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## Citizens Financial Services, Inc. (CZFS – OTC Pink)

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**July 26, 2021**

<b>Price:</b>	\$64.00	<b>Diluted EPS 2019A:</b>	\$ 5.47	<b>P/E 2019A:</b>	11.7x
<b>52 Wk. Range:</b>	\$43.00 - \$65.00	(FY: DEC) <b>2020A:</b>	\$6.59	<b>2020A:</b>	9.7x
<b>Div/Div Yld: *</b>	\$1.86/2.9%	<b>2021E:</b>	\$7.05	<b>2021E:</b>	9.1x
<b>Shrs/Mkt Cap:</b>	4.4 mm / \$281 mm	<b>Book Value: **</b>	\$51.73	<b>Price/Book Value: **</b>	1.24x

\* Cash dividend is most recent regular quarterly dividend (annualized), does not include special dividends.

\*\* Tangible book value is \$43.36.

### Background

Citizens Financial Services, Inc. (“the Company”) of Mansfield, Pennsylvania, is a financial holding company for First Citizens Community Bank, a full-service community bank. First Citizens Community Bank (the “Bank”) was founded in 1872, and as of June 30, 2021, the Company had total assets of approximately \$2.0 billion. The Company has completed various acquisitions, such as the acquisition of The First National Bank of Fredericksburg (“FNB”) in 2015, the S&T Bank branch located in State College, PA in December of 2017 and MidCoast Community Bancorp, Inc. (“Midcoast”) in April 2020. The Company currently has offices in Tioga, Bradford, Potter, Clinton, Union, Lebanon, Berks, Schuylkill, Lancaster, Chester and Centre counties in Pennsylvania and one location in Wellsville (Allegany County), New York. It also has offices in Wilmington and Dover, DE. The region has a diverse economic base, and has benefited from the Marcellus Shale, an area throughout much of Appalachia that contains significant untapped natural gas reserves. 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. According to the American Bankers Association, it is the number three agricultural lender in Pennsylvania, and it is a key element of serving the ag-rich regions of Lebanon and Lancaster. Through its Investment and Trust Services division, a variety of brokerage services are offered, such as professional asset management, estate planning, mutual funds and annuities, as well as life insurance, mineral management services, financial planning and trust administration.

### Second Quarter EPS Was Up 23%, ROAE Reached 13.2%

Citizens Financial Services reported another strong quarter in the three months ended June 30, 2021. Earnings were up sharply (they were above our projections), thanks in part to favorable comparisons in nearly every major income statement category. Balance sheet growth was solid as well. Finally, we would note that asset quality held up quite well in the quarter, with NPAs dropping to the lowest level in roughly five years.

Net income for the second quarter of 2021 was \$6.6 million, or \$1.69 per diluted share, which was up 25% from \$5.3 million, or \$1.37 per diluted share, for the year-ago quarter. Net interest income was \$16.2 million in 2021’s second quarter, down slightly from \$16.3 million in the year-ago quarter, with growth in average earning assets (+19%) nearly offsetting a drop in the margin (3.46% in 2021’s second quarter versus 4.15% in the year-ago quarter). Noninterest income, excluding derivative income and security gains, grew 29% to \$2.4 million in 2021’s second quarter from \$1.9 million in the year-ago quarter, driven primarily by deposit service charges (up 27%) and brokerage and insurance commissions (up 63%). Noninterest expense declined, and even excluding merger and acquisition expenses in the year-ago quarter, noninterest expense was up a relatively modest 7%. Finally, the provision for loan losses was down slightly to \$500,000 in 2021’s second quarter from \$550,000 in the year-ago quarter. Profitability ratios were outstanding. Annualized ROAE was 13.2%, annualized ROATE (tangible equity) was 15.8% and the annualized ROAA was 1.32%.

**SYMBOL: CZFS**

**TOTAL ASSETS: \$2.0 BB**

**HQ: MANSFIELD, PA**

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### 2<sup>ND</sup> QUARTER HIGHLIGHTS:

**EARNINGS WERE ABOVE  
EXPECTATIONS**

**EPS: \$1.69 vs. \$1.37**

**THE MARGIN WAS DOWN 69  
BASIS POINTS, WHILE AVERAGE  
EARNING ASSETS GREW 19%**

**NONINTEREST INCOME WAS UP  
SHARPLY**

**NONINTEREST EXPENSE  
INCREASED 7% EXCLUDING  
YEAR-AGO MERGER RELATED  
EXPENSES**

## Year-to-Date Earnings Were Also Strong

Earnings for the first half of 2021 were \$15.1 million, or \$3.83 per diluted share, up from \$9.9 million, or \$2.64 per diluted share, in the year-ago quarter period. Net interest income increased 12% to \$32.7 million from \$29.2 million, noninterest income, excluding life insurance proceeds, security/derivative gains and losses, grew 27% to \$5.0 million from \$4.0 million and noninterest expense excluding merger expenses was up 12% to \$20.3 million from \$18.2 million. The provision for the first half of 2021 was \$1.2 million, compared to \$1.0 million in the first half of 2020. As was mentioned earlier, balance sheet growth has been commendable and was led by deposits, which were up 11% from June 30, 2020 to June 30, 2021. Net loans grew 4% (reflecting PPP paydowns/forgiveness), while total assets were up 11%. Shareholders' equity totaled \$204 million, or 10.2% of total assets, at June 30, 2021, versus \$183 million at the year-ago date.

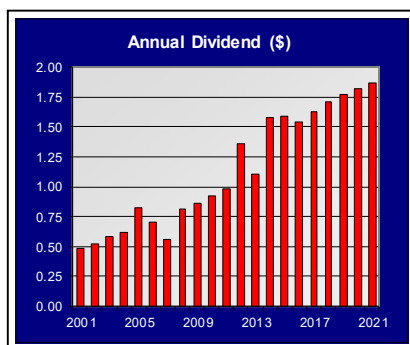
While some of the balance sheet growth over the past year has come from the addition of PPP loans, it is noteworthy that Citizens Financial has continued to grow even excluding the impact of PPP.

An example can be seen in the trend in gross loans excluding the PPP loans outstanding over the past year. Much of this growth we attribute to the Bank's push into new markets such as Delaware, as well as its ongoing initiatives in specialty lending areas such as agricultural.

Quarterly Results (\$000s)	2020			2021	
	Q2	Q3	Q4	Q1	Q2
Gross Loans	1,363.6	1,365.9	1,389.5	1,387.8	1,398.2
PPP Loans Remaining	(53.7)	(53.9)	(37.2)	(28.3)	(27.1)
<b>Gross Loan Growth Excluding PPP</b>	<b>1,309.9</b>	<b>1,312.0</b>	<b>1,352.3</b>	<b>1,359.5</b>	<b>1,371.1</b>

## Long-Term Record of Cash Dividend Growth Continues

One of the more impressive aspects of the Company's long-term success has been its record of growing cash dividends. The Board of Directors recently increased the Company's quarterly cash dividend to \$0.465 per share (paid on June 25, 2021 to shareholders of record at the close of June 11, 2021), an increase of 3.2% from the \$0.446 per share declared a year ago. Other than a few years where a dividend was shifted to a different year for tax reasons or where a *special* dividend was paid in one year and not the next, the annual increases have been extremely consistent. Dividends have accounted for a good portion of the total return to shareholders. For example, over the past five years, the total return of CZFS shares to shareholders has been 72%, of which roughly a quarter came from dividends. (The median return for the Company's PA peer group was only 47% for the same period).



## NPAs Decreased 23% From the Year-Ago Level, While Reserves Were Up 14%

Citizens Financial's asset quality improved at June 30, 2021, with nonperforming assets dropping to the lowest they have been since the end of 2015. Specifically, nonperforming assets totaled \$10.9 million, or 0.55% of total assets, at June 30, 2021, versus \$12.9 million, or 0.65% of total assets, at March 31, 2021, and \$14.2 million (0.79% of total assets), at the year-ago date. While NPAs decreased, the allowance for loan losses increased to \$16.9 million (1.20% of total loans) at June 30, 2021, from \$14.8 million (1.09% of total loans), at the year-ago date. At June 30, 2021, there was only one COVID modification loan outstanding (balance of \$6.2 million) with modified terms through August 2021.

## Projections Maintained

Based on the most recent results, we are maintaining our projection for 2021 earnings at \$27.8 million, or \$7.05 per diluted share. Earnings could vary substantially from these projections given the uncertainties of the COVID-19 crisis.

## ADDITIONAL INFORMATION UPON REQUEST

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### FIRST HALF HIGHLIGHTS:

### NET INCOME WAS UP SHARPLY

EPS: \$3.83 vs. \$2.64

BALANCE SHEET GROWTH HAS BEEN GOOD, EVEN EXCLUDING THE ADDITION FROM PPP

DEPOSITS GREW 11% OVER THE PAST YEAR

EQUITY/ASSETS: 10.2%

THE COMPANY HAS CONSISTENTLY INCREASED ITS DIVIDEND

THE MOST RECENT QUARTERLY CASH DIVIDEND WAS INCREASED TO \$0.465 PER SHARE

CZFS SHARES HAVE A FIVE-YEAR TOTAL RETURN OF 72%, A GOOD PORTION OF WHICH HAS COME FROM THE DIVIDEND

NPAs/ASSETS: 0.55% vs. 0.79% AT THE YEAR-AGO DATE

RESERVES/LOANS: 1.20%

EPS:  
2019A: \$5.47  
2020A: \$6.59  
2021E: \$7.05