



Stock Symbol: CZFS.OB

www.firstcitizensbank.com

Dear Shareholders and Friends:

October 31, 2014

On behalf of the Board of Directors and our employees, I am pleased to report on our financial performance for the third quarter of 2014. Our financial performance remains strong and continues to compare very favorably to peer. We continue to be challenged by the lack of loan demand, margin compression, and ongoing and increasing regulatory burdens. While managing all of these challenges, we remain focused on our strategic plan with the commitment to remain a strong, well-capitalized, local community bank dedicated to serving our communities and customers, as well as providing exceptional shareholder return and value.

For the three months ended September 30, 2014, net income totaled \$3,368,000 which compares to net income of \$3,512,000 for the third quarter of 2013. This represents a decrease of \$144,000, or 4.1%. Impacting the comparison is the recognition in the third quarter last year of \$305,000 of interest income from a loan that paid off that was previously on non-accrual status. Earnings per share of \$1.11 for the third quarter compares to \$1.15 last year. Annualized return on equity was 13.59% and 15.42% for the three months ended September 30, 2014 and 2013, while return on assets was 1.48% and 1.58%, respectively.

For the nine months ended September 30, 2014, net income totaled \$9,909,000 which compares to \$10,079,000 for the same period last year. This represents a decrease of \$170,000, or 1.7%. Earnings per share of \$3.26 decreased less than 1% from \$3.29 per share last year. Annualized return on equity for the comparable periods was 13.64% and 15.13%, while return on assets was 1.46% and 1.52%, respectively.

Net interest income, before the provision for loan losses, increased 1.5% from \$22,409,000 for the nine months ended September 30, 2013, to \$22,736,000 for 2014. While interest income decreased \$776,000, interest expense decreased \$1,103,000 from last year's first nine months resulting in an overall increase in net interest income of \$327,000 over the comparable periods. Our margin compressed slightly from 3.89% last year to 3.85% this year. Yields on interest earning assets, on a tax-effected basis, declined from 4.67% last year to 4.43% this year. As interest earning assets roll off or re-price, they are being replaced with lower yielding assets due to the continued low interest rate environment. We have been able to mitigate the impact by also decreasing the overall cost of our interest bearing liabilities, both through a decrease in interest bearing deposits and by managing the rate and term of borrowed funds. The overall yield on interest bearing liabilities has declined from .93% last year to .71% this year.

At September 30, 2014, total assets were \$913 million, up from total assets of \$899.4 million as of September 30, 2013 and down slightly from total assets of \$914.9 million at December 31, 2013. Our investment portfolio has decreased \$9 million from year-end 2013. Net loans of \$536.9 million as of the end of September have increased \$3.4 million, or .6%, compared to the end of last year. Since September 30, 2013, net loans have increased \$21.6 million. Loan quality remains strong and continues to improve from the end of last year. At September 30, 2014, non-performing loans as a percent of total loans was 1.38%. This compares to 1.63% as of December 31, 2013 and 1.78% as of September 30, 2013. Our annualized net charge-offs to average loans remains low at .19%.

Stockholders' equity totaled \$99.2 million at September 30, 2014, which compares to \$92.1 million at December 31, 2013 and \$90.4 million September 30, 2013. Net income of \$9.9 million was offset by cash dividends of \$5.4 million. As a result of changes in interest rates impacting the fair value of investment securities, the unrealized gain on available for sale investment securities increased \$2.7 million from the end of 2013. The regular, quarterly cash dividend of \$.40 per share was paid on September 26, 2014 to shareholders of record on September 19, 2014 and represents an increase of 40.4% over the quarterly cash dividend paid a year ago. Additionally, the Board of Directors also declared and paid a one-time, special cash dividend of \$.60 per share. The special one-time cash dividend was also paid on September 26th to those shareholders of record on September 19, 2014. The sustained outstanding financial performance and strong capital position has permitted us to increase our regular dividend as well as pay this one-time special dividend. The attractive dividend reflects the Board of Directors' desire to provide total shareholder return to our shareholder base. We remain well-capitalized under regulatory capital guidelines.

Significant progress has been made during the quarter in constructing our new branch facility in Mill Hall, PA. The new building is similar in style to our other most recent branch construction projects. The building clearly reflects our brand of community banking, one that is based on providing an ongoing commitment to customer service. It is our exceptional customer service that we believe will result in the successful expansion of our branch network into this market. We anticipate an early first quarter 2015 opening.

I would like to personally express my sincere thanks to our employees, local board members, management team and the Board of Directors for their efforts and dedication. As always, we remain committed to servicing the needs of individuals, businesses and communities in our area, and to being a high performing organization. I personally welcome you to stop by one of our branches to see what we are all about and what we have to offer you.

Sincerely,

Randall E. Black
Chief Executive Officer and President

For assistance regarding a change in registration of stock certificates, replacing lost certificates/dividend checks, or address changes, please contact either Gina Boor, Shareholder Services at 800-326-9486 or our transfer agent -- Broadridge Corporate Issuer Solutions, Inc., 1717 Arch Street, Suite 1300, Philadelphia, PA 19103 / toll free: 877-830-4936 / website: <https://investor.broadridge.com>.

Consolidated Balance Sheet

(Unaudited - In thousands, except share data)

	September 30 2014	December 31 2013	September 30 2013
ASSETS:			
Total cash and cash equivalents	\$ 11,323	\$ 10,083	\$ 13,756
Interest bearing time deposits with other banks	5,712	2,480	2,480
Available-for-sale securities	308,283	317,301	318,452
Loans (net of allowance for loan losses: 2014, \$6,816; December 31, 2013, \$7,098; September 30, 2013, \$7,070)	536,939	533,514	515,262
Other assets	50,788	51,556	49,446
TOTAL ASSETS	\$ 913,045	\$ 914,934	\$ 899,396
LIABILITIES:			
Total deposits	\$ 768,042	\$ 748,316	\$ 758,656
Borrowed funds	37,729	66,932	43,163
Other liabilities	8,114	7,630	7,197
TOTAL LIABILITIES	813,885	822,878	809,016
STOCKHOLDERS' EQUITY	99,160	92,056	90,380
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 913,045	\$ 914,934	\$ 899,396

Consolidated Statement of Income

(Unaudited - In thousands)

	Three Months Ended September 30		Nine Months Ended September 30	
	2014	2013	2014	2013
Interest income	\$ 8,808	\$ 9,307	\$ 26,478	\$ 27,254
Interest expense	1,234	1,562	3,742	4,845
Net interest income	7,574	7,745	22,736	22,409
Provision for loan losses	150	90	480	315
Net interest income after provision for loan losses	7,424	7,655	22,256	22,094
Investment securities gains, net	242	91	488	385
Other non-interest income	1,682	1,760	4,978	5,126
Non-interest expense	5,067	4,965	15,158	14,684
Income before provision for income taxes	4,281	4,541	12,564	12,921
Provision for income taxes	913	1,029	2,655	2,842
NET INCOME	\$ 3,368	\$ 3,512	\$ 9,909	\$ 10,079

Performance Ratio and Share Data:

	2014	2013	2014	2013
Return on average assets (annualized)	1.48%	1.58%	1.46%	1.52%
Return on average equity (annualized)	13.59%	15.42%	13.64%	15.13%
Net interest margin (tax equivalent)	3.84%	3.93%	3.85%	3.89%
Cash dividends per share	\$ 1.000	\$ 0.281	\$ 1.772	\$ 0.829
Earnings per share - basic	\$ 1.11	\$ 1.15	\$ 3.26	\$ 3.29
Earnings per share - diluted	\$ 1.11	\$ 1.15	\$ 3.26	\$ 3.29
Number of shares used in computation - basic	3,035,214	3,054,226	3,038,973	3,059,520
Number of shares used in computation - diluted	3,036,700	3,055,709	3,040,400	3,060,808
Book value per share (at end of period)			\$ 32.10	\$ 29.81
Common shares outstanding (at end of period)			3,041,904	3,016,477
Nonperforming assets to total loans (at end of period)			1.67%	1.87%

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