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## CITIZENS FINANCIAL SERVICES, INC. REPORTS RECORD 2012 EARNINGS

MANSFIELD, PENNSYLVANIA— January 22, 2013 – Citizens Financial Services, Incorporated (OTC BB: CZFS), parent company of First Citizens Community Bank, has released its unaudited financial performance for the twelve months and three months ended December 31, 2012.

For the year ended December 31, 2012, net income totaled \$14,215,000 which compares to net income of \$12,832,000 for 2011. This represents an increase of \$1,383,000, or 11%. Earnings per share of \$4.88 increased 11.9% from \$4.36 per share last year. Annualized return on equity for the comparable periods was 17.48% and 17.86%, while return on assets was 1.62% and 1.52%, respectively.

For the three months ended December 31, 2012, net income totaled \$3,549,000 which compares to \$3,477,000 for the same period last year. This represents an increase of \$72,000, or 2.1%. Earnings per share of \$1.22 increased 3.4% from \$1.18 per share for the fourth quarter last year.

Net interest income, before the provision for loan losses, increased from \$28,610,000 for the twelve months ended December 31, 2011 to \$30,426,000 in 2012, an increase of \$1,816,000 or 6.3%. On a tax equivalent basis, the net interest margin on interest earning assets increased from 3.94% last year to 3.99% this year. CEO and President Randall E. Black stated, “Even with the slight improvement in our margin, the current interest rate environment remains difficult. Yields on interest earning assets decreased from 5.16% for 2011 to 4.91% this year. The yield on investment securities decreased 34 basis points primarily due to our strategy to invest in shorter term investments. Our margin stability compared to last year was directly related to our ability to decrease our cost of funds, which decreased from 1.41% last year to 1.09% this year. We do expect that 2013 will bring challenges as the prolonged low interest rate environment persists”.

At December 31, 2012, total assets were \$882.4 million, which was an increase of \$3.8 million from total assets of \$878.6 million at December 31, 2011. The investment portfolio totaled \$310.3 million, which was a decrease of \$8.5 million from the December 31, 2011 balance of \$318.8 million. Net loans increased \$14.7 million to a total of \$495.7 million at December 31, 2012 from the end of last year. The 3.1% increase in net loans was primarily due to growth in commercial and municipal loan portfolios. The low interest rate environment continues to have a dramatic impact on fixed, residential mortgage rates. “We have chosen to service and sell most of the residential loans that we have originated on the secondary market rather than significantly increasing our interest rate risk. During 2012 we originated and sold \$37 million of residential mortgages compared to \$10 million during 2011”, stated Mr. Black.

As of December 31, 2012, non-performing assets totaled \$9.2 million and represented 1.83% as a percent of loans. This compares to 2.11% as of December 31, 2011. Credit quality has continued to improve and has resulted in a decrease in the provision for loan losses for 2012. For 2012, the provision totaled \$420,000 compared to \$675,000 recorded last year. Annualized net charge-offs as a percent of average loans remains very low at .02%.

Stockholders' equity totaled \$89.5 million at December 31, 2012, which was an increase of \$8 million or 9.8% from December 31, 2011. On October 26, 2012 a cash dividend of \$.305 per share was paid representing the regular fourth quarter dividend to shareholders. Additionally, on December 31, 2012 a cash dividend of \$.38 per share was paid and represented an accelerated dividend for the regularly scheduled dividend payment due for January 2013. “With the significant issues in Washington regarding the very complex cliff tax issues that were not resolved until the final hours of 2012, the Board of Directors

made the decision to accelerate the first quarter 2013 dividend to benefit our shareholders that could have been significantly impacted by the potential tax increase in 2013 on dividends that was on the table by the lawmakers. Our strong capital position and continued outstanding financial performance put us in a position to accelerate the January 2013 dividend. The cash dividend of \$.38 per share represented an increase of \$.085 per share, or 29%, over the quarterly dividend of \$.295 per share paid in January 2012. This increase in the cash dividend results in a very attractive dividend yield, and is consistent with the Board of Directors' desire to provide total shareholder return to our shareholder base", commented Mr. Black.

Citizens Financial Services, Inc. has over 1,500 shareholders, the majority of whom reside in Potter, Tioga, and Bradford Counties, Pennsylvania and Allegany County, New York, where their 18 offices are located.

*Note: This press release may contain forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. Actual results and trends could differ materially from those set forth in such statements due to various factors. These factors include operating, legal and regulatory risks; changing economic and competitive conditions and other risks and uncertainties.*