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Citizens Financial Services, Inc. (CZFS – OTC BB)

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Price:	\$34.00	Diluted EPS 2010A:	\$ 3.97	P/E 2010A:	8.6 x
52 Wk. Range:	\$32.00- \$45.00	(FY: DEC) 2011E:	\$ 4.26	2011E:	8.0 x
Div/Div Yld:	\$1.16 / 3.4% *	2012E:	\$4.32	2012E:	7.9 x
Shrs/Mkt Cap:	2.9 mm / \$99 mm	Book Value: **	\$ 27.11	Price/Book Value: **	1.25 x

* Includes special dividend of \$0.10 per share payable on November 25, 2011 to shareholders of record on November 18, 2011.

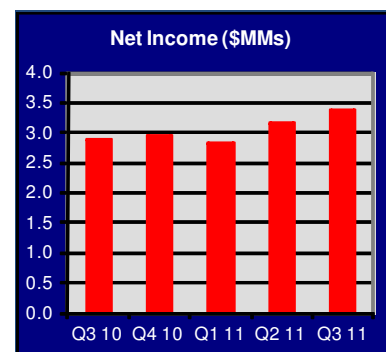
** Tangible book value is \$23.56; price to tangible book value is 1.44x. Book value excluding other comprehensive income is \$25.55.

Background

Citizens Financial Services, Inc. (“the Company”) of Mansfield, Pennsylvania, is a financial holding company for First Citizens National Bank, a full service commercial bank. First Citizens National Bank (the “Bank”) has been operating since 1932, and as of September 30, 2011, the Company had total assets of approximately \$859 million. The Company operates one other subsidiary, First Citizens Insurance Agency, Inc. (“First Citizens Insurance”). The Company currently has 17 offices located in Tioga, Bradford and Potter counties in Pennsylvania and one location in New York State with an office in Wellsville (Allegany County, Steuben, Chemung and Tioga Counties). It also has a loan production office in Lock Haven, PA. Citizens Financial Services, through its subsidiaries, focuses on highly personalized service and offers a variety of products and services to individuals and small- to medium-sized businesses. Personal banking products and services include deposit accounts, personal loans, retirement services, CDs and IRAs, while examples of business products include business loans and commercial services. Electronic services offered include ATMs, direct deposit, internet banking, OverDraft Protection, remote deposit, lockbox, on-line mortgage application and merchant card services. Through the Investment and Trust Services division, a variety of brokerage services are offered, such as professional asset management, estate planning, mutual funds and annuities, and trust administration. The Company’s stock is traded on the Over-the-Counter Bulletin Board under the symbol “CZFS.”

Third Quarter Earnings Were Up 17%; Special Dividend Declared

Citizens Financial’s third quarter results were very impressive on many fronts. Asset quality remained good, balance sheet growth was commendable, profitability ratios were outstanding (among the best in the industry) and expense containment was quite good, both in relation to year-ago numbers as well as 2011’s second quarter. Earnings were also well above our estimates, which has led us to boost our projections for the year. Based on the strength of the results, the Board declared a special \$0.10 per share cash dividend. In terms of specific results, earnings in 2011’s third quarter were \$3,378,000, or \$1.16 per diluted share, an increase of 17% from \$2,897,000, or \$0.99 per diluted share, in 2010’s third quarter.



SYMBOL: CZFS

TOTAL ASSETS: \$859 MM

HQ: MANSFIELD, PA

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3RD QUARTER HIGHLIGHTS:

EPS: \$1.16 vs. \$0.99

NET INCOME GREW 17%

**MARGIN COMPARISONS
REMAINED WEAK, THOUGH
STRONG EARNING ASSET
GROWTH LED TO AN INCREASE
IN NET INTEREST INCOME**

**THE NET INTEREST MARGIN
WAS 3.90% IN 2011’S THIRD
QUARTER, VERSUS 4.17% IN
THE YEAR-AGO QUARTER**

As was implied above, the strength in earnings was due to several factors. Net interest income increased 3% to \$7,207,000 from \$7,013,000, with strong average earning asset growth (up 9%) more than offsetting compression on the margin, which was 3.90% in the third quarter of 2011, versus 4.17% in the year-ago quarter. Part of the margin contraction has been due to the Bank’s strategy of staying in short duration investments in order to keep liquidity high and to prepare for more compelling yield opportunities. Citizens Financial is one of the few banks we follow that has recently been achieving growth in earning assets, something we attribute in part to its solid deposit growth,

**NONINTEREST INCOME
EXCLUDING SECURITY GAINS
ACCELERATED AND WAS UP
12%**

**EXPENSE CONTAINMENT
REMAINS EXCELLENT;
NONINTEREST EXPENSE AS A
PERCENTAGE OF AVERAGE
ASSETS WAS AT THE LOWEST
LEVEL IN AT LEAST 30
QUARTERS**

**FIRST NINE MONTHS
HIGHLIGHTS:**

EPS: \$3.21 vs. \$2.93

**THE COMPANY HAS
ACHIEVED EXCELLENT
LONG-TERM RATES OF
GROWTH**

**THE COMPANY HAS BEEN
ABLE TO ACHIEVE THIS
GROWTH WITHOUT ISSUING
ADDITIONAL SHARES, IN
PART DUE TO ITS HIGH
RETURN ON EQUITY**

**THE RAPID GROWTH
WITHOUT ADDITIONAL
SHARES OUTSTANDING HAS
SUPPORTED THE STOCK
PRICE, WHICH HAS
INCREASED AT A COMPOUND
GROWTH RATE OF MORE
THAN 10% SINCE 2001**

**ASSET QUALITY REMAINS
EXCELLENT**

NPAs/ASSETS: 1.24%

RESERVES/LOANS: 1.32%

**EPS:
2010A: \$3.97
2011E: \$4.26
2012E: \$4.32**

which was 10% over the past year. Assets were up 9% and loans were essentially flat. Earnings also benefitted from a drop in the provision for loan losses to \$150,000 in 2011's third quarter from \$300,000 in the year-ago quarter. Finally, we would note that core noninterest income (excluding security gains) growth was impressive at nearly 12%, while noninterest expense actually declined to \$4,399,000, versus \$4,486,000 in the year-ago quarter and \$4,584,000 in 2011's second quarter. As a percentage of average assets, noninterest expense was 2.04% in the third quarter of 2011, which is the lowest it has been in at least the past 30 quarters. Annualized return on average assets was 1.57% in 2011's third quarter, versus 1.49% in the year-ago quarter, while annualized return on average equity was 18.48%, versus 17.98% for the same respective periods.

Nine month results were likewise quite strong, with earnings increasing to \$9,355,000, or \$3.21 per diluted share, in the first nine months of 2011, versus \$8,570,000, or \$2.93 per diluted share, in the year-ago period. Earnings benefitted from higher net interest income, a lower provision and higher noninterest income.

Shareholder Value Has Been Created through Non-Dilutive Growth

Citizens Financial has maintained a rapid rate of growth over the past ten years, as can be seen from the table below. With nearly every category that one considers – from balance sheet items to measures of income – the growth rates have been in the upper single digit to lower double digit range. That level of growth is particularly striking given that it includes the recent economic slowdown, during which many banks have experienced significant balance sheet and earnings contraction. What is equally striking is that over this entire time period, the one category that actually declined was total shares outstanding. Most banks that maintain rapid rates of growth over long periods (such as ten years) must raise additional capital during this period, which obviously tends to dilute existing owners. In Citizens Financial's case, the Company's consistently high return on equity (it averaged 14.5%

from 2001 to 2010) has allowed equity to build up more quickly than assets. That has led to less pressure to issue additional shares, and has allowed the growth to be spread among a fewer number of shares outstanding. That represents a key element of the stock's long-term success, which has increased at more than 10% per year over the period considered, excluding cash dividends. The Company's equity-to-assets ratio was 9.2% at September 30, 2011, and all of its regulatory capital ratios comfortably exceed "well capitalized" minimums.

	LONG-TERM GROWTH RATES		
	2001	9/30/11	Annual CGR *
Assets (\$mm)	421	859	7.6%
Gross Loans (\$mm)	272	479	6.0%
Deposits (\$mm)	370	720	7.1%
Equity (\$mm)	33.4	78.9	9.2%
Book value/share (\$)	10.80	27.11	9.9%
TTM Earnings (\$mm)	3.8	12.3	12.8%
TTM EPS (\$)	1.22	4.25	13.6%
Actual # Shares (mm)	3.066	2.909	(0.5%)
Stock Appreciation	\$ 12.80	\$ 34.00	10.5%

* Annual compound growth rate

Asset Quality Remains Quite Good

Asset quality continues to hold up quite well at the Company. NPAs (including nonaccrual loans, loans more than 90 days past due and OREO) were \$10.6 million (1.24% of assets) at September 30, 2011, down from \$10.7 million (1.26% of assets) at the end of 2011's second quarter and \$14.3 million (1.81%), at September 30, 2010. This ratio continues to compare favorably to the median NPAs-to-assets ratio for Citizens' PA peer group median. The allowance for loan losses was \$6.3 million, or 1.32% of total loans, at September 30, 2011, versus \$5.6 million, or 1.18% of total loans, at the year-ago date.

Projections Again Increased

We are increasing the 2011 earnings projection to \$12.4 million, or \$4.26 per diluted share, and for 2012, we are projecting earnings of \$12.6 million, or \$4.32 per share. For more information about Citizens Financial Services, Inc., visit the Company's website at www.firstcitizensbank.com.

ADDITIONAL INFORMATION UPON REQUEST

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