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C&N DECLARES DIVIDEND AND ANNOUNCES FOURTH 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 annual periods ended December 31, 2020.

Dividend Declared

On January 21, 2021, C&N’s Board of Directors declared a regular quarterly cash dividend of \$0.27 per share. The dividend is payable on February 12, 2021 to shareholders of record as of February 1, 2021.

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. Total purchase consideration was \$63.3 million, including common stock with a fair value of \$41.6 million and cash of \$21.7 million. 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.

In connection with the acquisition, C&N recorded goodwill of \$24.1 million and a core deposit intangible asset of \$3.1 million. Assets acquired included loans valued at \$464.8 million, cash and due from banks of \$97.8 million, bank-owned life insurance valued at \$11.2 million and securities valued at \$10.8 million. Liabilities assumed included deposits valued at \$481.8 million, borrowings valued at \$64.0 million and subordinated debt valued at \$10.1 million. The assets purchased and liabilities assumed in the acquisition were recorded at their preliminary estimated fair values at the time of closing and may be adjusted for up to one year subsequent to the acquisition.

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.

C&N incurred pre-tax merger-related expenses related to the Covenant transaction of \$7.7 million for the year ended December 31, 2020, including expenses totaling \$0.2 million in the fourth quarter 2020. Merger-related expenses totaled \$4.1 million for the year ended December 31, 2019, including \$3.8 million associated with the Monument transaction and \$0.3 million associated with the Covenant transaction. Fourth quarter 2019 merger-related expenses totaled \$0.3 million.

Unaudited Financial Information

Net income was \$0.43 per diluted share in the fourth quarter 2020, up from \$0.18 in the third quarter 2020 and \$0.40 in the fourth quarter 2019. For the year ended December 31, 2020, net income per diluted share was \$1.30, down from \$1.46 per share for the year ended December 31, 2019. Earnings for the year ended December 31, 2020 were significantly impacted by the Covenant acquisition, including the effects of merger-related expenses described earlier. Further, interest income on loans acquired from Covenant, partially offset by interest expense on deposits, borrowings and subordinated debt assumed, contributed to growth in C&N's net interest income, while costs associated with the expansion contributed to an increase in noninterest expenses. Results for the year ended December 31, 2019 were significantly impacted by merger-related expenses and other effects of the Monument acquisition.

In the fourth quarter 2020, C&N incurred a pre-tax loss of \$1.6 million on prepayment of long-term borrowings (Federal Home Loan Bank of Pittsburgh advances) with outstanding balances totaling \$48.0 million. The borrowings included several advances maturing in 2022 through 2024 with a weighted-average interest rate of 1.77% and a weighted-average duration of 2.3 years. Management estimated the use of excess cash to prepay borrowings would generate an improvement in the net interest margin of approximately 0.11% in 2021 over previous internal projections, and that the loss would be recovered through higher future earnings in approximately two years.

As described below, excluding merger-related expenses, loss on prepayment of borrowings and net realized gains on securities, adjusted (non-U.S. GAAP) earnings of \$0.51 per share for the fourth quarter 2020 were higher than the comparative \$0.42 per share for the fourth quarter 2019, and adjusted (non-U.S. GAAP) earnings were \$1.79 per share for the year ended December 31, 2020 as compared to \$1.70 per share for the year ended December 31, 2019.

The following table provides a reconciliation of C&N's fourth quarter and annual 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, loss on prepayment of borrowings and net realized gains on securities. Management believes disclosure of unaudited fourth quarter and annual 2020 and 2019 earnings results, 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)

	4th Quarter 2020				4th Quarter 2019			
	Income Before Income Tax Provision	Income Tax Provision	Net Income	Diluted Earnings per Common Share	Income Before Income Tax Provision	Income Tax Provision	Net Income	Diluted Earnings per Common Share
Earnings Under U.S. GAAP	\$ 8,251	\$ 1,481	\$ 6,770	\$ 0.43	\$ 6,593	\$ 1,135	\$ 5,458	\$ 0.40
Add: Merger-Related Expenses (1)	182	38	144		281	31	250	
Add: Loss on Prepayment of Borrowings (1)	1,636	344	1,292		0	0	0	
Net Gains on Available-for-Sale Debt Securities (1)	(144)	(30)	(114)		(3)	(1)	(2)	
Adjusted Earnings (Non-U.S. GAAP)	<u>\$ 9,925</u>	<u>\$ 1,833</u>	<u>\$ 8,092</u>	<u>\$ 0.51</u>	<u>\$ 6,871</u>	<u>\$ 1,165</u>	<u>\$ 5,706</u>	<u>\$ 0.42</u>

	Year Ended December 31, 2020				Year Ended December 31, 2019			
	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	\$ 23,212	\$ 3,990	\$ 19,222	\$ 1.30	\$ 23,409	\$ 3,905	\$ 19,504	\$ 1.46
Add: Merger-Related Expenses (1)	7,708	1,574	6,134		4,099	829	3,270	
Add: Loss on Prepayment of Borrowings (1)	1,636	344	1,292		0	0	0	
Net Gains on Available-for-Sale Debt Securities (1)	(169)	(35)	(134)		(23)	(5)	(18)	
Adjusted Earnings (Non-U.S. GAAP)	<u>\$ 32,387</u>	<u>\$ 5,873</u>	<u>\$ 26,514</u>	<u>\$ 1.79</u>	<u>\$ 27,485</u>	<u>\$ 4,729</u>	<u>\$ 22,756</u>	<u>\$ 1.70</u>

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

Additional highlights related to C&N's fourth quarter and annual unaudited U.S. GAAP earnings results as compared to the third quarter 2020 and comparative periods of 2019 are presented below.

Fourth Quarter 2020 as Compared to Third Quarter 2020

Net income was \$6,770,000, or \$0.43 per diluted share, for the fourth quarter 2020, up from \$2,848,000, or \$0.18 per diluted share, in the third quarter 2020. Excluding the effects of merger-related expenses, loss on prepayment of borrowings and net realized gains on securities, adjusted (non-U.S. GAAP) earnings per share were \$0.51 per share for the fourth quarter 2020, up from a similarly adjusted \$0.50 per share for the third quarter 2020. Other significant variances were as follows:

- Net interest income totaled \$19,755,000 in the fourth quarter 2020, up \$473,000 from the third quarter 2020 amount of \$19,282,000. Total interest and fees from loans originated under the U.S. Small Business Administration (SBA) Paycheck Protection Program (PPP) were \$1,495,000 in the fourth quarter 2020, an increase of \$606,000 over the third quarter total. This increase in income from PPP loans resulted from an acceleration of origination fees based on the SBA's repayment of loans tied to the forgiveness of the underlying borrowers. Average loans outstanding totaled \$1.670 billion in the fourth quarter 2020, down \$36.0 million from the prior quarter, including a \$9.7 million decrease in average PPP loans as well as decreases in other commercial loans and residential mortgage loans. The reduction in average residential mortgage loans outstanding reflects a greater proportion of residential mortgage loans originated being sold on the secondary market. Average total deposits decreased \$38.9 million, including decreases in average time deposits and a seasonal decrease in balances maintained by municipal depositors. The net interest rate spread increased 0.20%, as the average yield on earning assets increased 0.13% while the average rate on interest-bearing liabilities decreased 0.07%. The net interest margin was 3.76% in the fourth quarter, up from 3.57% in the third quarter 2020.
- C&N recognized a provision for loan losses of \$620,000 in the fourth quarter 2020, a decrease in expense of \$1,321,000 from the third quarter 2020 provision of \$1,941,000. The fourth quarter 2020 provision included a net charge of \$262,000 related to specific loans (increase in specific allowances on loans of \$274,000, partially offset by net recoveries of \$12,000) and a charge of \$358,000 attributable to increases in the collectively determined portion of the allowance for loan losses. The higher 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 was \$6,565,000 in the fourth quarter 2020, down \$405,000 from the third quarter 2020 amount. Significant variances included the following:
 - Net gains from sales of loans totaled \$1,472,000 in the fourth quarter 2020, a decrease of \$580,000 from the third quarter total. The volume of residential mortgage loans sold in the fourth quarter 2020 was high by C&N's historical standards, though down from the third quarter.
 - Loan servicing fees, net, were \$198,000 in the fourth quarter 2020 as compared to negative \$87,000 (a decrease in revenue) in the third quarter 2020. The fair value of mortgage servicing rights increased \$41,000 in the fourth quarter 2020, as compared to a decrease of \$221,000 in the third quarter 2020, as market assumptions regarding prepayment speeds decreased in the fourth quarter.
 - Other noninterest income totaled \$689,000, a decrease of \$214,000 from the third quarter total. Income from a life insurance arrangement in which benefits were split between C&N and heirs of a former employee was \$279,000 in the third quarter 2020, with no corresponding income recognized in the fourth quarter 2020.

- Noninterest expense, excluding merger-related expenses and loss on prepayment of borrowings, totaled \$15,775,000 in the fourth quarter 2020, an increase of \$1,127,000 from the third quarter 2020 amount. Salaries and wages of \$8,062,000 increased \$1,229,000 from the third quarter 2020. Total cash-and-stock-based compensation expense increased \$680,000, consistent with an updated comparison of C&N's earnings performance to that of defined peer groups. Also contributing to the increase were an accrual of \$265,000 due to a change in paid time off policy driven by COVID-19, and \$134,000 of salary expense related to an additional bonus in recognition of extra efforts required to deal with COVID-19 related conditions paid to employees who are not included in the incentive compensation plan.
- The income tax provision was \$1,481,000 for the fourth quarter 2020, up from \$438,000 for the third quarter 2020. The increase in income tax provision reflected the increase in pre-tax income of \$4,965,000 for the quarter. The effective tax rate of 17.9% for the fourth quarter 2020 was up from 13.3% for the third quarter as the third quarter tax rate included the marginal impact of a significant portion of the Covenant merger-related expenses.

Fourth Quarter 2020 as Compared to Fourth Quarter 2019

As described above, fourth quarter 2020 net income was \$6,770,000, and excluding the effects of merger-related expenses and loss on prepayment of borrowings and net realized gains on securities, adjusted (non-U.S. GAAP) earnings were \$8,092,000. In comparison, fourth quarter 2019 net income was \$5,458,000, and excluding merger-related expenses and net realized gains on securities, adjusted (non-U.S. GAAP) earnings were \$5,706,000. Other significant variances were as follows:

- Fourth quarter 2020 net interest income of \$19,755,000 was \$5,464,000 higher than the fourth quarter 2019 total, reflecting the impact of growth mainly attributable to the Covenant acquisition. Average outstanding loans increased \$503.2 million, and average total deposits increased \$574.5 million. The net interest margin for the fourth quarter 2020 was 3.76% as compared to 3.75% for the fourth quarter 2019. The average yield on earning assets of 4.15% for the fourth quarter 2020 was down 0.38% from the fourth quarter 2019, while the average rate on interest-bearing liabilities of 0.55% in the fourth quarter 2020 was 0.54% lower than the comparable fourth quarter 2019 average rate. Accretion and amortization of purchase accounting adjustments had a net positive impact on net interest income of \$1,273,000 in the fourth quarter 2020 as compared to a net positive impact of \$150,000 in the fourth quarter 2019.
- The provision for loan losses was \$620,000 in the fourth quarter 2020 as compared to \$652,000 in the fourth quarter 2019. Details concerning the fourth quarter 2020 provision for loan losses are described previously.

- Noninterest income for the fourth quarter 2020 was up \$1,499,000 from the fourth quarter 2019 total. Significant variances included the following:
 - Net gains from sales of loans of \$1,472,000 for the fourth quarter 2020 were up \$1,166,000 from the total for the fourth quarter 2019. The increase reflects an increase in volume of mortgage loans sold, due mainly to the impact of historically low interest rates on the housing market and refinancing activity.
 - Other noninterest income totaled \$689,000, an increase of \$251,000 from the fourth quarter 2019. In the fourth quarter 2020, fee income for providing credit enhancement on sale of mortgage loans increased \$96,000, dividend income from Federal Home Loan Bank stock was up \$37,000, and credit card interchange income increased \$26,000.
 - Interchange revenue from debit card transactions totaled \$817,000 in the fourth quarter 2020, an increase of \$127,000 over the fourth quarter 2019 total.
 - Loan servicing fees, net, were \$198,000 in the fourth quarter 2020, an increase of \$107,000 over the fourth quarter 2019 total.
 - Service charges on deposit accounts of \$1,105,000 in the fourth quarter 2020 were down \$290,000 from the fourth quarter 2019 amount, as the volume of consumer and business overdraft activity fell.
- Noninterest expense, excluding merger-related expenses and loss on prepayment of borrowings, increased \$3,941,000 in the fourth quarter 2020 over the fourth quarter 2019 amount. Significant variances included the following:
 - Salaries and wages of \$8,062,000 increased \$2,667,000 from the fourth quarter 2019, reflecting an increase in personnel due to the Covenant acquisition and an increase in incentive compensation stemming from the adjusted comparison of C&N's earnings performance to peers and additional COVID-19 related compensation costs in the fourth quarter 2020 as mentioned above.
 - Pensions and other employee benefits expense increased \$391,000, reflecting the increase in personnel from the Covenant acquisition and an increase in health care expense from C&N's partially self-insured plan.
 - Data processing expenses increased \$308,000, including the impact of increases in software licensing and maintenance costs associated with core banking, lending, trust and other functions.
 - Professional fees expense increased \$153,000, including costs associated with increased use of outsourced services to support a range of activities, most significantly in certain trust administrative activities.
 - Occupancy expense increased \$142,000, primarily reflecting an increase due to the Covenant acquisition.
 - Other noninterest expense increased \$121,000. Within this category, amortization of core deposit intangibles increased \$134,000 related to the Covenant acquisition.
- The income tax provision of \$1,481,000 for the fourth quarter 2020 was up \$346,000 from \$1,135,000 for the fourth quarter 2019, reflecting higher pre-tax income.

Year Ended December 31, 2020 as Compared to Year Ended December 31, 2019

Net income for the year ended December 31, 2020 was \$19,222,000, or \$1.30 per diluted share, while net income for the year ended December 31, 2019 was \$19,504,000, or \$1.46 per share. Excluding the impact of merger-related expenses, loss on prepayment of borrowings and net securities gains, adjusted (non-U.S. GAAP) earnings for the year ended December 31, 2020 would be \$26,514,000 or \$1.79 per share as compared to similarly adjusted earnings of \$22,756,000 or \$1.70 per share for the year ended December 31, 2019. Other significant variances were as follows:

- For the year ended December 31, 2020, net interest income of \$67,565,000 was up \$13,077,000 over the 2019 total. Results for 2020 included the benefit of the mid-year Covenant acquisition and included the impact of former Monument activity for the full year as compared to the final nine months of 2019. In 2020, annual average outstanding loans totaled \$1.445 billion, an increase of \$387.5 million over 2019, and annual average total deposits of \$1.586 billion were up \$372.7 million. The net interest margin for the year ended December 31, 2020 was 3.69%, down from 3.86% for 2019. The annual average yield on earning assets was 4.21% for 2020, down 0.37% from 2019, while the average rate on interest-bearing liabilities of 0.72% in 2020 was 0.30% lower than the 2019 average rate. Accretion and amortization of purchase accounting adjustments had a net positive impact on net interest income of \$3,272,000 for the year ended December 31, 2020 as compared to a net positive impact of \$558,000 in 2019.
- For the year ended December 31, 2020, the provision for loan losses was \$3,913,000, an increase in expense of \$3,064,000 as compared to 2019. The provision included the impact of the \$2,219,000 charge-off of a commercial loan referenced previously. In total, the provision for 2020 included a net charge of \$2,238,000 related to specific loans (net decrease in specific allowances on loans of \$126,000 and net charge-offs of \$2,364,000) and a \$1,675,000 increase in the collectively determined portion of the allowance for loan losses. The increase in the collectively determined portion of the allowance includes the impact of an increase in the net charge-off experience factor for commercial loans and an increase in qualitative factors.
- Total noninterest income, excluding realized securities gains, for the year ended December 31, 2020 was up \$5,060,000 (26.2%) from the total for 2019. Significant variances included the following:
 - Net gains from sales of loans totaled \$5,403,000 for the year ended December 31, 2020, an increase of \$4,479,000 over the total for the year ended December 31, 2019. As noted above, the increase reflects an increase in volume of mortgage loans sold, resulting mainly from lower interest rates.
 - Other noninterest income totaled \$3,010,000, an increase of \$1,135,000 over 2019. Income from realization of tax credits of \$504,000 was \$349,000 higher in 2020 as compared to 2019. In 2020, income from a life insurance arrangement in which benefits were split between C&N and heirs of a former employee was \$279,000. Dividend income from Federal Home Loan Bank stock of \$654,000 was up \$167,000, reflecting a higher average balance of stock held due to increased borrowings and credit card interchange income totaled \$289,000 in 2020, an increase of \$76,000 over 2019. Fee income from credit enhancement provided on residential mortgage loans sold totaled \$227,000 in 2020, an increase of \$137,000 over 2019.
 - Service charges on deposit accounts of \$4,231,000 in 2020 were down \$1,127,000 (21.0%) from the total for 2019, as the volume of consumer and business overdraft activity fell.

- Noninterest expense, excluding merger-related expenses and loss on prepayment of borrowings, increased \$10,171,000 (22.4%) for the year ended December 31, 2020 over the year ended December 31, 2019. Significant variances included the following:
 - Total salaries and wages and benefits expenses increased \$6,581,000, reflecting: inclusion of Covenant for six months in 2020 and the former Monument operations for all of 2020 as compared to nine months in 2019; an increase in incentive compensation mainly attributable to increases in earnings performance as compared to peers and an increase in residential mortgage origination volume; 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 an increase in health care expense due to higher claims on C&N's partially self-insured plan.
 - Data processing expenses increased \$1,050,000, including the impact of increases in software licensing and maintenance costs associated with core banking, lending, trust and other functions as well as professional fees associated with analysis of C&N's online delivery channel.
 - Other noninterest expense increased \$761,000. Within this category, significant variances included the following:
 - Other operational losses increased \$554,000, including estimated accruals of \$340,000 for penalties related to certain information returns and an estimated accrual of \$200,000 related to a state tax reporting matter.
 - Donations expense increased \$460,000, mainly due to an increase in donations associated with the Pennsylvania Educational Improvement Tax Credit program.
 - Amortization of core deposit intangibles increased \$318,000, mainly resulting from the Covenant acquisition.
 - Expenses related to other real estate properties decreased \$340,000. The reduction 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.
 - Consulting expenses related to the overdraft privilege program decreased \$201,000 consistent with the decrease in overdraft fees collected.
 - Professional fees expense increased \$623,000, including costs associated with a change in certain trust administrative activities to handle them on an outsourced basis.
 - Occupancy expense increased \$381,000, primarily reflecting an increase due to the Covenant acquisition.
 - Pennsylvania shares tax expense increased \$309,000, reflecting the impact of an increase in Citizens & Northern Bank's stockholder's equity.
- The income tax provision was \$3,990,000 for the year ended December 31, 2020, up from \$3,905,000 for the year ended December 31, 2019. Pre-tax income was \$197,000 lower for the year ended December 31, 2020 as compared to the year ended December 31, 2019. The effective tax rate was 17.2% for the year ended December 31, 2020, slightly higher than the 16.7% effective tax rate for the year ended December 31, 2019.

Other Information:

Changes in other unaudited financial information are as follows:

- Total assets amounted to \$2,239,100,000 at December 31, 2020, down from \$2,352,793,000 at September 30, 2020 and up 35.4% from \$1,654,145,000 at December 31, 2019.
- Net loans outstanding (excluding mortgage loans held for sale) were \$1,632,824,000 at December 31, 2020, down from \$1,680,617,000 at September 30, 2020 and up 39.3% from \$1,172,386,000 at December 31, 2019. In comparing outstanding balances at December 31, 2020 and 2019, total commercial loans were up \$428.9 million (74.1%), including PPP loans of \$132.3 million, total residential mortgage loans were higher by \$33.6 million (5.7%) and total consumer loans were down \$0.5 million (2.7%). The outstanding balance of residential mortgage loans originated and serviced by C&N that have been sold to third parties was \$278.9 million at December 31, 2020, up \$100.4 million (56.3%) from December 31, 2019.
- The recorded investment in PPP loans at December 31, 2020 of \$132.3 million included contractual principal balances totaling \$134.8 million, adjusted by net deferred loan origination fees and a market rate adjustment on PPP loans acquired from Covenant. The term of most of the PPP loans is two years, with repayment from the SBA to occur sooner to the extent the loans are forgiven. In the fourth quarter 2020, loans with contractual balances totaling \$31.9 million were forgiven by the SBA. Management expects a significant portion of the PPP loans outstanding at December 31, 2020 to be forgiven in 2021. In December 2020, legislation was passed that created a second round of PPP lending for qualified borrowers. C&N management expects to participate in the second round of PPP lending in 2021.
- 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. Prior to the merger, Covenant had a similar program in place for qualifying borrowers, and these modified loans have been incorporated into C&N's program. These loans are not reported as past due or troubled debt restructurings during the deferral period. At December 31, 2020, there were 45 loans, with an aggregate recorded investment of approximately \$37.4 million, in deferral status under the program. In comparison, at September 30, 2020, C&N had 44 loans with an aggregate recorded investment of \$41.6 million in deferral status. Within these totals, loans in deferral status to commercial borrowers in the hotel industry totaled \$25.1 million at December 31, 2020 and September 30, 2020.
- Total nonperforming assets as a percentage of total assets was 1.10% at December 31, 2020, down from 1.17% at September 30, 2020 and up from 0.80% at December 31, 2019. Total nonperforming assets decreased to \$24.7 million at December 31, 2020 from \$27.5 million at September 30, 2020.
- The allowance for loan losses was \$11.4 million at December 31, 2020, or 0.69% of total loans as compared to \$10.8 million or 0.64% of total loans at September 30, 2020. Effective July 1, 2020, C&N recorded loans purchased from Covenant at fair value. Excluding PCI loans, the remainder of the portfolio was determined to be performing and was valued at \$457.6 million at July 1, 2020. The calculation of fair value included a discount for credit losses of \$7.2 million, reflecting an estimate of the present value of credit losses based on market expectations. None of the performing loans purchased from Covenant were found to be impaired in the third or fourth quarters of 2020; accordingly, there was no allowance for loan losses on loans purchased from Covenant at December 31, 2020. The total allowance for loan losses and the credit adjustment on purchased non-impaired loans at December 31, 2020 was \$17.4 million, or 1.05% of total loans receivable and the credit adjustment. The comparative ratios were 1.05% at September 30, 2020 and 0.93% at December 31, 2019.
- Deposits and repo sweep accounts totaled \$1,822,425,000 at December 31, 2020, down from \$1,873,827,000 at September 30, 2020, and up 45.3% from \$1,254,588,000 at December 31, 2019.

- Total shareholders' equity was \$299,756,000 at December 31, 2020, up from \$296,316,000 at September 30, 2020 and \$244,452,000 at December 31, 2019. In the third quarter 2020, shareholders' equity increased \$41.6 million from common stock issued in the Covenant acquisition. Within shareholders' equity, the portion of accumulated other comprehensive income related to available-for-sale debt securities was \$11,676,000 at December 31, 2020, up slightly from \$11,376,000 at September 30, 2020 and up from \$3,511,000 at December 31, 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 December 31, 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.
- Assets under management by C&N's Trust and Financial Management Group amounted to \$1,103,228,000 at December 31, 2020, up 8.9% from \$1,012,986,000 at September 30, 2020 and 9.5% from \$1,007,113,000 at December 31, 2019. Fluctuations in values of assets under management reflect the impact of high recent market volatility.

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

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



December 31, 2020

QUARTERLY REPORT

Dear Shareholder:

We began our first three Quarterly Reports in 2020 by addressing COVID-19 and this Fourth Quarter Report is no different. As projected by healthcare professionals, there was a resurgence in the spread of the virus world-wide as we approached year-end, leading to renewed restrictions on activity late in the quarter. Vaccination distribution started in mid-December, supporting optimism that the health risks associated with COVID will begin to decline in the first half of 2021. The impact on economic activity from the latest restrictions and the timing and effectiveness of vaccine protocols is still unclear. The entire team at C&N remains committed to supporting the health and welfare of our Team, customers and communities while playing our essential role in supporting the local and regional economic activity.

The November election was the other major story during the quarter. Former Vice President Joe Biden was elected President and the final U.S. Senate races were decided in early January. The White House and both houses of Congress are now controlled by democrats, which will lead to policy changes impacting our industry. The contentious nature of the election and subsequent events adds another dynamic to already challenging circumstances.

Despite the pandemic and political environment, financial markets continued to show strength during the quarter as measured by the major stock market averages and liquidity in the bond and money markets. In late December, a second economic stimulus bill was enacted that includes, among other things, another round of PPP funding for small businesses. This action, combined with the ongoing, extraordinary steps taken by the Federal Reserve to hold interest rates at historically low levels, is providing near-term support for the economy.

C&N's efforts to support customers with PPP loans, payment deferrals, cash management and investment guidance through our wealth management group remain consistent. We are actively engaged with individual customers to determine their needs and appropriate solutions. The forgiveness process for round one PPP loans and gearing up for round two was a focus during the fourth quarter.

After adjusting for merger related expenses, gains on the sale of securities and losses on prepayment of borrowings in both 2019 and 2020, fourth quarter earnings increased from \$5.7 million to \$8.1 million or 42%. Earnings per share, on the same adjusted basis, increased 21% to \$.51 per share, with the difference between adjusted earnings and EPS growth attributable to the additional shares issued in the Covenant acquisition. Net interest income for the quarter increased 38% while the net interest margin of 3.76% was essentially unchanged from the fourth quarter of 2019. Accelerated recognition of fees from PPP loans contributed to the growth in net interest income as almost 20% of C&N's PPP loans were repaid by the SBA in the fourth quarter 2020 based on forgiveness granted to the underlying borrowers.

The provision for loan losses of \$620,000 was consistent with the \$652,000 provision during the fourth quarter of 2019. Noninterest income increased by 30% primarily due to strong gains on the sale of mortgage loans. Noninterest expenses, excluding merger-related expenses and loss on prepayment of borrowings, were 33% above the fourth quarter of 2019, driven primarily by the Covenant acquisition and overall personnel related costs.

On the same adjusted basis, earnings for the year ended December 31, 2020 grew by 17% and earnings per share increased by 5% compared to 2019, reflecting the benefits of growth related to the Monument and Covenant acquisitions. Net interest income for the year increased 24% due to a larger balance sheet, and despite a decline in the net interest margin to 3.69% from 3.86%. The provision for loan losses increased \$3.1 million as compared to 2019, including the impact in 2020 of a \$2.2 million charge-off on one commercial loan. Total noninterest income grew by 26% 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 and loss on prepayment of borrowings, increased 22%. This growth was substantially due to the inclusion of former Monument operations for twelve months during 2020 compared to nine months in 2019 and the inclusion of Covenant expenses for the second half of 2020. Increased data processing costs, professional fees and various other expenses also contributed.

C&N faces the ongoing COVID crisis and related uncertainties from a position of strength. This is especially evident in our capital ratios, which are at levels that demonstrate the capacity to absorb significant credit losses, if they arise, while continuing to meet regulatory requirements to be considered well capitalized. This strength was reinforced once again by the Board's declaration of the regular quarterly cash dividend of \$.27 per share to shareholders of record on February 1, 2021, payable on February 12, 2021.

In closing, I want to thank the C&N Team for their extraordinary commitment to our Company in 2020. Our mission of creating value through relationships was in clear view throughout the year as this group delivered for each other, our customers and those in need across all the communities we serve. In addition, we finished the year with outstanding financial results and remain poised to continue our profitable growth as we drive into 2021.

As always, we appreciate your confidence in this team and support of our Company.



J. Bradley Scovill
President and CEO

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

	4TH QUARTER 2020 (Current)	4TH QUARTER 2019 (Prior Year)	\$ Incr. (Decr.)	% Incr. (Decr.)
Interest and Dividend Income	\$ 21,859	\$ 17,290	\$ 4,569	26.43 %
Interest Expense	2,104	2,999	(895)	(29.84)%
Net Interest Income	19,755	14,291	5,464	38.23 %
Provision for Loan Losses	620	652	(32)	(4.91)%
Net Interest Income After Provision for Loan Losses	19,135	13,639	5,496	40.30 %
Noninterest Income	6,565	5,066	1,499	29.59 %
Net Gains on Available-for-sale Debt Securities	144	3	141	4,700.00 %
Loss on Prepayment of Borrowings	1,636	0	1,636	
Merger-Related Expenses	182	281	(99)	(35.23)%
Other Noninterest Expenses	15,775	11,834	3,941	33.30 %
Income Before Income Tax Provision	8,251	6,593	1,658	25.15 %
Income Tax Provision	1,481	1,135	346	30.48 %
Net Income	\$ 6,770	\$ 5,458	\$ 1,312	24.04 %
Net Income Attributable to Common Shares (1)	\$ 6,727	\$ 5,431	\$ 1,296	23.86 %
PER COMMON SHARE DATA:				
Net Income - Basic	\$ 0.43	\$ 0.40	\$ 0.03	7.50 %
Net Income - Diluted	\$ 0.43	\$ 0.40	\$ 0.03	7.50 %
Dividend Per Share - Quarterly	\$ 0.27	\$ 0.27	\$ 0.00	0.00 %
Number of Shares Used in Computation - Basic	15,799,436	13,642,286		
Number of Shares Used in Computation - Diluted	15,801,068	13,663,736		

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

	YEARS ENDED			
	December 31,			
	2020 (Current)	2019 (Prior Year)	\$ Incr. (Decr.)	% Incr. (Decr.)
Interest and Dividend Income	\$ 77,160	\$ 64,771	\$ 12,389	19.13 %
Interest Expense	9,595	10,283	(688)	(6.69)%
Net Interest Income	67,565	54,488	13,077	24.00 %
Provision for Loan Losses	3,913	849	3,064	360.90 %
Net Interest Income After Provision for Loan Losses	63,652	53,639	10,013	18.67 %
Noninterest Income	24,344	19,284	5,060	26.24 %
Net Gains on Available-for-sale Debt Securities	169	23	146	634.78 %
Loss on Prepayment of Borrowings	1,636	0	1,636	
Merger-Related Expenses	7,708	4,099	3,609	88.05 %
Other Noninterest Expenses	55,609	45,438	10,171	22.38 %
Income Before Income Tax Provision	23,212	23,409	(197)	(0.84)%
Income Tax Provision	3,990	3,905	85	2.18 %
Net Income	\$ 19,222	\$ 19,504	\$ (282)	(1.45)%
Net Income Attributable to Common Shares (1)	\$ 19,106	\$ 19,404	\$ (298)	(1.54)%
PER COMMON SHARE DATA:				
Net Income - Basic	\$ 1.30	\$ 1.46	\$ (0.16)	(10.96)%
Net Income - Diluted	\$ 1.30	\$ 1.46	\$ (0.16)	(10.96)%
Dividend Per Share - Quarterly	\$ 1.08	\$ 1.08	\$ 0.00	0.00 %
Dividend Per Share - Special	\$ 0.00	\$ 0.10	\$ (0.10)	(100.00)%
Number of Shares Used in Computation - Basic	14,743,386	13,298,736		
Number of Shares Used in Computation - Diluted	14,747,048	13,321,559		

(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)

	December 31, 2020	December 31, 2019	December 31, 2020 vs 2019 \$ Incr. (Decr.)	% Incr. (Decr.)
ASSETS				
Cash & Due from Banks	\$ 101,857	\$ 35,202	\$ 66,655	189.35 %
Available-for-sale Debt Securities	349,332	346,723	2,609	0.75 %
Loans Held for Sale	942	767	175	22.82 %
Loans, Net	1,632,824	1,172,386	460,438	39.27 %
Bank-Owned Life Insurance	30,096	18,641	11,455	61.45 %
Bank Premises and Equipment, net	21,526	17,170	4,356	25.37 %
Intangible Assets	56,356	29,635	26,721	90.17 %
Other Assets	46,167	33,621	12,546	37.32 %
TOTAL ASSETS	\$ 2,239,100	\$ 1,654,145	\$ 584,955	35.36 %
LIABILITIES				
Deposits	\$ 1,820,469	\$ 1,252,660	\$ 567,809	45.33 %
Repo Sweep Accounts	1,956	1,928	28	1.45 %
Total Deposits and Repo Sweeps	1,822,425	1,254,588	567,837	45.26 %
Borrowed Funds	72,674	136,419	(63,745)	(46.73)%
Subordinated Debt	16,553	6,500	10,053	154.66 %
Other Liabilities	27,692	12,186	15,506	127.24 %
TOTAL LIABILITIES	1,939,344	1,409,693	529,651	37.57 %
SHAREHOLDERS' EQUITY				
Common Shareholders' Equity, Excluding Accumulated				
Other Comprehensive Income (Loss)	287,961	240,761	47,200	19.60 %
Accumulated Other Comprehensive Income (Loss):				
Net Unrealized Gains/Losses on Available-for-sale Debt Securities	11,676	3,511	8,165	232.55 %
Defined Benefit Plans	119	180	(61)	(33.89)%
TOTAL SHAREHOLDERS' EQUITY	299,756	244,452	55,304	22.62 %
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY	\$ 2,239,100	\$ 1,654,145	\$ 584,955	35.36 %

EXHIBIT 99.3 – Supplemental, Unaudited Financial Information



CONDENSED, CONSOLIDATED FINANCIAL HIGHLIGHTS

(Dollars In Thousands, Except Per Share Data)

(Unaudited)

	AS OF OR FOR THE YEARS ENDED December 31,		% INCREASE (DECREASE)
	2020	2019	
EARNINGS PERFORMANCE			
Net Income	\$ 19,222	\$ 19,504	(1.45)%
Return on Average Assets (Annualized)	0.96 %	1.27 %	(24.41)%
Return on Average Equity (Annualized)	7.03 %	8.50 %	(17.29)%
BALANCE SHEET HIGHLIGHTS			
Total Assets	\$ 2,239,100	\$ 1,654,145	35.36 %
Available-for-Sale Debt Securities	349,332	346,723	0.75 %
Loans (Net)	1,632,824	1,172,386	39.27 %
Allowance for Loan Losses	11,385	9,836	15.75 %
Deposits and Repo Sweep Accounts	1,822,425	1,254,588	45.26 %
OFF-BALANCE SHEET			
Outstanding Balance of Mortgage Loans Sold with Servicing Retained	\$ 278,857	\$ 178,446	56.27 %
Trust Assets Under Management	1,103,228	1,007,113	9.54 %
SHAREHOLDERS' VALUE (PER COMMON SHARE)			
Net Income - Basic	\$ 1.30	\$ 1.46	(10.96)%
Net Income - Diluted	\$ 1.30	\$ 1.46	(10.96)%
Dividends - Quarterly	\$ 1.08	\$ 1.08	0.00 %
Dividends - Special	\$ 0.00	\$ 0.10	(100.00)%
Common Book Value	\$ 18.84	\$ 17.82	5.72 %
Tangible Common Book Value (a)	\$ 15.30	\$ 15.66	(2.30)%
Market Value (Last Trade)	\$ 19.84	\$ 28.25	(29.77)%
Market Value / Common Book Value	105.31 %	158.53 %	(33.57)%
Market Value / Tangible Common Book Value	129.67 %	180.40 %	(28.12)%
Price Earnings Multiple (Annualized)	15.26	19.35	(21.14)%
Dividend Yield (Annualized, Excluding Special Dividend)	5.44 %	3.82 %	42.41 %
Common Shares Outstanding, End of Period	15,911,984	13,716,445	16.01 %

CONDENSED, CONSOLIDATED FINANCIAL HIGHLIGHTS (Continued)

(Dollars In Thousands, Except Per Share Data)

(Unaudited)

	AS OF OR FOR THE YEARS ENDED December 31,		% INCREASE (DECREASE)
	2020	2019	
SAFETY AND SOUNDNESS			
Tangible Common Equity / Tangible Assets (a)	11.15 %	13.22 %	(15.66)%
Nonperforming Assets / Total Assets	1.10 %	0.80 %	37.50 %
Allowance for Loan Losses / Total Loans	0.69 %	0.83 %	(16.87)%
Total Risk Based Capital Ratio (b)	17.49 %	20.58 %	(15.01)%
Tier 1 Risk Based Capital Ratio (b)	15.58 %	19.08 %	(18.34)%
Common Equity Tier 1 Risk Based Capital Ratio (b)	15.58 %	19.08 %	(18.34)%
Leverage Ratio (b)	10.34 %	13.10 %	(21.07)%
AVERAGE BALANCES			
Average Assets	\$ 2,009,825	\$ 1,540,469	30.47 %
Average Equity	\$ 273,351	\$ 229,446	19.14 %
EFFICIENCY RATIO (c)			
Net Interest Income on a Fully Taxable-Equivalent Basis (c)			
Basis (c)	\$ 68,545	\$ 55,532	23.43 %
Noninterest Income	24,344	19,284	26.24 %
Total (1)	\$ 92,889	\$ 74,816	24.16 %
Noninterest Expense Excluding Merger Expenses (2)	\$ 55,609	\$ 45,438	22.38 %
Efficiency Ratio = (2)/(1)	59.87 %	60.73 %	(1.42)%

(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	\$ 2,239,100	\$ 1,654,145
Less: Intangible Assets, Primarily Goodwill	(56,356)	(29,635)
Tangible Assets	<u>\$ 2,182,744</u>	<u>\$ 1,624,510</u>
Total Shareholders' Equity	\$ 299,756	\$ 244,452
Less: Intangible Assets, Primarily Goodwill	(56,356)	(29,635)
Tangible Common Equity (3)	<u>\$ 243,400</u>	<u>\$ 214,817</u>
Common Shares Outstanding, End of Period (4)	15,911,984	13,716,445
Tangible Common Book Value per Share = (3)/(4)	<u>\$ 15.30</u>	<u>\$ 15.66</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, loss on prepayment of borrowings and net gains on available-for-sale debt securities.

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

	For the Three Months Ended :							
	December 31, 2020	September 30, 2020	June 30, 2020	March 31, 2020	December 31, 2019	September 30, 2019	June 30, 2019	March 31, 2019
Interest income	\$ 21,859	\$ 21,751	\$ 16,513	\$ 17,037	\$ 17,290	\$ 17,277	\$ 17,139	\$ 13,065
Interest expense	2,104	2,469	2,267	2,755	2,999	3,000	2,934	1,350
Net interest income	19,755	19,282	14,246	14,282	14,291	14,277	14,205	11,715
Provision (credit) for loan losses	620	1,941	(176)	1,528	652	1,158	(4)	(957)
Net interest income after provision (credit) for loan losses	19,135	17,341	14,422	12,754	13,639	13,119	14,209	12,672
Noninterest income	6,565	6,970	5,528	5,281	5,066	4,963	4,849	4,406
Net gains on securities	144	25	0	0	3	13	7	0
Loss on prepayment of borrowings	1,636	0	0	0	0	0	0	0
Merger-related expenses	182	6,402	983	141	281	206	3,301	311
Other noninterest expenses	15,775	14,648	12,274	12,912	11,834	11,486	11,422	10,696
Income before income tax provision	8,251	3,286	6,693	4,982	6,593	6,403	4,342	6,071
Income tax provision	1,481	438	1,255	816	1,135	1,096	693	981
Net income	\$ 6,770	\$ 2,848	\$ 5,438	\$ 4,166	\$ 5,458	\$ 5,307	\$ 3,649	\$ 5,090
Net income attributable to common shares	\$ 6,727	\$ 2,830	\$ 5,405	\$ 4,146	\$ 5,431	\$ 5,281	\$ 3,630	\$ 5,063
Basic earnings per common share	\$ 0.43	\$ 0.18	\$ 0.39	\$ 0.30	\$ 0.40	\$ 0.39	\$ 0.27	\$ 0.41
Diluted earnings per common share	\$ 0.43	\$ 0.18	\$ 0.39	\$ 0.30	\$ 0.40	\$ 0.39	\$ 0.27	\$ 0.41

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

	As of:							
	Dec. 31, 2020	Sep. 30, 2020	Jun. 30, 2020	Mar. 31, 2020	Dec. 31, 2019	Sep. 30, 2019	Jun. 30, 2019	Mar. 31, 2019
ASSETS								
Cash & Due from Banks	\$ 101,857	\$ 174,478	\$ 77,642	\$ 32,678	\$ 35,202	\$ 51,443	\$ 39,505	\$ 44,002
Available-for-Sale Debt Securities	349,332	340,545	332,188	342,416	346,723	363,467	363,465	357,646
Loans Held for Sale	942	1,200	1,258	579	767	2,033	1,131	0
Loans, Net	1,632,824	1,680,617	1,230,387	1,156,143	1,172,386	1,130,143	1,108,483	817,136
Bank-Owned Life Insurance	30,096	29,942	18,843	18,745	18,641	18,535	18,430	18,331
Bank Premises and Equipment, net	21,526	21,504	18,332	18,023	17,170	16,038	16,114	14,663
Intangible Assets	56,356	56,585	29,511	29,573	29,635	29,939	30,013	11,949
Other Assets	46,167	47,922	37,305	31,288	33,621	30,989	32,544	26,273
TOTAL ASSETS	\$ 2,239,100	\$ 2,352,793	\$ 1,745,466	\$ 1,629,445	\$ 1,654,145	\$ 1,642,587	\$ 1,609,685	\$ 1,290,000
LIABILITIES								
Deposits	\$ 1,820,469	\$ 1,871,514	\$ 1,381,178	\$ 1,249,912	\$ 1,252,660	\$ 1,294,882	\$ 1,284,143	\$ 1,039,911
Repo Sweep Accounts	1,956	2,313	2,204	2,407	1,928	3,767	3,192	5,132
Total Deposits and Repo Sweeps	1,822,425	1,873,827	1,383,382	1,252,319	1,254,588	1,298,649	1,287,335	1,045,043
Borrowed Funds	72,674	141,344	85,104	108,144	136,419	75,714	62,574	32,844
Subordinated Debt	16,553	16,572	6,500	6,500	6,500	7,000	7,000	0
Other Liabilities	27,692	24,734	14,689	11,254	12,186	18,285	13,060	9,986
TOTAL LIABILITIES	1,939,344	2,056,477	1,489,675	1,378,217	1,409,693	1,399,648	1,369,969	1,087,873
SHAREHOLDERS' EQUITY								
Common Shareholders' Equity, Excluding Accumulated Other Comprehensive Income (Loss)	287,961	284,707	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	11,676	11,376	11,472	9,230	3,511	4,173	3,138	(941)
Defined Benefit Plans Adjustment, Net	119	233	239	244	180	287	294	300
TOTAL SHAREHOLDERS' EQUITY	299,756	296,316	255,791	251,228	244,452	242,939	239,716	202,127
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY	\$ 2,239,100	\$ 2,352,793	\$ 1,745,466	\$ 1,629,445	\$ 1,654,145	\$ 1,642,587	\$ 1,609,685	\$ 1,290,000

AVAILABLE-FOR-SALE DEBT SECURITIES
(In Thousands)

	December 31, 2020		September 30, 2020		December 31, 2019	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Obligations of the U.S. Treasury	\$ 12,184	\$ 12,182	\$ 12,228	\$ 12,226	\$ 0	\$ 0
Obligations of U.S. Government agencies	25,349	26,344	15,348	16,355	16,380	17,000
Obligations of states and political subdivisions:						
Tax-exempt	116,427	122,401	104,821	109,668	68,787	70,760
Taxable	45,230	47,452	42,079	44,195	35,446	36,303
Mortgage-backed securities issued or guaranteed by U.S. Government agencies or sponsored agencies:						
Residential pass-through securities	36,853	38,176	44,697	46,211	58,875	59,210
Residential collateralized mortgage obligations	56,048	57,467	67,635	69,337	115,025	114,723
Commercial mortgage-backed securities	42,461	45,310	39,337	42,553	47,765	48,727
Total Available-for-Sale Debt Securities	<u>\$ 334,552</u>	<u>\$ 349,332</u>	<u>\$ 326,145</u>	<u>\$ 340,545</u>	<u>\$ 342,278</u>	<u>\$ 346,723</u>

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

	December 31, 2020	September 30, 2020	December 31, 2019
Residential mortgage:			
Residential mortgage loans - first liens	\$ 532,947	\$ 541,827	\$ 510,641
Residential mortgage loans - junior liens	27,311	27,907	27,503
Home equity lines of credit	39,301	40,143	33,638
1-4 Family residential construction	20,613	29,146	14,798
Total residential mortgage	<u>620,172</u>	<u>639,023</u>	<u>586,580</u>
Commercial:			
Commercial loans secured by real estate	531,810	530,874	301,227
Commercial and industrial	159,577	156,169	126,374
Small Business Administration - Paycheck Protection Program	132,269	163,050	0
Political subdivisions	53,221	47,883	53,570
Commercial construction and land	42,874	41,906	33,555
Loans secured by farmland	11,736	11,913	12,251
Multi-family (5 or more) residential	55,811	62,330	31,070
Agricultural loans	3,164	3,561	4,319
Other commercial loans	17,289	17,385	16,535
Total commercial	<u>1,007,751</u>	<u>1,035,071</u>	<u>578,901</u>
Consumer	16,286	17,276	16,741
Total	<u>1,644,209</u>	<u>1,691,370</u>	<u>1,182,222</u>
Less: allowance for loan losses	(11,385)	(10,753)	(9,836)
Loans, net	<u>\$ 1,632,824</u>	<u>\$ 1,680,617</u>	<u>\$ 1,172,386</u>

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

	December 31, 2020	September 30, 2020	December 31, 2019
Residential mortgage loans originated and serviced - outstanding balance	\$ 279,799	\$ 255,662	\$ 179,213
Less: outstanding balance of loans sold	(278,857)	(254,462)	(178,446)
Loans held for sale, net	<u>\$ 942</u>	<u>\$ 1,200</u>	<u>\$ 767</u>

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

	3 Months Ended December 31, 2020	3 Months Ended September 30, 2020	Year Ended December 31, 2020	Year Ended December 31, 2019
Balance, beginning of period	\$ 10,753	\$ 11,026	\$ 9,836	\$ 9,309
Charge-offs	(22)	(2,249)	(2,465)	(379)
Recoveries	34	35	101	57
Net recoveries (charge-offs)	12	(2,214)	(2,364)	(322)
Provision for loan losses	620	1,941	3,913	849
Balance, end of period	<u>\$ 11,385</u>	<u>\$ 10,753</u>	<u>\$ 11,385</u>	<u>\$ 9,836</u>

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

	December 31, 2020	September 30, 2020	December 31, 2019
Impaired loans with a valuation allowance	\$ 8,082	\$ 8,085	\$ 3,375
Impaired loans without a valuation allowance	2,895	3,080	1,670
Purchased credit impaired loans	6,841	7,447	441
Total impaired loans	<u>\$ 17,818</u>	<u>\$ 18,612</u>	<u>\$ 5,486</u>
Total loans past due 30-89 days and still accruing	<u>\$ 5,918</u>	<u>\$ 3,499</u>	<u>\$ 8,889</u>
Nonperforming assets:			
Purchased credit impaired loans	\$ 6,841	\$ 7,447	\$ 441
Other nonaccrual loans	14,575	15,349	8,777
Total nonaccrual loans	21,416	22,796	9,218
Total loans past due 90 days or more and still accruing	1,975	2,308	1,207
Total nonperforming loans	23,391	25,104	10,425
Foreclosed assets held for sale (real estate)	1,338	2,369	2,886
Total nonperforming assets	<u>\$ 24,729</u>	<u>\$ 27,473</u>	<u>\$ 13,311</u>
Loans subject to troubled debt restructurings (TDRs):			
Performing	\$ 166	\$ 258	\$ 889
Nonperforming	7,285	7,779	1,737
Total TDRs	<u>\$ 7,451</u>	<u>\$ 8,037</u>	<u>\$ 2,626</u>
Total nonperforming loans as a % of loans	1.42 %	1.48 %	0.88 %
Total nonperforming assets as a % of assets	1.10 %	1.17 %	0.80 %
Allowance for loan losses as a % of total loans	0.69 %	0.64 %	0.83 %
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 %	0.93 %
Allowance for loan losses as a % of nonperforming loans	48.67 %	42.83 %	94.35 %
(a) Credit adjustment on purchased non-impaired loans at end of period	\$ 5,979	\$ 7,127	\$ 1,216
Allowance for loan losses	11,385	10,753	9,836
Total credit adjustment on purchased non-impaired loans at end of period and allowance for loan losses (1)	<u>\$ 17,364</u>	<u>\$ 17,880</u>	<u>\$ 11,052</u>
Total loans receivable	\$ 1,644,209	\$ 1,691,370	\$ 1,182,222
Credit adjustment on purchased non-impaired loans at end of period	5,979	7,127	1,216
Total (2)	<u>\$ 1,650,188</u>	<u>\$ 1,698,497</u>	<u>\$ 1,183,438</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 %	0.93 %

SUMMARY OF SELECTED FAIR VALUE ADJUSTMENTS RELATED TO ACQUISITION OF COVENANT FINANCIAL, INC

(In Thousands)

	Loans	Deposits	Borrowed Funds	Subordinated Debt
Amortized cost at acquisition	\$ 472,012	\$ 479,846	\$ 62,700	\$ 10,000
Fair value adjustments:				
Market rates	2,909	1,950	1,275	91
Credit adjustment on non-impaired loans	(7,219)			
Credit adjustment on impaired loans	(3,466)			
Fair value at acquisition	\$ 464,236	\$ 481,796	\$ 63,975	\$ 10,091
Increase (decrease) in interest income recognized in 2020 from fair value adjustments related to:				
Market rates	\$ (1,442)			
Credit adjustment on non-impaired loans	1,857			
Total	\$ 415			
(Decrease) in interest expense recognized in 2020 from fair value adjustments related to market rates		\$ (979)	\$ (424)	\$ (38)

ADJUSTMENTS TO GROSS AMORTIZED COST OF LOANS – TOTAL INCLUDING ACQUISITIONS OF COVENANT FINANCIAL, INC. AND MONUMENT BANCORP, INC.

(In Thousands)

	Three Months Ended		Year ended	
	December 31, 2020	December 31, 2019	December 31, 2020	December 31, 2019
Market Rate Adjustment				
Adjustments to gross amortized cost of loans at beginning of period	\$ 1,354	\$ (1,548)	\$ (1,415)	\$ 0
Market rate adjustment recorded in acquisition	0	0	2,909	(1,807)
(Amortization) accretion recognized in interest income	(636)	133	(776)	392
Adjustments to gross amortized cost of loans at end of period	\$ 718	\$ (1,415)	\$ 718	\$ (1,415)
Credit Adjustment on Non-impaired Loans				
Adjustments to gross amortized cost of loans at beginning of period	\$ (7,127)	\$ (1,393)	\$ (1,216)	\$ 0
Credit adjustment recorded in acquisition	0	0	(7,219)	(1,914)
Accretion recognized in interest income	1,148	177	2,456	698
Adjustments to gross amortized cost of loans at end of period	\$ (5,979)	\$ (1,216)	\$ (5,979)	\$ (1,216)

PURCHASED CREDIT IMPAIRED (PCI) LOANS – TOTAL INCLUDING PCI LOANS ACQUIRED FROM COVENANT FINANCIAL, INC. AND MONUMENT BANCORP, INC.

(In Thousands)

	December 31, 2020	December 31, 2019
Outstanding balance	\$ 10,316	\$ 759
Carrying amount	6,841	441

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

	3 Months Ended 12/31/2020 Average Balance	Rate of Return/ Cost of Funds %	3 Months Ended 9/30/2020 Average Balance	Rate of Return/ Cost of Funds %	3 Months Ended 12/31/2019 Average Balance	Rate of Return/ Cost of Funds %
EARNING ASSETS						
Interest-bearing due from banks	\$ 116,475	0.20 %	\$ 147,543	0.19 %	\$ 17,577	2.03 %
Available-for-sale debt securities, at amortized cost:						
Taxable	217,321	1.98 %	227,483	2.59 %	280,333	2.29 %
Tax-exempt	113,888	2.78 %	94,058	2.95 %	69,482	3.01 %
Total available-for-sale debt securities	331,209	2.26 %	321,541	2.70 %	349,815	2.43 %
Loans receivable:						
Taxable	1,454,733	4.96 %	1,480,247	4.91 %	1,100,170	5.28 %
Paycheck Protection Program (Taxable)	152,504	3.90 %	162,234	2.18 %	0	
Tax-exempt	62,309	3.38 %	63,111	3.57 %	66,195	3.81 %
Total loans receivable	1,669,546	4.81 %	1,705,592	4.60 %	1,166,365	5.20 %
Other earning assets	2,390	3.16 %	3,361	3.55 %	1,721	3.23 %
Total Earning Assets	2,119,620	4.15 %	2,178,037	4.02 %	1,535,478	4.53 %
Cash	31,312		33,291		19,983	
Unrealized gain/loss on securities	13,875		15,277		5,056	
Allowance for loan losses	(11,107)		(11,473)		(9,469)	
Bank-owned life insurance	30,002		30,078		18,573	
Bank premises and equipment	21,539		21,763		16,801	
Intangible assets	56,863		57,008		29,902	
Other assets	45,491		48,451		34,551	
Total Assets	\$ 2,307,595		\$ 2,372,432		\$ 1,650,875	
INTEREST-BEARING LIABILITIES						
Interest-bearing deposits:						
Interest checking	\$ 371,425	0.25 %	\$ 382,997	0.28 %	\$ 221,052	0.44 %
Money market	389,993	0.32 %	386,848	0.38 %	202,217	0.52 %
Savings	202,679	0.11 %	201,401	0.11 %	169,342	0.16 %
Time deposits	416,281	0.87 %	449,964	0.96 %	379,446	1.81 %
Total interest-bearing deposits	1,380,378	0.43 %	1,421,210	0.50 %	972,057	0.94 %
Borrowed funds:						
Short-term	27,422	0.46 %	44,660	0.65 %	54,705	2.03 %
Long-term	93,835	1.36 %	102,857	1.40 %	56,564	2.03 %
Subordinated debt	16,562	5.91 %	16,540	5.94 %	7,000	6.57 %
Total borrowed funds	137,819	1.73 %	164,057	1.65 %	118,269	2.30 %
Total Interest-bearing Liabilities	1,518,197	0.55 %	1,585,267	0.62 %	1,090,326	1.09 %
Demand deposits	465,252		463,333		299,090	
Other liabilities	26,746		26,367		18,446	
Total Liabilities	2,010,195		2,074,967		1,407,862	
Stockholders' equity, excluding accumulated other comprehensive income/loss						
Accumulated other comprehensive income/loss	286,209		285,158		238,738	
Total Shareholders' Equity	297,400		297,465		243,013	
Total Liabilities and Shareholders' Equity	\$ 2,307,595		\$ 2,372,432		\$ 1,650,875	
Interest Rate Spread		3.60 %		3.40 %		3.44 %
Net Interest Income/Earning Assets		3.76 %		3.57 %		3.75 %
Total Deposits (Interest-bearing and Demand)	\$ 1,845,630		\$ 1,884,543		\$ 1,271,147	

- (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)**

	Year Ended 12/31/2020 Average Balance	Rate of Return/ Cost of Funds %	Year Ended 12/31/2019 Average Balance	Rate of Return/ Cost of Funds %
EARNING ASSETS				
Interest-bearing due from banks	\$ 80,587	0.31 %	\$ 21,711	2.37 %
Available-for-sale debt securities, at amortized cost:				
Taxable	238,407	2.32 %	284,072	2.47 %
Tax-exempt	90,038	2.96 %	73,212	3.45 %
Total available-for-sale debt securities	<u>328,445</u>	<u>2.50 %</u>	<u>357,284</u>	<u>2.67 %</u>
Loans receivable:				
Taxable	1,285,383	5.01 %	988,560	5.37 %
Paycheck Protection Program (Taxable)	98,466	2.97 %	0	
Tax-exempt	61,249	3.63 %	68,999	3.82 %
Total loans receivable	<u>1,445,098</u>	<u>4.82 %</u>	<u>1,057,559</u>	<u>5.27 %</u>
Other earning assets	2,357	3.39 %	1,439	3.13 %
Total Earning Assets	<u>1,856,487</u>	<u>4.21 %</u>	<u>1,437,993</u>	<u>4.58 %</u>
Cash	25,439		19,906	
Unrealized gain/loss on securities	12,487		1,347	
Allowance for loan losses	(11,018)		(8,876)	
Bank-owned life insurance	24,415		18,543	
Bank premises and equipment	19,826		15,914	
Intangible assets	43,330		25,531	
Other assets	38,859		30,111	
Total Assets	<u>\$ 2,009,825</u>		<u>\$ 1,540,469</u>	
INTEREST-BEARING LIABILITIES				
Interest-bearing deposits:				
Interest checking	\$ 310,782	0.31 %	\$ 217,910	0.53 %
Money market	298,736	0.39 %	194,849	0.49 %
Savings	189,316	0.12 %	167,677	0.15 %
Time deposits	397,974	1.23 %	344,446	1.69 %
Total interest-bearing deposits	<u>1,196,808</u>	<u>0.60 %</u>	<u>924,882</u>	<u>0.89 %</u>
Borrowed funds:				
Short-term	34,212	1.07 %	33,521	2.19 %
Long-term	83,500	1.55 %	43,917	2.31 %
Subordinated debt	11,553	6.11 %	5,274	6.58 %
Total borrowed funds	<u>129,265</u>	<u>1.83 %</u>	<u>82,712</u>	<u>2.53 %</u>
Total Interest-bearing Liabilities	1,326,073	0.72 %	1,007,594	1.02 %
Demand deposits	389,601		288,805	
Other liabilities	20,800		14,624	
Total Liabilities	<u>1,736,474</u>		<u>1,311,023</u>	
Stockholders' equity, excluding accumulated other comprehensive income/loss				
income/loss	263,253		228,103	
Accumulated other comprehensive income/loss	10,098		1,343	
Total Shareholders' Equity	<u>273,351</u>		<u>229,446</u>	
Total Liabilities and Shareholders' Equity	<u>\$ 2,009,825</u>		<u>\$ 1,540,469</u>	
Interest Rate Spread		3.49 %		3.56 %
Net Interest Income/Earning Assets		3.69 %		3.86 %
Total Deposits (Interest-bearing and Demand)	\$ 1,586,409		\$ 1,213,687	

- (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			Year Ended	
	December 31, 2020	September 30, 2020	December 31, 2019	December 31, 2020	December 31, 2019
Trust and financial management revenue	\$ 1,682	\$ 1,595	\$ 1,684	\$ 6,321	\$ 6,106
Brokerage revenue	316	351	265	1,343	1,266
Insurance commissions, fees and premiums	58	41	18	184	167
Service charges on deposit accounts	1,105	1,045	1,395	4,231	5,358
Service charges and fees	74	83	73	304	332
Interchange revenue from debit card transactions	817	828	690	3,094	2,754
Net gains from sales of loans	1,472	2,052	306	5,403	924
Loan servicing fees, net	198	(87)	91	(61)	100
Increase in cash surrender value of life insurance	154	159	106	515	402
Other noninterest income	689	903	438	3,010	1,875
Total noninterest income, excluding realized gains on securities, net	<u>\$ 6,565</u>	<u>\$ 6,970</u>	<u>\$ 5,066</u>	<u>\$ 24,344</u>	<u>\$ 19,284</u>

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

	Three Months Ended			Year Ended	
	December 31, 2020	September 30, 2020	December 31, 2019	December 31, 2020	December 31, 2019
Salaries and wages	\$ 8,062	\$ 6,833	\$ 5,395	\$ 25,599	\$ 20,644
Pensions and other employee benefits	1,936	1,870	1,545	7,463	5,837
Occupancy expense, net	795	806	653	3,010	2,629
Furniture and equipment expense	399	383	322	1,451	1,289
Data processing expenses	1,144	1,251	836	4,453	3,403
Automated teller machine and interchange expense	319	340	340	1,231	1,103
Pennsylvania shares tax	422	422	345	1,689	1,380
Professional fees	427	422	274	1,692	1,069
Telecommunications	213	231	207	863	744
Directors' fees	207	175	187	730	673
Other noninterest expense	1,851	1,915	1,730	7,428	6,667
Total noninterest expense, excluding merger-related expenses and loss on prepayment of borrowings	15,775	14,648	11,834	55,609	45,438
Merger-related expenses	182	6,402	281	7,708	4,099
Loss on prepayment of borrowings	1,636	0	0	1,636	0
Total noninterest expense	<u>\$ 17,593</u>	<u>\$ 21,050</u>	<u>\$ 12,115</u>	<u>\$ 64,953</u>	<u>\$ 49,537</u>