

# CITIZENS&NORTHERN CORPORATION

October 21, 2021

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## **C&N DECLARES DIVIDEND AND ANNOUNCES THIRD 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 nine-month periods ended September 30, 2021.

### **Dividend Declared**

On October 21, 2021, C&N’s Board of Directors declared a regular quarterly cash dividend of \$0.28 per share. The dividend is payable on November 12, 2021 to shareholders of record as of November 1, 2021.

### **Unaudited Financial Information**

Net income was \$0.47 per diluted share in the third quarter 2021, up from \$0.44 in the second quarter 2021 and up \$0.29 from \$0.18 in the third quarter 2020. For the nine months ended September 30, 2021, net income per diluted share was \$1.46, up from \$0.86 per share for the first nine months of 2020. As described below, earnings of \$0.47 per share for the third quarter 2021 were 6.0% lower than third quarter 2020 non-U.S. generally accepted accounting principles (U.S. GAAP) earnings per share of \$0.50 as adjusted to exclude the impact of merger-related expenses. For the nine months ended September 30, 2021, earnings of \$1.46 per share were 15.0% higher than the first nine months of 2020 non-U.S. GAAP earnings per share of \$1.27 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)

	3rd Quarter 2021			Diluted Earnings per Common Share	3rd Quarter 2020			Diluted Earnings per Common Share
	Income Before Income Tax Provision	Income Tax Provision	Net Income		Income Before Income Tax Provision	Income Tax Provision	Net Income	
Earnings Under U.S. GAAP	\$ 8,965	\$ 1,566	\$ 7,399	\$ 0.47	\$ 3,286	\$ 438	\$ 2,848	\$ 0.18
Add: Merger-Related Expenses (1)	0	0	0		6,402	1,307	5,095	
Adjusted Earnings (Non-U.S. GAAP)	<u>\$ 8,965</u>	<u>\$ 1,566</u>	<u>\$ 7,399</u>	<u>\$ 0.47</u>	<u>\$ 9,688</u>	<u>\$ 1,745</u>	<u>\$ 7,943</u>	<u>\$ 0.50</u>

	Nine Months Ended September 30, 2021				Nine Months Ended September 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	\$ 28,702	\$ 5,456	\$ 23,246	\$ 1.46	\$ 14,961	\$ 2,509	\$ 12,452	\$ 0.86	
Add: Merger-Related Expenses (1)	0	0	0		7,526	1,536	5,990		
Adjusted Earnings (Non-U.S. GAAP)	<u>\$ 28,702</u>	<u>\$ 5,456</u>	<u>\$ 23,246</u>	<u>\$ 1.46</u>	<u>\$ 22,487</u>	<u>\$ 4,045</u>	<u>\$ 18,442</u>	<u>\$ 1.27</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. Merger-related expenses are for the Covenant Financial, Inc. (“Covenant”) acquisition completed on July 1, 2020.

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

### Third Quarter 2021 as Compared to Second Quarter 2021

Net income was \$7,399,000, or \$0.47 per diluted share, for the third quarter 2021 as compared to \$7,060,000, or \$0.44 per diluted share, in the second quarter 2021.

- Net interest income totaled \$19,459,000 in the third quarter 2021, up \$778,000 from the second quarter 2021 amount of \$18,681,000. The net interest rate spread increased 0.09%, as the average yield on earning assets increased 0.04% to 3.89% while the average rate on interest-bearing liabilities decreased 0.05% to 0.43%. The net interest margin was 3.59% in the third quarter 2021, up from 3.52% in the second quarter. Total interest and fees from loans originated under the U.S. Small Business Administration (SBA) Paycheck Protection Program (PPP) were \$1,639,000 in the third quarter 2021, an increase of \$390,000 from the second quarter 2021 total. The increase in income from PPP loans resulted from an increase in volume of loans processed for the SBA’s repayment tied to the forgiveness of the underlying borrowers. Accretion and amortization of purchase accounting adjustments had a net positive impact on net interest income of \$563,000 in the third quarter 2021 as compared to a net positive impact of \$713,000 in the second quarter 2021.
- The provision for loan losses was \$1,530,000 in the third quarter 2021, an increase in expense of \$786,000 from the second quarter 2021 provision of \$744,000. The third quarter provision included a net charge of \$611,000 related to specific loans (net charge-offs of \$1,205,000 offset by a net decrease in specific allowances on loans of \$594,000), and an increase of \$919,000 in the collectively determined portion of the allowance. In the third quarter 2021, C&N recorded a partial charge-off of \$1,194,000 on a commercial loan with an outstanding balance of \$3,496,000 at the time of the charge-off. The partial charge-off amount exceeded the specific allowance of \$583,000 that had been established at June 30, 2021.

- Noninterest income was \$6,359,000 in the third quarter 2021, up \$59,000 from the second quarter 2021 amount. Significant variances included the following:
  - Service charges on deposit accounts of \$1,249,000 in the third quarter 2021 were up \$176,000 from the second quarter amount, as the volume of overdraft and other activity increased.
  - Brokerage and insurance revenue of \$560,000 increased \$54,000 from the second quarter 2021 total, due to commissions on higher transaction volume.
  - Net gains from sales of loans totaled \$797,000 in the third quarter 2021, a decrease of \$129,000 from the second quarter 2021 total, reflecting a reduction in volume of residential mortgage loans sold.
- Noninterest expense of \$15,346,000 decreased \$53,000 in the third quarter 2021 from the second quarter 2021 amount. Significant variances included the following:
  - Salaries and employee benefits of \$9,427,000 decreased \$72,000 from the second quarter 2021 total, including a reduction in severance and estimated incentive compensation expense, partially offset by increases in lending, human resources and information technology personnel.
  - Professional fees of \$538,000 decreased \$60,000 from the second quarter 2021 total, including a reduction in recruiting services and PPP loan processing professional fees.
  - Other noninterest expense of \$1,850,000 increased \$99,000 from the second quarter 2021 total. Within this category, the allowance for SBA claim adjustments decreased \$45,000 in the third quarter 2021, resulting in a reduction in expense, as compared to a reduction in expense of \$163,000 from a reduction in the allowance in the second quarter 2021.
- The income tax provision was \$1,566,000 for the third quarter 2021, down from \$1,780,000 for the second quarter 2021. In the third quarter 2021, the provision for state and local income taxes was reduced based on adjustments to apportionment estimates and other factors.

### **Third Quarter 2021 as Compared to Third Quarter 2020**

As described above, third quarter 2021 net income was \$7,399,000. In comparison, third quarter 2020 net income was \$2,848,000, and excluding merger-related expenses, adjusted (non-U.S. GAAP) earnings were \$7,943,000. Other significant variances were as follows:

- Third quarter 2021 net interest income of \$19,459,000 was \$177,000 higher than the third quarter 2020 total. Average outstanding loans decreased \$113.7 million, including a reduction in average PPP loans of \$74.5 million, and average total deposits increased \$52.2 million. The net interest margin for the third quarter 2021 was 3.59% as compared to 3.57% for the third quarter 2020. The average yield on earning assets of 3.89% for the third quarter 2021 was down 0.13% from the third quarter 2020, while the average rate on interest-bearing liabilities of 0.43% in the third quarter 2021 was 0.19% lower than the comparable third quarter 2020 average rate. Interest and fees on PPP loans totaled \$1,639,000 in the third quarter 2021, an increase of \$750,000 over the third quarter 2020 amount. Accretion and amortization of purchase accounting adjustments had a net positive impact on net interest income of \$563,000 in the third quarter 2021 as compared to a net positive impact of \$1,298,000 in the third quarter 2020.
- The provision for loan losses was \$1,530,000 in the third quarter 2021 as compared to \$1,941,000 in the third quarter 2020. Details concerning the third quarter 2021 provision for loan losses were described previously. The provision for loan losses in the third quarter 2020 included the net impact of a charge-off

of \$2,219,000 on a commercial loan of \$3,500,000 for which the previously-established allowance had been \$1,193,000.

- Noninterest income for the third quarter 2021 was down \$611,000 from the third quarter 2020 total. Significant variances included the following:
  - Net gains from sales of loans of \$797,000 for the third quarter 2021 were down \$1,255,000 from the total for the third quarter 2020, as the volume of residential mortgage loans sold in the third quarter 2021 was down from the third quarter 2020 level.
  - Other noninterest income totaled \$665,000, a decrease of \$331,000 from the third quarter 2020 as C&N recognized income of \$279,000 in the third quarter 2020 from a life insurance arrangement in which benefits were split between C&N and heirs of a former employee and dividend income from Federal Home Loan Bank stock decreased \$55,000.
  - Loan servicing fees, net, were \$153,000 in the third quarter 2021, an increase of \$240,000 over the third quarter 2020 reduction in revenue of \$87,000. The net increase reflects growth in volume of residential mortgage loans sold with servicing retained. Further, the fair value of servicing rights decreased \$45,000 in the third quarter 2021 as compared to a reduction in fair value of \$221,000 in the third quarter 2020, as market assumptions regarding prepayment speeds have decreased.
  - Trust revenue of \$1,821,000 increased \$226,000 reflecting the impact of growth in trust assets under management including the impact of market value appreciation.
  - Service charges on deposit accounts of \$1,249,000 in the third quarter 2021 were up \$204,000 from the third quarter 2020 amount, as the volume of consumer and business overdraft and other activity increased.
  - Brokerage and insurance revenue of \$560,000 increased \$178,000 from the third quarter 2020 total, due to commissions on higher transaction volume.
  - Interchange revenue from debit card transactions totaled \$975,000 in the third quarter 2021, an increase of \$147,000 over the third quarter 2020 total, reflecting increases in transaction volumes and number of accounts due to the Covenant acquisition.
- Noninterest expense, excluding merger-related expenses, increased \$698,000 in the third quarter 2021 over the third quarter 2020 amount. Significant variances included the following:
  - Salaries and employee benefits of \$9,427,000 increased \$724,000, including the impact of increases in administrative, information technology, cash management services and lending personnel.
  - Professional fees of \$538,000 increased \$116,000, including increases in recruiting services.
  - Other noninterest expense of \$1,850,000 decreased \$240,000, including other operational losses decreasing \$195,000 as an estimated accrual of \$200,000 related to a Trust Department tax compliance and preparation matter was recorded in the third quarter 2020 with no comparable charge in the third quarter 2021.
- The income tax provision of \$1,566,000 for the third quarter 2021 was up \$1,128,000 from \$438,000 for the third quarter 2020, reflecting higher pre-tax income.

## Nine Months Ended September 30, 2021 as Compared to Nine Months Ended September 30, 2020

Net income for the nine-month period ended September 30, 2021 was \$23,246,000, or \$1.46 per diluted share, while net income for the first nine months of 2020 was \$12,452,000, or \$0.86 per share. Excluding the impact of merger-related expenses, adjusted (non-U.S. GAAP) earnings for the first nine months of 2020 would be \$18,442,000 or \$1.27 per share. Other significant variances were as follows:

- Net interest income was up \$10,413,000 (21.8%) for the first nine months of 2021 over the same period in 2020, reflecting growth mainly attributable to the Covenant acquisition. Average outstanding loans increased \$241.3 million, and average total deposits increased \$396.7 million. The net interest margin was 3.70% for the nine months ended September 30, 2021, up from 3.67% for the first nine months of 2020. Interest and fees on PPP loans totaled \$4,886,000 for the first nine months of 2021, an increase of \$3,457,000 compared to the first nine months of 2020. Accretion and amortization of purchase accounting adjustments had a net positive impact on net interest income of \$2,228,000 in the first nine months of 2021 as compared to a net positive impact of \$1,999,000 in the first nine months of 2020.
- For the first nine months of 2021, the provision for loan losses was \$2,533,000, a decrease in expense of \$760,000 as compared to \$3,293,000 recorded in the first nine months of 2020. The provision for the first nine months of 2021 includes the impact of a charge-off of \$1,194,000 on a commercial loan with an outstanding balance of \$3,496,000, as previously discussed. In comparison, the provision for loan losses in the first nine months of 2020 included the impact of the \$2,219,000 charge-off of a commercial loan of \$3,500,000.
- Noninterest income for the first nine months of 2021 was up \$1,662,000 from the total for the first nine months of 2020. Significant variances included the following:
  - Loan servicing fees, net, were \$547,000 in the first nine months of 2021, an increase of \$806,000 over the 2020 total of negative \$259,000 (a decrease in revenue). The net increase reflects growth in volume of residential mortgage loans sold with servicing retained. Further, the fair value of servicing rights decreased \$9,000 in the first nine months of 2021 as compared to a reduction in fair value of \$617,000 in 2020 mainly due to changes in assumptions related to prepayments of mortgage loans.
  - Trust revenue of \$5,254,000 increased \$615,000 reflecting the impact of growth in average trust assets under management including the impact of market value appreciation.
  - Interchange revenue from debit card transactions totaled \$2,786,000 for the first nine months of 2021, an increase of \$577,000, reflecting an increase in transaction volumes.
  - Brokerage and insurance revenue of \$1,392,000 increased \$271,000, due to commissions on higher transaction volume.
  - Other noninterest income totaled \$2,837,000, an increase of \$254,000 over 2020. Within this category, significant variances included the following:
    - Income from realization of tax credits was \$268,000 higher in the first nine months of 2021 as compared to 2020 due to higher PA Educational Improvement Tax Credit Program donations.
    - Fee income for providing credit enhancement on sale of mortgage loans increased \$158,000.
    - Credit card interchange income increased \$69,000 due to higher transaction volume.
    - Income from investment in a title agency increased \$54,000.
    - Merchant services income increased \$43,000.
    - Other noninterest income decreased \$279,000 due to the impact of the life insurance transaction in 2020 described above.
    - Dividend income from Federal Home Loan Bank stock decreased \$76,000.

- Service charges on deposit accounts of \$3,337,000 in the first nine months of 2021 increased \$211,000 from the total for the first nine months of 2020, as consumer and business activity increased.
- Net gains from sales of loans totaled \$2,786,000 in the first nine months of 2021, a decrease of \$1,145,000 from the total for the first nine months of 2020. The decrease reflects a decrease in volume of mortgage loans sold, resulting mainly from lower refinancing activity and overall market conditions.
- Noninterest expense, excluding merger-related expenses, increased \$6,620,000 for the nine months ended September 30, 2021 over the total for the first nine months of 2020. Significant variances included the following:
  - Total salaries and wages and benefits expenses increased \$4,757,000, reflecting inclusion of the former Covenant operations for nine months in 2021 as compared to three months in 2020, as well as increases in lending, human resources, information technology and other personnel needed to accommodate growth.
  - Net occupancy and equipment expense increased \$473,000, primarily reflecting an increase due to the Covenant acquisition.
  - Data processing and telecommunications expenses increased \$383,000, 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.
  - Other noninterest expense increased \$256,000. Within this category, significant variances included the following:
    - FDIC insurance expense totaled \$431,000, an increase of \$244,000.
    - Donations expense increased \$230,000, mainly due to an increase in donations associated with the PA Educational Improvement Tax Credit program.
    - Business development expenses totaled \$345,000, an increase of \$201,000, due primarily to an increase in public relations expense.
    - Other operational losses totaled \$159,000, a decrease of \$394,000, including a reduction in charges related to Trust Department tax compliance and preparation matters.
    - The allowance for SBA claim adjustments decreased, reflecting more favorable claim results than previously estimated, resulting in a reduction in expense of \$208,000.
- The income tax provision was \$5,456,000 for the nine months ended September 30, 2021, up from \$2,509,000 for the first nine months of 2020. Pre-tax income was \$13,741,000 higher in the first nine months of 2021 as compared to 2020. The effective tax rate was 19.0% for the first nine months of 2021, higher than the 16.8% effective tax rate for the first nine months of 2020. The tax benefit of tax-exempt interest income was 2.4% of pre-tax income in the first nine months of 2021 as compared to a 5.0% benefit in 2020.

## **Other Information:**

Changes in other unaudited financial information are as follows:

- Total assets amounted to \$2,354,896,000 at September 30, 2021, up from \$2,339,063,000 at June 30, 2021 and up slightly from \$2,352,793,000 at September 30, 2020.
- Net loans outstanding (excluding mortgage loans held for sale) were \$1,563,008,000 at September 30, 2021, down from \$1,585,481,000 at June 30, 2021 and down 7.0% from \$1,680,617,000 at September 30, 2020. Loans outstanding, excluding PPP loans, totaled \$1,512,980,000 at September 30, 2021, an increase of \$25,435,000 from total loans excluding PPP at June 30, 2021. In comparing outstanding balances at September 30, 2021 and 2020, total commercial loans were down \$55.8 million (5.4%), including a reduction in PPP loans of \$100.3 million and an increase in other commercial loans of \$44.5 million, total residential mortgage loans were lower by \$60.2 million (9.4%) and total consumer loans were up \$0.3 million (1.5%). The outstanding balance of residential mortgage loans originated and serviced by C&N that have been sold to third parties was \$328.7 million at September 30, 2021, up \$74.2 million (29.2%) from September 30, 2020.
- To work with clients impacted by COVID-19, C&N offers 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 September 30, 2021, there were no loans in deferral status under the program. In comparison, at June 30, 2021, C&N had 12 loans with an aggregate recorded investment of \$6.7 million in deferral status and at September 30, 2020, there were 44 loans with an aggregate recorded investment of \$44.6 million in deferral status.
- Total nonperforming assets as a percentage of total assets was 1.05% at September 30, 2021, as compared to 1.12% at June 30, 2021 and down from 1.17% at September 30, 2020. Total nonperforming assets were \$24.6 million at September 30, 2021, down from \$26.2 million at June 30, 2021 and \$27.5 million at September 30, 2020.
- The allowance for loan losses was \$12.7 million at September 30, 2021, or 0.81% of total loans as compared to \$12.4 million or 0.77% of total loans at June 30, 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 September 30, 2021 was \$16.5 million, or 1.05% of total loans receivable and the credit adjustment. The comparative ratios were 1.05% at June 30, 2021 and September 30, 2020.
- Deposits totaled \$1,940,141,000 at September 30, 2021, up from \$1,916,809,000 at June 30, 2021, and up 3.7% from \$1,871,514,000 at September 30, 2020.
- Total stockholders' equity was \$299,402,000 at September 30, 2021, down from \$304,133,000 at June 30, 2021 and up from \$296,316,000 at September 30, 2020. Within stockholders' equity, the portion of accumulated other comprehensive income related to available-for-sale debt securities was \$6,300,000 at September 30, 2021, down from \$9,167,000 at June 30, 2021 and \$11,376,000 at September 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 third quarter 2021, 230,404 shares were repurchased for a total cost of \$5,707,000, at an average price of \$24.77 per share. Cumulatively through September 30, 2021, 292,100 shares have been repurchased for a total cost of \$7,238,000, at an average price of \$24.78 per share.

- 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 September 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 \$1,183,900,000 at September 30, 2021, down 0.8% from \$1,192,928,000 at June 30, 2021 and up 16.9% from \$1,012,986,000 at September 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 30 banking offices located in Bradford, Bucks, Cameron, Chester, Lycoming, McKean, Potter, Sullivan Tioga and York Counties in Pennsylvania and Steuben County in New York, as well as a loan production office in Elmira, New York. 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

September 30, 2021

QUARTERLY REPORT

Dear Shareholder:

We commented in our second quarter letter that we had reached somewhat of a turning point in the COVID-19 pandemic and during the third quarter economic activity returned to pre-pandemic levels as measured by U.S. gross domestic product. The numbers tell a positive story in the face of ongoing supply chain disruptions and labor force challenges, as well as the unresolved debate in Congress regarding infrastructure and additional spending. Stresses in the economy have produced inflation that now appears to be more than transitory and market rates increased as the Federal Reserve signaled it may begin to tighten monetary policy sooner than previously anticipated. The possibility of higher interest rates is a mixed bag for the equity markets, although bank stocks generally benefit from upward rate movements and a steeper yield curve.

Third quarter business activity at C&N continued a solid trend as commercial lending pipelines picked up, residential mortgage production remained above long-term averages, and assets under management of \$1.18 billion in our wealth management business were essentially unchanged. C&N has a very strong liquidity position, so we are focused on generating additional core deposit relationships and managing the overall cost of funds while our teams work to increase loans outstanding as the economy normalizes. We gained traction in this effort as net loans outstanding excluding PPP loans on September 30, 2021 increased \$25 million from June 30, 2021 levels. PPP loan forgiveness totaled \$48 million during the quarter and we expect that most of the remaining PPP balances of \$63 million will be forgiven during the fourth quarter 2021 or early 2022.

Earnings for the third quarter 2021 were \$7.4 million, or \$.47 per share compared to \$2.8 million, or \$.18 per share during the third quarter of 2020. After adjusting for merger related expenses, net income for the second quarter of 2020 was \$7.9 million, or \$.50 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 third quarter of \$19.46 million was \$177,000 higher than 2020 despite a \$113.7 million reduction in average loans outstanding. The net interest margin was 3.59% for the quarter compared to 3.57% a year earlier. The ongoing low interest rate environment, and higher than normal average balance of lower-yielding deposits with the Federal Reserve and other banks, continue to put pressure on the net interest margin.

The provision for loan losses was \$1,530,000 in the third quarter compared to \$1,941,000 in the third quarter of 2020. In each of these quarters, the provision was impacted by a charge-off on one commercial loan. Overall, 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 September 30, 2021, no loans remain in deferral status to support clients impacted by COVID-19.

Noninterest income for the third quarter of 2021 was \$6.3 million, a decrease of \$611,000 from the third quarter 2020 total. While revenue from loan servicing, wealth management, deposit service charges and interchange fees increased, they were more than offset by a reduction in net gains from sale of loans due to lower volumes and a decrease in income from life insurance.

Noninterest expenses, excluding merger related costs, of \$15.4 million increased \$698,000 during the third quarter 2021 compared to a year earlier. Salaries and employee benefits costs related to the Covenant acquisition, as well as other lending, information technology and administrative staff additions needed to accommodate growth, were the primary drivers of this increase.

Earnings for the nine months ended September 30, 2021 were \$23.25 million, or \$1.46 per share, compared to \$12.45 million, or \$.86 per share in 2020. Excluding merger related expenses, net income for the first nine months of 2020 would be \$18.44 million, or \$1.27 per share. Similar to the quarterly comparisions, the impact of the Covenant acquisition is evident in assessing performance through three quarters of this year compared to 2020 including the growth in net interest income and noninterest expenses. For the nine months ended September 30, 2021, noninterest income was up \$1.7 million from the total for the first nine months of 2020, reflecting growth in loan servicing fees, trust revenue and interchange revenue, while net gains from sales of mortgage loans declined. The provision for loan losses of \$2.53 million for the nine months ended September 30, 2021 was \$760,000 lower than the comparable amount for the first nine months of 2020 as charges related to specific loans were lower in the current year.

C&N continues to perform at a high level and sustain the company's risk profile, a consistent story from quarter to quarter. This consistency results from our ongoing mission to create value for our customers, communities, and C&N team members. And it has produced a capacity to seek continued growth that will create value for our shareholders. Leveraging our capital while meeting our internal guidelines and all regulatory requirements to be considered well capitalized remains an ongoing focus.

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 third quarter of 2021, 230,404 shares were repurchased at a total cost of \$5,707,000, or an average price of \$24.77 per share. Cumulatively through September 30, 2021, 292,100 shares have been repurchased for a total cost of \$7,238,000 at an average price of \$24.78 per share. Activating the repurchase program allows management to manage total capital and shares outstanding to support growth in return on equity and earnings per share which are ultimately key drivers of our stock price.

Another key to supporting shareholder value is C&N's cash dividend. Consistent with the second quarter payout, the Board declared a regular quarterly cash dividend of \$.28 per share payable to shareholders of record on November 1, 2021, payable November 12, 2021. On an annualized basis, the dividend yield is 4.39% based on the September 30, 2021 market price of \$25.26.

In closing, I want to express my appreciation and respect for the C&N Team and their efforts to build relationships and create value through serving our customers and communities throughout 2021. We have faced challenging times throughout our bank's long history and challenges always reveal the character of a team. These times have been uniquely difficult and complex, and I remain proud of this group's persistent response and capacity to turn adversity into opportunity. Their efforts are positioning C&N to create greater long-term value for you, our shareholders.

Thank you for your ongoing support!



J. Bradley Scovill  
President and CEO

## CONDENSED, CONSOLIDATED EARNINGS INFORMATION

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

	<b>3RD QUARTER 2021 (Current)</b>	<b>3RD QUARTER 2020 (Prior Year)</b>	<b>\$ Incr. (Decr.)</b>	<b>% Incr. (Decr.)</b>
Interest and Dividend Income	\$ 21,073	\$ 21,751	\$ (678)	(3.12)%
Interest Expense	1,614	2,469	(855)	(34.63)%
Net Interest Income	19,459	19,282	177	0.92 %
Provision for Loan Losses	1,530	1,941	(411)	(21.17)%
Net Interest Income After Provision for Loan Losses	17,929	17,341	588	3.39 %
Noninterest Income	6,359	6,970	(611)	(8.77)%
Net Gains on Available-for-sale Debt Securities	23	25	(2)	(8.00)%
Merger-Related Expenses	0	6,402	(6,402)	(100.00)%
Other Noninterest Expenses	15,346	14,648	698	4.77 %
Income Before Income Tax Provision	8,965	3,286	5,679	172.82 %
Income Tax Provision	1,566	438	1,128	257.53 %
<b>Net Income</b>	<b>\$ 7,399</b>	<b>\$ 2,848</b>	<b>\$ 4,551</b>	<b>159.80 %</b>
<b>Net Income Attributable to Common Shares (1)</b>	<b>\$ 7,336</b>	<b>\$ 2,830</b>	<b>\$ 4,506</b>	<b>159.22 %</b>
<b>PER COMMON SHARE DATA:</b>				
Net Income - Basic	\$ 0.47	\$ 0.18	\$ 0.29	161.11 %
Net Income - Diluted	\$ 0.47	\$ 0.18	\$ 0.29	161.11 %
Dividend Per Share	\$ 0.28	\$ 0.27	\$ 0.01	3.70 %
Number of Shares Used in Computation - Basic	15,703,932	15,778,391		
Number of Shares Used in Computation - Diluted	15,710,345	15,779,721		

## CONDENSED, CONSOLIDATED EARNINGS INFORMATION

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

	<b>NINE MONTHS ENDED September 30,</b>			
	<b>2021 (Current)</b>	<b>2020 (Prior Year)</b>	<b>\$ Incr. (Decr.)</b>	<b>% Incr. (Decr.)</b>
Interest and Dividend Income	\$ 63,255	\$ 55,301	\$ 7,954	14.38 %
Interest Expense	5,032	7,491	(2,459)	(32.83)%
Net Interest Income	58,223	47,810	10,413	21.78 %
Provision for Loan Losses	2,533	3,293	(760)	(23.08)%
Net Interest Income After Provision for Loan Losses	55,690	44,517	11,173	25.10 %
Noninterest Income	19,441	17,779	1,662	9.35 %
Net Gains on Available-for-sale Debt Securities	25	25	0	0.00 %
Merger-Related Expenses	0	7,526	(7,526)	(100.00)%
Other Noninterest Expenses	46,454	39,834	6,620	16.62 %
Income Before Income Tax Provision	28,702	14,961	13,741	91.85 %
Income Tax Provision	5,456	2,509	2,947	117.46 %
<b>Net Income</b>	<b>\$ 23,246</b>	<b>\$ 12,452</b>	<b>\$ 10,794</b>	<b>86.68 %</b>
<b>Net Income Attributable to Common Shares (1)</b>	<b>\$ 23,057</b>	<b>\$ 12,378</b>	<b>\$ 10,679</b>	<b>86.27 %</b>
<b>PER COMMON SHARE DATA:</b>				
Net Income - Basic	\$ 1.46	\$ 0.86	\$ 0.60	69.77 %
Net Income - Diluted	\$ 1.46	\$ 0.86	\$ 0.60	69.77 %
Dividend Per Share	\$ 0.83	\$ 0.81	\$ 0.02	2.47 %
Number of Shares Used in Computation - Basic	15,806,897	14,388,797		
Number of Shares Used in Computation - Diluted	15,813,129	14,393,429		

(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**

(Dollars In Thousands) (Unaudited)

	September 30, 2021	September 30, 2020	September 30, 2021 vs 2020 \$ Incr. (Decr.)	September 30, 2021 vs 2020 % Incr. (Decr.)
<b>ASSETS</b>				
Cash & Due from Banks	\$ 198,995	\$ 174,478	\$ 24,517	14.05 %
Available-for-sale Debt Securities	437,857	340,545	97,312	28.58 %
Loans, Net	1,563,008	1,680,617	(117,609)	(7.00)%
Bank-Owned Life Insurance	30,530	29,942	588	1.96 %
Bank Premises and Equipment, Net	20,526	21,504	(978)	(4.55)%
Intangible Assets	55,955	56,585	(630)	(1.11)%
Other Assets	48,025	49,122	(1,097)	(2.23)%
<b>TOTAL ASSETS</b>	<b>\$ 2,354,896</b>	<b>\$ 2,352,793</b>	<b>\$ 2,103</b>	<b>0.09 %</b>
<b>LIABILITIES</b>				
Deposits	\$ 1,940,141	\$ 1,871,514	\$ 68,627	3.67 %
Borrowed Funds - Federal Home Loan Bank and Repurchase Agreements	40,555	143,657	(103,102)	(71.77)%
Senior Notes, Net	14,685	0	14,685	%
Subordinated Debt, Net	32,988	16,572	16,416	99.06 %
Other Liabilities	27,125	24,734	2,391	9.67 %
<b>TOTAL LIABILITIES</b>	<b>2,055,494</b>	<b>2,056,477</b>	<b>(983)</b>	<b>(0.05)%</b>
<b>STOCKHOLDERS' EQUITY</b>				
Common Stockholders' Equity, Excluding Accumulated Other Comprehensive Income	292,997	284,707	8,290	2.91 %
Accumulated Other Comprehensive Income:				
Net Unrealized Gains on Available-for-sale Debt Securities	6,300	11,376	(5,076)	(44.62)%
Defined Benefit Plans	105	233	(128)	(54.94)%
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<b>299,402</b>	<b>296,316</b>	<b>3,086</b>	<b>1.04 %</b>
<b>TOTAL LIABILITIES &amp; STOCKHOLDERS' EQUITY</b>	<b>\$ 2,354,896</b>	<b>\$ 2,352,793</b>	<b>\$ 2,103</b>	<b>0.09 %</b>

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

# **CITIZENS&NORTHERN** CORPORATION

**CONDENSED, CONSOLIDATED FINANCIAL HIGHLIGHTS**

(Dollars In Thousands, Except Per Share Data)

(Unaudited)

	FOR THE THREE MONTHS ENDED September 30,		% INCREASE (DECREASE)
	2021	2020	
<b>EARNINGS PERFORMANCE</b>			
Net Income	\$ 7,399	\$ 2,848	159.80 %
Return on Average Assets (Annualized)	1.26 %	0.48 %	162.50 %
Return on Average Equity (Annualized)	9.77 %	3.83 %	155.09 %
	AS OF OR FOR THE NINE MONTHS ENDED September 30,		% INCREASE (DECREASE)
	2021	2020	
<b>EARNINGS PERFORMANCE</b>			
Net Income	\$ 23,246	\$ 12,452	86.68 %
Return on Average Assets (Annualized)	1.34 %	0.87 %	54.02 %
Return on Average Equity (Annualized)	10.28 %	6.26 %	64.22 %
<b>BALANCE SHEET HIGHLIGHTS</b>			
Total Assets	\$ 2,354,896	\$ 2,352,793	0.09 %
Available-for-Sale Debt Securities	437,857	340,545	28.58 %
Loans, Net	1,563,008	1,680,617	(7.00)%
Allowance for Loan Losses	12,700	10,753	18.11 %
Deposits	1,940,141	1,871,514	3.67 %
<b>OFF-BALANCE SHEET</b>			
Outstanding Balance of Mortgage Loans Sold with Servicing Retained	\$ 328,659	\$ 254,462	29.16 %
Trust Assets Under Management	1,183,900	1,012,986	16.87 %
<b>STOCKHOLDERS' VALUE (PER COMMON SHARE)</b>			
Net Income - Basic	\$ 1.46	\$ 0.86	69.77 %
Net Income - Diluted	\$ 1.46	\$ 0.86	69.77 %
Dividends	\$ 0.83	\$ 0.81	2.47 %
Common Book Value	\$ 19.01	\$ 18.65	1.93 %
Tangible Common Book Value (a)	\$ 15.46	\$ 15.09	2.45 %
Market Value (Last Trade)	\$ 25.26	\$ 16.24	55.54 %
Market Value / Common Book Value	132.88 %	87.08 %	52.60 %
Market Value / Tangible Common Book Value	163.39 %	107.62 %	51.82 %
Price Earnings Multiple (Annualized)	12.95	14.16	(8.55)%
Dividend Yield (Annualized)	4.39 %	6.65 %	(33.98)%
Common Shares Outstanding, End of Period	15,750,250	15,890,353	(0.88)%

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

(Dollars In Thousands, Except Per Share Data)

(Unaudited)

	AS OF OR FOR THE NINE MONTHS ENDED September 30,		% INCREASE (DECREASE)
	2021	2020	
<b>SAFETY AND SOUNDNESS</b>			
Tangible Common Equity / Tangible Assets (a)	10.59 %	10.44 %	1.44 %
Nonperforming Assets / Total Assets	1.05 %	1.17 %	(10.26)%
Allowance for Loan Losses / Total Loans	0.81 %	0.64 %	26.56 %
Total Risk Based Capital Ratio (b)	18.53 %	17.04 %	8.74 %
Tier 1 Risk Based Capital Ratio (b)	15.50 %	15.20 %	1.97 %
Common Equity Tier 1 Risk Based Capital Ratio (b)	15.50 %	15.20 %	1.97 %
Leverage Ratio (b)	10.35 %	9.94 %	4.12 %
<b>AVERAGE BALANCES</b>			
Average Assets	\$ 2,310,531	\$ 1,909,844	20.98 %
Average Equity	\$ 301,474	\$ 265,276	13.65 %
<b>EFFICIENCY RATIO (c)</b>			
Net Interest Income on a Fully Taxable-Equivalent Basis (c)	\$ 59,056	\$ 48,524	21.70 %
Noninterest Income	<u>19,441</u>	<u>17,779</u>	<u>9.35 %</u>
Total (1)	<u>\$ 78,497</u>	<u>\$ 66,303</u>	<u>18.39 %</u>
Noninterest Expense Excluding Merger Expenses (2)	<u>\$ 46,454</u>	<u>\$ 39,834</u>	<u>16.62 %</u>
Efficiency Ratio = (2)/(1)	<u>59.18 %</u>	<u>60.08 %</u>	<u>(1.50)%</u>

(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	\$ 2,354,896	\$ 2,352,793
Less: Intangible Assets, Primarily Goodwill	<u>(55,955)</u>	<u>(56,585)</u>
Tangible Assets	<u>\$ 2,298,941</u>	<u>\$ 2,296,208</u>
Total Stockholders' Equity	<u>\$ 299,402</u>	<u>\$ 296,316</u>
Less: Intangible Assets, Primarily Goodwill	<u>(55,955)</u>	<u>(56,585)</u>
Tangible Common Equity (3)	<u>\$ 243,447</u>	<u>\$ 239,731</u>
Common Shares Outstanding, End of Period (4)	15,750,250	15,890,353
Tangible Common Book Value per Share = (3)/(4)	<u>\$ 15.46</u>	<u>\$ 15.09</u>

(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 :						
	September 30, 2021	June 30, 2021	March 31, 2021	December 31, 2020	September 30, 2020	June 30, 2020	March 31, 2020
Interest income	\$ 21,073	\$ 20,428	\$ 21,754	\$ 21,859	\$ 21,751	\$ 16,513	\$ 17,037
Interest expense	1,614	1,747	1,671	2,104	2,469	2,267	2,755
Net interest income	19,459	18,681	20,083	19,755	19,282	14,246	14,282
Provision (credit) for loan losses	1,530	744	259	620	1,941	(176)	1,528
Net interest income after provision (credit) for loan losses	17,929	17,937	19,824	19,135	17,341	14,422	12,754
Noninterest income	6,359	6,300	6,782	6,565	6,970	5,528	5,281
Net gains on securities	23	2	0	144	25	0	0
Loss on prepayment of borrowings	0	0	0	1,636	0	0	0
Merger-related expenses	0	0	0	182	6,402	983	141
Other noninterest expenses	15,346	15,399	15,709	15,775	14,648	12,274	12,912
Income before income tax provision	8,965	8,840	10,897	8,251	3,286	6,693	4,982
Income tax provision	1,566	1,780	2,110	1,481	438	1,255	816
Net income	<u>\$ 7,399</u>	<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	\$ 7,336	\$ 6,999	\$ 8,722	\$ 6,727	\$ 2,830	\$ 5,405	\$ 4,146
Basic earnings per common share	<u>\$ 0.47</u>	<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>\$ 0.47</u>	<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:						
	September 30, 2021	June 30, 2021	March 31, 2021	December 31, 2020	September 30, 2020	June 30, 2020	March 31, 2020
<b>ASSETS</b>							
Cash & Due from Banks	\$ 198,995	\$ 208,860	\$ 207,145	\$ 101,857	\$ 174,478	\$ 77,642	\$ 32,678
Available-for-Sale Debt Securities	437,857	391,881	366,376	349,332	340,545	332,188	342,416
Loans, Net	1,563,008	1,585,481	1,602,926	1,632,824	1,680,617	1,230,387	1,156,143
Bank-Owned Life Insurance	30,530	30,391	30,247	30,096	29,942	18,843	18,745
Bank Premises and Equipment, Net	20,526	20,620	20,740	21,526	21,504	18,332	18,023
Intangible Assets	55,955	56,088	56,222	56,356	56,585	29,511	29,573
Other Assets	48,025	45,742	49,939	47,109	49,122	38,563	31,867
<b>TOTAL ASSETS</b>	<b>\$ 2,354,896</b>	<b>\$ 2,339,063</b>	<b>\$ 2,333,595</b>	<b>\$ 2,239,100</b>	<b>\$ 2,352,793</b>	<b>\$ 1,745,466</b>	<b>\$ 1,629,445</b>
<b>LIABILITIES</b>							
Deposits	\$ 1,940,141	\$ 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	40,555	46,450	60,230	74,630	143,657	87,308	110,551
Senior Notes, Net	14,685	14,670	0	0	0	0	0
Subordinated Debt, Net	32,988	32,967	16,534	16,553	16,572	6,500	6,500
Other Liabilities	27,125	24,034	32,850	27,692	24,734	14,689	11,254
<b>TOTAL LIABILITIES</b>	<b>2,055,494</b>	<b>2,034,930</b>	<b>2,033,539</b>	<b>1,939,344</b>	<b>2,056,477</b>	<b>1,489,675</b>	<b>1,378,217</b>
<b>STOCKHOLDERS' EQUITY</b>							
Common Stockholders' Equity, Excluding Accumulated Other Comprehensive Income	292,997	294,857	293,097	287,961	284,707	244,080	241,754
Accumulated Other Comprehensive Income:							
Net Unrealized Gains on Available-for-sale Securities	6,300	9,167	6,847	11,676	11,376	11,472	9,230
Defined Benefit Plans	105	109	112	119	233	239	244
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<b>299,402</b>	<b>304,133</b>	<b>300,056</b>	<b>299,756</b>	<b>296,316</b>	<b>255,791</b>	<b>251,228</b>
<b>TOTAL LIABILITIES &amp; STOCKHOLDERS' EQUITY</b>	<b>\$ 2,354,896</b>	<b>\$ 2,339,063</b>	<b>\$ 2,333,595</b>	<b>\$ 2,239,100</b>	<b>\$ 2,352,793</b>	<b>\$ 1,745,466</b>	<b>\$ 1,629,445</b>

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

	September 30, 2021	June 30, 2021		December 31, 2020	
	Amortized Cost	Fair Value		Amortized Cost	Fair Value
Obligations of the U.S. Treasury	\$ 25,088	\$ 25,068		\$ 22,981	\$ 23,073
Obligations of U.S. Government agencies	23,935	24,312		24,764	25,373
Obligations of states and political subdivisions:					
Tax-exempt	135,362	139,244		127,122	132,310
Taxable	69,426	70,493		58,921	60,528
Mortgage-backed securities issued or guaranteed by U.S. Government agencies or sponsored agencies:					
Residential pass-through securities	59,920	60,629		50,397	51,328
Residential collateralized mortgage obligations	43,811	44,593		44,536	45,575
Commercial mortgage-backed securities	<u>72,341</u>	<u>73,518</u>		<u>51,555</u>	<u>53,694</u>
Total Available-for-Sale Debt Securities	<u>\$ 429,883</u>	<u>\$ 437,857</u>		<u>\$ 380,276</u>	<u>\$ 391,881</u>

**SUMMARY OF LOANS BY TYPE**

**(Excludes Loans Held for Sale)**

**(In Thousands)**

	September 30, 2021	June 30, 2021	December 31, 2020	September 30, 2020
Commercial:				
Commercial loans secured by real estate	\$ 553,389	\$ 544,202	\$ 531,810	\$ 530,874
Commercial and industrial	152,244	158,907	159,577	156,169
Paycheck Protection Program - 1st Draw	5,747	37,902	132,269	163,050
Paycheck Protection Program - 2nd Draw	56,981	72,409	0	0
Political subdivisions	73,503	48,849	53,221	47,883
Commercial construction and land	53,267	43,178	42,874	41,906
Loans secured by farmland	10,812	10,950	11,736	11,913
Multi-family (5 or more) residential	52,962	51,916	55,811	62,330
Agricultural loans	3,092	2,379	3,164	3,561
Other commercial loans	<u>17,312</u>	<u>14,711</u>	<u>17,289</u>	<u>17,385</u>
Total commercial	<u>979,309</u>	<u>985,403</u>	<u>1,007,751</u>	<u>1,035,071</u>
Residential mortgage:				
Residential mortgage loans - first liens	494,376	507,579	532,947	541,827
Residential mortgage loans - junior liens	24,303	25,287	27,311	27,907
Home equity lines of credit	38,465	39,432	39,301	40,143
1-4 Family residential construction	<u>21,719</u>	<u>23,567</u>	<u>20,613</u>	<u>29,146</u>
Total residential mortgage	<u>578,863</u>	<u>595,865</u>	<u>620,172</u>	<u>639,023</u>
Consumer	<u>17,536</u>	<u>16,588</u>	<u>16,286</u>	<u>17,276</u>
Total	<u>1,575,708</u>	<u>1,597,856</u>	<u>1,644,209</u>	<u>1,691,370</u>
Less: allowance for loan losses	<u>(12,700)</u>	<u>(12,375)</u>	<u>(11,385)</u>	<u>(10,753)</u>
Loans, net	<u>\$ 1,563,008</u>	<u>\$ 1,585,481</u>	<u>\$ 1,632,824</u>	<u>\$ 1,680,617</u>

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

	3 Months Ended September 30, 2021	3 Months Ended June 30, 2021	9 Months Ended September 30, 2021	9 Months Ended September 30, 2020
Balance, beginning of period	\$ 12,375	\$ 11,661	\$ 11,385	\$ 9,836
Charge-offs	(1,220)	(47)	(1,278)	(2,443)
Recoveries	15	17	60	67
Net charge-offs	(1,205)	(30)	(1,218)	(2,376)
Provision for loan losses	1,530	744	2,533	3,293
Balance, end of period	<u>\$ 12,700</u>	<u>\$ 12,375</u>	<u>\$ 12,700</u>	<u>\$ 10,753</u>

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

	September 30, 2021	June 30, 2021	December 31, 2020	September 30, 2020
Impaired loans with a valuation allowance	\$ 7,225	\$ 10,594	\$ 8,082	\$ 8,085
Impaired loans without a valuation allowance	4,165	1,819	2,895	3,080
Purchased credit impaired loans	6,624	6,733	6,841	7,447
Total impaired loans	<u>\$ 18,014</u>	<u>\$ 19,146</u>	<u>\$ 17,818</u>	<u>\$ 18,612</u>
Total loans past due 30-89 days and still accruing	\$ 2,139	\$ 2,478	\$ 5,918	\$ 3,499
Nonperforming assets:				
Purchased credit impaired loans	\$ 6,624	\$ 6,733	\$ 6,841	\$ 7,447
Other nonaccrual loans	14,717	16,238	14,575	15,349
Total nonaccrual loans	21,341	22,971	21,416	22,796
Total loans past due 90 days or more and still accruing	1,924	1,881	1,975	2,308
Total nonperforming loans	23,265	24,852	23,391	25,104
Foreclosed assets held for sale (real estate)	1,374	1,332	1,338	2,369
Total nonperforming assets	<u>\$ 24,639</u>	<u>\$ 26,184</u>	<u>\$ 24,729</u>	<u>\$ 27,473</u>
Loans subject to troubled debt restructurings (TDRs):				
Performing	\$ 232	\$ 199	\$ 166	\$ 258
Nonperforming	5,591	5,624	7,285	7,779
Total TDRs	<u>\$ 5,823</u>	<u>\$ 5,823</u>	<u>\$ 7,451</u>	<u>\$ 8,037</u>
Total nonperforming loans as a % of total loans	1.48 %	1.56 %	1.42 %	1.48 %
Total nonperforming assets as a % of assets	1.05 %	1.12 %	1.10 %	1.17 %
Allowance for loan losses as a % of total loans	0.81 %	0.77 %	0.69 %	0.64 %
Credit adjustment on purchased non-impaired loans and allowance for loan losses as a % of total loans and the credit adjustment (a)	1.05 %	1.05 %	1.05 %	1.05 %
Allowance for loan losses as a % of nonperforming loans	54.59 %	49.79 %	48.67 %	42.83 %
(a) Credit adjustment on purchased non-impaired loans at end of period	\$ 3,836	\$ 4,502	\$ 5,979	\$ 7,127
Allowance for loan losses	<u>12,700</u>	<u>12,375</u>	<u>11,385</u>	<u>10,753</u>
Total credit adjustment on purchased non-impaired loans at end of period and allowance for loan losses (1)	<u>\$ 16,536</u>	<u>\$ 16,877</u>	<u>\$ 17,364</u>	<u>\$ 17,880</u>
Total loans receivable	<u>\$ 1,575,708</u>	<u>\$ 1,597,856</u>	<u>\$ 1,644,209</u>	<u>\$ 1,691,370</u>
Credit adjustment on purchased non-impaired loans at end of period	3,836	4,502	5,979	7,127
Total (2)	<u>\$ 1,579,544</u>	<u>\$ 1,602,358</u>	<u>\$ 1,650,188</u>	<u>\$ 1,698,497</u>
Credit adjustment on purchased non-impaired loans and allowance for loan losses as a % of total loans and the credit adjustment (1)/(2)	1.05 %	1.05 %	1.05 %	1.05 %

## ADJUSTMENTS TO GROSS AMORTIZED COST OF LOANS

(In Thousands)

	Three Months Ended			Nine Months Ended		
	September 30, 2021	June 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020	
<b>Market Rate Adjustment</b>						
Adjustments to gross amortized cost of loans at beginning of period	\$ (5)	\$ 352	\$ (1,103)	\$ 718	\$ (1,415)	
Market rate adjustment recorded in acquisition	0	0	2,909	0	2,909	
Amortization recognized in interest income	(368)	(357)	(452)	(1,091)	(140)	
Adjustments to gross amortized cost of loans at end of period	\$ (373)	\$ (5)	\$ 1,354	\$ (373)	\$ 1,354	
<b>Credit Adjustment on Non-impaired Loans</b>						
Adjustments to gross amortized cost of loans at beginning of period	\$ (4,502)	\$ (5,182)	\$ (878)	\$ (5,979)	\$ (1,216)	
Credit adjustment recorded in acquisition	0	0	(7,219)	0	(7,219)	
Accretion recognized in interest income	666	680	970	2,143	1,308	
Adjustments to gross amortized cost of loans at end of period	\$ (3,836)	\$ (4,502)	\$ (7,127)	\$ (3,836)	\$ (7,127)	

## PURCHASED CREDIT IMPAIRED (PCI) LOANS

(In Thousands)

	September 30, 2021	June 30, 2021	September 30, 2020
Outstanding balance	\$ 10,064	\$ 10,189	\$ 10,453
Carrying amount	6,624	6,733	7,447

**COMPARISON OF INTEREST INCOME AND EXPENSE**  
**(In Thousands)**

	Three Months Ended			Nine Months Ended	
	September 30, 2021	June 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
<b>INTEREST INCOME</b>					
Interest-bearing due from banks	\$ 106	\$ 74	\$ 69	\$ 230	\$ 191
Available-for-sale debt securities:					
Taxable	1,304	1,187	1,483	3,604	4,451
Tax-exempt	842	824	698	2,467	1,874
Total available-for-sale debt securities	2,146	2,011	2,181	6,071	6,325
Loans receivable:					
Taxable	16,890	16,826	18,269	51,209	46,316
Paycheck Protection Program - 1st Draw	618	859	889	3,289	1,429
Paycheck Protection Program - 2nd Draw	1,021	390	0	1,597	0
Tax-exempt	568	518	566	1,639	1,693
Total loans receivable	19,097	18,593	19,724	57,734	49,438
Other earning assets	16	18	30	53	61
Total Interest Income	21,365	20,696	22,004	64,088	56,015
<b>INTEREST EXPENSE</b>					
Interest-bearing deposits:					
Interest checking	230	235	271	686	716
Money market	269	320	368	895	863
Savings	58	57	57	170	175
Time deposits	506	605	1,091	1,807	3,972
Total interest-bearing deposits	1,063	1,217	1,787	3,558	5,726
Borrowed funds:					
Short-term	0	7	73	22	335
Long-term - FHLB advances	87	109	362	330	970
Senior notes, net	118	57	0	175	0
Subordinated debt, net	346	357	247	947	460
Total borrowed funds	551	530	682	1,474	1,765
Total Interest Expense	1,614	1,747	2,469	5,032	7,491
Net Interest Income	\$ 19,751	\$ 18,949	\$ 19,535	\$ 59,056	\$ 48,524

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)**

	<b>3 Months Ended 9/30/2021</b>	<b>Rate of Return/ Cost of Funds %</b>	<b>3 Months Ended 6/30/2021</b>	<b>Rate of Return/ Cost of Funds %</b>	<b>3 Months Ended 9/30/2020</b>	<b>Rate of Return/ Cost of Funds %</b>
<b>EARNING ASSETS</b>						
Interest-bearing due from banks	\$ 195,359	0.22 %	\$ 182,586	0.16 %	\$ 147,543	0.19 %
Available-for-sale debt securities, at amortized cost:						
Taxable	263,682	1.96 %	243,228	1.96 %	227,483	2.59 %
Tax-exempt	127,466	2.62 %	123,101	2.68 %	94,058	2.95 %
Total available-for-sale debt securities	391,148	2.18 %	366,329	2.20 %	321,541	2.70 %
Loans receivable:						
Taxable	1,426,503	4.70 %	1,418,171	4.76 %	1,480,247	4.91 %
Paycheck Protection Program - 1st Draw	19,625	12.49 %	53,639	6.42 %	162,234	2.18 %
Paycheck Protection Program - 2nd Draw	68,108	5.95 %	71,841	2.18 %	0	0.00 %
Tax-exempt	77,621	2.90 %	63,470	3.27 %	63,111	3.57 %
Total loans receivable	1,591,857	4.76 %	1,607,121	4.64 %	1,705,592	4.60 %
Other earning assets	2,355	2.70 %	2,467	2.93 %	3,361	3.55 %
Total Earning Assets	2,180,719	3.89 %	2,158,503	3.85 %	2,178,037	4.02 %
Cash	24,436		25,453		33,291	
Unrealized gain on securities	12,411		10,197		15,277	
Allowance for loan losses	(12,688)		(11,992)		(11,473)	
Bank-owned life insurance	30,445		30,301		30,078	
Bank premises and equipment	20,620		20,620		21,763	
Intangible assets	56,021		56,153		57,008	
Other assets	43,947		42,516		48,451	
Total Assets	\$ 2,355,911		\$ 2,331,751		\$ 2,372,432	
<b>INTEREST-BEARING LIABILITIES</b>						
Interest-bearing deposits:						
Interest checking	\$ 423,371	0.22 %	\$ 387,942	0.24 %	\$ 382,997	0.28 %
Money market	446,385	0.24 %	433,295	0.30 %	386,848	0.38 %
Savings	231,093	0.10 %	227,426	0.10 %	201,401	0.11 %
Time deposits	312,979	0.64 %	335,773	0.72 %	449,964	0.96 %
Total interest-bearing deposits	1,413,828	0.30 %	1,384,436	0.35 %	1,421,210	0.50 %
Borrowed funds:						
Short-term	2,185	0.00 %	6,528	0.43 %	44,660	0.65 %
Long-term - FHLB advances	41,083	0.84 %	46,788	0.93 %	102,857	1.40 %
Senior notes, net	14,674	3.19 %	6,930	3.30 %	0	0.00 %
Subordinated debt, net	32,978	4.16 %	26,916	5.32 %	16,540	5.94 %
Total borrowed funds	90,920	2.40 %	87,162	2.44 %	164,057	1.65 %
Total Interest-bearing Liabilities	1,504,748	0.43 %	1,471,598	0.48 %	1,585,267	0.62 %
Demand deposits	522,930		534,602		463,333	
Other liabilities	25,386		23,898		26,367	
Total Liabilities	2,053,064		2,030,098		2,074,967	
Stockholders' equity, excluding accumulated other comprehensive income	292,936		293,487		285,158	
Accumulated other comprehensive income	9,911		8,166		12,307	
Total Stockholders' Equity	302,847		301,653		297,465	
Total Liabilities and Stockholders' Equity	\$ 2,355,911		\$ 2,331,751		\$ 2,372,432	
Interest Rate Spread		3.46 %		3.37 %		3.40 %
Net Interest Income/Earning Assets		3.59 %		3.52 %		3.57 %
Total Deposits (Interest-bearing and Demand)	\$ 1,936,758		\$ 1,919,038		\$ 1,884,543	

(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>9 Months Ended 9/30/2021</b>	<b>Rate of Return/ Cost of Funds %</b>	<b>9 Months Ended 9/30/2020</b>	<b>Rate of Return/ Cost of Funds %</b>
<b>EARNING ASSETS</b>				
Interest-bearing due from banks	\$ 157,231	0.20 %	\$ 68,537	0.37 %
Available-for-sale debt securities, at amortized cost:				
Taxable	241,716	1.99 %	245,487	2.42 %
Tax-exempt	122,736	2.69 %	82,030	3.05 %
Total available-for-sale debt securities	<u>364,452</u>	<u>2.23 %</u>	<u>327,517</u>	<u>2.58 %</u>
Loans receivable:				
Taxable	1,424,457	4.81 %	1,228,521	5.04 %
Paycheck Protection Program - 1st Draw	58,900	7.47 %	80,322	2.38 %
Paycheck Protection Program - 2nd Draw	58,173	3.67 %	0	0.00 %
Tax-exempt	69,502	3.15 %	60,893	3.71 %
Total loans receivable	<u>1,611,032</u>	<u>4.79 %</u>	<u>1,369,736</u>	<u>4.82 %</u>
Other earning assets	2,556	2.77 %	2,346	3.47 %
Total Earning Assets	<u>2,135,271</u>	<u>4.01 %</u>	<u>1,768,136</u>	<u>4.23 %</u>
Cash	24,564		23,467	
Unrealized gain on securities	11,831		12,021	
Allowance for loan losses	(12,143)		(10,988)	
Bank-owned life insurance	30,301		22,539	
Bank premises and equipment	20,860		19,251	
Intangible assets	56,153		38,786	
Other assets	43,694		36,632	
Total Assets	<u>\$ 2,310,531</u>		<u>\$ 1,909,844</u>	
<b>INTEREST-BEARING LIABILITIES</b>				
Interest-bearing deposits:				
Interest checking	\$ 389,349	0.24 %	\$ 290,420	0.33 %
Money market	428,985	0.28 %	268,095	0.43 %
Savings	224,050	0.10 %	184,829	0.13 %
Time deposits	339,558	0.71 %	391,827	1.35 %
Total interest-bearing deposits	<u>1,381,942</u>	<u>0.34 %</u>	<u>1,135,171</u>	<u>0.67 %</u>
Borrowed funds:				
Short-term	7,648	0.38 %	36,492	1.23 %
Long-term - FHLB advances	46,863	0.94 %	80,030	1.62 %
Senior notes, net	7,255	3.23 %	0	0.00 %
Subordinated debt, net	25,539	4.96 %	9,871	6.22 %
Total borrowed funds	<u>87,305</u>	<u>2.26 %</u>	<u>126,393</u>	<u>1.87 %</u>
Total Interest-bearing Liabilities	<u>1,469,247</u>	<u>0.46 %</u>	<u>1,261,564</u>	<u>0.79 %</u>
Demand deposits	514,081		364,200	
Other liabilities	25,729		18,804	
Total Liabilities	<u>2,009,057</u>		<u>1,644,568</u>	
Stockholders' equity, excluding accumulated other comprehensive income	292,017		255,545	
Accumulated other comprehensive income	9,457		9,731	
Total Stockholders' Equity	<u>301,474</u>		<u>265,276</u>	
Total Liabilities and Stockholders' Equity	<u>\$ 2,310,531</u>		<u>\$ 1,909,844</u>	
Interest Rate Spread		3.55 %		3.44 %
Net Interest Income/Earning Assets		3.70 %		3.67 %
Total Deposits (Interest-bearing and Demand)	\$ 1,896,023		\$ 1,499,371	

(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)

	September 30, 2021	Three Months Ended June 30, 2021	September 30, 2020	Nine Months Ended September 30, 2021	September 30, 2020
Trust revenue	\$ 1,821	\$ 1,807	\$ 1,595	\$ 5,254	\$ 4,639
Brokerage and insurance revenue	560	506	382	1,392	1,121
Service charges on deposit accounts	1,249	1,073	1,045	3,337	3,126
Interchange revenue from debit card transactions	975	998	828	2,854	2,277
Net gains from sales of loans	797	925	2,052	2,786	3,931
Loan servicing fees, net	153	146	(87)	547	(259)
Increase in cash surrender value of life insurance	139	145	159	434	361
Other noninterest income	665	700	996	2,837	2,583
Total noninterest income, excluding realized gains on securities, net	<u>\$ 6,359</u>	<u>\$ 6,300</u>	<u>\$ 6,970</u>	<u>\$ 19,441</u>	<u>\$ 17,779</u>

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

	September 30, 2021	Three Months Ended June 30, 2021	September 30, 2020	Nine Months Ended September 30, 2021	September 30, 2020
Salaries and employee benefits	\$ 9,427	\$ 9,499	\$ 8,703	\$ 27,821	\$ 23,064
Net occupancy and equipment expense	1,217	1,219	1,189	3,740	3,267
Data processing and telecommunications expenses	1,475	1,487	1,482	4,342	3,959
Automated teller machine and interchange expense	357	355	340	1,049	912
Pennsylvania shares tax	482	490	422	1,463	1,267
Professional fees	538	598	422	1,683	1,265
Other noninterest expense	1,850	1,751	2,090	6,356	6,100
Total noninterest expense, excluding merger-related expenses	15,346	15,399	14,648	46,454	39,834
Merger-related expenses	0	0	6,402	0	7,526
Total noninterest expense	<u>\$ 15,346</u>	<u>\$ 15,399</u>	<u>\$ 21,050</u>	<u>\$ 46,454</u>	<u>\$ 47,360</u>