



**FOR IMMEDIATE RELEASE**

## **Citizens Financial Services, Inc. Reports Third Quarter 2008 Earnings**

MANSFIELD, PENNSYLVANIA - October 28, 2008 - Citizens Financial Services, Incorporated (OTC BB: CZFS), parent company of First Citizens National Bank, has released its unaudited financial performance for the third quarter of 2008.

CEO and President Randall E. Black stated, " The financial turmoil facing our national economy and the world is unprecedented and represents by far, according to some sources, the most significant financial crisis since the Great Depression. Being a strong and solid local community bank has shielded us from the vast majority of the credit crisis that has impacted the world economy. Even though the current economic crisis affected our financial performance during the third quarter as we recorded charges against income resulting from investments in Freddie Mac preferred stock and a corporate bond of Lehman Brothers, I want to assure you that your company continues to be strong, as can be seen by our core earnings, high capital ratios and commitment to our communities during these uncharted times."

For the three months ended September 30, 2008, net interest income was \$5,858,000 compared with \$4,825,000 last year, which represents an increase of \$1,033,000 or 21.4%. On a year to date basis, net interest income for the nine months ended September 30, 2008 was \$16,976,000 compared with \$13,773,000 a year ago. This is an increase of \$3,203,000, or 23.3%, and is reflective of our strong core bank earnings. Our net interest margin, tax effected, on interest earning assets has improved from 3.76% for the first nine months of 2007 to 4.41% for this year.

Total assets at September 30, 2008 totaled \$620.7 million, an increase of \$36.6 million from September 30, 2007. Our investment portfolio increased from \$117.8 million to \$128.2 million, while our net loan portfolio grew \$9.6 million to \$424.9 million at September 30, 2008. Total deposits have increased significantly, from \$464.7 million at September 30, 2007 to \$515.0 million as of September 30, 2008 representing an increase of \$50.3 million or 10.8%.

As indicated previously, the issues facing our economy have had an impact on our third quarter financial results, just as those issues have impacted many if not all financial institutions throughout the country. In September, as a result of the national economic crisis, we were required to record a \$4.1 million other than temporary impairment charge related to our investments in Freddie Mac preferred stock and a Lehman Brothers corporate bond. The after-tax impact for 2008 earnings will be approximately \$2.5 million, or \$.88 per share. As a result of the Government bailout bill being signed into law on October 3, 2008, the provision in the new bill will allow the Freddie Mac preferred stock to be treated as an ordinary loss, allowing a tax benefit of approximately \$1,000,000. However, since the bailout bill was not signed until after September 30, accounting rules do not allow us to recognize the \$1,000,000 tax benefit until the fourth quarter. The result of this timing difference of approximately \$1,000,000 of net income between the third quarter and fourth quarter is an additional \$.35 of earnings per share in the fourth quarter before any operating earnings. Excluding the impairment charge and assuming normal tax rates for the quarter, year to date net income would have been, approximately \$6.9 million compared with \$4.9 million recorded for the nine months ended September 30, 2007. This is an increase of \$2.0 million, or 40.8%.

For the nine months ended September 30, 2008, net income totaled \$3,415,000 and earnings per share were \$1.20, compared to \$4,894,000 of net income and \$1.71 earnings per share for the nine months ended September 30, 2007. Return on equity for the comparable periods was 8.93% and 14.08%, while return on assets was .76% and 1.13%, for the respective time periods.

Citizens Financial Services, Inc. remains well capitalized, with an equity-to-assets ratio of 7.6%, versus 8.0% as of September 30, 2007. Book value per share at September 30, 2008 was \$17.59 compared with \$16.89 last September. In October, a cash dividend of \$.24 per share was declared and will be paid on October 31, 2008 to shareholders of record, as of October 17, 2008.

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 16 offices are located.