

July 16, 2020

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**C&N DECLARES DIVIDEND AND ANNOUNCES SECOND QUARTER 2020 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, 2020.

**Dividend Declared**

On July 16, 2020, C&N’s Board of Directors declared a regular quarterly cash dividend of \$0.27 per share. The dividend is payable on August 7, 2020 to shareholders of record as of July 27, 2020.

**Acquisitions of Covenant Financial, Inc. and Monument Bancorp, Inc.**

C&N’s acquisition of Covenant Financial, Inc. (“Covenant”) was completed July 1, 2020. Covenant was the parent company of Covenant Bank, a commercial bank which operated a community bank office in Bucks County, Pennsylvania and another in Chester County, Pennsylvania. Pursuant to the transaction, Covenant merged with and into C&N and Covenant Bank merged with and into C&N’s bank subsidiary, Citizens & Northern Bank. Based on the average of the high and low C&N stock trading prices of \$20.32 per share on July 1, 2020, the total transaction value was approximately \$63.3 million, including approximately 75% of the consideration paid in C&N common stock and 25% paid in cash. Holders of Covenant common stock prior to the consummation of the merger held approximately 12.9% of C&N’s common stock outstanding immediately following the merger. With the addition of Covenant, C&N is projected to have assets of approximately \$2.3 billion.

The acquisition of Covenant follows the acquisition of Monument Bancorp, Inc. (“Monument”) on April 1, 2019. Monument was the parent company of Monument Bank, with two community banking offices and a lending office in Bucks County, Pennsylvania. Monument merged with and into C&N and Monument Bank merged with and into Citizens & Northern Bank. The total transaction value of the Monument acquisition was \$42.7 million.

In the first six months of 2020, C&N incurred pre-tax merger-related expenses related to the Covenant transaction of \$1.1 million, including expenses totaling \$983,000 in the second quarter 2020. Merger-related expenses include severance and similar expenses as well as initial expenses related to conversion of Covenant’s core customer system data into C&N’s core system and legal and other professional expenses. Management estimates total pre-tax merger-related expenses associated with the Covenant transaction will be approximately \$8.0 million, with most of the expenses expected to be incurred in the third quarter 2020.

Merger-related expenses associated with the Monument transaction totaled \$3.6 million in the first six months of 2019, including \$3.3 million in the second quarter 2019.

**Unaudited Financial Information**

Net income was \$0.39 per diluted share in the second quarter 2020, up from \$0.30 in the first quarter 2020 and \$0.27 in the second quarter 2019. For the six months ended June 30, 2020, net income per diluted share was \$0.70, up from \$0.67 per share for the first six months of 2019.

Earnings for 2020 and 2019 have been impacted by merger-related expenses from the Covenant and Monument transactions. As described below, excluding merger-related expenses and net realized gains on securities, adjusted (non-U.S. GAAP) earnings of \$0.45 per share for the second quarter 2020 were slightly lower than the comparative \$0.46 per share for the second quarter 2019, and adjusted (non-U.S. GAAP) earnings were \$0.76 per share for the first six months of 2020 as compared to \$0.89 per share for the first six months of 2019.

The following table provides a reconciliation of C&N's second quarter and six months ended June 30, 2020 and 2019 unaudited earnings results under U.S. generally accepted accounting principles (U.S. GAAP) to comparative non-U.S. GAAP results excluding merger-related expenses and net realized gains on securities. Management believes disclosure of unaudited second quarter and six-months ended June 30, 2020 and 2019 earnings results, adjusted to exclude the impact of these items, provides useful information to investors for comparative purposes.

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

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

	2nd Quarter 2020				2nd Quarter 2019			
	Income Before Income Tax Provision	Income Tax Provision (1)	Net Income	Diluted Earnings per Common Share	Income Before Income Tax Provision	Income Tax Provision (1)	Net Income	Diluted Earnings per Common Share
Results as Presented Under U.S. GAAP	\$6,693	\$1,255	\$5,438	\$0.39	\$4,342	\$693	\$3,649	\$0.27
Add: Merger-Related Expenses	983	200	783		3,301	673	2,628	
Net Gains on Available-for-Sale Debt Securities	0	0	0		(7)	(1)	(6)	
Adjusted Earnings, Excluding Effect of Merger- Related Expenses and Net Gains on Available- for Sale Debt Securities (Non-U.S. GAAP)	\$7,676	\$1,455	\$6,221	\$0.45	\$7,636	\$1,365	\$6,271	\$0.46

  

	6 Months Ended June 30, 2020				6 Months Ended June 30, 2019			
	Income Before Income Tax Provision	Income Tax Provision (1)	Net Income	Diluted Earnings per Common Share	Income Before Income Tax Provision	Income Tax Provision (1)	Net Income	Diluted Earnings per Common Share
Results as Presented Under U.S. GAAP	\$11,675	\$2,071	\$9,604	\$0.70	\$10,413	\$1,674	\$8,739	\$0.67
Add: Merger-Related Expenses	1,124	229	895		3,612	739	2,873	
Net Gains on Available-for-Sale Debt Securities	0	0	0		(7)	(1)	(6)	
Adjusted Earnings, Excluding Effect of Merger- Related Expenses and Net Gains on Available- for Sale Debt Securities (Non-U.S. GAAP)	\$12,799	\$2,300	\$10,499	\$0.76	\$14,018	\$2,412	\$11,606	\$0.89

(1) Income tax has been allocated based on an income tax rate of 21%. The tax benefit associated with merger-related expenses has been adjusted to reflect the estimated nondeductible portion of the expenses.

Additional highlights related to C&N's second quarter and June 30, 2020 year-to-date unaudited earnings results as compared to the first quarter 2020 and comparative periods of 2019 are presented below.

**Second Quarter 2020 as Compared to First Quarter 2020**

Net income was \$5,438,000, or \$0.39 per diluted share, for the second quarter 2020, up from \$4,166,000, or \$0.30 per diluted share, in the first quarter 2020. Excluding the effects of merger-related expenses, adjusted (non-U.S. GAAP) earnings per share were \$0.45 per share for the second quarter 2020, up from a similarly adjusted \$0.31 per share for the first quarter 2020. Other significant variances were as follows:

- C&N recognized a credit for loan losses of \$176,000 in the second quarter 2020, a reduction in expense of \$1,704,000 as compared to the provision for loan losses of \$1,528,000 recognized in the first quarter 2020. 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. In comparison, the provision for loan losses in the first quarter 2020 included the impact of recording a specific allowance of \$1,193,000 related to a commercial loan. The specific allowance on this commercial loan remained at \$1,193,000 at June 30, 2020. The outstanding balance on this commercial loan was \$3.5 million at June 30, 2020 and March 31, 2020. In total, the second quarter 2020 provision included a net credit of \$255,000 from the impact of a reduction in outstanding loans, excluding U.S. Small Business Administration (SBA) Paycheck Protection Program (“PPP”) loans; a net credit of \$143,000 related to specific loans (net decrease in specific allowances on loans of \$271,000 partially offset by net charge-offs of \$128,000); a credit of \$22,000 in the net charge-off experience factors used to estimate the allowance; and a charge of \$244,000 attributable to increases in qualitative factors. There was no provision for loan losses recorded on PPP loans because the SBA guarantees the loans, subject to compliance with program requirements.
- Net interest income totaled \$14,246,000 in the second quarter 2020, down slightly from the first quarter 2020 amount of \$14,282,000. The net interest margin was 3.65% in the second quarter 2020, down from 3.83% in the first quarter 2020. The average yield on earning assets decreased 0.33% while the average rate paid on interest-bearing liabilities decreased 0.18%. Margin compression reflected the impact of a significant drop in interest rates, as C&N experienced accelerated prepayments of principal in the loan and securities portfolios. Average outstanding loans increased \$63.0 million, including average PPP loans of \$77.8 million, and average total deposits increased \$88.8 million. Growth in average deposits included the effects of deposits recognized from PPP activity and seasonal growth in municipal deposits.
- Total noninterest income was \$5,528,000 in the second quarter 2020, up \$247,000 from the first quarter 2020 amount. Significant variances included the following:
  - Net gains from sales of loans totaled \$1,564,000 in the second quarter 2020, an increase of \$1,249,000 over the first quarter total. The volume of residential mortgage loans soared in the second quarter 2020, as refinancing activity increased dramatically due to historically low interest rates.
  - Total trust and brokerage revenues of \$1,565,000 were up \$86,000 from the first quarter 2020, reflecting the seasonal collection of fees related to income tax consulting and tax return preparation.
  - Other noninterest income totaled \$431,000, a decrease of \$556,000 from the first quarter total. In the first quarter 2020, income from realization of tax credits totaled \$504,000, including tax credits related to the Pennsylvania Educational Improvement Tax Credit program of \$450,000. No revenue from tax credits was recorded in the second quarter 2020.
  - Service charges on deposit accounts totaled \$831,000 in the second quarter 2020, a decrease of \$419,000, as the volume of consumer and business overdraft activity fell.
  - Loan servicing fees, net, were negative \$158,000 (a decrease in revenue) in the second quarter 2020 as compared to negative \$14,000 in the first quarter 2020. The fair value of mortgage servicing rights decreased \$270,000 in the second quarter 2020, as compared to a decrease of

\$126,000 in the first quarter 2020, reflecting market assumptions that prepayments will increase due to lower interest rates.

- Noninterest expense, excluding merger-related expenses, totaled \$12,274,000 in the second quarter 2020, a decrease of \$638,000 from the first quarter 2020 amount. Significant variances included the following:
  - Pensions and other employee benefits expense were \$419,000 lower in the second quarter 2020 as compared to the first quarter, reflecting the customary seasonal increase in payroll taxes and related benefit costs in the first quarter of each year.
  - Other noninterest expense decreased \$216,000. Within this category, significant variances included the following:
    - Donations expense decreased \$477,000, as the first quarter total included donations totaling \$500,000 under the Pennsylvania Educational Improvement Tax Credit program.
    - Expenses related to other real estate properties totaled \$25,000, a decrease of \$81,000.
    - Incentive-based expenses payable to a consultant related to the overdraft privilege program totaled \$6,000, a decrease of \$45,000.
    - Travel and entertainment expenses totaled \$23,000, a decrease of \$41,000.
    - Other operational losses totaled \$304,000, an increase of \$264,000 over the first quarter amount, including an estimated accrual of \$300,000 for penalties related to certain information returns.
    - Losses on other real estate properties totaled \$80,000 in the second quarter 2020 as compared to net gains of \$52,000 in the first quarter.
    - FDIC assessments expense totaled \$111,000 in the second quarter as compared to \$2,000 in the first quarter. For the previous several quarters, the FDIC had provided credits based on the funding level of the insurance fund that had offset all of the amounts that C&N would have otherwise been assessed. In the second quarter, C&N utilized a credit of \$64,000, with no additional credit currently available to offset against assessments.
  - Occupancy expense decreased \$81,000, reflecting lower fuel and utility costs mainly due to seasonal changes in weather conditions.
  - Professional fees expense increased \$85,000, including employment recruiting costs associated with hiring a Trust and Financial Management Group executive.

## **Second Quarter 2020 as Compared to Second Quarter 2019**

As described above, second quarter 2020 net income was \$5,438,000, and excluding the impact of merger-related expenses, adjusted (non-U.S. GAAP) earnings were \$6,221,000. In comparison, second quarter 2019 net income was \$3,649,000, and excluding merger-related expenses and net securities gains, adjusted (non-U.S. GAAP) earnings were \$6,271,000. Other significant variances were as follows:

- The credit for loan losses (reduction in expense) was \$176,000 in the second quarter as compared to a credit of \$4,000 in the second quarter 2019. Details concerning the second quarter 2020 credit for loan losses are provided above.
- Second quarter 2020 net interest income of \$14,246,000 was slightly higher than the second quarter 2019 total of \$14,205,000. The net interest margin of 3.65% in the second quarter 2020 was down from 3.89% in the second quarter 2019. The average yield on earning assets of 4.22% in the second quarter 2020 was down 0.46% from the second quarter 2019, while the average rate paid on interest-bearing liabilities of 0.83% was lower by 0.29% from the second quarter 2019 level. Average outstanding loans in the second quarter 2020 of \$1.231 billion were up \$126.2 million (11.4%) from the corresponding second quarter 2019 amount. The average balance of PPP loans was \$77.8 million in the second quarter 2020, as C&N participated in the PPP from its inception in early April 2020. Excluding PPP loans, average outstanding loans were 4.4% higher in the second quarter 2020 as compared to the second quarter 2019. Average total deposits of \$1.349 billion in the second quarter 2020 were up \$79.9 million from the second quarter 2019, with much of the growth attributable to PPP activity.
- Total noninterest income for the second quarter 2020 was up \$679,000 from the second quarter 2019 total. Significant variances included the following:
  - Net gains from sales of loans of \$1,564,000 for the second quarter 2020 were up \$1,343,000 from the total for the second quarter 2019. The increase reflects an increase in volume of mortgage loans sold, due mainly to increased refinancing activity resulting from falling interest rates.
  - Service charges on deposit accounts of \$831,000 in the second quarter 2020 were down \$446,000 from the second quarter 2019 amount, as the volume of consumer and business overdraft activity fell.
  - Net revenue from loan servicing fees decreased \$193,000, as net fees were negative \$158,000 (a decrease in revenue) in the second quarter 2020 as compared to net revenue of \$35,000 in the second quarter 2019. The fair value of mortgage servicing rights decreased \$270,000 in the second quarter 2020, as compared to a decrease of \$71,000 in the second quarter 2019, reflecting market assumptions that prepayments will increase due to lower interest rates.
- Noninterest expense, excluding merger-related expenses, increased \$852,000 in the second quarter 2020 over the second quarter 2019 amount. Significant variances included the following:
  - Pensions and other employee benefits expense increased \$394,000, mainly due to increased health care expenses from C&N's partially self-insured plan.
  - Professional fees expense increased \$133,000, including costs associated with a change in certain trust administrative activities to handle them on an outsourced basis.
  - Salaries and wages expense increased \$88,000 (1.7%), reflecting the net impact of several factors, including: an increase in number of personnel to 337 full-time equivalent (FTEs) from 332 at June 30, 2019; annual merit-based salary adjustments; an increase in overtime pay related mainly to mortgage lending activity; a reduction in expense due to a higher proportion of payroll costs capitalized (added to the carrying value of loans) due to the high volume of PPP loans originated; and a slight reduction in incentive compensation expense.

- Data processing expenses increased \$78,000 (8.1%), including the impact of increases in software licensing costs associated with lending, trust and other functions.
- Pennsylvania shares tax expense increased \$76,000 (21.9%), reflecting the impact of an increase in Citizens & Northern Bank's stockholder's equity.

### **Six Months Ended June 30, 2020 as Compared to Six Months Ended June 30, 2019**

Net income for the six-month period ended June 30, 2020 was \$9,604,000, or \$0.70 per diluted share, while net income for the first six months of 2019 was \$8,739,000, or \$0.67 per share. Excluding the impact of merger-related expenses and net securities gains, adjusted (non-U.S. GAAP) earnings for the first six months of 2020 would be \$10,499,000 or \$0.76 per share as compared to similarly adjusted earnings of \$11,606,000 or \$0.89 per share for the first six months of 2019. Other significant variances were as follows:

- For the first six months of 2020, the provision for loan losses was \$1,352,000, an increase in expense of \$2,313,000 as compared to the credit for loan losses of \$961,000 recorded in the first six months of 2019. As noted above, in 2020, the provision includes the effects of recording a specific allowance of \$1,193,000 on a commercial loan in the first quarter, partially offset by the benefit from recording a charge-off of \$107,000 in the second quarter 2020 on a commercial loan for which the previously-established allowance had been \$674,000. In total, the provision for the first six months of 2020 included a net charge of \$1,067,000 related to specific loans (net increase in specific allowances on loans of \$905,000 and net charge-offs of \$162,000); a charge of \$646,000 attributable to increases in qualitative factors; a credit of \$272,000 from the impact of a reduction in outstanding loans, excluding PPP loans; and a credit of \$89,000 in the net charge-off experience factors used to estimate the allowance. The credit for loan losses in the first six months of 2019 included a benefit from eliminating specific allowances on commercial loans that were no longer considered impaired.
- Net interest income was up \$2,608,000 (10.1%) for the first six months of 2020 over the same period in 2019, reflecting the benefits of growth related to the Monument acquisition. The net interest margin was 3.73% for the first six months of 2020, down from 3.96% in 2019. The average yield on earning assets was 0.21% lower in 2020 as compared to 2019, while the average rate paid on interest-bearing liabilities was 0.01% lower in comparing the same periods. Average outstanding loans of \$1.2 billion for the first six months of 2020 were up \$234.7 million (24.3%) from the corresponding total for the first six months of 2019, reflecting the impact of the Monument acquisition which closed April 1, 2019 as well as significant loan growth in the second quarter 2019. Average total deposits of \$1.304 billion for the first six months of 2020 were up \$158.8 million from the 2019 total, reflecting the impact of the Monument acquisition, PPP-related activity and other factors.
- Total noninterest income, excluding realized securities gains, for the first six months of 2020 was up \$1,554,000 from the total for the first six months of 2019. Significant variances included the following:
  - Net gains from sales of loans totaled \$1,879,000 in the first six months of 2020, an increase of \$1,571,000 over the total for the first six months of 2019. As noted above, the increase reflects an increase in volume of mortgage loans sold, due mainly to increased refinancing activity resulting from falling interest rates.
  - Other noninterest income totaled \$1,418,000, an increase of \$451,000 over 2019. Income from realization of tax credits was \$351,000 higher in the first six months of 2020 as compared to 2019. Also, dividend income from Federal Home Loan Bank stock was up \$99,000, reflecting a higher average balance of stock held due to increased borrowings.
  - Interchange revenue from debit card transactions totaled \$1,449,000 for the first six months of 2020, an increase of \$107,000 (8.0%), reflecting an increase in transaction volumes.

- Trust and financial management revenue of \$3,044,000 was \$101,000 (3.4%) higher in the first six months of 2020 as compared to 2019, reflecting the impact of fees from new business growth in 2019.
- Service charges on deposit accounts of \$2,081,000 in the first six months of 2020 were down \$446,000 (17.6%) from the total for the first six months of 2019, as the volume of consumer and business overdraft activity fell significantly in the second quarter 2020.
- Net revenue from loan servicing fees decreased \$235,000, as net fees were negative \$172,000 (a decrease in revenue) in the first six months of 2020 as compared to net revenue of \$63,000 in the first six months of 2019. The fair value of mortgage servicing rights decreased \$396,000 in the first six months of 2020, as compared to a decrease of \$148,000 in the first six months of 2019.
- Noninterest expense, excluding merger-related expenses, increased \$3,068,000 for the six months ended June 30, 2020 over the total for the first six months of 2019. Significant variances included the following:
  - Total salaries and wages and benefits expenses increased \$1,749,000, reflecting: inclusion of the former Monument operations for six months in 2020 as compared to three months in 2019; annual merit-based salary adjustments; an increase in overtime pay related mainly to mortgage lending activity; a reduction in expense due to a higher proportion of payroll costs capitalized (added to the carrying value of loans) due to the high volume of PPP loans originated; a slight reduction in incentive compensation expense; and an increase in health care expense due to higher claims on C&N's partially self-insured plan.
  - Data processing expenses increased \$293,000, including the impact of increases in software licensing costs associated with lending, trust and other functions.
  - Professional fees expense increased \$290,000, including costs associated with a change in certain trust administrative activities to handle them on an outsourced basis.
  - Other noninterest expense increased \$254,000. Within this category, significant variances included the following:
    - Donations expense increased \$427,000, mainly due to an increase in donations associated with the Pennsylvania Educational Improvement Tax Credit program.
    - Other operational losses increased \$337,000, including an estimated accrual of \$300,000 for penalties related to certain information returns.
    - Expenses related to other real estate properties decreased \$244,000 and collection expenses decreased \$215,000. The reduction in both of these expense categories resulted from the completion in the first quarter 2020 of a complex commercial workout situation for which a significant amount of expenses were incurred in 2019.
    - FDIC assessments expense decreased \$81,000, as a significant portion of the assessed amounts for the first two quarters of 2020 were offset by credits based on the funding level of the insurance fund.

**Other Information:**

Changes in other unaudited financial information are as follows:

- Total assets amounted to \$1,745,466,000 at June 30, 2020, up from \$1,629,445,000 at March 31, 2020 and up 8.4% from \$1,609,685,000 at June 30, 2019.

- Net loans outstanding (excluding mortgage loans held for sale) were \$1,230,387,000 at June 30, 2020, up from \$1,156,143,000 at March 31, 2020 and up 11.0% from \$1,108,483,000 at June 30, 2019. In comparing outstanding balances at June 30, 2020 and 2019, total commercial loans were up \$138.4 million (26.6%), including PPP loans of \$97.1 million, total residential mortgage loans were lower by \$10.3 million (1.8%) and total consumer loans were down \$3.4 million (16.9%). The outstanding balance of residential mortgage loans originated and serviced by C&N that have been sold to third parties was \$210,778,000 at June 30, 2020, up \$37.9 million (21.9%) from June 30, 2019.
- The recorded investment in PPP loans at June 30, 2020 of \$97.1 million included contractual principal balances totaling \$100.1 million, reduced by net deferred loan origination fees of \$3.0 million. The term of most of C&N's PPP loans is two 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. Most of the deferrals under this program were originated in March and the second quarter 2020, typically for a 90-day period. There have been 706 loans for which deferrals have been granted through June 30, 2020 with an aggregate recorded investment of approximately \$202 million at the time of deferral. At June 30, 2020, there were 541 loans, with an aggregate recorded investment of approximately \$159 million, that remained in deferral status under the program.
- Total nonperforming assets as a percentage of total assets was 1.33% at June 30, 2020, up from 0.99% at March 31, 2020 and 0.95% at June 30, 2019. Nonperforming loans with a valuation allowance increased \$5,480,000, to \$12,189,000 at June 30, 2020 from \$6,709,000 at March 31, 2020. Similarly, total nonaccrual loans increased \$6,454,000, to \$18,763,000 at June 30, 2020 from \$12,309,000 at March 31, 2020. At June 30, 2020, there were three commercial loan relationships with an aggregate outstanding balance of \$7,576,000 that management identified as impaired and classified as nonaccrual in the second quarter 2020. The total specific allowance for loan losses related to these impaired loans was \$504,000 at June 30, 2020. The impact of these increases in impaired and nonaccrual loans was partially offset by removal from those classifications of the commercial loan noted earlier, which had a balance of \$1,255,000 and a specific allowance of \$674,000 at March 31, 2020 and which was paid off with a charge-off of \$107,000 in the second quarter. In addition, there was a commercial loan with an outstanding balance of \$815,000 at March 31, 2020 with a specific allowance of \$60,000 that was no longer considered impaired at June 30, 2020 due to improved circumstances with the underlying business, and which was restored to accrual status in the second quarter.
- Deposits and repo sweep accounts totaled \$1,383,382,000 at June 30, 2020, up from \$1,252,319,000 at March 31, 2020, and up 7.5% from \$1,287,335,000 at June 30, 2019.
- Total shareholders' equity was \$255,791,000 at June 30, 2020, up from \$251,228,000 at March 31, 2020 and \$239,716,000 at June 30, 2019. Within shareholders' equity, the portion of accumulated other comprehensive income related to available-for-sale debt securities was \$11,472,000 at June 30, 2020, up from \$9,230,000 at March 31, 2020 and \$3,138,000 at June 30, 2019. Fluctuations in accumulated other comprehensive income related to valuations of available-for-sale debt securities have been caused by changes in interest rates.
- Citizens & Northern Bank is subject to various regulatory capital requirements. At June 30, 2020, 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, including as projected to include the effect of the Covenant acquisition.
- Assets under management by C&N's Trust and Financial Management Group amounted to \$984,853,000 at June 30, 2020, up 13.2% from \$869,636,000 at March 31, 2020 and 3.8% from \$948,998,000 at June 30, 2019. Fluctuations in values of assets under management reflect the impact of high recent market volatility attributable to COVID-19 and other factors.

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 Warminster 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](http://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.

# CITIZENS & NORTHERN CORPORATION

June 30, 2020

## QUARTERLY REPORT

Dear Shareholder:

The second quarter of 2020 was a volatile and challenging period marked by the ongoing uncertainties created by the COVID-19 pandemic. Statistics and details regarding the impact of the disease dominated the news cycle as all levels of government, health care providers, businesses and individuals focused on controlling the spread of the virus. At the same time, there was a continuous debate about when and how to “re-open” various sectors of the economy activity as the shut-down lengthened and unemployment levels skyrocketed. Leaders in all areas were forced to adjust to rapidly changing circumstances and new information creating confusion and frustration. Adding to the uncertainty was the inconsistent impact of the virus across the country resulting in differing responses depending on where people live and/or work. These efforts were coordinated from “socially distanced” locations making in-person communication regarding very complex issues nearly impossible for many.

Financial markets were hit hard late in the first quarter as measured by the major stock market averages as well as challenges in the bond and money markets. Swift and unprecedented action by the Federal Reserve and Congress stabilized markets and provided support throughout the second quarter. As of June 30<sup>th</sup>, interest rates remained at historic lows, the major stock indices recovered much, if not all, of their earlier losses, new unemployment claims had come down significantly, and a substantial number of jobs were being filled each week. With all that being said, we still lack clarity on how to control the virus, consistently treat those infected, and the introduction of vaccine(s) that will prevent the spread.

C&N’s pandemic committee coordinated efforts to comply with directives, best practices, and government mandates to manage the health and welfare of our Team, customers, and communities. Prior investments in technology enabled much of our staff to productively work from home and many customers to conduct much of their business through enhancements in our digital channels and our outstanding connection center (call/chat) Team. When allowed in our various markets, we thoughtfully reopened branch offices and safely welcomed back customers who value in-person service.

While future economic growth remains uncertain, the C&N Team was focused on delivering value to customers as they work through issues specific to their circumstances. Total Paycheck Protection Program (PPP) loans reached nearly \$100 million to approximately 1,000 business customers by the end of the second quarter. The forgiveness process for these loans is still being clarified but we expect a large percentage of customers to qualify for full relief. We also produced an unprecedented volume of residential mortgage loans as we assisted borrowers to refinance at lower rates or purchase new properties. We continued to work with borrowers on payment relief/deferrals, although the number of requests slowed down substantially as the quarter progressed.

After adjusting for merger related expenses in both 2019 and 2020, second quarter net income and earnings per share were essentially unchanged. Net interest income was slightly higher, although there was some compression in the net interest margin. A credit for loan losses of \$176,000 contributed to net income during the second quarter of 2020 compared to a smaller credit of \$4,000 in 2019. The credit for loan losses in the second quarter 2020 included the benefit of recording 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. In total, the second quarter 2020 provision included a net credit of \$255,000 from the impact of a reduction in outstanding loans, excluding PPP loans; a net credit of \$143,000 related to specific loans (net decrease in specific allowances on loans of \$271,000 partially offset by net charge-offs of \$128,000); a credit of \$22,000 in the net charge-off experience factors used to estimate the allowance; and a charge of \$244,000 attributable to increases in qualitative factors. Noninterest income increased by approximately 14% primarily due to record gains on the sale of mortgage loans. Noninterest expenses, excluding merger-related expenses, were 7.5% above the second quarter of 2019,

driven primarily by increases in health care related costs, professional fees, data processing expenses and Pennsylvania shares tax.

On the same adjusted basis, net income (-10%) and earnings per share (-15%) for the first six months of 2020 declined compared to the same period in 2019. The primary driver of this decline was the provision for loan losses which was \$1.35 million during the first half of 2020 compared to a credit of \$961,000 for the same period in 2019, or a difference of \$2.3 million. Net interest income increased 10% reflecting the benefits of growth related to the Monument acquisition. Total noninterest income grew by 16.8% year to date compared to 2019 with gains on mortgage sales as the primary driver, although a variety of other sources also contributed. Noninterest expenses, excluding merger-related expenses, increased 13.9%. This growth was substantially due to the inclusion of former Monument operations for six months during 2020 compared to three months in 2019, although higher data processing costs, professional fees and various other expenses also contributed.

We are pleased to report that all required regulatory and shareholder approvals supporting C&N's acquisition of Covenant Bank were secured during the second quarter and the transaction closed on July 1<sup>st</sup>. The integration teams continue working well together and are preparing for a successful conversion of systems scheduled for late August. We are excited to welcome customers, shareholders, and members of the Covenant staff to the C&N Team as we combine resources to create value in the years ahead.

C&N entered the COVID crisis, and related uncertainties, in a position of strength. This is especially evident in our capital ratios, which are at levels that demonstrate the capacity to absorb the acquisition of Covenant as well as significant credit losses, if they arise, while continuing to meet regulatory requirements to be considered well capitalized. A further indication of this strength was the Board's declaration of the regular quarterly cash dividend of \$.27 per share to shareholders of record on July 27, 2020, payable on August 8, 2020.

In closing, I want to recognize the ongoing efforts of the C&N Team as they remained focused on supporting our customers and communities throughout this challenging period. Their support of each other and C&N's mission of creating lasting value through long-term relationships remains exceptional and is making a real impact on the lives of many.

Thank you to our shareholders for your confidence in this team and support of your Company.



J. Bradley Scovill  
President and CEO

**CONDENSED, CONSOLIDATED EARNINGS INFORMATION**

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

	2ND QUARTER 2020 <u>(Current)</u>	2ND QUARTER 2019 <u>(Prior Year)</u>	<u>\$ Incr. (Decr.)</u>	<u>% Incr. (Decr.)</u>
Interest and Dividend Income	\$16,513	\$17,139	(\$626)	-3.65%
Interest Expense	2,267	2,934	(667)	-22.73%
Net Interest Income	14,246	14,205	41	0.29%
Credit for Loan Losses	(176)	(4)	(172)	4300.00%
Net Interest Income After Credit for Loan Losses	14,422	14,209	213	1.50%
Noninterest Income	5,528	4,849	679	14.00%
Net Gains on Available-for-sale Debt Securities	0	7	(7)	-100.00%
Merger-Related Expenses	983	3,301	(2,318)	-70.22%
Other Noninterest Expenses	12,274	11,422	852	7.46%
Income Before Income Tax Provision	6,693	4,342	2,351	54.15%
Income Tax Provision	1,255	693	562	81.10%
<b>Net Income</b>	<b>\$5,438</b>	<b>\$3,649</b>	<b>\$1,789</b>	<b>49.03%</b>
<b>Net Income Attributable to Common Shares (1)</b>	<b>\$5,405</b>	<b>\$3,630</b>	<b>\$1,775</b>	<b>48.90%</b>
<b>PER COMMON SHARE DATA:</b>				
Net Income - Basic	\$0.39	\$0.27	\$0.12	44.44%
Net Income - Diluted	\$0.39	\$0.27	\$0.12	44.44%
Dividend Per Share - Quarterly	\$0.27	\$0.27	\$0.00	0.00%
Number of Shares Used in Computation - Basic	13,710,118	13,597,848		
Number of Shares Used in Computation - Diluted	13,712,387	13,622,954		

**CONDENSED, CONSOLIDATED EARNINGS INFORMATION**

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

	<b>6 MONTHS ENDED JUNE 30,</b>			
	2020 <u>(Current)</u>	2019 <u>(Prior Year)</u>	<u>\$ Incr. (Decr.)</u>	<u>% Incr. (Decr.)</u>
Interest and Dividend Income	\$33,550	\$30,204	\$3,346	11.08%
Interest Expense	5,022	4,284	738	17.23%
Net Interest Income	28,528	25,920	2,608	10.06%
Provision (Credit) for Loan Losses	1,352	(961)	2,313	-240.69%
Net Interest Income After Provision (Credit) for Loan Losses	27,176	26,881	295	1.10%
Noninterest Income	10,809	9,255	1,554	16.79%
Net Gains on Available-for-sale Debt Securities	0	7	(7)	-100.00%
Merger-Related Expenses	1,124	3,612	(2,488)	-68.88%
Other Noninterest Expenses	25,186	22,118	3,068	13.87%
Income Before Income Tax Provision	11,675	10,413	1,262	12.12%
Income Tax Provision	2,071	1,674	397	23.72%
<b>Net Income</b>	<b>\$9,604</b>	<b>\$8,739</b>	<b>\$865</b>	<b>9.90%</b>
<b>Net Income Attributable to Common Shares (1)</b>	<b>\$9,550</b>	<b>\$8,693</b>	<b>\$857</b>	<b>9.86%</b>
<b>PER COMMON SHARE DATA:</b>				
Net Income - Basic	\$0.70	\$0.67	\$0.03	4.48%
Net Income - Diluted	\$0.70	\$0.67	\$0.03	4.48%
Dividend Per Share - Quarterly	\$0.54	\$0.54	\$0.00	0.00%
Dividend Per Share - Special	\$0.00	\$0.10	(\$0.10)	-100.00%
Number of Shares Used in Computation - Basic	13,697,617	12,956,916		
Number of Shares Used in Computation - Diluted	13,705,733	12,982,361		

(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)

	<b>JUNE 30,</b> <b>2020</b>	<b>JUNE 30,</b> <b>2019</b>	<b>JUNE 30, 2020 vs 2019</b>	
			<b>\$ Incr. (Decr.)</b>	<b>% Incr. (Decr.)</b>
<b>ASSETS</b>				
Cash & Due from Banks	\$77,642	\$39,505	\$38,137	96.54%
Available-for-sale Debt Securities	332,188	363,465	(31,277)	-8.61%
Loans Held for Sale	1,258	1,131	127	11.23%
Loans, Net	1,230,387	1,108,483	121,904	11.00%
Intangible Assets	29,511	30,013	(502)	-1.67%
Other Assets	74,480	67,088	7,392	11.02%
<b>TOTAL ASSETS</b>	<b>\$1,745,466</b>	<b>\$1,609,685</b>	<b>\$135,781</b>	<b>8.44%</b>
<b>LIABILITIES</b>				
Deposits	\$1,381,178	\$1,284,143	\$97,035	7.56%
Repo Sweep Accounts	2,204	3,192	(988)	-30.95%
Total Deposits and Repo Sweeps	1,383,382	1,287,335	96,047	7.46%
Borrowed Funds	85,104	62,574	22,530	36.01%
Subordinated Debt	6,500	7,000	(500)	-7.14%
Other Liabilities	14,689	13,060	1,629	12.47%
<b>TOTAL LIABILITIES</b>	<b>1,489,675</b>	<b>1,369,969</b>	<b>119,706</b>	<b>8.74%</b>
<b>SHAREHOLDERS' EQUITY</b>				
Common Shareholders' Equity, Excluding Accumulated				
Other Comprehensive Income (Loss)	244,080	236,284	7,796	3.30%
Accumulated Other Comprehensive Income (Loss):				
Net Unrealized Gains/Losses on				
Available-for-sale Debt Securities	11,472	3,138	8,334	265.58%
Defined Benefit Plans	239	294	(55)	-18.71%
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>255,791</b>	<b>239,716</b>	<b>16,075</b>	<b>6.71%</b>
<b>TOTAL LIABILITIES &amp; SHAREHOLDERS' EQUITY</b>	<b>\$1,745,466</b>	<b>\$1,609,685</b>	<b>\$135,781</b>	<b>8.44%</b>

**EXHIBIT 99.3 – Supplemental, Unaudited Financial Information**

**CITIZENS & NORTHERN**  
CORPORATION

**CONDENSED, CONSOLIDATED FINANCIAL HIGHLIGHTS**  
(Dollars In Thousands, Except Per Share Data) (Unaudited)

	<b>AS OF OR FOR THE SIX MONTHS ENDED</b>		<b>% INCREASE (DECREASE)</b>
	<b><u>2020</u></b>	<b><u>2019</u></b>	
<b>EARNINGS PERFORMANCE</b>			
Net Income	\$9,604	\$8,739	9.90%
Return on Average Assets (Annualized)	1.15%	1.21%	-4.96%
Return on Average Equity (Annualized)	7.71%	8.07%	-4.46%
<b>BALANCE SHEET HIGHLIGHTS</b>			
Total Assets	\$1,745,466	\$1,609,685	8.44%
Available-for-Sale Debt Securities	332,188	363,465	-8.61%
Loans (Net)	1,230,387	1,108,483	11.00%
Allowance for Loan Losses	11,026	8,200	34.46%
Deposits and Repo Sweep Accounts	1,383,382	1,287,335	7.46%
<b>OFF-BALANCE SHEET</b>			
Outstanding Balance of Mortgage Loans Sold with Servicing Retained	\$210,778	\$172,910	21.90%
Trust Assets Under Management	984,853	948,998	3.78%
<b>SHAREHOLDERS' VALUE (PER COMMON SHARE)</b>			
Net Income - Basic	\$0.70	\$0.67	4.48%
Net Income - Diluted	\$0.70	\$0.67	4.48%
Dividends - Quarterly	\$0.54	\$0.54	0.00%
Dividends - Special	\$0.00	\$0.10	-100.00%
Common Book Value	\$18.53	\$17.51	5.83%
Tangible Common Book Value (a)	\$16.39	\$15.32	6.98%
Market Value (Last Trade)	\$20.65	\$26.33	-21.57%
Market Value / Common Book Value	111.44%	150.37%	-25.89%
Market Value / Tangible Common Book Value	125.99%	171.87%	-26.69%
Price Earnings Multiple (Annualized)	14.75	19.65	-24.94%
Dividend Yield (Annualized, Excluding Special Dividend)	5.23%	4.10%	27.56%
Common Shares Outstanding, End of Period	13,807,157	13,687,999	0.87%

**CONDENSED, CONSOLIDATED FINANCIAL HIGHLIGHTS (Continued)**

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

	<b>AS OF OR FOR THE SIX MONTHS ENDED</b>		<b>% INCREASE (DECREASE)</b>
	<b>JUNE 30,</b>		
	<b><u>2020</u></b>	<b><u>2019</u></b>	
<b>SAFETY AND SOUNDNESS</b>			
Tangible Common Equity / Tangible Assets (a)	13.19%	13.28%	-0.68%
Nonperforming Assets / Total Assets	1.33%	0.95%	40.00%
Allowance for Loan Losses / Total Loans	0.89%	0.73%	21.92%
Total Risk Based Capital Ratio (b)	21.32%	20.97%	1.67%
Tier 1 Risk Based Capital Ratio (b)	19.69%	19.51%	0.92%
Common Equity Tier 1 Risk Based Capital Ratio (b)	19.69%	19.51%	0.92%
Leverage Ratio (b)	12.82%	13.13%	-2.36%
<b>AVERAGE BALANCES</b>			
Average Assets	\$1,676,009	\$1,440,745	16.33%
Average Equity	\$249,005	\$216,589	14.97%
<b>EFFICIENCY RATIO (c)</b>			
<hr/>			
Net Interest Income on a Fully Taxable-Equivalent Basis (c)	\$28,989	\$26,485	9.45%
Noninterest Income	10,809	9,255	16.79%
Total (1)	\$39,798	\$35,740	11.35%
Noninterest Expense Excluding Merger Expenses (2)	\$25,186	\$22,118	13.87%
Efficiency Ratio = (2)/(1)	63.28%	61.89%	2.25%

(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	\$1,745,466	\$1,609,685
Less: Intangible Assets, Primarily Goodwill	(29,511)	(30,013)
<b>Tangible Assets</b>	<b>\$1,715,955</b>	<b>\$1,579,672</b>
Total Shareholders' Equity	\$255,791	\$239,716
Less: Intangible Assets, Primarily Goodwill	(29,511)	(30,013)
<b>Tangible Common Equity (3)</b>	<b>\$226,280</b>	<b>\$209,703</b>
<hr/>		
Common Shares Outstanding, End of Period (4)	13,807,157	13,687,999
Tangible Common Book Value per Share = (3)/(4)	\$16.39	\$15.32

(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. These expenses include expenses related to the acquisition of Covenant Financial, Inc., which closed July 1, 2020. Also excluded are expenses related to the acquisition of Monument Bancorp, Inc., which closed April 1, 2019.

**QUARTERLY CONDENSED, CONSOLIDATED  
INCOME STATEMENT INFORMATION**

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

For the Three Months Ended:

	June 30, 2020	March 31, 2020	Dec. 31, 2019	Sept. 30, 2019	June 30, 2019	March 31, 2019
Interest income	\$16,513	\$17,037	\$17,290	\$17,277	\$17,139	\$13,065
Interest expense	2,267	2,755	2,999	3,000	2,934	1,350
Net interest income	14,246	14,282	14,291	14,277	14,205	11,715
(Credit) provision for loan losses	(176)	1,528	652	1,158	(4)	(957)
Net interest income after (credit) provision for loan losses	14,422	12,754	13,639	13,119	14,209	12,672
Noninterest income	5,528	5,281	5,066	4,963	4,849	4,406
Net gains on securities	0	0	3	13	7	0
Merger-related expenses	983	141	281	206	3,301	311
Other noninterest expenses	12,274	12,912	11,834	11,486	11,422	10,696
Income before income tax provision	6,693	4,982	6,593	6,403	4,342	6,071
Income tax provision	1,255	816	1,135	1,096	693	981
Net income	\$5,438	\$4,166	\$5,458	\$5,307	\$3,649	\$5,090
Net income attributable to common shares	\$5,405	\$4,146	\$5,431	\$5,281	\$3,630	\$5,063
Basic earnings per common share	\$0.39	\$0.30	\$0.40	\$0.39	\$0.27	\$0.41
Diluted earnings per common share	\$0.39	\$0.30	\$0.40	\$0.39	\$0.27	\$0.41

**QUARTERLY CONDENSED, CONSOLIDATED  
BALANCE SHEET INFORMATION**

(In Thousands) (Unaudited)

As of:

	June 30, 2020	March 31, 2020	Dec. 31, 2019	Sept. 30, 2019	June 30, 2019	March 31, 2019
<b>ASSETS</b>						
Cash & Due from Banks	\$77,642	\$32,678	\$35,202	\$51,443	\$39,505	\$44,002
Available-for-Sale Debt Securities	332,188	342,416	346,723	363,467	363,465	357,646
Loans Held for Sale	1,258	579	767	2,033	1,131	0
Loans, Net	1,230,387	1,156,143	1,172,386	1,130,143	1,108,483	817,136
Intangible Assets	29,511	29,573	29,635	29,939	30,013	11,949
Other Assets	74,480	68,056	69,432	65,562	67,088	59,267
<b>TOTAL ASSETS</b>	<b>\$1,745,466</b>	<b>\$1,629,445</b>	<b>\$1,654,145</b>	<b>\$1,642,587</b>	<b>\$1,609,685</b>	<b>\$1,290,000</b>
<b>LIABILITIES</b>						
Deposits	\$1,381,178	\$1,249,912	\$1,252,660	\$1,294,882	\$1,284,143	\$1,039,911
Repo Sweep Accounts	2,204	2,407	1,928	3,767	3,192	5,132
Total Deposits and Repo Sweeps	1,383,382	1,252,319	1,254,588	1,298,649	1,287,335	1,045,043
Borrowed Funds	85,104	108,144	136,419	75,714	62,574	32,844
Subordinated Debt	6,500	6,500	6,500	7,000	7,000	0
Other Liabilities	14,689	11,254	12,186	18,285	13,060	9,986
<b>TOTAL LIABILITIES</b>	<b>1,489,675</b>	<b>1,378,217</b>	<b>1,409,693</b>	<b>1,399,648</b>	<b>1,369,969</b>	<b>1,087,873</b>
<b>SHAREHOLDERS' EQUITY</b>						
Common Shareholders' Equity, Excluding Accumulated Other Comprehensive Income (Loss)	244,080	241,754	240,761	238,479	236,284	202,768
Accumulated Other Comprehensive Income (Loss):						
Net Unrealized Gains (Losses) on						
Available-for-sale Securities	11,472	9,230	3,511	4,173	3,138	(941)
Defined Benefit Plans Adjustment, Net	239	244	180	287	294	300
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>255,791</b>	<b>251,228</b>	<b>244,452</b>	<b>242,939</b>	<b>239,716</b>	<b>202,127</b>
<b>TOTAL LIABILITIES &amp; SHAREHOLDERS' EQUITY</b>	<b>\$1,745,466</b>	<b>\$1,629,445</b>	<b>\$1,654,145</b>	<b>\$1,642,587</b>	<b>\$1,609,685</b>	<b>\$1,290,000</b>



AVAILABLE-FOR-SALE DEBT SECURITIES (In Thousands)	June 30, 2020		March 31, 2020		December 31, 2019	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Obligations of U.S. Government agencies	\$10,706	\$11,673	\$15,704	\$16,408	\$16,380	\$17,000
Obligations of states and political subdivisions:						
Tax-exempt	86,897	91,643	78,126	81,072	68,787	70,760
Taxable	38,022	39,784	35,764	37,074	35,446	36,303
Mortgage-backed securities issued or guaranteed by U.S. Government agencies or sponsored agencies:						
Residential pass-through securities	49,852	51,520	54,280	55,752	58,875	59,210
Residential collateralized mortgage obligations	87,527	89,435	101,130	103,556	115,025	114,723
Commercial mortgage-backed securities	44,664	48,133	45,727	48,554	47,765	48,727
<b>Total Available-for-Sale Debt Securities</b>	<b>\$317,668</b>	<b>\$332,188</b>	<b>\$330,731</b>	<b>\$342,416</b>	<b>\$342,278</b>	<b>\$346,723</b>

**Summary of Loans by Type  
(Excludes Loans Held for Sale)  
(In Thousands)**

	June 30, 2020	March 31, 2020	Dec. 31, 2019	June 30, 2019
Residential mortgage:				
Residential mortgage loans - first liens	\$493,214	\$508,387	\$510,641	\$484,479
Residential mortgage loans - junior liens	25,632	27,028	27,503	28,880
Home equity lines of credit	31,826	32,090	33,638	35,224
1-4 Family residential construction	15,621	14,121	14,798	27,994
<b>Total residential mortgage</b>	<b>566,293</b>	<b>581,626</b>	<b>586,580</b>	<b>576,577</b>
Commercial:				
Commercial loans secured by real estate	293,304	295,860	301,227	279,267
Commercial and industrial	120,202	132,308	126,374	115,264
Small Business Administration - Paycheck Protection Program	97,103	0	0	0
Political subdivisions	43,134	43,613	53,570	52,308
Commercial construction and land	40,348	33,340	33,555	21,197
Loans secured by farmland	11,433	11,524	12,251	7,251
Multi-family (5 or more) residential	32,699	32,370	31,070	26,749
Agricultural loans	3,874	3,886	4,319	5,234
Other commercial loans	16,579	16,430	16,535	13,037
<b>Total commercial</b>	<b>658,676</b>	<b>569,331</b>	<b>578,901</b>	<b>520,307</b>
Consumer	16,444	16,516	16,741	19,799
<b>Total</b>	<b>1,241,413</b>	<b>1,167,473</b>	<b>1,182,222</b>	<b>1,116,683</b>
Less: allowance for loan losses	(11,026)	(11,330)	(9,836)	(8,200)
<b>Loans, net</b>	<b>\$1,230,387</b>	<b>\$1,156,143</b>	<b>\$1,172,386</b>	<b>\$1,108,483</b>

**Loans Held for Sale  
(In Thousands)**

	June 30, 2020	March 31, 2020	Dec. 31, 2019	June 30, 2019
Residential mortgage loans originated and serviced - outstanding balance	\$212,036	\$182,989	\$179,213	\$174,041
Less: outstanding balance of loans sold	(210,778)	(182,410)	(178,446)	(172,910)
<b>Loans held for sale, net</b>	<b>\$1,258</b>	<b>\$579</b>	<b>\$767</b>	<b>\$1,131</b>

**ANALYSIS OF THE ALLOWANCE FOR LOAN LOSSES**  
**(In Thousands)**

	<b>3 Months Ended June 30, 2020</b>	<b>3 Months Ended March 31, 2020</b>	<b>6 Months Ended June 30, 2020</b>	<b>6 Months Ended June 30, 2019</b>
Balance, beginning of period	\$11,330	\$9,836	\$9,836	\$9,309
Charge-offs	(146)	(48)	(194)	(179)
Recoveries	18	14	32	31
Net (charge-offs)	(128)	(34)	(162)	(148)
(Credit) provision for loan losses	(176)	1,528	1,352	(961)
Balance, end of period	\$11,026	\$11,330	\$11,026	\$8,200

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

	<b>June 30, 2020</b>	<b>March 31, 2020</b>	<b>Dec 31, 2019</b>	<b>June 30, 2019</b>
Impaired loans with a valuation allowance	\$12,189	\$6,709	\$3,375	\$1,785
Impaired loans without a valuation allowance	2,091	1,581	2,111	4,479
Total impaired loans	\$14,280	\$8,290	\$5,486	\$6,264

Total loans past due 30-89 days and still accruing	\$5,124	\$8,372	\$8,889	\$4,407
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Nonperforming assets:				
Total nonaccrual loans	\$18,763	\$12,309	\$9,218	\$9,289
Total loans past due 90 days or more and still accruing	2,812	2,093	1,207	2,631
Total nonperforming loans	21,575	14,402	10,425	11,920
Foreclosed assets held for sale (real estate)	1,593	1,685	2,886	3,305
Total nonperforming assets	\$23,168	\$16,087	\$13,311	\$15,225

Loans subject to troubled debt restructurings (TDRs):				
Performing	\$265	\$372	\$889	\$972
Nonperforming	790	1,730	1,737	489
Total TDRs	\$1,055	\$2,102	\$2,626	\$1,461

Total nonperforming loans as a % of loans	1.74%	1.23%	0.88%	1.07%
Total nonperforming assets as a % of assets	1.33%	0.99%	0.80%	0.95%
Allowance for loan losses as a % of total loans	0.89%	0.97%	0.83%	0.73%
Allowance for loan losses as a % of nonperforming loans	51.11%	78.67%	94.35%	68.79%

**Analysis of Average Daily Balances and Rates  
(Dollars in Thousands)**

	<b>3 Months Ended 6/30/2020 Average Balance</b>	<b>Rate of Return/ Cost of Funds %</b>	<b>3 Months Ended 3/31/2020 Average Balance</b>	<b>Rate of Return/ Cost of Funds %</b>	<b>3 Months Ended 6/30/2019 Average Balance</b>	<b>Rate of Return/ Cost of Funds %</b>
<b>EARNING ASSETS</b>						
Interest-bearing due from banks	\$37,799	0.44%	\$19,401	1.68%	\$22,398	2.67%
Available-for-sale debt securities, at amortized cost:						
Taxable	244,019	2.27%	265,157	2.41%	289,041	2.53%
Tax-exempt	82,050	3.09%	69,850	3.14%	73,928	3.60%
<b>Total available-for-sale debt securities</b>	<b>326,069</b>	<b>2.48%</b>	<b>335,007</b>	<b>2.56%</b>	<b>362,969</b>	<b>2.75%</b>
Loans receivable:						
Taxable	1,094,432	4.99%	1,108,118	5.25%	1,035,672	5.46%
Paycheck Protection Program (Taxable)	77,832	2.79%	0		0	
Tax-exempt	59,177	3.75%	60,367	3.83%	69,571	3.78%
<b>Total loans receivable</b>	<b>1,231,441</b>	<b>4.79%</b>	<b>1,168,485</b>	<b>5.18%</b>	<b>1,105,243</b>	<b>5.35%</b>
Other earning assets	2,206	3.65%	1,460	3.03%	1,423	3.10%
<b>Total Earning Assets</b>	<b>1,597,515</b>	<b>4.22%</b>	<b>1,524,353</b>	<b>4.55%</b>	<b>1,492,033</b>	<b>4.68%</b>
Cash	18,960		18,042		20,325	
Unrealized gain/loss on securities	12,574		8,176		(101)	
Allowance for loan losses	(11,471)		(10,015)		(8,378)	
Bank premises and equipment	18,230		17,732		16,214	
Intangible assets	29,543		29,607		30,040	
Other assets	49,502		49,270		49,935	
<b>Total Assets</b>	<b>\$1,714,853</b>		<b>\$1,637,165</b>		<b>\$1,600,068</b>	
<b>INTEREST-BEARING LIABILITIES</b>						
Interest-bearing deposits:						
Interest checking	\$260,177	0.31%	\$227,069	0.43%	\$218,731	0.58%
Money market	215,441	0.43%	200,691	0.53%	199,092	0.51%
Savings	183,933	0.12%	168,971	0.15%	173,922	0.17%
Time deposits	343,257	1.52%	381,621	1.67%	383,361	1.80%
<b>Total interest-bearing deposits</b>	<b>1,002,808</b>	<b>0.72%</b>	<b>978,352</b>	<b>0.89%</b>	<b>975,106</b>	<b>0.97%</b>
Borrowed funds:						
Short-term	19,844	1.30%	44,882	1.77%	37,279	2.45%
Long-term	72,917	1.73%	64,065	1.85%	35,167	2.60%
Subordinated debt	6,500	6.56%	6,500	6.62%	7,000	6.59%
<b>Total borrowed funds</b>	<b>99,261</b>	<b>1.96%</b>	<b>115,447</b>	<b>2.09%</b>	<b>79,446</b>	<b>2.88%</b>
<b>Total Interest-bearing Liabilities</b>	<b>1,102,069</b>	<b>0.83%</b>	<b>1,093,799</b>	<b>1.01%</b>	<b>1,054,552</b>	<b>1.12%</b>
Demand deposits	346,285		281,893		294,112	
Other liabilities	15,891		14,071		15,454	
<b>Total Liabilities</b>	<b>1,464,245</b>		<b>1,389,763</b>		<b>1,364,118</b>	
Stockholders' equity, excluding accumulated other comprehensive income/loss	240,434		240,718		235,733	
Accumulated other comprehensive income/loss	10,174		6,684		217	
<b>Total Shareholders' Equity</b>	<b>250,608</b>		<b>247,402</b>		<b>235,950</b>	
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$1,714,853</b>		<b>\$1,637,165</b>		<b>\$1,600,068</b>	
Interest Rate Spread		3.39%		3.54%		3.56%
Net Interest Income/Earning Assets		3.65%		3.83%		3.89%
<b>Total Deposits (Interest-bearing and Demand)</b>	<b>\$1,349,093</b>		<b>\$1,260,245</b>		<b>\$1,269,218</b>	

(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)**

	<b>6 Months Ended 6/30/2020 Average Balance</b>	<b>Rate of Return/ Cost of Funds %</b>	<b>6 Months Ended 6/30/2019 Average Balance</b>	<b>Rate of Return/ Cost of Funds %</b>
<b>EARNING ASSETS</b>				
Interest-bearing due from banks	\$28,600	0.86%	\$21,358	2.50%
Available-for-sale debt securities, at amortized cost:				
Taxable	254,588	2.34%	285,443	2.59%
Tax-exempt	75,950	3.11%	77,009	3.70%
Total available-for-sale debt securities	330,538	2.52%	362,452	2.82%
Loans receivable:				
Taxable	1,101,275	5.12%	894,208	5.42%
Paycheck Protection Program (Taxable)	38,916	2.79%	0	
Tax-exempt	59,772	3.79%	71,064	3.88%
Total loans receivable	1,199,963	4.98%	965,272	5.31%
Other earning assets	1,833	3.40%	1,257	3.21%
Total Earning Assets	1,560,934	4.38%	1,350,339	4.59%
Cash	18,501		18,629	
Unrealized gain/loss on securities	10,375		(2,352)	
Allowance for loan losses	(10,743)		(8,856)	
Bank premises and equipment	17,981		15,367	
Intangible assets	29,575		21,045	
Other assets	49,386		46,573	
<b>Total Assets</b>	<b>\$1,676,009</b>		<b>\$1,440,745</b>	
<b>INTEREST-BEARING LIABILITIES</b>				
Interest-bearing deposits:				
Interest checking	\$243,623	0.37%	\$208,872	0.53%
Money market	208,066	0.48%	188,042	0.46%
Savings	176,452	0.13%	165,354	0.14%
Time deposits	362,439	1.60%	305,769	1.53%
Total interest-bearing deposits	990,580	0.80%	868,037	0.79%
Borrowed funds:				
Short-term	32,363	1.63%	26,666	2.32%
Long-term	68,491	1.79%	34,929	2.57%
Subordinated debt	6,500	6.59%	3,520	6.59%
Total borrowed funds	107,354	2.03%	65,115	2.69%
Total Interest-bearing Liabilities	1,097,934	0.92%	933,152	0.93%
Demand deposits	314,089		277,794	
Other liabilities	14,981		13,210	
<b>Total Liabilities</b>	<b>1,427,004</b>		<b>1,224,156</b>	
Stockholders' equity, excluding accumulated other comprehensive income/loss	240,576		218,175	
Accumulated other comprehensive income/loss	8,429		(1,586)	
<b>Total Shareholders' Equity</b>	<b>249,005</b>		<b>216,589</b>	
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$1,676,009</b>		<b>\$1,440,745</b>	
Interest Rate Spread		3.46%		3.66%
Net Interest Income/Earning Assets		3.73%		3.96%
 Total Deposits (Interest-bearing and Demand)	 \$1,304,669		 \$1,145,831	

(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, 2020	March 31, 2020	June 30, 2019	June 30, 2020	June 30, 2019
Trust and financial management revenue	\$1,565	\$1,479	\$1,583	\$3,044	\$2,943
Brokerage revenue	343	333	361	676	668
Insurance commissions, fees and premiums	52	33	48	85	78
Service charges on deposit accounts	831	1,250	1,277	2,081	2,527
Service charges and fees	84	63	89	147	168
Interchange revenue from debit card transactions	718	731	699	1,449	1,342
Net gains from sales of loans	1,564	315	221	1,879	308
Loan servicing fees, net	(158)	(14)	35	(172)	63
Increase in cash surrender value of life insurance	98	104	99	202	191
Other noninterest income	431	987	437	1,418	967
<b>Total noninterest income, excluding realized gains on securities, net</b>	<b>\$5,528</b>	<b>\$5,281</b>	<b>\$4,849</b>	<b>\$10,809</b>	<b>\$9,255</b>

**COMPARISON OF NONINTEREST EXPENSE**  
(In Thousands)

	Three Months Ended			Six Months Ended	
	June 30, 2020	March 31, 2020	June 30, 2019	June 30, 2020	June 30, 2019
Salaries and wages	\$5,364	\$5,340	\$5,276	\$10,704	\$9,769
Pensions and other employee benefits	1,619	2,038	1,225	3,657	2,843
Occupancy expense, net	664	745	665	1,409	1,322
Furniture and equipment expense	311	358	333	669	634
Data processing expenses	1,040	1,018	962	2,058	1,765
Automated teller machine and interchange expense	275	297	277	572	466
Pennsylvania shares tax	423	422	347	845	694
Professional fees	464	379	331	843	553
Telecommunications	213	206	176	419	340
Directors' fees	178	170	141	348	324
Other noninterest expense	1,723	1,939	1,689	3,662	3,408
<b>Total noninterest expense, excluding merger-related expenses</b>	<b>12,274</b>	<b>12,912</b>	<b>11,422</b>	<b>25,186</b>	<b>22,118</b>
<b>Merger-related expenses</b>	<b>983</b>	<b>141</b>	<b>3,301</b>	<b>1,124</b>	<b>3,612</b>
<b>Total noninterest expense</b>	<b>\$13,257</b>	<b>\$13,053</b>	<b>\$14,723</b>	<b>\$26,310</b>	<b>\$25,730</b>