481,000 at June 30, 2021, down from \$1,602,926,000 at March 31, 2021 and up 28.9% from \$1,230,387,000 at June 30, 2020. Loans outstanding, excluding PPP loans, totaled \$1,487,545,000 at June 30, 2021, an increase of \$10,793,000 from total loans excluding PPP at March 31, 2021. In comparing outstanding balances at June 30, 2021 and 2020, total commercial loans were up \$326.7 million (49.6%), including PPP loans of \$110.3 million, total residential mortgage loans were higher by \$29.6 million (5.2%) and total consumer loans were up \$0.1 million (0.9%). The outstanding balance of residential mortgage loans originated and serviced by C&N that have been sold to third parties was \$314.2 million at June 30, 2021, up \$103.4 million (49.1%) from June 30, 2020.
- The recorded investment in PPP loans at June 30, 2021 of \$110.3 million included a first draw amount of \$37.9 million and a second draw amount of \$72.4 million with contractual principal balances totaling \$38.7 million and \$75.4 million, respectively, adjusted by net deferred loan origination fees and a market rate adjustment on PPP loans acquired from Covenant. The recorded investment of \$37.9 million in first draw PPP loans at June 30, 2021 decreased \$33.8 million from \$71.7 million at March 31, 2021, reflecting the impact of loans forgiven and repaid by the SBA. The term of the first draw PPP loans is two years, with repayment from the SBA to occur sooner to the extent the loans are forgiven. Second draw PPP loans have terms of five years, with repayment from the SBA to occur sooner to the extent the loans are forgiven.
- To work with clients impacted by COVID-19, C&N is offering short-term loan modifications (deferrals) on a case-by-case basis to borrowers who were current in their payments prior to modification. These loans are not reported as past due or troubled debt restructurings during the deferral period. At June 30, 2021, there were 12 loans, with an aggregate recorded investment of approximately \$6.7 million, in deferral status under the program. In comparison, at March 31, 2021, C&N had 25 loans with an aggregate recorded investment of \$26.0 million in deferral status. Within these totals, loans in deferral status to commercial borrowers in the hotel industry totaled \$3.1 million at June 30, 2021 and \$19.5 million at March 31, 2021.
- Total nonperforming assets as a percentage of total assets was 1.12% at June 30, 2021, as compared to 1.07% at March 31, 2021 and down from 1.33% at June 30, 2020. Total nonperforming assets were \$26.2 million at June 30, 2021, up from \$24.9 million at March 31, 2021 and \$23.2 million at June 30, 2020.
- The allowance for loan losses was \$12.4 million at June 30, 2021, or 0.77% of total loans as compared to \$11.7 million or 0.72% of total loans at March 31, 2021. In 2020 and 2019, C&N recorded performing loans purchased from other financial institutions at fair value. The calculations of fair value included discounts for credit losses, reflecting an estimate of the present value of credit losses based on market expectations. The total allowance for loan losses and the credit adjustment on purchased non-impaired loans at June 30, 2021 was \$16.9 million, or 1.05% of total loans receivable and the credit adjustment. The comparative ratios were 1.04% at March 31, 2021 and 0.96% at June 30, 2020.
- Deposits totaled \$1,916,809,000 at June 30, 2021, down from \$1,923,925,000 at March 31, 2021, and up 38.8% from \$1,381,178,000 at June 30, 2020.

- Total stockholders' equity was \$304,133,000 at June 30, 2021, up from \$300,056,000 at March 31, 2021 and \$255,791,000 at June 30, 2020. The increase in stockholders' equity from June 30, 2020 included the impact of common stock issued in July 2020 related to the Covenant acquisition. Within stockholders' equity, the portion of accumulated other comprehensive income related to available-for-sale debt securities was \$9,167,000 at June 30, 2021, up from \$6,847,000 at March 31, 2021 and down from \$11,472,000 at June 30, 2020. Fluctuations in accumulated other comprehensive income related to valuations of available-for-sale debt securities have been caused by changes in interest rates.
- In February 2021, C&N amended its existing treasury stock repurchase program. Under the amended program, C&N is authorized to repurchase up to 1,000,000 shares of the Corporation's common stock, or 6.25% of the Corporation's issued and outstanding shares at February 18, 2021. In the second quarter 2021, 61,696 shares were repurchased for a total cost of \$1,531,000, at an average price of \$24.81 per share. There were no repurchases of stock under the amended program in the first quarter 2021.
- In May 2021, C&N completed a private placement of \$25 million of 3.25% Fixed-to-Floating Rate Subordinated Debt due 2031 and \$15 million of 2.75% Fixed Rate Senior Unsecured Notes due 2026. The Subordinated Debt is intended to qualify as Tier 2 capital. In June 2021, a portion of the proceeds was used to redeem subordinated debt with par values totaling \$8 million. The remaining proceeds are available for general corporate purposes.
- Citizens & Northern Bank is subject to various regulatory capital requirements. At June 30, 2021, Citizens & Northern Bank maintains regulatory capital ratios that exceed all capital adequacy requirements. Management expects the Bank to remain well-capitalized for the foreseeable future.
- Trust assets under management by C&N's Wealth Management Group amounted to \$1,192,928,000 at June 30, 2021, up 4.4% from \$1,142,573,000 at March 31, 2021 and 21.1% from \$984,853,000 at June 30, 2020. Fluctuations in values of assets under management reflect the impact of high recent market volatility.

Citizens & Northern Corporation is the bank holding company for Citizens & Northern Bank, headquartered in Wellsboro, Pennsylvania which operates 29 banking offices located in Bradford, Bucks, Cameron, Chester, Lycoming, McKean, Potter, Sullivan and Tioga Counties in Pennsylvania and Steuben County in New York, as well as loan production offices in Elmira, New York and York, Pennsylvania. Citizens & Northern Corporation trades on NASDAQ under the symbol "CZNC." For more information about Citizens & Northern Bank and Citizens & Northern Corporation, visit www.cnbankpa.com.

Safe Harbor Statement: Except for historical information contained herein, the matters discussed in this release are forward-looking statements. Investors are cautioned that all forward-looking statements involve risks and uncertainty, including without limitation, the following: the effect of COVID-19 and related events, which could have a negative effect on C&N's business prospects, financial condition and results of operations, including as a result of quarantines; market volatility; market downturns; changes in consumer behavior; business closures; deterioration in the credit quality of borrowers or the inability of borrowers to satisfy their obligations to C&N (and any related forbearances or restructurings that may be implemented); changes in the value of collateral securing outstanding loans; changes in the value of the investment securities portfolio; effects on key employees, including operational management personnel and those charged with preparing, monitoring and evaluating the companies' financial reporting and internal controls; declines in the demand for loans and other banking services and products, as well as increases in non-performing loans, owing to the effects of COVID-19 in the markets served by C&N and in the United States as a whole; declines in demand resulting from adverse impacts of the disease on businesses deemed to be "non-essential" by governments and individual customers in the markets served by C&N; or branch or office closures and business interruptions triggered by the disease; changes in monetary and fiscal policies of the Federal Reserve Board and the U.S. Government, particularly related to changes in interest rates; changes in general economic conditions caused by factors other than COVID-19; legislative or regulatory changes; downturn in demand for loan, deposit and other financial services in the Corporation's market area; increased competition from other banks and non-bank providers of financial services; technological changes and increased technology-related costs; changes in management's assessment of realization of securities and other assets; and changes in accounting principles, or the application of generally accepted accounting principles. Citizens & Northern disclaims any intention or obligation to publicly update or revise any forward-looking statements, whether as a result of events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.



June 30, 2021

QUARTERLY REPORT

Dear Shareholder:

The second quarter of 2021 was somewhat of a turning point in the fight against COVID-19 as vaccination efforts reached critical mass, restaurants and entertainment venues reopened, and employers have thoughtfully welcomed workers back to the office. Consistent with this transition, new funding under the last stage of the PPP program ended and efforts to secure forgiveness became the focus for customers and their lenders. As the broader economy has gained momentum, supply chain and workforce challenges have created stress and an increase in near-term inflation. Monetary policy is unchanged in the short-term and interest rates remain at historically low levels despite the uptick in inflation. The debate in Congress over additional federal spending on infrastructure and other stimulus was unresolved and equity markets remained strong based on the broad averages.

Business at C&N is consistent with this environment and customer demand as mortgage originations remained strong, commercial loan volumes picked-up later in the quarter, deposit balances continued to increase, and we experienced solid growth in our wealth management business. Our results reflect improved consumer and business confidence in the future and are supported by low interest rates and ample liquidity in the system.

Earnings for the second quarter 2021 were \$7.06 million, or \$.44 per share compared to \$5.44 million, or \$.39 per share during the second quarter of 2020. After adjusting for merger related expenses, net income for the second quarter of 2020 was \$6.22 million, or \$.45 per share. The Covenant acquisition continues to impact C&N's profile and performance metrics when compared to last year. Net interest income for the second quarter of \$18.68 million was \$4.44 million higher than 2020 due to the increase in loans outstanding and deposit balances. The net interest margin was 3.52% for the quarter compared to 3.65% a year earlier. The ongoing low interest rate environment, and an increase in the average balance of lower-yielding deposits with the Federal Reserve and other banks, contributed to this decline.

The provision for loan losses was \$744,000 in the second quarter compared to a credit of \$176,000 in the second quarter of 2020. Each of these quarters includes adjustments related to specific reserves on one or two loans, as well as an allowance to provide for growth in the overall portfolio. C&N's credit metrics have remained stable throughout the pandemic as reflected in past due, non-performing loans, and troubled debt restructuring (TDR) balances. As of June 30, 2021, twelve loans with balances of \$6.7 million remain in deferral status to support clients impacted by COVID-19.

Noninterest income for the second quarter of 2021 was \$6.3 million, an increase of \$772,000 from the second quarter 2020 total. This growth came from a variety of sources including loan servicing fees, interchange revenue, service charges on deposit accounts, and trust and brokerage revenue. Net gains from the sale of loans of \$925,000 were down \$639,000 from the prior year as the volume of mortgages sold declined.

Noninterest expenses, excluding merger related costs, of \$15.4 million increased \$3.13 million during the second quarter 2021 compared to a year earlier. Salaries and employee benefits, occupancy and equipment, and data processing and telecommunications costs related to the Covenant acquisition were the primary drivers of this increase.

Earnings for the six months ended June 30, 2021 were \$15.85 million, or \$.99 per share, compared to \$9.6 million, or \$.70 per share in 2020. Excluding merger related expenses for the first half of 2020, net income would be \$10.5 million, or \$.76 per share. Most of the same themes are evident in assessing performance for the first half of this year compared to 2020 including the growth in net interest income, noninterest income and noninterest expenses. The provision for loan losses of \$1.0 million for the six months ended June 30, 2021 was \$.35 million lower than the comparable amount for the first six months of 2020 as charges related to specific loans were lower in the current year.

The results described above highlight C&N's underlying strength and ability to deliver through an incredibly unique period in our history. Our balance sheet, credit profile, and diverse revenue streams have all contributed to this performance. A key ongoing strength is our capital position, which exceeds our internal guidelines and all regulatory requirements to be considered well capitalized. This strength provides the ability to continue investing for future growth and earnings capacity as we work to create long term value for our shareholders. We bolstered this position during the second quarter by completing a private placement of \$25 million of subordinated notes and \$15 million of senior notes at very attractive interest rates. A portion of the proceeds were used to redeem \$8 million of subordinated notes and the remaining amount is available for general corporate purposes.

As announced in March, C&N amended its existing stock repurchase program to authorize the repurchase of up to 1,000,000 shares, or 6.25% of the issued and outstanding shares as of February 18, 2021. In the second quarter of 2021, 61,696 shares were repurchased at a total cost of \$1,531,000, or an average price of \$24.81 per share.

In July, the Board declared a regular quarterly cash dividend of \$.28 per share payable to shareholders of record on August 2, 2021, payable August 13, 2021. On an annualized basis, the dividend yield is 4.49% based on the June 30, 2021 market price of \$24.50. We believe that the combination of the private placement, repurchase program, and sustainable cash dividend support our efforts to create long-term value for shareholders through effective capital management.

During the second quarter, we welcomed two new members to C&N's Board of Directors. Helen Santiago was appointed to fill the unexpired term of Len Simpson upon his retirement in April. Helen is a CPA with LaBarr & LaBarr in Sayre, PA and is a well-respected local professional with a strong accounting and tax background. In June, the Board appointed Kate Shattuck to the Board. Kate, who now lives in Towanda, PA, is a Senior partner at Korn Ferry, a global talent management and executive search firm where she specializes in the financial markets sector. We look forward to engaging with these two talented professionals and benefitting from their guidance and counsel in the years ahead.

Finally, on a sad note, we mourn the loss of Len Simpson who was a great friend of C&N and a Director since 1989. Len passed away on June 14th. His energy, good humor and relentless involvement in the community will be missed by all. Our condolences go out to his wife, Robin, and the entire Simpson family.



J. Bradley Scovill
President and CEO

CONDENSED, CONSOLIDATED EARNINGS INFORMATION
(Dollars In Thousands, Except Per Share Data) (Unaudited)

	2ND QUARTER 2021 (Current)	2ND QUARTER 2020 (Prior Year)	\$ Incr. (Decr.)	% Incr. (Decr.)
Interest and Dividend Income	\$ 20,428	\$ 16,513	\$ 3,915	23.71 %
Interest Expense	1,747	2,267	(520)	(22.94)%
Net Interest Income	18,681	14,246	4,435	31.13 %
Provision (Credit) for Loan Losses	744	(176)	920	(522.73)%
Net Interest Income After Provision for Loan Losses	17,937	14,422	3,515	24.37 %
Noninterest Income	6,300	5,528	772	13.97 %
Net Gains on Available-for-sale Debt Securities	2	0	2	%
Merger-Related Expenses	0	983	(983)	(100.00)%
Other Noninterest Expenses	15,399	12,274	3,125	25.46 %
Income Before Income Tax Provision	8,840	6,693	2,147	32.08 %
Income Tax Provision	1,780	1,255	525	41.83 %
Net Income	\$ 7,060	\$ 5,438	\$ 1,622	29.83 %
Net Income Attributable to Common Shares (1)	\$ 6,999	\$ 5,405	\$ 1,594	29.49 %
PER COMMON SHARE DATA:				
Net Income - Basic	\$ 0.44	\$ 0.39	\$ 0.05	12.82 %
Net Income - Diluted	\$ 0.44	\$ 0.39	\$ 0.05	12.82 %
Dividend Per Share	\$ 0.28	\$ 0.27	\$ 0.01	3.70 %
Number of Shares Used in Computation - Basic	15,868,150	13,710,118		
Number of Shares Used in Computation - Diluted	15,874,983	13,712,387		

CONDENSED, CONSOLIDATED EARNINGS INFORMATION
(Dollars In Thousands, Except Per Share Data) (Unaudited)

	SIX MONTHS ENDED June 30,			
	2021 (Current)	2020 (Prior Year)	\$ Incr. (Decr.)	% Incr. (Decr.)
Interest and Dividend Income	\$ 42,182	\$ 33,550	\$ 8,632	25.73 %
Interest Expense	3,418	5,022	(1,604)	(31.94)%
Net Interest Income	38,764	28,528	10,236	35.88 %
Provision for Loan Losses	1,003	1,352	(349)	(25.81)%
Net Interest Income After Provision for Loan Losses	37,761	27,176	10,585	38.95 %
Noninterest Income	13,082	10,809	2,273	21.03 %
Net Gains on Available-for-sale Debt Securities	2	0	2	%
Merger-Related Expenses	0	1,124	(1,124)	(100.00)%
Other Noninterest Expenses	31,108	25,186	5,922	23.51 %
Income Before Income Tax Provision	19,737	11,675	8,062	69.05 %
Income Tax Provision	3,890	2,071	1,819	87.83 %
Net Income	\$ 15,847	\$ 9,604	\$ 6,243	65.00 %
Net Income Attributable to Common Shares (1)	\$ 15,721	\$ 9,550	\$ 6,171	64.62 %
PER COMMON SHARE DATA:				
Net Income - Basic	\$ 0.99	\$ 0.70	\$ 0.29	41.43 %
Net Income - Diluted	\$ 0.99	\$ 0.70	\$ 0.29	41.43 %
Dividend Per Share	\$ 0.55	\$ 0.54	\$ 0.01	1.85 %
Number of Shares Used in Computation - Basic	15,859,236	13,697,617		
Number of Shares Used in Computation - Diluted	15,865,158	13,705,733		

(1) Basic and diluted net income per common share are determined based on net income less earnings allocated to nonvested restricted shares with nonforfeitable dividends.

CONDENSED, CONSOLIDATED BALANCE SHEET DATA
(In Thousands) (Unaudited)

	June 30, 2021	June 30, 2020	June 30, 2021 vs 2020	
			\$ Incr. (Decr.)	% Incr. (Decr.)
ASSETS				
Cash & Due from Banks	\$ 208,860	\$ 77,642	\$ 131,218	169.00 %
Available-for-sale Debt Securities	391,881	332,188	59,693	17.97 %
Loans, Net	1,585,481	1,230,387	355,094	28.86 %
Bank-Owned Life Insurance	30,391	18,843	11,548	61.29 %
Bank Premises and Equipment, Net	20,620	18,332	2,288	12.48 %
Intangible Assets	56,088	29,511	26,577	90.06 %
Other Assets	45,742	38,563	7,179	18.62 %
TOTAL ASSETS	<u>\$ 2,339,063</u>	<u>\$ 1,745,466</u>	<u>\$ 593,597</u>	<u>34.01 %</u>
LIABILITIES				
Deposits	\$ 1,916,809	\$ 1,381,178	\$ 535,631	38.78 %
Borrowed Funds - Federal Home Loan Bank and Repurchase Agreements	46,450	87,308	(40,858)	(46.80)%
Senior Notes, Net	14,670	0	14,670	%
Subordinated Debt, Net	32,967	6,500	26,467	407.18 %
Other Liabilities	24,034	14,689	9,345	63.62 %
TOTAL LIABILITIES	<u>2,034,930</u>	<u>1,489,675</u>	<u>545,255</u>	<u>36.60 %</u>
STOCKHOLDERS' EQUITY				
Common Stockholders' Equity, Excluding Accumulated				
Other Comprehensive Income	294,857	244,080	50,777	20.80 %
Accumulated Other Comprehensive Income:				
Net Unrealized Gains on Available-for-sale Debt Securities	9,167	11,472	(2,305)	(20.09)%
Defined Benefit Plans	109	239	(130)	(54.39)%
TOTAL STOCKHOLDERS' EQUITY	<u>304,133</u>	<u>255,791</u>	<u>48,342</u>	<u>18.90 %</u>
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	<u>\$ 2,339,063</u>	<u>\$ 1,745,466</u>	<u>\$ 593,597</u>	<u>34.01 %</u>

EXHIBIT 99.3 – Supplemental, Unaudited Financial Information



CONDENSED, CONSOLIDATED FINANCIAL HIGHLIGHTS

(Dollars In Thousands, Except Per Share Data)

(Unaudited)

	AS OF OR FOR THE SIX MONTHS ENDED		% INCREASE (DECREASE)
	2021	June 30, 2020	
EARNINGS PERFORMANCE			
Net Income	\$ 15,847	\$ 9,604	65.00 %
Return on Average Assets (Annualized)	1.39 %	1.15 %	20.87 %
Return on Average Equity (Annualized)	10.54 %	7.71 %	36.71 %
BALANCE SHEET HIGHLIGHTS			
Total Assets	\$ 2,339,063	\$ 1,745,466	34.01 %
Available-for-Sale Debt Securities	391,881	332,188	17.97 %
Loans (Net)	1,585,481	1,230,387	28.86 %
Allowance for Loan Losses	12,375	11,026	12.23 %
Deposits	1,916,809	1,381,178	38.78 %
OFF-BALANCE SHEET			
Outstanding Balance of Mortgage Loans Sold with Servicing Retained	\$ 314,174	\$ 210,778	49.05 %
Trust Assets Under Management	1,192,928	984,853	21.13 %
STOCKHOLDERS' VALUE (PER COMMON SHARE)			
Net Income - Basic	\$ 0.99	\$ 0.70	41.43 %
Net Income - Diluted	\$ 0.99	\$ 0.70	41.43 %
Dividends	\$ 0.55	\$ 0.54	1.85 %
Common Book Value	\$ 19.06	\$ 18.53	2.86 %
Tangible Common Book Value (a)	\$ 15.54	\$ 16.39	(5.19)%
Market Value (Last Trade)	\$ 24.50	\$ 20.65	18.64 %
Market Value / Common Book Value	128.54 %	111.44 %	15.34 %
Market Value / Tangible Common Book Value	157.66 %	125.99 %	25.14 %
Price Earnings Multiple (Annualized)	12.37	14.75	(16.14)%
Dividend Yield (Annualized)	4.49 %	5.23 %	(14.15)%
Common Shares Outstanding, End of Period	15,957,512	13,807,157	15.57 %

CONDENSED, CONSOLIDATED FINANCIAL HIGHLIGHTS (Continued)

(Dollars In Thousands, Except Per Share Data)

(Unaudited)

	AS OF OR FOR THE SIX MONTHS ENDED		% INCREASE (DECREASE)
	2021	June 30, 2020	
SAFETY AND SOUNDNESS			
Tangible Common Equity / Tangible Assets (a)	10.86 %	13.19 %	(17.66)%
Nonperforming Assets / Total Assets	1.12 %	1.33 %	(15.79)%
Allowance for Loan Losses / Total Loans	0.77 %	0.89 %	(13.48)%
Total Risk Based Capital Ratio (b)	19.06 %	21.32 %	(10.60)%
Tier 1 Risk Based Capital Ratio (b)	15.98 %	19.69 %	(18.84)%
Common Equity Tier 1 Risk Based Capital Ratio (b)	15.98 %	19.69 %	(18.84)%
Leverage Ratio (b)	10.53 %	12.82 %	(17.86)%
AVERAGE BALANCES			
Average Assets	\$ 2,287,465	\$ 1,676,009	36.48 %
Average Equity	\$ 300,776	\$ 249,005	20.79 %
EFFICIENCY RATIO (c)			
Net Interest Income on a Fully Taxable-Equivalent Basis (c)			
Basis (c)	\$ 39,305	\$ 28,989	35.59 %
Noninterest Income	13,082	10,809	21.03 %
Total (1)	\$ 52,387	\$ 39,798	31.63 %
Noninterest Expense Excluding Merger Expenses (2)	\$ 31,108	\$ 25,186	23.51 %
Efficiency Ratio = (2)/(1)	59.38 %	63.28 %	(6.16)%

(a) Tangible book value per common share and tangible common equity as a percentage of tangible assets are non-U.S. GAAP ratios. Management believes this non-GAAP information is helpful in evaluating the strength of the Corporation's capital and in providing an alternative, conservative valuation of the Corporation's net worth. The ratios shown above are based on the following calculations of tangible assets and tangible common equity:

Total Assets	\$ 2,339,063	\$ 1,745,466
Less: Intangible Assets, Primarily Goodwill	(56,088)	(29,511)
Tangible Assets	\$ 2,282,975	\$ 1,715,955
Total Stockholders' Equity	\$ 304,133	\$ 255,791
Less: Intangible Assets, Primarily Goodwill	(56,088)	(29,511)
Tangible Common Equity (3)	\$ 248,045	\$ 226,280
Common Shares Outstanding, End of Period (4)	15,957,512	13,807,157
Tangible Common Book Value per Share = (3)/(4)	\$ 15.54	\$ 16.39

(b) Capital ratios for the most recent period are estimated.

(c) The efficiency ratio is a non-GAAP ratio that is calculated as shown above. For purposes of calculating the efficiency ratio, net interest income on a fully taxable-equivalent basis includes amounts of interest income on tax-exempt securities and loans that have been increased to a fully taxable-equivalent basis, using the Corporation's marginal federal income tax rate of 21%. In the calculation above, management excluded merger-related expenses.

**QUARTERLY CONDENSED, CONSOLIDATED
INCOME STATEMENT INFORMATION
(Dollars In Thousands, Except Per Share Data)
(Unaudited)**

	For the Three Months Ended :					
	June 30, 2021	March 31, 2021	December 31, 2020	September 30, 2020	June 30, 2020	March 31, 2020
Interest income	\$ 20,428	\$ 21,754	\$ 21,859	\$ 21,751	\$ 16,513	\$ 17,037
Interest expense	1,747	1,671	2,104	2,469	2,267	2,755
Net interest income	18,681	20,083	19,755	19,282	14,246	14,282
Provision (credit) for loan losses	744	259	620	1,941	(176)	1,528
Net interest income after provision (credit) for loan losses	17,937	19,824	19,135	17,341	14,422	12,754
Noninterest income	6,300	6,782	6,565	6,970	5,528	5,281
Net gains on securities	2	0	144	25	0	0
Loss on prepayment of borrowings	0	0	1,636	0	0	0
Merger-related expenses	0	0	182	6,402	983	141
Other noninterest expenses	15,399	15,709	15,775	14,648	12,274	12,912
Income before income tax provision	8,840	10,897	8,251	3,286	6,693	4,982
Income tax provision	1,780	2,110	1,481	438	1,255	816
Net income	<u>\$ 7,060</u>	<u>\$ 8,787</u>	<u>\$ 6,770</u>	<u>\$ 2,848</u>	<u>\$ 5,438</u>	<u>\$ 4,166</u>
Net income attributable to common shares	<u>\$ 6,999</u>	<u>\$ 8,722</u>	<u>\$ 6,727</u>	<u>\$ 2,830</u>	<u>\$ 5,405</u>	<u>\$ 4,146</u>
Basic earnings per common share	<u>\$ 0.44</u>	<u>\$ 0.55</u>	<u>\$ 0.43</u>	<u>\$ 0.18</u>	<u>\$ 0.39</u>	<u>\$ 0.30</u>
Diluted earnings per common share	<u>\$ 0.44</u>	<u>\$ 0.55</u>	<u>\$ 0.43</u>	<u>\$ 0.18</u>	<u>\$ 0.39</u>	<u>\$ 0.30</u>

**QUARTERLY CONDENSED, CONSOLIDATED
BALANCE SHEET INFORMATION
(In Thousands) (Unaudited)**

	As of: June 30, 2021	March 31, 2021	December 31, 2020	September 30, 2020	June 30, 2020	March 31, 2020
ASSETS						
Cash & Due from Banks	\$ 208,860	\$ 207,145	\$ 101,857	\$ 174,478	\$ 77,642	\$ 32,678
Available-for-Sale Debt Securities	391,881	366,376	349,332	340,545	332,188	342,416
Loans, Net	1,585,481	1,602,926	1,632,824	1,680,617	1,230,387	1,156,143
Bank-Owned Life Insurance	30,391	30,247	30,096	29,942	18,843	18,745
Bank Premises and Equipment, net	20,620	20,740	21,526	21,504	18,332	18,023
Intangible Assets	56,088	56,222	56,356	56,585	29,511	29,573
Other Assets	45,742	49,939	47,109	49,122	38,563	31,867
TOTAL ASSETS	\$ 2,339,063	\$ 2,333,595	\$ 2,239,100	\$ 2,352,793	\$ 1,745,466	\$ 1,629,445
LIABILITIES						
Deposits	\$ 1,916,809	\$ 1,923,925	\$ 1,820,469	\$ 1,871,514	\$ 1,381,178	\$ 1,249,912
Borrowed Funds - Federal Home Loan Bank and Repurchase Agreements	46,450	60,230	74,630	143,657	87,308	110,551
Senior Notes, Net	14,670	0	0	0	0	0
Subordinated Debt, Net	32,967	16,534	16,553	16,572	6,500	6,500
Other Liabilities	24,034	32,850	27,692	24,734	14,689	11,254
TOTAL LIABILITIES	2,034,930	2,033,539	1,939,344	2,056,477	1,489,675	1,378,217
STOCKHOLDERS' EQUITY						
Common Stockholders' Equity, Excluding Accumulated Other Comprehensive Income	294,857	293,097	287,961	284,707	244,080	241,754
Accumulated Other Comprehensive Income: Net Unrealized Gains on Available-for-sale Securities	9,167	6,847	11,676	11,376	11,472	9,230
Defined Benefit Plans	109	112	119	233	239	244
TOTAL STOCKHOLDERS' EQUITY	304,133	300,056	299,756	296,316	255,791	251,228
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	\$ 2,339,063	\$ 2,333,595	\$ 2,239,100	\$ 2,352,793	\$ 1,745,466	\$ 1,629,445

**AVAILABLE-FOR-SALE DEBT SECURITIES
(In Thousands)**

	June 30, 2021		March 31, 2021		December 31, 2020	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Obligations of the U.S. Treasury	\$ 22,981	\$ 23,073	\$ 15,117	\$ 15,085	\$ 12,184	\$ 12,182
Obligations of U.S. Government agencies	24,764	25,373	24,763	24,992	25,349	26,344
Obligations of states and political subdivisions:						
Tax-exempt	127,122	132,310	120,974	125,118	116,427	122,401
Taxable	58,921	60,528	51,823	52,538	45,230	47,452
Mortgage-backed securities issued or guaranteed by U.S. Government agencies or sponsored agencies:						
Residential pass-through securities	50,397	51,328	38,790	39,757	36,853	38,176
Residential collateralized mortgage obligations	44,536	45,575	52,715	53,971	56,048	57,467
Commercial mortgage-backed securities	51,555	53,694	53,528	54,915	42,461	45,310
Total Available-for-Sale Debt Securities	\$ 380,276	\$ 391,881	\$ 357,710	\$ 366,376	\$ 334,552	\$ 349,332

SUMMARY OF LOANS BY TYPE
(Excludes Loans Held for Sale)
(In Thousands)

	<u>June 30,</u> <u>2021</u>	<u>March 31,</u> <u>2021</u>	<u>December 31,</u> <u>2020</u>	<u>June 30,</u> <u>2020</u>
Commercial:				
Commercial loans secured by real estate	\$ 544,202	\$ 524,886	\$ 531,810	\$ 293,304
Commercial and industrial	158,907	155,828	159,577	120,202
Paycheck Protection Program - 1st Draw	37,902	71,708	132,269	97,103
Paycheck Protection Program - 2nd Draw	72,409	66,127	0	0
Political subdivisions	48,849	49,860	53,221	43,134
Commercial construction and land	43,178	45,307	42,874	40,348
Loans secured by farmland	10,950	10,897	11,736	11,433
Multi-family (5 or more) residential	51,916	54,049	55,811	32,699
Agricultural loans	2,379	2,460	3,164	3,874
Other commercial loans	14,711	16,315	17,289	16,579
Total commercial	<u>985,403</u>	<u>997,437</u>	<u>1,007,751</u>	<u>658,676</u>
Residential mortgage:				
Residential mortgage loans - first liens	507,579	518,392	532,947	493,214
Residential mortgage loans - junior liens	25,287	25,402	27,311	25,632
Home equity lines of credit	39,432	39,083	39,301	31,826
1-4 Family residential construction	23,567	18,376	20,613	15,621
Total residential mortgage	<u>595,865</u>	<u>601,253</u>	<u>620,172</u>	<u>566,293</u>
Consumer	16,588	15,897	16,286	16,444
Total	1,597,856	1,614,587	1,644,209	1,241,413
Less: allowance for loan losses	(12,375)	(11,661)	(11,385)	(11,026)
Loans, net	<u>\$ 1,585,481</u>	<u>\$ 1,602,926</u>	<u>\$ 1,632,824</u>	<u>\$ 1,230,387</u>

ANALYSIS OF THE ALLOWANCE FOR LOAN LOSSES
(In Thousands)

	3 Months Ended June 30, 2021	3 Months Ended March 31, 2021	6 Months Ended June 30, 2021	6 Months Ended June 30, 2020
Balance, beginning of period	\$ 11,661	\$ 11,385	\$ 11,385	\$ 9,836
Charge-offs	(47)	(11)	(58)	(194)
Recoveries	17	28	45	32
Net (charge-offs) recoveries	(30)	17	(13)	(162)
Provision for loan losses	744	259	1,003	1,352
Balance, end of period	<u>\$ 12,375</u>	<u>\$ 11,661</u>	<u>\$ 12,375</u>	<u>\$ 11,026</u>

**PAST DUE AND IMPAIRED LOANS, NONPERFORMING ASSETS
AND TROUBLED DEBT RESTRUCTURINGS (TDRs)**
(Dollars In Thousands)

	June 30, 2021	March 31, 2021	December 31, 2020	June 30, 2020
Impaired loans with a valuation allowance	\$ 10,594	\$ 9,354	\$ 8,082	\$ 12,189
Impaired loans without a valuation allowance	1,819	2,023	2,895	1,786
Purchased credit impaired loans	6,733	6,781	6,841	305
Total impaired loans	<u>\$ 19,146</u>	<u>\$ 18,158</u>	<u>\$ 17,818</u>	<u>\$ 14,280</u>
Total loans past due 30-89 days and still accruing	<u>\$ 2,478</u>	<u>\$ 6,777</u>	<u>\$ 5,918</u>	<u>\$ 5,124</u>
Nonperforming assets:				
Purchased credit impaired loans	\$ 6,733	\$ 6,781	\$ 6,841	\$ 305
Other nonaccrual loans	16,238	15,335	14,575	18,458
Total nonaccrual loans	22,971	22,116	21,416	18,763
Total loans past due 90 days or more and still accruing	1,881	1,285	1,975	2,812
Total nonperforming loans	24,852	23,401	23,391	21,575
Foreclosed assets held for sale (real estate)	1,332	1,472	1,338	1,593
Total nonperforming assets	<u>\$ 26,184</u>	<u>\$ 24,873</u>	<u>\$ 24,729</u>	<u>\$ 23,168</u>
Loans subject to troubled debt restructurings (TDRs):				
Performing	\$ 199	\$ 302	\$ 166	\$ 265
Nonperforming	5,624	6,883	7,285	790
Total TDRs	<u>\$ 5,823</u>	<u>\$ 7,185</u>	<u>\$ 7,451</u>	<u>\$ 1,055</u>
Total nonperforming loans as a % of loans	1.56 %	1.45 %	1.42 %	1.74 %
Total nonperforming assets as a % of assets	1.12 %	1.07 %	1.10 %	1.33 %
Allowance for loan losses as a % of total loans	0.77 %	0.72 %	0.69 %	0.89 %
Credit adjustment on purchased non-impaired loans and allowance for loan losses as a % of total loans and the credit adjustment (a)	1.05 %	1.04 %	1.05 %	0.96 %
Allowance for loan losses as a % of nonperforming loans	49.79 %	49.83 %	48.67 %	51.11 %
(a) Credit adjustment on purchased non-impaired loans at end of period	\$ 4,502	\$ 5,182	\$ 5,979	\$ 878
Allowance for loan losses	12,375	11,661	11,385	11,026
Total credit adjustment on purchased non-impaired loans at end of period and allowance for loan losses (1)	<u>\$ 16,877</u>	<u>\$ 16,843</u>	<u>\$ 17,364</u>	<u>\$ 11,904</u>
Total loans receivable	<u>\$ 1,597,856</u>	<u>\$ 1,614,587</u>	<u>\$ 1,644,209</u>	<u>\$ 1,241,413</u>
Credit adjustment on purchased non-impaired loans at end of period	4,502	5,182	5,979	878
Total (2)	<u>\$ 1,602,358</u>	<u>\$ 1,619,769</u>	<u>\$ 1,650,188</u>	<u>\$ 1,242,291</u>
Credit adjustment on purchased non-impaired loans and allowance for loan losses as a % of total loans and the credit adjustment (1)/(2)	<u>1.05 %</u>	<u>1.04 %</u>	<u>1.05 %</u>	<u>0.96 %</u>

ADJUSTMENTS TO GROSS AMORTIZED COST OF LOANS

(In Thousands)

	Three Months Ended			Six Months Ended	
	June 30, 2021	March 31, 2021	June 30, 2020	June 30, 2021	June 30, 2020
Market Rate Adjustment					
Adjustments to gross amortized cost of loans at beginning of period	\$ 352	\$ 718	\$ (1,268)	\$ 718	\$ (1,415)
(Amortization) accretion recognized in interest income	(357)	(366)	165	(723)	312
Adjustments to gross amortized cost of loans at end of period	<u>\$ (5)</u>	<u>\$ 352</u>	<u>\$ (1,103)</u>	<u>\$ (5)</u>	<u>\$ (1,103)</u>
Credit Adjustment on Non-impaired Loans					
Adjustments to gross amortized cost of loans at beginning of period	\$ (5,182)	\$ (5,979)	\$ (1,011)	\$ (5,979)	\$ (1,216)
Accretion recognized in interest income	680	797	133	1,477	338
Adjustments to gross amortized cost of loans at end of period	<u>\$ (4,502)</u>	<u>\$ (5,182)</u>	<u>\$ (878)</u>	<u>\$ (4,502)</u>	<u>\$ (878)</u>

PURCHASED CREDIT IMPAIRED (PCI) LOANS

(In Thousands)

	June 30, 2021	March 31, 2021	June 30, 2020
Outstanding balance	\$ 10,189	\$ 10,256	\$ 407
Carrying amount	6,733	6,781	305

COMPARISON OF INTEREST INCOME AND EXPENSE
(In Thousands)

	Three Months Ended			Six Months Ended	
	June 30, 2021	March 31, 2021	June 30, 2020	June 30, 2021	June 30, 2020
INTEREST INCOME					
Interest-bearing due from banks	\$ 74	\$ 50	\$ 41	\$ 124	\$ 122
Available-for-sale debt securities:					
Taxable	1,187	1,113	1,380	2,300	2,968
Tax-exempt	824	801	631	1,625	1,176
Total available-for-sale debt securities	2,011	1,914	2,011	3,925	4,144
Loans receivable:					
Taxable	16,826	17,493	13,586	34,319	28,047
Paycheck Protection Program - 1st Draw	859	1,812	540	2,671	540
Paycheck Protection Program - 2nd Draw	390	186	0	576	0
Tax-exempt	518	553	552	1,071	1,127
Total loans receivable	18,593	20,044	14,678	38,637	29,714
Other earning assets	18	19	20	37	31
Total Interest Income	20,696	22,027	16,750	42,723	34,011
INTEREST EXPENSE					
Interest-bearing deposits:					
Interest checking	235	221	202	456	445
Money market	320	306	232	626	495
Savings	57	55	54	112	118
Time deposits	605	696	1,296	1,301	2,881
Total interest-bearing deposits	1,217	1,278	1,784	2,495	3,939
Borrowed funds:					
Short-term	7	15	64	22	262
Long-term - FHLB advances	109	134	313	243	608
Senior notes, net	57	0	0	57	0
Subordinated debt, net	357	244	106	601	213
Total borrowed funds	530	393	483	923	1,083
Total Interest Expense	1,747	1,671	2,267	3,418	5,022
Net Interest Income	\$ 18,949	\$ 20,356	\$ 14,483	\$ 39,305	\$ 28,989

Note: Interest income from tax-exempt securities and loans has been adjusted to a fully tax-equivalent basis, using the Corporation's marginal federal income tax rate of 21%.

ANALYSIS OF AVERAGE DAILY BALANCES AND RATES
(Dollars in Thousands)

	3 Months Ended 6/30/2021 Average Balance	Rate of Return/ Cost of Funds %	3 Months Ended 3/31/2021 Average Balance	Rate of Return/ Cost of Funds %	3 Months Ended 6/30/2020 Average Balance	Rate of Return/ Cost of Funds %
EARNING ASSETS						
Interest-bearing due from banks	\$ 182,586	0.16 %	\$ 92,619	0.22 %	\$ 37,799	0.44 %
Available-for-sale debt securities, at amortized cost:						
Taxable	243,228	1.96 %	217,733	2.07 %	244,019	2.27 %
Tax-exempt	123,101	2.68 %	117,532	2.76 %	82,050	3.09 %
Total available-for-sale debt securities	<u>366,329</u>	<u>2.20 %</u>	<u>335,265</u>	<u>2.32 %</u>	<u>326,069</u>	<u>2.48 %</u>
Loans receivable:						
Taxable	1,418,171	4.76 %	1,428,721	4.97 %	1,094,432	4.99 %
Paycheck Protection Program - 1st Draw	53,639	6.42 %	104,367	7.04 %	77,832	2.79 %
Paycheck Protection Program - 2nd Draw	71,841	2.18 %	34,197	2.21 %	0	0.00 %
Tax-exempt	63,470	3.27 %	67,301	3.33 %	59,177	3.75 %
Total loans receivable	<u>1,607,121</u>	<u>4.64 %</u>	<u>1,634,586</u>	<u>4.97 %</u>	<u>1,231,441</u>	<u>4.79 %</u>
Other earning assets	<u>2,467</u>	<u>2.93 %</u>	<u>2,851</u>	<u>2.70 %</u>	<u>2,206</u>	<u>3.65 %</u>
Total Earning Assets	2,158,503	3.85 %	2,065,321	4.33 %	1,597,515	4.22 %
Cash	25,453		23,796		18,960	
Unrealized gain/loss on securities	10,197		12,890		12,574	
Allowance for loan losses	(11,992)		(11,739)		(11,471)	
Bank-owned life insurance	30,301		30,154		18,779	
Bank premises and equipment	20,620		21,348		18,230	
Intangible assets	56,153		56,288		29,543	
Other assets	42,516		44,628		30,723	
Total Assets	<u>\$ 2,331,751</u>		<u>\$ 2,242,686</u>		<u>\$ 1,714,853</u>	
INTEREST-BEARING LIABILITIES						
Interest-bearing deposits:						
Interest checking	\$ 387,942	0.24 %	\$ 355,993	0.25 %	\$ 260,177	0.31 %
Money market	433,295	0.30 %	406,841	0.31 %	215,441	0.43 %
Savings	227,426	0.10 %	213,437	0.10 %	183,933	0.12 %
Time deposits	335,773	0.72 %	370,555	0.76 %	343,257	1.52 %
Total interest-bearing deposits	<u>1,384,436</u>	<u>0.35 %</u>	<u>1,346,826</u>	<u>0.38 %</u>	<u>1,002,808</u>	<u>0.72 %</u>
Borrowed funds:						
Short-term	6,528	0.43 %	14,365	0.42 %	19,844	1.30 %
Long-term	46,788	0.93 %	52,847	1.03 %	72,917	1.73 %
Senior notes, net	6,930	3.30 %	0	0.00 %	0	0.00 %
Subordinated debt, net	26,916	5.32 %	16,543	5.98 %	6,500	6.56 %
Total borrowed funds	<u>87,162</u>	<u>2.44 %</u>	<u>83,755</u>	<u>1.90 %</u>	<u>99,261</u>	<u>1.96 %</u>
Total Interest-bearing Liabilities	1,471,598	0.48 %	1,430,581	0.47 %	1,102,069	0.83 %
Demand deposits	534,602		484,286		346,285	
Other liabilities	23,898		27,930		15,891	
Total Liabilities	<u>2,030,098</u>		<u>1,942,797</u>		<u>1,464,245</u>	
Stockholders' equity, excluding accumulated other comprehensive income						
Accumulated other comprehensive income	293,487		289,591		240,434	
Total Stockholders' Equity	<u>301,653</u>		<u>299,889</u>		<u>250,608</u>	
Total Liabilities and Stockholders' Equity	<u>\$ 2,331,751</u>		<u>\$ 2,242,686</u>		<u>\$ 1,714,853</u>	
Interest Rate Spread		3.37 %		3.86 %		3.39 %
Net Interest Income/Earning Assets		3.52 %		4.00 %		3.65 %
Total Deposits (Interest-bearing and Demand)	\$ 1,919,038		\$ 1,831,112		\$ 1,349,093	

- (1) Annualized rates of return on tax-exempt securities and loans are presented on a fully taxable-equivalent basis, using the Corporation's marginal federal income tax rate of 21%.
- (2) Nonaccrual loans have been included with loans for the purpose of analyzing net interest earnings.
- (3) Rates of return on earning assets and costs of funds have been presented on an annualized basis.

ANALYSIS OF AVERAGE DAILY BALANCES AND RATES
(Dollars in Thousands)

	6 Months Ended 6/30/2021 Average Balance	Rate of Return/ Cost of Funds %	6 Months Ended 6/30/2020 Average Balance	Rate of Return/ Cost of Funds%
EARNING ASSETS				
Interest-bearing due from banks	\$ 137,851	0.18 %	\$ 28,600	0.86 %
Available-for-sale debt securities, at amortized cost:				
Taxable	230,551	2.01 %	254,588	2.34 %
Tax-exempt	120,332	2.72 %	75,950	3.11 %
Total available-for-sale debt securities	<u>350,883</u>	<u>2.26 %</u>	<u>330,538</u>	<u>2.52 %</u>
Loans receivable:				
Taxable	1,423,417	4.86 %	1,101,275	5.12 %
Paycheck Protection Program - 1st Draw	78,863	6.83 %	38,916	2.79 %
Paycheck Protection Program - 2nd Draw	53,123	2.19 %	0	0.00 %
Tax-exempt	65,375	3.30 %	59,772	3.79 %
Total loans receivable	<u>1,620,778</u>	<u>4.81 %</u>	<u>1,199,963</u>	<u>4.98 %</u>
Other earning assets	<u>2,658</u>	<u>2.81 %</u>	<u>1,833</u>	<u>3.40 %</u>
Total Earning Assets	<u>2,112,170</u>	<u>4.08 %</u>	<u>1,560,934</u>	<u>4.38 %</u>
Cash	24,629		18,501	
Unrealized gain/loss on securities	11,536		10,375	
Allowance for loan losses	(11,866)		(10,743)	
Bank-owned life insurance	30,228		18,728	
Bank premises and equipment	20,982		17,981	
Intangible assets	56,220		29,575	
Other assets	43,566		30,658	
Total Assets	<u>\$ 2,287,465</u>		<u>\$ 1,676,009</u>	
INTEREST-BEARING LIABILITIES				
Interest-bearing deposits:				
Interest checking	\$ 372,056	0.25 %	\$ 243,623	0.37 %
Money market	420,141	0.30 %	208,066	0.48 %
Savings	220,470	0.10 %	176,452	0.13 %
Time deposits	353,068	0.74 %	362,439	1.60 %
Total interest-bearing deposits	<u>1,365,735</u>	<u>0.37 %</u>	<u>990,580</u>	<u>0.80 %</u>
Borrowed funds:				
Short-term	10,425	0.43 %	32,363	1.63 %
Long-term	49,801	0.98 %	68,491	1.79 %
Senior notes, net	3,484	3.30 %	0	0.00 %
Subordinated debt, net	21,758	5.57 %	6,500	6.59 %
Total borrowed funds	<u>85,468</u>	<u>2.18 %</u>	<u>107,354</u>	<u>2.03 %</u>
Total Interest-bearing Liabilities	<u>1,451,203</u>	<u>0.47 %</u>	<u>1,097,934</u>	<u>0.92 %</u>
Demand deposits	509,583		314,089	
Other liabilities	25,903		14,981	
Total Liabilities	<u>1,986,689</u>		<u>1,427,004</u>	
Stockholders' equity, excluding accumulated other comprehensive income	291,550		240,576	
Accumulated other comprehensive income	9,226		8,429	
Total Stockholders' Equity	<u>300,776</u>		<u>249,005</u>	
Total Liabilities and Stockholders' Equity	<u>\$ 2,287,465</u>		<u>\$ 1,676,009</u>	
Interest Rate Spread		3.61 %		3.46 %
Net Interest Income/Earning Assets		3.75 %		3.73 %
Total Deposits (Interest-bearing and Demand)	\$ 1,875,318		\$ 1,304,669	

- (1) Annualized rates of return on tax-exempt securities and loans are presented on a fully taxable-equivalent basis, using the Corporation's marginal federal income tax rate of 21%.
- (2) Nonaccrual loans have been included with loans for the purpose of analyzing net interest earnings.
- (3) Rates of return on earning assets and costs of funds have been presented on an annualized basis.

COMPARISON OF NONINTEREST INCOME
(In Thousands)

	Three Months Ended			Six Months Ended	
	June 30, 2021	March 31, 2021	June 30, 2020	June 30, 2021	June 30, 2020
Trust revenue	\$ 1,807	\$ 1,626	\$ 1,565	\$ 3,433	\$ 3,044
Brokerage and insurance revenue	506	326	384	832	739
Service charges on deposit accounts	1,073	1,015	831	2,088	2,081
Interchange revenue from debit card transactions	998	881	718	1,879	1,449
Net gains from sales of loans	925	1,064	1,564	1,989	1,879
Loan servicing fees, net	146	248	(158)	394	(172)
Increase in cash surrender value of life insurance	145	150	98	295	202
Other noninterest income	700	1,472	526	2,172	1,587
Total noninterest income, excluding realized gains on securities, net	<u>\$ 6,300</u>	<u>\$ 6,782</u>	<u>\$ 5,528</u>	<u>\$ 13,082</u>	<u>\$ 10,809</u>

COMPARISON OF NONINTEREST EXPENSE
(In Thousands)

	Three Months Ended			Six Months Ended	
	June 30, 2021	March 31, 2021	June 30, 2020	June 30, 2021	June 30, 2020
Salaries and employee benefits	\$ 9,499	\$ 8,895	\$ 6,983	\$ 18,394	\$ 14,361
Net occupancy and equipment expense	1,219	1,304	975	2,523	2,078
Data processing and telecommunications expenses	1,487	1,380	1,253	2,867	2,477
Automated teller machine and interchange expense	355	337	275	692	572
Pennsylvania shares tax	490	491	423	981	845
Professional fees	598	547	464	1,145	843
Other noninterest expense	1,751	2,755	1,901	4,506	4,010
Total noninterest expense, excluding merger-related expenses	15,399	15,709	12,274	31,108	25,186
Merger-related expenses	0	0	983	0	1,124
Total noninterest expense	<u>\$ 15,399</u>	<u>\$ 15,709</u>	<u>\$ 13,257</u>	<u>\$ 31,108</u>	<u>\$ 26,310</u>