CITIZENS FINANCIAL SERVICES INC
Form S-4
September 08, 2015

As filed with the Securities and Exchange Commission on September 8, 2015.

Registration No. 333-__________

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM S-4

REGISTRATION STATEMENT UNDER THE

SECURITIES ACT OF 1933

Citizens Financial Services, Inc.
(Exact name of registrant as specified in its charter)

Pennsylvania (State or other jurisdiction of incorporation or organization)	**6022** (Primary Standard Industrial Classification Code Number)	**23-2265045** (IRS Employer Identification Number)

15 South Main Street **Mansfield, Pennsylvania 16933** **(570) 662-2121** (Address, including zip code, and telephone number, including	**Randall E. Black** **President and Chief Executive Officer** **15 South Main Street**

area code, of registrant's principal executive offices)	**Mansfield, Pennsylvania 16933** **(570) 662-2121** (Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:

Victor L. Cangelosi, Esq.	**Dean H. Dusinberre, Esq.**
Thomas P. Hutton, Esq.	**Rhoads & Sinon LLP**
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5335 Wisconsin Avenue, N.W., Suite 780	**Harrisburg, Pennsylvania 17108**
Washington, DC 20015 **Telephone: (202) 274-2000**	**Telephone: (717) 233-5731**
Facsimile: (202) 362-2902	**Facsimile: (717) 238-3651**

Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date of this Registration Statement and the conditions to the consummation of the merger described herein have been satisfied or waived.

If the securities being registered on this Form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box. o

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	o	Accelerated filer	x
Non-accelerated filer	¨	Smaller reporting company	¨
(Do not check if a smaller reporting company)			

If applicable, place an X in the box to designate the appropriate rule provision relied upon in conducting this transaction:

Exchange Act Rule 13e-4(i) (Cross-Border Issuer Tender Offer) o

Exchange Act Rule 14d-1(d) (Cross-Border Third-Party Tender Offer) o

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	**Amount to be Registered (1)**	**Proposed Maximum Offering Price Per Unit**	**Proposed Maximum Aggregate Offering Price (2)**	**Amount of Registration Fee (3)**
Common Stock, par value $1.00 per share	336,685	Not applicable	$10,145,000	$1,179

(1) Represents the estimated maximum number of shares of common stock issuable by Citizens Financial Services, Inc. upon the consummation of the proposed merger with The First National Bank of Fredericksburg (“FNB”), based on the product of (x) the number of shares of FNB common stock outstanding and any shares reserved for issuance upon the exercise of outstanding stock options as of June 30, 2015, (y) an exchange ratio of 12.6000:1, and (z) 75% (the maximum portion of the merger consideration consisting of shares of Citizens Financial Services, Inc. common stock issuable in the proposed merger). Pursuant to Rule 416, this Registration Statement also covers an indeterminate number of shares of common stock as may become issuable as a result of stock splits, stock dividends or similar transactions.

(2) In accordance with Rule 457(c) and Rule 457(f), the proposed maximum aggregate offering price was calculated by multiplying (A) the book value per share of the common stock of FNB as of June 30, 2015, or $442.24 per share, by (B) 35,628, the maximum number of shares of FNB common stock (including any shares issuable pursuant to the exercise of outstanding options to purchase FNB common stock) that may be exchanged for the merger consideration, reduced by the amount of cash to be paid by Citizens Financial Services, Inc. for such shares of FNB common stock.

(3) Computed in accordance with Section 6(b) of the Securities Act of 1933 by multiplying 0.0001162 by the proposed maximum aggregate offering price.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until the registration statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

Information contained herein is subject to completion or amendment. A registration statement relating to these securities has been filed with the Securities and Exchange Commission. These securities may not be sold nor may offers to buy be accepted before the time the registration statement becomes effective. The accompanying document, which we refer to as the joint proxy statement/prospectus, shall not constitute an offer to sell or the solicitation of any offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful before registration or qualification under the securities laws of any such jurisdiction.

PRELIMINARY—SUBJECT TO COMPLETION—DATED [ ], 2015

MERGER PROPOSAL — YOUR VOTE IS VERY IMPORTANT

Dear First National Bank of Fredericksburg Stockholder:

On June 30, 2015, The First National Bank of Fredericksburg (“FNB”) entered into an Agreement and Plan of Merger (the “merger agreement”) with Citizens Financial Services, Inc. (“Citizens”) and its wholly owned subsidiary, First Citizens Community Bank (“First Citizens”). The merger agreement provides for the merger of FNB with and into First Citizens, with First Citizens as the surviving bank (the “merger”).

If the merger is completed, the separate existence of FNB will cease and each share of FNB common stock issued and outstanding immediately before the merger will be converted into the right to receive, at the election of the holder thereof, either (i) $630.00 in cash, (ii) 12.6000 shares of Citizens common stock, or (iii) a combination of cash and Citizens common stock, provided that, in the aggregate, 75% of the issued and outstanding shares of FNB common stock will be converted into shares of Citizens common stock and the remaining shares of FNB common stock will be converted into cash. Based on the closing price of Citizens common stock of $49.00 per share on the OTC Pink on June 30, 2015, the last trading day before public announcement of the merger agreement, the 12.6000 exchange ratio represented approximately $617.40 in value for each share of FNB common stock. Based on the closing price of Citizens common stock of $[ ] per share on [ ], 2015, the latest practicable date before the printing of this document, the 12.6000 exchange ratio represented approximately $[ ] in value for each share of FNB common stock. Based on the closing price of Citizens common stock of $[ ] per share on [ ], 2015, the aggregate implied value of the merger consideration is $[ ] million. You should obtain current stock price quotations for Citizens common stock. Citizens common stock trades on the OTC Pink under the symbol “CZFS.” FNB common stock is not publicly traded.

The Board of Directors of FNB has approved the merger agreement and the transactions related to it. The merger cannot be completed unless, among other things, the merger agreement is approved by FNB stockholders. The merger agreement must be approved by the affirmative vote of holders of two-thirds of the issued and outstanding shares of FNB common stock. FNB will hold a special meeting of stockholders in connection with the merger. The special meeting of FNB stockholders will be held on [ ], [ ], 2015, at [ ], local time. At the special meeting of FNB stockholders, you will be asked to (i) approve the merger agreement and the transactions contemplated by the merger agreement, including the merger, and (ii) approve the adjournment, postponement or continuation of the special meeting, if necessary or appropriate, including adjournments to permit further solicitation of proxies in favor of the approval of the merger agreement.

Your Board of Directors unanimously recommends that you vote "FOR" approval of the merger agreement and "FOR" approval of one or more adjournments or postponements of the special meeting, if necessary or appropriate, including adjournments or postponements to permit further solicitation of proxies in favor of the approval of the merger agreement.

If you sign, date and return your proxy card without indicating how you want to vote, your proxy will be counted as a vote "FOR" approval of the merger agreement and "FOR" approval of one or more adjournments or postponements of the special meeting, if necessary or appropriate, including adjournments or postponements to permit further solicitation of proxies in favor of the approval of the merger agreement. If you fail to vote, it will have the same effect as voting "AGAINST" approval of the merger agreement.

This document (which we refer to as the “joint proxy statement/prospectus”) is being delivered to FNB stockholders in connection with the solicitation by the FNB Board of Directors of proxies to be used at the special meeting of FNB stockholders. The joint proxy statement/prospectus provides you with detailed information about the proposed merger. It also contains or references information about Citizens and FNB and related matters. You are encouraged to read this document carefully. **In particular, you should read the “Risk Factors” section for a discussion of the risks you should consider in evaluating the proposed merger and how it will affect you.**

Voting procedures are described in the joint proxy statement/prospectus. Your vote is important. Whether or not you plan to attend the annual meeting of stockholders, please take the time to vote by completing the enclosed proxy card and mailing it in the enclosed envelope.

Sincerely,

Rodney P. Seidel
President and Chief Executive Officer

PLEASE MARK, SIGN, DATE AND RETURN YOUR PROXY CARD PROMPTLY, WHETHER OR NOT YOU PLAN TO ATTEND THE SPECIAL MEETING OF STOCKHOLDERS

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the merger or the securities to be issued under this joint proxy statement/prospectus or determined if this joint proxy statement/prospectus is accurate or adequate. Any representation to the contrary is a criminal offense. The securities Citizens Financial Services, Inc. is offering through this document are not savings or deposit accounts or other obligations of any bank or nonbank subsidiary of either Citizens Financial Services, Inc. or The First National Bank of Fredericksburg, and they are not insured by the Federal Deposit Insurance Corporation or any other governmental agency.

This joint proxy statement/prospectus is dated [ ], 2015, and is first being mailed to stockholders of The First National Bank of Fredericksburg on or about [ ], 2015.

3016 South Pine Grove Street

Fredericksburg, Pennsylvania 17026

(717) 202-2255

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS

A special meeting of the stockholders of The First National Bank of Fredericksburg will be held at [ ], on [ ], [ ], 2015, at [ ], local time, to consider and vote upon the following matters:

1. A proposal to approve the Agreement and Plan of Merger, dated as of June 30, 2015, by and among Citizens Financial Services, Inc., First Citizens Community Bank and The First National Bank of Fredericksburg (the "merger agreement"), and thereby to approve the transactions contemplated by the merger agreement, including the merger of The First National Bank of Fredericksburg with and into First Citizens Community Bank (the "merger proposal");

2. A proposal to approve one or more adjournments or postponements of the special meeting, if necessary or appropriate, including adjournments or postponements to permit further solicitation of proxies in favor of the approval of the merger proposal (the "adjournment proposal"); and

3. Any other business which may properly come before the special meeting or any adjournments or postponements thereof.

You are entitled to dissent to the merger and receive payment for your shares under 12 U.S.C. §214a(b). Any stockholder who wishes to exercise these rights must strictly comply with the procedures described in the attached joint proxy statement/prospectus, including: (1) (a) delivering to The First National Bank of Fredericksburg, at or before the vote on the merger agreement taken at the special meeting of stockholders, written notice to the presiding officer that he or she dissents from the merger agreement; or (b) voting against the merger agreement; and (2) strictly complying with all of the procedures required under 12 U.S.C. §214a(b). A copy of 12 U.S.C. §214a(b) is attached as Appendix C to this joint proxy statement/prospectus.

The proposed merger is described in more detail in the attached joint proxy statement/prospectus, which you should read carefully in its entirety before voting. A copy of the merger agreement is attached as Appendix A to this joint proxy statement/prospectus. Only stockholders of record of The First National Bank of Fredericksburg as of the close of business on [ ], 2015, are entitled to notice of and to vote at the special meeting of stockholders or any adjournments of the special meeting.

Your vote is very important. To ensure your representation at the special meeting of stockholders, please follow the voting procedures described in the attached joint proxy statement/prospectus and on the enclosed proxy card. This will not prevent you from voting in person, but it will help to secure a quorum and avoid added solicitation costs. Your proxy may be revoked at any time before it is voted. If your shares are held in the name of a bank, broker or other nominee, please follow the instructions on the voting instruction card furnished to you by such record holder.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT YOU VOTE "FOR" THE MERGER PROPOSAL AND "FOR" THE ADJOURNMENT PROPOSAL.

BY ORDER OF THE BOARD OF DIRECTORS

Alletta M. Schadler
Corporate Secretary

[ ], 2015

Fredericksburg, Pennsylvania

DO NOT SEND STOCK CERTIFICATES WITH THE PROXY CARD. YOU WILL RECEIVE A LETTER OF TRANSMITTAL WITH INSTRUCTIONS FOR DELIVERING YOUR STOCK CERTIFICATES UNDER SEPARATE COVER.

If you have any questions concerning the merger or other matters to be considered at the special meeting, would like additional copies of this joint proxy statement/prospectus or need help voting your shares, please contact:

Rodney P. Seidel, President and Chief Executive Officer

The First National Bank of Fredericksburg

3016 South Pine Grove Street

Fredericksburg, Pennsylvania 17026

(717) 202-2255

REFERENCES TO ADDITIONAL INFORMATION

This joint proxy statement/prospectus incorporates important business and financial information about Citizens Financial Services, Inc. from documents filed with the Securities and Exchange Commission (the “SEC”), that are not included in or delivered with this joint proxy statement/prospectus. You can obtain any of the documents filed with or furnished to the SEC by Citizens Financial Services, Inc. at no cost from the SEC’s website at *http://www.sec.gov*. You may also request copies of these documents, including documents incorporated by reference in this joint proxy statement/prospectus, at no cost by contacting Citizens Financial Services, Inc. at the following address:

Citizens Financial Services, Inc.

15 South Main Street

Mansfield, Pennsylvania 16933

Attention: Randall E. Black

President and Chief Executive Officer

You should rely only on the information contained in, or incorporated by reference into, this document. No one has been authorized to provide you with information that is different from that contained in, or incorporated by reference into, this document. This document is dated [ ], 2015, and you should assume that the information in this document is accurate only as of such date. You should assume that the information incorporated by reference into this document is accurate only as of the date of such information. See “Where You Can Find More Information.”

This document does not constitute an offer to sell, or a solicitation of an offer to buy, any securities, or the solicitation of a proxy, in any jurisdiction to or by any person to or by whom it is unlawful to make any such offer or solicitation in such jurisdiction. Except where the context otherwise indicates, information contained in this document regarding Citizens Financial Services, Inc. has been provided by Citizens Financial Services, Inc. and information contained in this document regarding The First National Bank of Fredericksburg has been provided by The First National Bank of Fredericksburg.

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QUESTIONS AND ANSWERS ABOUT THE MERGER AND THE STOCKHOLDER MEETING

The following are answers to certain questions that you may have regarding the merger and the stockholder meeting. We urge you to read carefully the remainder of this joint proxy statement/prospectus because the information in this section may not provide all the information that might be important to you in determining how to vote. Additional important information is also contained in the appendices to, and the documents incorporated by reference in, this joint proxy statement/prospectus. See "Where You Can Find More Information."

GENERAL QUESTIONS ABOUT THE MERGER

Q: WHY AM I RECEIVING THIS DOCUMENT?

A. On June 30, 2015, The First National Bank of Fredericksburg ("FNB") entered into an Agreement and Plan of Merger (the "merger agreement") with Citizens Financial Services, Inc. ("Citizens") and First Citizens Community Bank ("First Citizens"). The merger agreement provides for the merger of FNB with and into First Citizens, with First Citizens as the surviving bank (the "merger"). A copy of the merger agreement is attached to this joint proxy statement/prospectus as Appendix A. In order to complete the merger, the stockholders of FNB must vote to approve the merger agreement. FNB will hold a special meeting of stockholders to obtain the required approval to complete the merger. By means of this joint proxy statement/prospectus, the FNB Board of Directors is soliciting proxies from FNB stockholders to obtain their approval at the special meeting. This joint proxy statement/prospectus contains important information about the merger agreement, the merger, the special meeting of stockholders, and other related matters. You should read it carefully.

Q: WHAT WILL HAPPEN TO FNB AS A RESULT OF THE MERGER?

A: If the merger is completed, FNB will merge with and into First Citizens, FNB stockholders will become Citizens shareholders, and FNB will cease to exist.

Q: WHAT WILL FNB STOCKHOLDERS RECEIVE IN THE MERGER?

A: If the merger proposal is approved and the merger is subsequently completed, each outstanding share of FNB common stock (other than any dissenting shares) will be converted into the right to receive either (i) $630.00 in cash, (ii) 12.6000 shares of Citizens common stock, or (iii) a combination of cash and Citizens common stock, provided that, in the aggregate, 75% of the issued and outstanding shares of FNB common stock will be converted into shares of Citizens common stock and the remaining shares of FNB common stock will be converted into cash. In the event of certain decreases in the price of Citizens common stock, as described in the merger agreement and this joint proxy statement/prospectus, FNB may elect to terminate the merger agreement unless Citizens elects to increase the exchange ratio. See "The Merger and the Merger Agreement Merger Consideration."

Q: WHEN WILL THE MERGER BE COMPLETED?

A: The merger will be completed when all of the conditions to completion contained in the merger agreement are satisfied or waived, including the receipt of required regulatory approvals and the approval of the merger agreement by FNB stockholders at the FNB special meeting. We currently expect to complete the merger late in the fourth calendar quarter of 2015. However, because fulfillment of some of the conditions to completion of the merger, such as the receipt of required regulatory approvals, is not entirely within our control, we cannot predict the actual timing.

Q: WHAT HAPPENS IF THE MERGER IS NOT COMPLETED?

A: If the merger is not completed, FNB stockholders will not receive any consideration for their shares of common stock in connection with the merger. Instead, FNB will remain an independent bank. Under specified circumstances, FNB may be required to pay to Citizens a fee with respect to the termination of the merger agreement, as described under "The Merger and the Merger Agreement Termination; Amendment; Waiver."

Q: SHOULD FNB STOCKHOLDERS SEND IN THEIR STOCK CERTIFICATES NOW?

A: No. FNB stockholders **SHOULD NOT** send in any stock certificates now. If the merger is approved, transmittal materials, with instructions for their completion, will be provided to FNB stockholders under separate cover and the stock certificates should be sent at that time.

Q: WHAT ARE THE MATERIAL UNITED STATES FEDERAL INCOME TAX CONSEQUENCES OF THE MERGER TO FNB STOCKHOLDERS?

A: The merger is intended to qualify as a "reorganization" within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended. Holders of FNB common stock are not expected to recognize any gain or loss, for United States federal income tax purposes, if they exchange their shares of FNB common stock solely for shares of Citizens common stock, except to the extent any cash is received in lieu of a fractional share of Citizens common stock. Holders of FNB common stock who receive cash in exchange for shares of FNB common stock will generally recognize gain or loss equal to the difference between the amount of cash received and the basis in their shares of FNB common stock and/or the basis in their fractional share interest. This gain or loss will generally be capital gain or loss, and will be long-term capital gain or loss if, as of the effective date of the merger, the holding period for such shares is greater than one year.

For a more detailed discussion of the material United States federal income tax consequences of the merger, see "The Merger and the Merger Agreement—Material United States Federal Income Tax Consequences of the Merger."

The consequences of the merger to any particular stockholder will depend on that stockholder's particular facts and circumstances. Accordingly, you are urged to consult your tax advisor to determine your tax consequences from the merger.

Q: ARE DISSENTING FNB STOCKHOLDERS ENTITLED TO APPRAISAL RIGHTS?

A: Yes. Pursuant to federal banking law, FNB stockholders may dissent from the merger and elect to have the fair market value of their shares appraised and to receive payment for their shares in cash. In order to perfect dissenters' rights of appraisal, a stockholder must comply with the provisions of federal law, which include voting against the merger or giving notice in writing at or before the special meeting to the presiding officer that he or she dissents from the plan of merger. For further information, see "The Merger and the Merger Agreement—Dissenters' Rights" and Appendix C to this joint proxy statement/prospectus.

Q: ARE THERE RISKS THAT I SHOULD CONSIDER IN DECIDING WHETHER TO VOTE FOR APPROVAL OF THE MERGER-RELATED PROPOSALS?

A: Yes. You should read and carefully consider the risk factors set forth in the section of this joint proxy statement/prospectus entitled "Risk Factors."

THE SPECIAL MEETING OF FNB STOCKHOLDERS

Q: WHEN AND WHERE WILL FNB HOLD ITS SPECIAL MEETING?

A: FNB will hold a special meeting of its stockholders at [ ] on [ ], [ ], 2015, at [ ], local time.

Q: WHAT MATTERS ARE FNB STOCKHOLDERS BEING ASKED TO APPROVE AT THE FNB SPECIAL MEETING PURSUANT TO THIS JOINT PROXY STATEMENT/PROSPECTUS?

A: FNB stockholders are being asked to approve the merger agreement and thereby approve the transactions contemplated by the merger agreement, including the merger, which we refer to as the "merger proposal." FNB stockholders also are being asked to approve one or more adjournments of the special meeting, if necessary or appropriate, including adjournments to permit further solicitation of proxies in favor of the merger proposal, which we refer to as the "adjournment proposal."

Q: WHAT DOES THE FNB BOARD OF DIRECTORS RECOMMEND WITH RESPECT TO THE TWO PROPOSALS?

A: The FNB Board of Directors has unanimously approved the merger agreement and determined that the merger agreement and the merger are in the best interests of FNB and its stockholders and unanimously recommends that FNB stockholders vote **"FOR"** the merger proposal and **"FOR"** the adjournment proposal.

Q: DID THE FNB BOARD OF DIRECTORS RECEIVE AN OPINION FROM A FINANCIAL ADVISOR WITH RESPECT TO THE MERGER?

A: Yes. On June 30, 2015, Boenning & Scattergood, Inc. ("Boenning") rendered its opinion to the FNB Board of Directors that, as of such date and based upon and subject to the factors and assumptions described to the FNB Board of Directors during Boenning's presentation and set forth in its opinion, the consideration in the proposed merger was fair, from a financial point of view, to holders of FNB common stock. The full text of Boenning's written opinion is attached as Appendix B to this joint proxy statement/prospectus. FNB stockholders are urged to read the opinion carefully.

Q: WHO CAN VOTE AT THE FNB SPECIAL MEETING?

A: Holders of record of FNB common stock at the close of business on [ ], 2015, which is the record date for the FNB special meeting, are entitled to vote at the special meeting.

Q: HOW MANY VOTES MUST BE REPRESENTED IN PERSON OR BY PROXY AT THE FNB SPECIAL MEETING TO HAVE A QUORUM?

A: The holders of a majority of the shares of FNB common stock outstanding and entitled to vote at the special meeting, present in person or represented by proxy, will constitute a quorum at the special meeting.

Q: WHAT VOTE BY FNB STOCKHOLDERS IS REQUIRED TO APPROVE THE FNB SPECIAL MEETING PROPOSALS?

A: Approval of the merger proposal will require the affirmative vote of holders of two-thirds of the outstanding shares of FNB common stock. Abstentions and broker non-votes will have the same effect as shares voted against the merger agreement proposal.

Approval of the adjournment proposal will require the affirmative vote of a majority of the votes cast at the special meeting. Abstentions and broker non-votes will not affect whether the adjournment proposal is approved.

As of the record date for the special meeting, directors and executive officers of FNB, together with their affiliates, had sole or shared voting power over approximately [ ]% of the FNB common stock outstanding and entitled to vote at the special meeting.

Q: HOW CAN THE FNB STOCKHOLDERS VOTE THEIR SHARES FOR THE SPECIAL MEETING PROPOSALS PRESENTED IN THIS JOINT PROXY STATEMENT/PROSPECTUS?

A: FNB stockholders may vote by completing, signing, dating and returning the proxy card in the enclosed prepaid return envelope as soon as possible. This will enable their shares to be represented and voted at the special meeting. If your stock is held in "street name," you will receive instructions from your broker, bank or other nominee that you must follow to have your shares voted. Your broker, bank or other nominee may allow you to deliver your voting instructions via the telephone or the Internet. Please review the proxy card or instruction form provided by your broker, bank or other nominee that accompanies this proxy statement.

Q: WILL A BROKER, BANK OR OTHER NOMINEE HOLDING SHARES IN "STREET NAME" FOR AN FNB STOCKHOLDER AUTOMATICALLY VOTE THOSE SHARES FOR THE STOCKHOLDER AT THE FNB SPECIAL MEETING?

A: No. A broker, bank or other nominee **WILL NOT** vote your shares with respect to the merger proposal without first receiving instructions from you on how to vote. If your shares are held in "street name," you will receive separate voting instructions with your proxy materials. It is therefore important that you provide timely instruction to your broker, bank or other nominee to ensure that all shares of FNB common stock that you own are voted at the special meeting.

Q: WILL FNB STOCKHOLDERS BE ABLE TO VOTE THEIR SHARES AT THE FNB SPECIAL MEETING IN PERSON?

A: Yes. Submitting a proxy will not affect the right of any FNB stockholder to vote in person at the special meeting. If your shares are held in "street name," you must ask your broker, bank or other nominee how to vote your shares in person at the special meeting.

Q: WHAT DO FNB STOCKHOLDERS NEED TO DO NOW?

A: After carefully reading and considering the information contained in this joint proxy statement/prospectus, FNB stockholders are requested to vote by mail or by attending the special meeting and voting in person. If you choose to vote by mail, you should complete, sign, date and promptly return the enclosed proxy card. The proxy card will instruct the persons named on the proxy card to vote the stockholder's FNB shares at the special meeting as the stockholder directs. If a stockholder signs and sends in a proxy card and does not indicate how the stockholder wishes to vote, the proxy will be voted "**FOR**" approval of the merger proposal and "**FOR**" approval of the adjournment proposal.

Q: WHAT SHOULD AN FNB STOCKHOLDER DO IF THEY RECEIVE MORE THAN ONE SET OF VOTING MATERIALS?

A: As an FNB stockholder, you may receive more than one set of voting materials, including multiple copies of this joint proxy statement/prospectus and multiple proxy cards or voting instruction cards. For example, if you hold your FNB shares in more than one brokerage account, you will receive a separate voting instruction card for each brokerage account in which you hold FNB shares. If you are a holder of record and your FNB shares are registered in more than one name, you will receive more than one proxy card. Please complete, sign, date and return each proxy card and voting instruction card that you receive or otherwise follow the voting instructions set forth in this joint proxy statement/prospectus in the section entitled "Special Meeting of The First National Bank of Fredericksburg Stockholders."

Q: MAY AN FNB STOCKHOLDER CHANGE OR REVOKE THEIR VOTE AFTER SUBMITTING A PROXY?

A: Yes. If you have not voted through your broker, bank or other nominee, you can change your vote by:

- providing written notice of revocation to the Corporate Secretary of FNB, which must be filed with the Corporate Secretary by the time the special meeting begins;
- submitting a new proxy card (any earlier proxies will be revoked automatically); or
- attending the special meeting and voting in person. Any earlier proxy will be revoked. However, simply attending the special meeting without voting will not revoke your proxy.

If you have instructed a broker, bank or other nominee to vote your shares, you must follow the directions of your broker, bank or other nominee to change your vote.

Q: WHAT HAPPENS IF I SELL MY SHARES OF FNB COMMON STOCK BEFORE THE SPECIAL MEETING?

A: The record date for FNB stockholders entitled to vote at the special meeting is earlier than both the date of the special meeting and the completion of the merger. If you transfer your FNB shares of common stock after the record date but before the special meeting, unless special arrangements are made, you will retain your right to vote at the special meeting, but will have transferred the right to receive the merger consideration to the person to whom you transfer your shares.

Q: IF I AM AN FNB STOCKHOLDER, WHO CAN HELP ANSWER MY QUESTIONS?

A: If you have any questions about the merger or the special meeting, or if you need additional copies of this joint proxy statement/prospectus or the enclosed proxy card, you should contact Rodney P. Seidel, President and Chief Executive Officer, The First National Bank of Fredericksburg, 3016 South Pine Grove Street, Fredericksburg, Pennsylvania 17026, (717) 202-2255.

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SUMMARY

On June 30, 2015, FNB entered into the merger agreement with Citizens and its wholly owned subsidiary, First Citizens, pursuant to which FNB will merge with and into First Citizens, with First Citizens as the surviving bank. The merger cannot be completed unless the merger agreement is approved by FNB stockholders. This joint proxy statement/prospectus provides you with detailed information about the proposed merger. It also contains or references information about Citizens and FNB and related matters.

This summary highlights selected information included in this joint proxy statement/prospectus and does not contain all of the information that may be important to you. Each item in this summary includes a page reference directing you to a more complete description of that item. You should read this entire joint proxy statement/prospectus and its appendices and the other documents to which we refer you before you decide how to vote with respect to the merger agreement and related transactions. In addition, we incorporate by reference important business and financial information about Citizens into this document. For a description of this information, see "Where You Can Find More Information." You may obtain the information incorporated by reference into this document without charge by following the instructions in the section entitled "References to Additional Information."

This joint proxy statement/prospectus, including information included or incorporated by reference into this document, contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements include, but are not limited to: (i) statements of goals, intentions and expectations; (ii) statements regarding business plans, prospects, growth and operating strategies; (iii) statements regarding the asset quality of loan and investment portfolios; (iv) statements regarding estimates of risks and future costs and benefits; and (iv) other statements identified by words such as "expects," "anticipates," "intends," "plans," "believes, "seeks," "estimates," or words of similar meaning. These forward-looking statements are based on current beliefs and expectations of the management of Citizens and FNB and are inherently subject to significant business, economic and competitive uncertainties and contingencies, including those described in the section entitled "Risk Factors," many of which are beyond the control of Citizens and FNB. In addition, these forward-looking statements are subject to assumptions with respect to future business strategies and decisions that are subject to change. Actual results may differ materially from the anticipated results discussed in these forward-looking statements. See "Forward-Looking Statements."

THE MERGER

The merger agreement is attached to this document as Appendix A. We encourage you to read the agreement carefully, as it is the legal document that governs the merger of FNB with and into First Citizens.

Parties to the Merger (page 55)

Citizens Financial Services, Inc. and First Citizens Community Bank. Citizens is a bank holding company engaged in commercial banking and financial services through its wholly owned subsidiary, First Citizens, a Pennsylvania-chartered commercial bank. Established in 1932, and headquartered in Mansfield, Pennsylvania, First Citizens has a primary market area of Clinton, Potter, Tioga and Bradford Counties in north central Pennsylvania and Allegany County in southwestern New York, and operates 18 branch offices. As of June 30, 2015, Citizens had total assets of approximately $942.5 million, total deposits of approximately $791.9 million, net loans of approximately $564.7 million, and stockholders' equity of approximately $103.2 million. Through this branch network and its electronic delivery channels, First Citizens provides deposit and loan products and financial services to local businesses, consumers and municipalities. First Citizens' wholly owned subsidiary, First Citizens Insurance Agency, Inc., offers products such as mutual funds, annuities, and health and life insurance. The principal executive office of

Citizens is located at 15 South Main Street, Mansfield, Pennsylvania 16933 and its telephone number is (570) 662-2121.

The First National Bank of Fredericksburg. Founded in 1907, FNB is a national bank regulated by the Office of the Comptroller of the Currency (the "OCC"). FNB engages in general commercial banking business from its main office in Fredericksburg, Pennsylvania and operates seven branch offices located in Berks, Lebanon and Schuylkill Counties in southeastern Pennsylvania. FNB provides its customers with a variety of consumer and commercial banking services. As of June 30, 2015, FNB had total assets, deposits and net loans of approximately $232.4 million, $214.1 million and $145.2 million, respectively. FNB's principal executive office is located at 3016 South Pine Grove Street, Fredericksburg, Pennsylvania 17026 and its telephone number is (717) 202-2255.

Upon completion of the proposed merger, the combined institution will have total assets of approximately $1.2 billion, total deposits of approximately $1.0 billion, net loans of approximately $707.7 million, and 25 branches serving north central and southeastern Pennsylvania and Allegany County in southwestern New York.

Special Meeting of FNB Stockholders (page 48)

FNB will hold a special meeting of its stockholders at [ ], on [ ], [ ], 2015, at [ ], local time. At the special meeting, FNB stockholders will be asked to vote to approve the merger proposal and the adjournment proposal. You may vote at the special meeting of stockholders if you owned shares of FNB common stock at the close of business on the record date, [ ], 2015. On that date, there were [ ] shares of FNB common stock outstanding and entitled to vote at the special meeting of FNB stockholders. You may cast one vote for each share of FNB common stock you owned on the record date.

Even if you expect to attend the special meeting of stockholders, FNB recommends that you promptly complete and return your proxy card in the enclosed return envelope.

Approval of the merger agreement by FNB stockholders requires the affirmative vote of holders of two-thirds of the issued and outstanding shares of FNB common stock. A failure to vote or an abstention will have the same effect as a vote against approval of the merger agreement. Approval of the adjournment proposal will require the affirmative vote of a majority of the votes cast at the special meeting. Abstentions and broker non-votes will not affect whether the adjournment proposal is approved.

As of the record date, directors and executive officers of FNB beneficially owned [ ] shares of FNB common stock entitled to vote at the special meeting of stockholders. This represents approximately [ ]% of the total votes entitled to be cast at the special meeting of stockholders. These directors have executed voting agreements pursuant to which they have agreed to vote “FOR” adoption of the merger agreement.

What FNB Stockholders Will Receive in the Merger (page 68)

If the merger agreement is approved and the merger is subsequently completed, each outstanding share of FNB common stock will be converted into the right to receive either (i) $630.00 in cash, (ii) 12.6000 shares of Citizens common stock (the “exchange ratio”), or (iii) a combination of cash and Citizens common stock, provided that, in the aggregate, 75% of the issued and outstanding shares of FNB common stock will be converted into shares of Citizens common stock and the remaining shares of FNB common stock will be converted into cash. In the event of certain decreases in the price of Citizens common stock, as described in the merger agreement and this document, FNB may elect to terminate the merger agreement unless Citizens elects to increase the exchange ratio.

Material United States Federal Income Tax Consequences of the Merger (page 83)

Citizens and FNB will not be required to complete the merger unless each receives a legal opinion from its respective counsel to the effect that the merger will qualify as a tax-free reorganization for United States federal income tax purposes.

For United States federal income tax purposes, we expect that you generally will not recognize any gain or loss with respect to your shares of FNB common stock that are exchanged for shares of Citizens common stock in the merger, except with respect to any cash received in lieu of a fractional share of Citizens common stock. If you receive cash in exchange for your shares of FNB common stock, we expect that you will generally recognize gain or loss equal to the difference between the amount of cash received and the basis in your shares of FNB common stock and/or the basis in your fractional share interest. This gain or loss will generally be capital gain or loss, and will be long-term capital gain or loss if, as of the effective date of the merger, your holding period for such shares is greater than one year.

You should read “The Merger and the Merger Agreement—Material United States Federal Income Tax Consequences of the Merger” for a more complete discussion of the federal income tax consequences of the merger. Tax matters can be complicated and the tax consequences of the merger to you will depend on your particular tax situation. You should consult your tax advisor to fully understand the tax consequences of the merger to you.

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The FNB Board of Directors Unanimously Recommends Stockholder Approval of the Merger Agreement (page 58)

The FNB Board of Directors, after careful review and consideration of the terms of the merger agreement, unanimously approved the merger agreement and all directors have agreed to vote shares of FNB common stock they own as of the record date in favor of the adoption of the merger agreement. The FNB Board of Directors believes that the merger and the merger agreement are in the best interests of FNB and its stockholders and unanimously recommends that you vote "FOR" approval and adoption of the merger agreement. See "The Merger and the Merger Agreement—Recommendation of the FNB Board of Directors and Reasons for the Merger."

Fairness Opinion of Boenning & Scattergood, Inc. as FNB's Financial Advisor (page 61 and Appendix B)

At the June 30, 2015 meeting of the FNB Board of Directors, representatives of Boenning rendered Boenning's oral opinion**,** which was confirmed by delivery of a written opinion to the FNB Board of Directors dated June 30, 2015, as to the fairness, as of such date, from a financial point of view, to the holders of FNB common stock of the exchange ratio provided for in the merger pursuant to the merger agreement.

The full text of the written opinion of Boenning, dated June 30, 2015, which sets forth, among other things, the various qualifications, assumptions and limitations on the scope of the review undertaken, is attached as Appendix B to this joint proxy statement/prospectus. Boenning provided its opinion for the information and assistance of the FNB Board of Directors (in its capacity as such) in connection with its consideration of the merger, and the opinion only addresses whether the exchange ratio provided for in the merger pursuant to the merger agreement was fair, from a financial point of view, to FNB stockholders. The Boenning opinion does not constitute a recommendation to the FNB Board of Directors or any holder of FNB common stock as to how the FNB Board of Directors, such stockholder or any other person should vote or otherwise act with respect to the merger or any other matter.

Holders of FNB Common Stock Have Dissenters' Rights (page 73 and Appendix C)

The holders of FNB common stock are entitled to dissent from approval of the merger agreement and to receive the fair value of their shares in cash if the merger is consummated, provided they follow certain procedures. These procedures are described at page 73 in the section "The Merger and the Merger Agreement Dissenters' Rights" and set forth in Appendix C to this joint proxy statement/prospectus.

Interests of FNB's Directors and Officers in the Merger that are Different from Yours (page 74)

In considering the recommendation of the Board of Directors of FNB to approve the merger agreement, you should be aware that officers and directors of FNB have employment and other compensation agreements or economic interests that give them interests in the merger that are somewhat different from, or in addition to, the interests of FNB stockholders. These interests and agreements provide for potential cash severance payments in the aggregate amount of up to approximately $769,277. Some of the interests of the officers and directors include:

- Employment agreements between FNB and each of Rodney P. Seidel, President and Chief Executive Officer, Michael R. Groff, Vice President/Senior Loan Officer, Kyle R. Fisher, Vice President/Trust Officer, and Wendy E. Dorsey, Assistant Vice President/Operations Officer, that provide for cash severance payments and continued health and welfare benefits in connection with a termination of employment without cause or for good reason following a change in control;

- Salary continuation agreements with Messrs. Seidel, Groff, Fisher, and Ms. Dorsey that provide for annual retirement benefits over a period of 15 years following retirement and under which the normal retirement benefits fully vest upon a change in control;
- Insurance policies and split-dollar agreements for directors and executives, pursuant to which seven current executives will receive a benefit upon a termination of employment following a change in control;
- Continued life insurance coverage for certain officers and directors upon their termination of service following a change in control;
- One current director of FNB who, in consultation with FNB, will be invited to be appointed and elected by Citizens to the Citizens Board of Directors and by First Citizens to the First Citizens Board of Directors; and
- Rights of FNB officers and directors to continued indemnification coverage and continued coverage under directors' and officers' liability insurance policies.

Regulatory Matters (page 80)

The merger cannot be completed without the prior approval of the Board of Governors of the Federal Reserve System (the "FRB") and the Pennsylvania Department of Banking and Securities (the "PDOB"). Citizens has applications pending with the FRB and PDOB. While Citizens does not know of any reason why it would not be able to obtain the necessary approvals in a timely manner, Citizens cannot assure you that these approvals will occur or what the timing may be or that these approvals will not be subject to one or more conditions that would result in a Material Adverse Effect (as defined in the merger agreement) to Citizens or FNB.

Conditions to the Merger (page 80)

Completion of the merger depends on a number of conditions being satisfied or waived, including the following:

- the receipt of all required regulatory approvals, without any accompanying condition or requirement that would result in a Material Adverse Effect (as defined in the merger agreement) on Citizens or FNB;
- approval of the merger agreement by the affirmative vote of holders of two-thirds of the issued and outstanding shares of FNB common stock;
- there must be no statute, rule, regulation, order, injunction or decree in existence which enjoins or prohibits the completion of the merger;
- Citizens' registration statement, of which this joint proxy statement/prospectus is a part, shall have become effective and no stop order suspending its effectiveness shall have been issued and no proceedings for that purpose shall have been initiated or threatened by the SEC or any state securities commissioner;
- with respect to each of Citizens and FNB, the representations and warranties of the other party to the merger agreement must be true and correct in all material respects as of the date of the merger agreement and as of the date of the closing, except to the extent such representations and warranties speak as of an earlier date;
- each party must have performed in all material respects all obligations and complied in all material respects with all agreements or covenants to be performed or complied with by it at or before the effective time of the merger; and
- both Citizens and FNB must have received a legal opinion from their respective counsels that the merger will qualify as a tax-free reorganization under United States federal income tax laws.

The parties may waive conditions to their obligations unless they are legally prohibited from doing so. Stockholder approval and regulatory approvals may not be legally waived.

Although Citizens anticipates the closing will occur during the fourth quarter of 2015, because the satisfaction of certain of these conditions is beyond its control, Citizens cannot be certain when, or if, the conditions to the merger will be satisfied or waived or whether the merger will be completed.

No Solicitation (page 81)

Subject to certain exceptions, FNB has agreed not to initiate, solicit, induce or knowingly encourage any inquiries or the making of any proposal by any third party relating to an acquisition of FNB, or enter into or maintain or continue to discuss or negotiate any acquisition proposal with any third party. Notwithstanding these restrictions, however, the merger agreement provides that, under specified circumstances, in response to an unsolicited acquisition proposal or inquiry from a third party which, in the good faith judgment of the FNB Board of Directors, is reasonably likely to result in a transaction more favorable to FNB's stockholders from a financial point of view than the merger with First Citizens (a "superior proposal"), FNB may furnish information regarding FNB and engage in discussions and negotiations with such third party.

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Termination of the Merger Agreement (page 81)

Citizens and FNB may mutually agree at any time to terminate the merger agreement without completing the merger, even if FNB stockholders have approved it. Also, either party may decide, without the consent of the other party, to terminate the merger agreement under specified circumstances, including if the merger is not consummated by June 30, 2016, if the required regulatory approval is not received, or if the stockholders of FNB do not approve the merger. In addition, either party may terminate the merger agreement if there is a failure by the other party to perform or comply with any of the covenants or agreements set forth in the merger agreement, unless the breach is capable of being cured and is cured within 30 days of the notice of breach and provided that the terminating party is not then in breach of the merger agreement.

In addition, FNB may terminate the merger agreement if the Citizens common stock price falls below thresholds set forth in the merger agreement and Citizens does not increase the exchange ratio pursuant to a prescribed formula or, under certain limited circumstances, if FNB has received a superior proposal and has determined to accept such proposal. Citizens may terminate the merger agreement if FNB accepts a third party's superior proposal and fails to recommend that the stockholders of FNB approve the merger agreement or withdraws, modifies or changes its recommendation regarding the merger proposal in a manner adverse to Citizens.

Termination Fee (page 81)

If the merger is terminated pursuant to the situations specified in the merger agreement (for example, if FNB accepts a superior proposal or enters into an acquisition proposal under certain circumstances), FNB may be required to pay a termination fee to Citizens of $1.0 million. FNB agreed to this termination fee arrangement in order to induce Citizens to enter into the merger agreement. The termination fee requirement may discourage other companies from trying or proposing to combine with FNB before the merger is completed.

Comparison of Stockholders' Rights (page 85)

The rights of FNB stockholders who become Citizens shareholders as a result of the merger will be governed by Pennsylvania law and the articles of incorporation and bylaws of Citizens rather than by the National Bank Act and OCC regulations and the articles of association and bylaws of FNB.

RISK FACTORS

In addition to the other information contained in or incorporated by reference into this joint proxy statement/prospectus, including the matters addressed under the caption “Forward-Looking Statements,” you should carefully consider the following risk factors in deciding whether to vote for approval of the merger agreement and the related transactions.

Risks Related to the Merger

Regulatory approval may not be received, may take longer than expected or may impose conditions that are not presently anticipated or cannot be met.

Before the transactions contemplated in the merger agreement, including the merger, may be completed, various approvals or consents must be obtained from the FRB and the PDOB. The FRB and the PDOB may impose conditions on the completion of the merger or require changes to the terms of the merger agreement. Although Citizens and FNB do not currently expect that any such conditions or changes would be imposed, there can be no assurance that they will not be, and such conditions or changes could have the effect of delaying completion of the transactions contemplated in the merger agreement or imposing additional costs on or limiting Citizens’ revenues, any of which might have a material adverse effect on Citizens following the merger. There can be no assurance as to whether the regulatory approvals will be received, the timing of those approvals, or whether any conditions will be imposed.

The merger agreement may be terminated in accordance with its terms and the merger may not be completed.

The merger agreement is subject to a number of conditions which must be fulfilled in order for the merger to close. Those conditions include FNB stockholder approval, regulatory approvals, the continued accuracy of certain representations and warranties by both parties, and the performance by both parties of certain covenants and agreements. In addition, certain circumstances exist where FNB may choose to terminate the merger agreement, including the acceptance of a superior proposal as defined in the merger agreement or certain declines in Citizens common stock price followed by Citizens’ election not to increase the exchange ratio.

Citizens may fail to realize the anticipated benefits of the merger, and the value of the Citizens common stock received by FNB stockholders as consideration for the merger may decline.

First Citizens and FNB have operated and, until the completion of the merger, will continue to operate, independently. Certain employees of FNB will not be employed by Citizens or First Citizens after the merger. In addition, employees of FNB that First Citizens wishes to retain may elect to terminate their employment as a result of the merger which could delay or disrupt the integration process. It is possible that the integration process could result in the disruption of FNB’s ongoing businesses or inconsistencies in standards, controls, procedures and policies that adversely affect the ability of First Citizens to maintain relationships with customers and employees or to achieve the anticipated benefits of the merger.

The success of the merger will depend on, among other things, Citizens’ ability to realize anticipated cost savings and to combine the businesses of First Citizens and FNB in a manner that permits growth opportunities and does not materially disrupt the existing customer relationships of FNB or result in decreased revenues resulting from any loss of customers. If Citizens is not able to successfully achieve these objectives, the anticipated benefits of the merger may not be realized fully or may take longer to realize than expected, adversely affecting the value of Citizens common stock, including that which FNB stockholders have received as consideration for the merger.

FNB directors and officers have interests in the merger besides those of a stockholder.

FNB's directors and officers have various interests in the merger besides being FNB stockholders. These interests include:

- Employment agreements between FNB and each of Rodney P. Seidel, President and Chief Executive Officer, Michael R. Groff, Vice President/Senior Loan Officer, Kyle R. Fisher, Vice President/Trust Officer, and Wendy E. Dorsey, Assistant Vice President/Operations Officer that provide for cash severance payments and continued health and welfare benefits in connection with a termination of employment without cause or for good reason following a change in control;

- Salary continuation agreements with Messrs. Seidel, Groff, Fisher, and Ms. Dorsey that provide for annual retirement benefits over a period of 15 years following retirement and under which the normal retirement benefits fully vest upon a change in control;
- Insurance policies and split-dollar agreements for directors and executives, pursuant to which seven current executives will receive a benefit upon a termination of employment following a change in control;
- Continued life insurance coverage for certain officers and directors upon their termination of service following a change in control;
- One current director of FNB who, in consultation with FNB, will be invited to be appointed and elected by Citizens to the Citizens Board of Director and by First Citizens to the First Citizens Board of Directors; and
- Rights of FNB officers and directors to continued indemnification coverage and continued coverage under directors' and officers' liability insurance policies.

FNB stockholders cannot be certain of the market value of the merger consideration they will receive, because the market price of Citizens common stock will fluctuate.

Upon completion of the merger, each share of FNB common stock will be converted into merger consideration consisting of either (i) $630.00 in cash, (ii) 12.6000 shares of Citizens common stock, or (iii) a combination of cash and Citizens common stock. The market value of Citizens common stock may vary from the closing price on the date the merger was announced, on the date that this document was mailed to FNB stockholders, on the date of the special meeting of the FNB stockholders, on the date the merger is completed, and thereafter. Any change in the market price of Citizens common stock before completion of the merger will affect the amount and market value of the merger consideration that FNB stockholders will receive upon completion of the merger to the extent FNB stockholders receive shares of Citizens common stock. Accordingly, at the time of the special meeting, FNB stockholders will not know or be able to calculate with certainty the market value of the merger consideration they would receive upon completion of the merger. Stock price changes may result from a variety of factors, including general market and economic conditions, changes in each company's respective business, operations and prospects, and regulatory considerations. Many of these factors are beyond Citizens' control. You should obtain current market quotations for shares of Citizens common stock before you vote.

FNB stockholders may receive a form of consideration different from what they elect.

The consideration to be received by FNB stockholders in the merger is subject to the requirement that 75% of the shares of FNB common stock be exchanged for shares of Citizens common stock and the remaining 25% of FNB common shares be exchanged for cash. The merger agreement contains proration and allocation procedures to achieve this desired result. If you elect all cash and the available cash consideration is oversubscribed, then you will receive a portion of the merger consideration in Citizens common stock. If you elect all stock and the available stock consideration is oversubscribed, then you will receive a portion of the merger consideration in cash.

In certain circumstances, cash merger consideration received may be taxed as a dividend rather than capital gains and FNB's counsel is not able to provide an opinion regarding whether this tax treatment will apply to any individual stockholder.

In certain circumstances, the cash merger consideration received by an FNB stockholder who receives Citizens common stock and cash may be taxed as a dividend, rather than as capital gain. This could arise if there has not been a meaningful reduction in the stockholder's interest in Citizens as a result of the exchange. For purposes of this determination, the stockholder generally will be treated as if the stockholder first exchanged all of their shares of FNB common stock solely for Citizens common stock and then Citizens immediately redeemed a portion of the Citizens common stock in exchange for the cash the stockholder actually received. Moreover, the FNB stockholder may be deemed to constructively own shares of Citizens common stock held by certain members of the stockholder's family or certain entities in which the stockholder has an ownership or beneficial interest, and certain stock options may be aggregated with the stockholder's shares of Citizens common stock. Because the determination as to whether a stockholder's interest has been meaningfully reduced is based on facts and circumstances unique to each stockholder, FNB's legal counsel will not opine as to such treatment at the individual stockholder level.

FNB stockholders will have a reduced ownership and voting interest after the merger and will exercise less influence over management.

FNB's stockholders currently have the right to vote in the election of the FNB Board of Directors and on other matters affecting FNB. If and when the merger occurs, each FNB stockholder that receives shares of Citizens common stock will become a stockholder of Citizens with a percentage ownership of the combined institution that is much smaller than the stockholder's current percentage ownership of FNB. Because of this, FNB's stockholders will have less influence on the management and policies of Citizens than they currently have on the management and policies of FNB.

Failure to complete the merger could negatively impact the stock prices and future businesses and financial results of Citizens and FNB.

If the merger is not completed, the ongoing businesses of Citizens and FNB may be adversely affected and Citizens and FNB will be subject to several risks, including the following:

1.

Citizens and FNB will be required to pay certain costs relating to the merger whether or not the merger is completed, such as legal, accounting, financial advisory and printing fees;

2.

under the merger agreement, FNB is subject to certain restrictions on the conduct of its business before completing the merger, which may adversely affect its operating results; and

3.

matters relating to the merger may require substantial commitments of time and resources by Citizens and FNB management, which could otherwise have been devoted to other opportunities that may have been beneficial to Citizens and FNB as independent companies.

In addition, if the merger is not completed, Citizens or FNB may experience negative reactions from the financial markets and from their respective customers and employees. Citizens or FNB also could be subject to litigation related to any failure to complete the merger or to enforcement proceedings to perform their respective obligations under the merger agreement. If the merger is not completed, Citizens and FNB cannot assure their stockholders that the risks described above will not materialize and will not materially affect the business, financial results and stock prices of Citizens or FNB.

The opinions of FNB's financial advisor will not reflect changes in circumstances between the signing of the merger agreement and the completion of the merger.

FNB's financial advisor, Boenning, rendered an opinion dated June 30, 2015, to the FNB Board of Directors, that, as of such date and based upon and subject to the factors and assumptions set forth in its written opinion, the consideration to be paid to FNB stockholders pursuant to the merger agreement was fair from a financial point of view to the holders of FNB common stock. Boenning assumed no responsibility for updating, revising or reaffirming its opinion based on circumstances, developments or events occurring after the date thereof.

Changes in the operations and prospects of Citizens or FNB, general market and economic conditions and other factors on which Boenning's opinion was based may significantly alter the value of Citizens or FNB or the prices of shares of Citizens common stock or FNB common stock by the time the merger is completed. Boenning's opinion does not speak as of the time the merger will be completed or as of any date other than the date of such opinion. The FNB Board of Directors' recommendation that holders of FNB common stock vote "FOR" adoption of the merger agreement, however, is as of the date of this document.

The merger agreement limits FNB's ability to pursue alternatives to the merger.

The merger agreement contains "no shop" provisions that, subject to limited exceptions, limit FNB's ability to discuss, facilitate or commit to competing third party proposals to acquire all or a significant part of FNB. In addition, FNB has agreed to pay Citizens a termination fee in the amount of $1.0 million in the event that FNB or Citizens terminates the merger agreement for certain reasons. These provisions might discourage a potential competing acquirer that has an interest in acquiring all or a significant part of FNB from considering or proposing that acquisition even if it were prepared to pay consideration with a higher per share market price than that proposed in the merger with First Citizens. FNB can consider and participate in discussions and negotiations with respect to an alternative proposal so long as the FNB Board of Directors determines in good faith after consultation with legal counsel that such alternative proposal is, or is reasonably likely to lead to, a proposal which is superior to the merger with First Citizens.

The shares of Citizens common stock to be received by FNB stockholders as a result of the merger will have different rights from the shares of FNB common stock.

Upon completion of the merger, FNB stockholders will become Citizens shareholders and their rights as shareholders will be governed by Pennsylvania law and the articles of incorporation and bylaws of Citizens. The rights associated with FNB common stock are different from the rights associated with Citizens common stock. See "Comparison of Stockholders' Rights" for a discussion of the different rights associated with Citizens common stock.

Goodwill incurred in the merger may negatively affect Citizens' financial condition.

To the extent that the purchase price exceeds the fair value of the net assets, including identifiable intangibles, of FNB, that amount will be reported as goodwill in Citizens' future financial statements. In accordance with current accounting guidance, goodwill will not be amortized but will be evaluated for impairment annually. A failure to realize expected benefits of the merger could adversely impact the carrying value of the goodwill recognized in the merger and, in turn, negatively affect Citizens' financial condition and results of operations.

Risks Related to Citizens

Changing interest rates may decrease Citizens' earnings and asset values.

Citizens' net interest income is the interest it earns on loans and investments less the interest it pays on deposits and borrowings. Citizens' net interest margin is the difference between the yield it earns on its assets and the interest rate it pays for deposits and other sources of funding. Changes in interest rates – whether increases or decreases – could adversely affect Citizens' net interest margin and, as a result, its net interest income. Although the yield it earns on its assets and its funding costs tend to move in the same direction in response to changes in interest rates, one can rise or fall faster than the other, causing the Citizens' interest margin to expand or contract. Citizens' liabilities tend to be shorter in duration than its assets, so they may adjust faster in response to changes in interest rates. As a result, when interest rates rise, Citizens' funding costs may rise faster than the yield it earns on its assets, causing its net interest margin to contract until the asset yields catch up. Changes in the slope of the "yield curve" – or the spread between short-term and long-term interest rates – could also reduce Citizens' net interest margin. Normally, the yield curve is upward sloping, meaning short-term rates are lower than long-term rates. Because Citizens' liabilities tend to be shorter in duration than its assets, when the yield curve flattens or even inverts, it could experience pressure on its net interest margin as the cost of funds increases relative to the yield it can earn on its assets.

Changes in interest rates also affect the value of First Citizens' interest-earning assets, and in particular First Citizens' securities portfolio. Generally, the value of fixed-rate securities fluctuates inversely with changes in interest rates. Unrealized gains and losses on securities available for sale are reported as a separate component of shareholders' equity, net of tax. Decreases in the fair value of securities available for sale resulting from increases in interest rates could have an adverse effect on shareholders' equity.

Local economic conditions are being increasingly impacted by the exploration and drilling activities for natural gas in the in the Marcellus and Utica Shale formations.

The economy in a large portion of Citizens' market areas has become increasingly influenced by the natural gas industry. Citizens' market area is predominately centered in the Marcellus and Utica Shale natural gas exploration and drilling area. These natural gas exploration and drilling activities have significantly impacted the overall interest in real estate in the market area due to the related lease and royalty revenues associated with it. The natural gas activities have had a positive impact on the value of local real estate. Additionally, many of Citizens' customers provide transportation and other services and products that support natural gas exploration and production activities. Moreover, Citizens has experienced an increase in deposits as a result of this natural resource exploration and has developed products specifically targeting those that have benefited from this activity. Exploration and drilling of the natural gas reserves in the market area may be affected by federal, state and local laws and regulations such as restrictions on production, permitting, changes in taxes and environmental protection. In addition, these activities can be affected by the market price for natural gas. These factors could negatively impact Citizens' customers and, as a result, negatively impact its loan and deposit volume. If there is a significant downturn in this industry, as a result of regulatory action or otherwise, the ability of Citizens' borrowers to repay their loans in accordance with their terms could be negatively impacted or reduce demand for loans. Finally, the borrowing needs of some of the residents in Citizens' market area have been limited due to the economic benefits afforded them as a result of the exploration activities. These factors could have a material adverse effect on Citizens' business, prospects, financial condition and results of operations.

Higher loan losses could require Citizens to increase its allowance for loan losses through a charge to earnings.

When Citizens loans money it incurs the risk that its borrowers will not repay their loans. Citizens reserves for loan losses by establishing an allowance through a charge to earnings. The amount of this allowance is based on Citizens' assessment of loan losses inherent in its loan portfolio. The process for determining the amount of the allowance is critical to Citizens' financial results and condition. It requires subjective and complex judgments about the future, including forecasts of economic or market conditions that might impair the ability of borrowers to repay their loans. Citizens might underestimate the loan losses inherent in its loan portfolio and have loan losses in excess of the amount reserved. Citizens might increase the allowance because of changing economic conditions. For example, in a rising interest rate environment, borrowers with adjustable-rate loans could see their payments increase. There may be a significant increase in the number of borrowers who are unable or unwilling to repay their loans, resulting in Citizens' charging off more loans and increasing its allowance for loan losses. In addition, when real estate values decline, the potential severity of loss on a real estate-secured loan can increase significantly, especially in the case of loans with high combined loan-to-value ratios. A decline in the national economy and the local economies of the areas in which the loans are concentrated could result in an increase in loan delinquencies, foreclosures or repossessions resulting in increased charge-off amounts and the need for additional loan loss allowances in future periods. In addition, bank regulators may require Citizens to make a provision for loan losses or otherwise recognize further loan charge-offs following their periodic review of its loan portfolio, underwriting procedures, and loan loss allowance. Any increase in the allowance for loan losses or loan charge-offs as required by such regulatory authorities could have a material adverse effect on Citizens' financial condition and results of operations. Citizens' allowance for loan losses amounted to $7.0 million, or 1.22% of total loans outstanding and 94.1% of nonperforming loans, at June 30, 2015. Citizens' allowance for loan losses at June 30, 2015 may not be sufficient to cover future loan losses. A large loss could deplete the allowance and require increased provisions to replenish the allowance, which would decrease Citizens' earnings. In addition, at June 30, 2015, Citizens had a total of 28 loan relationships with outstanding balances that exceeded $3.0 million, 27 of which were performing according to their original terms. However, the deterioration of one or more of these loans could result in a significant increase in Citizens' nonperforming loans and provision for loan losses, which would negatively impact its results of operations.

Citizens' emphasis on commercial real estate, agricultural real estate, construction and municipal lending may expose Citizens to increased lending risks.

At June 30, 2015, Citizens had $193.7 million in loans secured by commercial real estate, $30.7 million in agricultural real estate loans, $8.0 million in construction loans and $84.7 million in municipal loans. Commercial real estate, agricultural real estate, construction and municipal loans represented 33.9%, 5.4%, 1.4% and 14.8%, respectively, of Citizens' loan portfolio. At June 30, 2015, Citizens had $4.3 million of reserves specifically allocated to these loan types. While commercial real estate, agricultural, construction and municipal loans are generally more interest rate sensitive and carry higher yields than residential mortgage loans, these types of loans generally expose a lender to greater risk of non-payment and loss than single-family residential mortgage loans because repayment of the loans often depends on the successful operation of the property, the income stream of the borrowers and, for construction loans, the accuracy of the estimate of the property's value at completion of construction and the estimated cost of construction. Such loans typically involve larger loan balances to single borrowers or groups of related borrowers compared to single-family residential mortgage loans.

Loan participations have been a significant source of loan originations in recent periods and a decline in loan participation volume could hurt profits and slow loan growth.

Citizens has actively engaged in loan participations in recent periods whereby it is invited to participate in loans, primarily commercial real estate and municipal loans, originated by another financial institution known as the lead lender. Citizens has participated with other financial institutions in both Citizens' primary markets and out-of-market areas. Loan participations accounted for approximately $11.7 million, or 66.4%, of Citizens' loan growth during the six months ended June 30, 2015. Citizens' profits and loan growth could be significantly and adversely affected if the volume of loan participations materially decreases, whether because loan demand declines, loans are paid off, lead lenders come to perceive Citizens as a potential competitor in their respective market areas, or otherwise.

If Citizens concludes that the decline in value of any of its investment securities is other-than-temporary, it is required to write down the value of that security through a charge to earnings.

Citizens reviews its investment securities portfolio monthly and at each quarter-end reporting period to determine whether the fair value of the securities is below the current carrying value. When the fair value of any of its investment securities has declined below its carrying value, Citizens is required to assess whether the decline is other-than-temporary. If it concludes that the decline is other-than-temporary, it is required to write down the value of that security through a charge to earnings. As of June 30, 2015, Citizens' investment portfolio included available for sale investment securities with an amortized cost of $113.8 million and a fair value of $113.0 million, which included unrealized losses on 72 securities totaling $810,000. Changes in the expected cash flows of these securities or prolonged price declines may result in Citizens' concluding in future periods that the impairment of these securities is other-than-temporary, which would require a charge to earnings to write down theses securities to their fair value. Any charges for other-than-temporary impairment would not impact cash flow, tangible capital or liquidity.

Income from secondary mortgage market operations is volatile, and Citizens may incur losses or charges with respect to its secondary mortgage market operations, which would negatively affect its earnings.

Citizens generally sells in the secondary market the longer term fixed-rate residential mortgage loans that it originates, earning non-interest income in the form of gains on sale. When interest rates rise, the demand for mortgage loans tends to fall and may reduce the number of loans available for sale. Furthermore, the prolonged low interest rate environment has reduced the demand for loans available for sale. In addition to interest rate levels, weak or deteriorating economic conditions also tend to reduce loan demand. Although Citizens sells loans in the secondary market without recourse, it is required to give customary representations and warranties to the buyers. If Citizens breaches those representations and warranties, the buyers can require Citizens to repurchase the loans and it may incur a loss on the repurchase. Because Citizens generally retains the servicing rights on the loans it sells in the secondary market, it is required to record a mortgage servicing right asset, which it tests annually for impairment. The value of mortgage servicing rights tends to increase with rising interest rates and decrease with falling interest rates. If Citizens is required to take an impairment charge on its mortgage servicing rights, its earnings would be adversely affected.

Citizens' financial condition and results of operations are dependent on the economy in First Citizens' market area.

First Citizens' primary market area consists of the Pennsylvania Counties of Bradford, Clinton, Potter, and Tioga in North Central Pennsylvania and Allegany County in southern New York. As of June 30, 2015, management estimates that approximately 91.9% of deposits and 75.0% of loans came from households whose primary addresses are located in First Citizens' primary market area. Because of First Citizens' concentration of business activities in its market area, Citizens' financial condition and results of operations depend upon economic conditions in this market area. Adverse economic conditions in the market area could reduce Citizens' growth rate, affect the ability of its customers to repay their loans, and generally affect its financial condition and results of operations. Conditions such as inflation, recession, unemployment, high interest rates and short money supply and other factors beyond its control may adversely affect Citizens' profitability. Citizens is less able than a larger institution to spread the risks of unfavorable local economic conditions across a large number of diversified economies. Any sustained period of increased payment delinquencies, foreclosures or losses caused by adverse market or economic conditions in Pennsylvania or New York could adversely affect the value of Citizens' assets, revenues, results of operations and financial condition. Moreover, Citizens cannot give any assurance that it will benefit from any market growth or favorable economic conditions in its primary market areas if they do occur.

A return of recessionary conditions could result in increases in Citizens' level of nonperforming loans or reduce demand for its products and services, which could have an adverse effect on its results of operations.

Although the United States economy is not currently in a recession, economic growth has been slow and uneven. A return to prolonged deteriorating economic conditions or continued negative developments in the domestic and international credit markets could significantly affect the markets in which Citizens does business, the value of its loans and investments, and its ongoing operations, costs and profitability. These events may cause Citizens to incur losses and may adversely affect its financial condition and results of operations.

Regulation of the financial services industry is undergoing major changes and future legislation could increase Citizens' cost of doing business or harm its competitive position.

Citizens is subject to extensive regulation, supervision and examination by the FRB and the PDOB, its primary regulators, and by the FDIC, as insurer of its deposits. Such regulation and supervision governs the activities in which an institution and its holding company may engage and are intended primarily for the protection of the insurance fund and the depositors and borrowers of First Citizens rather than for holders of Citizens common stock. Regulatory authorities have extensive discretion in their supervisory and enforcement activities, including the imposition of restrictions on Citizens' operations, the classification of its assets, and determination of its allowance for loan losses. Any change in such regulation and oversight, whether in the form of regulatory policy, regulations, legislation or supervisory action, may have a material impact on Citizens' profitability and operations. Future legislative changes could require changes to business practices or force Citizens to discontinue businesses and potentially expose it to additional costs, liabilities, enforcement action and reputational risk.

Citizens is periodically subject to examination and scrutiny by a number of banking agencies and, depending upon the findings and determinations of these agencies, it may be required to make adjustments to its business that could adversely affect it.

Federal and state banking agencies periodically conduct examinations of Citizens' business practices, including its compliance with applicable laws and regulations. If, as a result of an examination, a banking agency was to determine that the financial condition, capital resources, asset quality, asset concentration, earnings prospects, management, liquidity, sensitivity to market risk or other aspects of any of Citizens' operations has become unsatisfactory, or that Citizens or its management is in violation of any law or regulation, it could take a number of different remedial actions as it deems appropriate. These actions include the power to enjoin "unsafe or unsound" practices, to require affirmative action to correct any conditions resulting from any violation or practice, to issue an administrative order that can be judicially enforced, to direct an increase in Citizens' capital, to restrict Citizens' growth, to change the asset composition of Citizens' portfolio or balance sheet, to assess civil monetary penalties against Citizens' officers or directors, to remove officers and directors and, if it is concluded that such conditions cannot be corrected or there is an imminent risk of loss to depositors, to terminate Citizens' deposit insurance. If Citizens becomes subject to such regulatory actions, its business, results of operations and reputation may be negatively impacted.

Strong competition within First Citizens' market area could hurt profits and slow growth.

First Citizens faces intense competition both in making loans and attracting deposits. This competition has made it more difficult for it to make new loans and at times has forced it to offer higher deposit rates. Price competition for loans and deposits might result in First Citizens earning less on loans and paying more on deposits, which would reduce net interest income. Competition also makes it more difficult to increase the volume of First Citizens' loan and deposit portfolios. As of June 30, 2014, which is the most recent date for which information is available, First Citizens held 35.0% of the FDIC-insured deposits in Bradford, Potter and Tioga Counties, Pennsylvania, which was the largest share of deposits out of eight financial institutions with offices in the area, and 5.5% of the FDIC-insured deposits in Allegany County, New York, which was the fourth largest share of deposits out of five financial institutions with offices in this area. Competition also makes it more difficult to hire and retain experienced employees. Some of the institutions with which First Citizens competes have substantially greater resources and lending limits than First Citizens has and may offer services that First Citizens does not provide. Citizens' management expects competition to increase in the future as a result of legislative, regulatory and technological changes and the continuing trend of consolidation in the financial services industry. First Citizens' profitability depends upon its continued ability to compete successfully in its market area.

Citizens relies on its management and other key personnel and the loss of any of them may adversely affect its operations.

Citizens is and will continue to be dependent upon the services of its executive management team. In addition, it will continue to depend on its ability to retain and recruit key commercial loan officers. The unexpected loss of services of any key management personnel or commercial loan officers could have an adverse effect on Citizens' business and financial condition because of the loss of their skills, knowledge of the market and years of industry experience, and the difficulty of promptly finding qualified replacement personnel.

Environmental liability associated with lending activities could result in losses.

In the course of Citizens' business, it may foreclose on and take title to properties securing its loans. If hazardous substances were discovered on any of these properties, Citizens could be liable to governmental entities or third parties for the costs of remediation of the hazard, as well as for personal injury and property damage. Many environmental laws can impose liability regardless of whether Citizens knew of or was responsible for the contamination. In addition, if Citizens arranges for the disposal of hazardous or toxic substances to another site, it may be liable for the costs of cleaning up and removing those substances from the site even if it neither owns nor operates the disposal site. Environmental laws may require Citizens to incur substantial expenses and may materially limit use of properties it acquires through foreclosure, reduce their value, or limit Citizens' ability to sell them in the event of a default on the loans they secure. In addition, future laws or more stringent interpretations or enforcement policies with respect to existing laws may increase Citizens' exposure to environmental liability.

Citizens' ability to pay dividends is limited.

Citizens' ability to pay dividends to its shareholders largely depends on its receipt of dividends from First Citizens. The amount of dividends that First Citizens may pay to Citizens is limited by federal and state laws and regulations. Additionally, Citizens may decide to limit the payment of dividends even when it has the legal ability to pay them in order to retain earnings for use in its business.

Federal and state banking laws and Citizens' articles of incorporation and bylaws may have an anti-takeover effect.

Federal law imposes restrictions, including regulatory approval requirements, on persons seeking to acquire control over bank holding companies such as Citizens. Pennsylvania law, as well as Citizens' articles of incorporation and bylaws, also contain provisions that may have an anti-takeover effect. These provisions may serve to entrench management or discourage a takeover attempt that shareholders consider to be in their best interest or in which they would receive a substantial premium over the current market price.

Citizens is subject to certain risks in connection with its use of technology.

Communications and information systems are essential to the conduct of Citizens' business, as it uses such systems to manage its customer relationships, general ledger, deposits, and loans, and to deliver online and electronic banking services. Citizens' operations rely on the secure processing, storage, and transmission of confidential and other information in its computer systems and networks. Although it takes protective measures and endeavors to modify them as circumstances warrant, the security of Citizens' computer systems, software, and networks may be vulnerable to breaches, unauthorized access, misuse, computer viruses, or other malicious code and cyber-attacks that could have a security impact.

In addition, breaches of security may occur through intentional or unintentional acts by those having authorized or unauthorized access to Citizens' confidential or other information or the confidential or other information of its customers, clients, or counterparties. If one or more security breaches were to occur, the confidential and other information processed and stored in, and transmitted through, Citizens' computer systems and networks could potentially be jeopardized, or could otherwise cause interruptions or malfunctions in Citizens' operations or the operations of its customers, clients, or counterparties. This could cause Citizens significant reputational damage or result in its experiencing significant losses from fraud or otherwise.

Furthermore, Citizens may be required to expend significant additional resources to modify its protective measures or to investigate and remediate vulnerabilities or other exposures arising from operational and security risks. Also, Citizens may be subject to litigation and financial losses that are either not insured against or not fully covered through any insurance it maintains.

In addition, Citizens routinely transmits and receives personal, confidential, and proprietary information by e-mail and other electronic means. Citizens has discussed and worked with its customers, clients, and counterparties to develop secure transmission capabilities, but it does not have, and may be unable to put in place, secure capabilities with all of these constituents, and it may not be able to ensure that these third parties have appropriate controls in place to protect the confidentiality of such information. Any interception, misuse, or mishandling of personal, confidential, or proprietary information being sent to or received from a customer, client, or counterparty could result in legal liability, regulatory action, and reputational harm, and could have a significant adverse effect on Citizens' competitive position, financial condition, and results of operations.

Citizens' risk management framework may not be effective in mitigating risks or losses.

Citizens has implemented a risk management framework to manage its risk exposure. This framework is comprised of various processes, systems and strategies, and is designed to manage the types of risk to which it is subject, including, among others, credit, market, liquidity, interest rate and compliance risk. Citizens' framework also includes financial or other modeling methodologies which involve management assumptions and judgment. There is no assurance that Citizens' risk management framework will be effective under all circumstances or that it will adequately mitigate any risk or loss. If Citizens' framework is not effective, it could suffer unexpected losses, adverse regulatory consequences, and its business, financial condition, results of operations or prospects could be materially and adversely affected.

FORWARD-LOOKING STATEMENTS

This document, including information included or incorporated by reference in this document may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements include, but are not limited to, (i) the financial condition, results of operations and business of Citizens and FNB; (ii) statements about the benefits of the merger, including future financial and operating results, cost savings, enhancements to revenue and accretion to reported earnings that may be realized from the merger; (iii) statements about Citizens' plans, objectives, expectations and intentions and other statements that are not historical facts; and (iv) other statements identified by words such as "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates," or words of similar meaning. These forward-looking statements are based on current beliefs and expectations of Citizens' management and are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond its control. In addition, these forward-looking statements are subject to assumptions with respect to future business strategies and decisions that are subject to change.

The following factors, among others, could cause actual results to differ materially from the anticipated results or other expectations expressed in the forward-looking statements:

- general economic conditions in the areas in which Citizens operates;
- the businesses of FNB and Citizens may not be combined successfully, or such combination may take longer to accomplish than expected;
- the growth opportunities and cost savings from the merger may not be fully realized or may take longer to realize than expected;
- the risk that the merger agreement may be terminated in certain circumstances which would require FNB to pay Citizens a termination fee of $1.0 million;
- operating costs, customer losses and business disruption following the merger, including adverse effects of relationships with employees, may be greater than expected;
- governmental approvals of the merger may not be obtained, or adverse regulatory conditions may be imposed in connection with governmental approvals of the merger;
- adverse governmental or regulatory policies may be enacted;
- the interest rate environment may change, causing margins to further compress and adversely affecting net interest income;
- the risks associated with continued diversification of assets and adverse changes to credit quality;
- competition from other financial services companies in Citizens' markets; and
- the risk that an economic slowdown could adversely affect credit quality and loan originations.

Additional factors that could cause actual results to differ materially from those expressed in the forward-looking statements are discussed in Citizens' reports filed with the SEC.

All subsequent written and oral forward-looking statements concerning the proposed transaction or other matters regarding either Citizens or FNB or any person acting on behalf of Citizens or FNB are expressly qualified in their entirety by the cautionary statements above. Neither Citizens nor FNB undertakes any obligation to update any forward-looking statement to reflect circumstances or events that occur after the date on which the forward-looking statements are made.

SELECTED HISTORICAL FINANCIAL DATA FOR CITIZENS FINANCIAL SERVICES, INC. AND THE FIRST NATIONAL BANK OF FREDERICKSBURG

Citizens Financial Services, Inc.

The following tables set forth selected historical consolidated financial data for Citizens as of and for each of the five years ended December 31, 2014, 2013, 2012, 2011 and 2010, which has been derived from Citizens' audited consolidated financial statements, and as of June 30, 2015 and for the six months ended June 30, 2015 and 2014. You should read these tables together with the historical consolidated financial information contained in Citizens' consolidated financial statements and related notes, and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in Citizens' Annual Report on Form 10-K for the year ended December 31, 2014, which has been filed with the SEC and is incorporated by reference herein. Information for the six months ended June 30, 2015 and 2014 is derived from unaudited interim consolidated financial statements and has been prepared on the same basis as Citizens' audited consolidated financial statements and includes, in the opinion of management, all adjustments, consisting of only normal recurring adjustments, necessary to present fairly the data for such period. The results of operations for the six months ended June 30, 2015 do not necessarily indicate the results which may be expected for any future interim period or for the full year.

	At June 30,	**At December 31,**				
	2015	**2014**	**2013**	**2012**	**2011**	**2010**
	(unaudited)	(dollars in thousands)				
Balance Sheet Data						
Total assets	$942,479	$925,048	$914,934	$882,427	$878,567	$812,526
Total investments	304,792	306,146	317,301	310,252	318,823	251,303
Loans	571,651	554,105	540,612	502,463	487,509	473,517
Allowance for loan losses	6,959	6,815	7,098	6,784	6,487	5,915
Total deposits	791,887	773,933	748,316	737,096	733,993	680,711
Total borrowings	39,194	41,799	66,932	46,126	53,882	55,996
Stockholders' equity	103,225	100,528	92,056	89,475	81,468	68,690

	At or For the Year Ended December 31,				
	2014	**2013**	**2012**	**2011**	**2010**
	(dollars in thousands, except share and per share data)				
Income Statement Data					
Interest income	$35,291	$36,234	$38,085	$38,293	$39,000
Interest expense	4,953	6,315	7,659	9,683	11,340
Net interest income	30,338	29,919	30,426	28,610	27,660
Provision for loan losses	585	405	420	675	1,255
Net interest income after provision for loans losses	29,753	29,514	30,006	27,935	26,405
Non-interest income	6,740	6,982	7,364	6,625	6,207
Investment securities gains, net	616	441	604	334	99
Non-interest expense	20,165	19,810	19,428	18,452	18,053
Income before provision for income taxes	16,944	17,127	18,546	16,442	14,658
Provision for income taxes	3,559	3,752	4,331	3,610	3,156
Net income	$13,385	$13,375	$14,215	$12,832	$11,502

Stock and Related Per Share Data					
Net income – basic	$4.41	$4.38	$4.61	$4.12	$3.68
Net income – diluted	4.40	4.38	4.60	4.12	3.68
Cash dividends declared	2.17	1.21	1.49	1.08	1.01
Book value	32.83	30.64	27.62	24.64	21.66
Stock dividend	1.00 %	5.00 %	1.00 %	1.00 %	1.00 %

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	At or For the Six Months Ended June 30, 2015	2014
	(in thousands, except per share data) (unaudited)	
Income Statement Data		
Interest income	$17,539	$17,670
Interest expense	2,391	2,508
Net interest income	15,148	15,162
Provision for loan losses	240	330
Net interest income after provision for loan losses	14,908	14,832
Non-interest income	3,382	3,296
Investment securities gains, net	301	246
Non-interest expense	10,763	10,091
Income before provision for income taxes	7,828	8,283
Provision for income taxes	1,519	1,742
Net income	$6,309	$6,541
Stock and Related Per Share Data		
Net income – basic	$2.09	$2.15
Earnings per share – diluted	2.09	2.15
Cash dividends declared	0.81	0.77
Stock dividend		1.00 %
Book value	$34.03	$31.97
Market Price (OTC Pink: CZFS):		
High	53.75	58.99
Low	48.10	49.10
Close	49.00	54.50

	At June 30,	At or for the Year Ended December 31,				
	2015	2014	2013	2012	2011	2010
	(unaudited)	(dollars in thousands, except per share data)				
Key Ratios						
Return on assets (net income to average total assets)	1.36 %	1.48 %	1.51 %	1.62 %	1.52 %	1.50 %
Return on average equity (net income to average total equity)	12.41	13.73	14.89	17.48	17.86	18.13
Equity to asset ratio (average equity to average total assets, excluding other comprehensive income)	10.93	10.74	10.13	9.26	8.49	8.25
Net interest margin	3.81	3.84	3.87	3.99	3.94	4.19
Efficiency ratio [1]	51.52	48.61	48.12	46.10	46.23	47.96
Dividend payout ratio	38.80	49.32	27.63	32.37	26.30	27.50
Tier 1 leverage	11.08	10.99	10.42	9.70	8.83	8.32
Tier 1 risk-based capital	17.80	17.30	16.44	16.21	14.94	13.72
Total risk-based capital	19.06	18.55	17.75	17.50	16.23	14.97

Nonperforming assets/total loans	1.61	1.67	1.88	1.83	2.11	2.80
Nonperforming loans/total loans	1.29	1.34	1.63	1.71	1.94	2.65
Allowance for loan losses/total loans	1.22	1.23	1.31	1.35	1.33	1.25
Net charge-offs/average loans (annualized)	0.03	0.16	0.02	0.02	0.02	0.05
Other Data						
Number of banking centers	19	19	19	19	18	19
Full time equivalent employees	191	189	186	185	176	170

(1) The efficiency ratio represents non-interest expense as a percent of net tax equivalent interest income and non-interest revenues, excluding only gains from securities transactions.

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The First National Bank of Fredericksburg

The following table sets forth selected historical financial information with respect to FNB. The data for the years ended December 31, 2014 and 2013 are derived from FNB’s audited financial statements. The results of operations as of and for the six months ended June 30, 2015 and 2014 are derived from unaudited interim financial statements and are not necessarily indicative of the results of operations for the full year or any other interim period. Information as of and for the six months ended June 30, 2015 and 2014 has been prepared on the same basis as FNB’s audited financial statements and includes, in the opinion of the management of FNB, all adjustments, consisting of only normal recurring adjustments, necessary for a fair presentation of this data at the dates and for the periods presented. The financial information below should be read in conjunction with FNB's financial statements and related notes and the information contained under "Information About the First National Bank of Fredericksburg – Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

	As of or for the Six Months Ended June 30, (unaudited)		As of or for the Years Ended December 31,	
	2015	2014	2014	2013
	(dollars in thousands, except per share data)			
Income Statement Data				
Interest income	$3,522	$3,570	$7,037	$7,166
Interest expense	282	303	599	674
Net interest income	3,240	3,267	6,438	6,492
Provision for loan losses	125	25	212	174
Net interest income after provision for loan losses	3,115	3,242	6,226	6,318
Non-interest income	407	404	828	982
Non-interest expense	3,291	3,373	6,726	6,885
Income before income taxes	231	273	328	415
Income tax expense	30	36	27	61
Net income	$201	$237	$301	$354
Per Share Data				
Net income — basic	$5.66	$6.65	$8.46	$9.94
Net income — diluted	$5.66	$6.65	$8.46	$9.94
Book value per share	$442.25	$417.03	$435.98	$395.13
Weighted average common shares outstanding basic	35,628	35,628	35,628	35,628
Weighted average common shares outstanding diluted	35,628	35,628	35,628	35,628
Balance Sheet Data				
Total assets	$232,409	$225,922	$230,668	$214,228
Investment securities	30,629	30,571	30,690	33,136
Loans, net	145,212	142,584	140,677	141,902
Deposits	214,109	208,087	212,708	197,122
Stockholders' equity	15,756	14,858	15,533	14,077
Key Ratios				
Return on average assets	0.17 %	0.21 %	0.13 %	0.16 %
Return on average stockholders' equity	2.53 %	3.26 %	2.03 %	2.38 %
Net interest margin	2.90 %	3.05 %	2.99 %	3.15 %
Noninterest expense as a percentage of average assets	2.82 %	3.00 %	2.98 %	3.18 %
Efficiency ratio (1)	82.62 %	83.69 %	84.27 %	83.59 %

Asset Quality								
Allowance for loan losses to loans	0.83	%	0.78	%	0.81	%	0.79	%
Net charge-offs to average loans outstanding	0.08	%	0.06	%	0.14	%	0.20	%
Non-performing loans to total loans	2.57	%	1.55	%	2.91	%	2.50	%
Allowance for loan losses to non-performing assets	32.43	%	34.66	%	26.03	%	32.94	%
Liquidity and Capital Ratios								
Average loans to average deposits	66.14	%	68.46	%	68.31	%	66.79	%
Average equity to average assets	6.82	%	6.46	%	6.58	%	6.86	%
Tier 1 leverage ratio	7.30	%	7.47	%	7.45	%	7.65	%
Tier 1 risk based capital ratio	10.64	%	10.91	%	10.92	%	10.62	%
Total risk based capital ratio	11.39	%	11.64	%	11.67	%	11.34	%

(1) The efficiency ratio represents non-interest expense as a percent of net tax equivalent interest income and non-interest revenues, excluding only gains from securities transactions.

INFORMATION ABOUT CITIZENS FINANCIAL SERVICES, INC.

Citizens is a Pennsylvania-chartered bank holding company engaged in commercial banking and financial services through its wholly owned subsidiary, First Citizens, a Pennsylvania-chartered commercial bank. Established in 1932, and headquartered in Mansfield, Pennsylvania, First Citizens has a primary market area of Clinton, Potter, Tioga and Bradford Counties in north central Pennsylvania and Allegany County in southwestern New York, and operates 18 branch offices. As of June 30, 2015, Citizens had total assets of approximately $942.5 million, total deposits of approximately $791.9 million, net loans of approximately $564.7 million, and stockholders' equity of approximately $103.2 million. Through this branch network and its electronic delivery channels, First Citizens provides deposit and loan products and financial services to local businesses, consumers and municipalities. First Citizens' wholly owned subsidiary, First Citizens Insurance Agency, Inc., offers products such as mutual funds, annuities, and health and life insurance. The principal executive office of Citizens is located at 15 South Main Street, Mansfield, Pennsylvania 16933 and its telephone number is (570) 662-2121.

Citizens common stock trades on the OTC Pink under the symbol "CZFS."

Additional information about Citizens and its subsidiaries is included in documents incorporated by reference into this joint proxy statement/prospectus. See "Where You Can Find More Information."

INFORMATION ABOUT THE FIRST NATIONAL BANK OF FREDERICKSBURG

Business

FNB, a national bank operating under a federal charter, is an FDIC-insured, full-service community bank headquartered at 3016 South Pine Grove Street, Fredericksburg, PA 17026 (tel. (717) 202-2255). In addition to the headquarters, FNB maintains six branch offices throughout the Lebanon Valley in Pennsylvania: Lebanon (3), Mt. Aetna, Friedensburg and Schuylkill Haven. At June 30, 2015, FNB had total assets of $232.4 million, deposits of $214.1 million and stockholders' equity of $15.8 million. FNB's common stock is not traded on any exchange, and there is no established public trading market for the stock. No broker makes a market in FNB's stock.

FNB's primary market area consists of Lebanon, Berks, and Schuylkill Counties in Pennsylvania, with business being conducted in contiguous counties as well. Competition for deposit and loan products comes from other insured financial institutions such as commercial banks, thrift institutions and credit unions in FNB's market area as well as from out-of-market financial institutions that offer deposits and loans over the internet and through other delivery channels.

FNB grants commercial, mortgage and consumer loans to its customers. As of June 30, 2015, FNB's loan portfolio included commercial and multi-family real estate loans, commercial business loans and lines of credit, residential first mortgage loans, home equity term loans and lines of credit, residential construction loans, and other consumer loans. Substantially all of FNB's borrowers are located in Lebanon, Berks, Schuylkill and contiguous counties.

Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis summarizes FNB's results of operations and highlights material changes for the six months ended June 30, 2015 and 2014, the years ended December 31, 2014 and 2013, and its financial condition as of June 30, 2015, December 31, 2014 and December 31, 2013. This discussion is intended to provide additional information which may not be readily apparent from the selected financial data included elsewhere in this document. Reference should be made to the selected financial data presented for a complete understanding of the following discussion and analysis.

This discussion and analysis should be read in conjunction with the unaudited financial statements and related footnotes for the year ended June 30, 2015 and the audited financial statements and related footnotes for the twelve months ended December 31, 2014 appearing elsewhere in this document. Other than as described herein, management does not believe there are any trends, events or uncertainties that are reasonably expected to have a material impact on future results of operations, liquidity or capital resources.

This discussion and analysis of financial condition and results of operations contains forward-looking statements that involve risks and uncertainties, such as FNB's plans, objectives, expectations and intentions. Therefore, this analysis should be read in conjunction with the section of this document titled "Forward-Looking Statements."

Overview

FNB's results of operations depend primarily on net interest income. Net interest income is the difference between interest income earned on interest-earning assets, primarily loans and investment securities, and the interest paid on interest-bearing liabilities, primarily deposits. Net interest income is directly impacted by the market interest rate environment, the shape of the market yield curve and timing of the placement and re-pricing of interest-earning assets and interest-bearing liabilities on FNB's balance sheet. Results of operations are also directly affected by general economic conditions in the local geographic area, as well as throughout the country and the world.

Comparison of Results of Operations for the Six Months Ended June 30, 2015 and 2014

(unaudited)

(dollars in thousands)

	2015	2014	$ change	% change
Interest income	$3,522	$3,570	$(48)	(1.3)%
Interest expense	282	303	(21)	(6.9)%
Net interest income	3,240	3,267	(27)	(0.8)%
Provision for loan losses	125	25	100	400.0%
Net interest income after provision for loan losses	3,115	3,242	(127)	(3.9)%
Non-Interest income	407	404	3	0.7%
Non-interest expenses	3,291	3,373	(82)	(2.4)%
Income before income taxes	231	273	(42)	(15.4)%
Income tax expense	30	36	(6)	(16.7)%
Net income	$201	$237	$(36)	(15.2)%

Net Income. Net income for the first six months of 2015 totaled $201,000 compared to net income of $237,000 for the same period in 2014, a decrease of $36,000. Basic net income per common share was $5.66 for the first six months of 2015 compared to a net income per common share of $6.65 for the same period in 2014 and to date in 2015. The decrease in earnings was primarily attributable to lower interest rates during the latter part of 2014 into 2015 and an increase in the provision for loan losses of $100,000.

Net Interest Income and Margin. Net interest income represents the excess of interest income from earning assets less interest expense on interest bearing liabilities. Net interest margin is the percentage of net interest income to average earning assets. Net interest income and net interest margin are affected by fluctuations in interest rates and by changes in the amounts and mix of earning assets and interest bearing liabilities. Net interest income for the six month period ended June 30, 2015 decreased by $27,000, or (0.8)%, compared to the same period in 2014, while the net interest margin decreased to 2.90% from 3.05% for the respective periods.

The decrease in net interest income was due largely to decreases in loan interest rates from the period ended June 30, 2014 to the period ended June 30, 2015, which resulted in a decrease in interest income. While deposits increased from June 30, 2014 to June 30, 2015, FNB has been able to reduce average deposit interest rates, resulting in a slight decrease in interest expense over the periods reviewed.

Interest Income. Interest income for the six month period ended June 30, 2015 decreased by $48,000, or 1.3%, to $3.5 million from $3.6 million for the same period in 2014. This decrease primarily includes decreases of $36,000, or 5.3%, in interest on loans and $11,000, or 4.9%, in interest from securities. The average balance of loans increased $240,000 from $142.0 million at June 30, 2014 to $142.3 million at June 30, 2015. Average security balances decreased by $1.2 million at June 30, 2015 to $30.8 million from $32.0 million for the same period in 2014.

Interest rates have generally declined throughout the periods and are at near or at all-time lows. This extremely low interest rate environment is exerting downward pressure on loan and investment yields in three ways. First, as variable rate loans and securities reach repricing or call dates, yields are reduced. Second, new loans and securities added are at rates significantly lower than those originated in prior years. Finally, borrowers with fixed rate loans continued to refinance existing higher rate loans into new lower rate loans.

Interest Expense. Interest expense for the six month period ended June 30, 2015 decreased by $21,000, or 6.9%, to $282,000 from $303,000 during the same period in 2014. This decrease consists solely of reduction in interest expense on deposits as FNB did not have interest expense on borrowed funds. The decrease in interest expense on deposits was due to lower average rates paid and lower average balances on certificates of deposit and money market accounts. Most certificates of deposit that matured and renewed over the period were originated in a higher rate environment. The overall cost of interest bearing deposits fell to 0.24% for the six months ended June 30, 2015 from 0.28% for the same period in 2014.

Provisions for Loan Losses. Provisions for loan losses charged to earnings are based on management's judgment after considering a variety of factors, including current economic conditions, diversification of the loan portfolio and delinquency statistics. Also considered by management in determining the amounts charged to earnings are the allowance for loan loss evaluations performed on a regular basis. These evaluations are based upon management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, and estimated value of any underlying collateral. Provisions for loan losses charged to earnings in the first six months of 2015 were $125,000 compared to $25,000 for the same period in 2014. The increase in the provision for loan losses resulted from a higher level of special mention loans, substandard loans and loans charged-off in the first six months of 2015 compared to the respective period in 2014. For additional comments about FNB's credit risk, see "*Loan Quality and Allowance for Loan Losses*".

Non-Interest Income. Non-interest income for the six months ended June 30, 2015 was $407,000 compared to $404,000 for the same period in 2014. This slight increase was due to increases in late charges collected and trust revenues.

Late charges rose to $12,000 for the two quarters ended June 30, 2015 from $11,000 for the same period in 2014. Trust revenues increased to $50,000 at June 30, 2015 from $45,000 for the same period in 2014.

Non-Interest Expenses. Total non-interest expenses for the six months ended June 30, 2015 were $3.3 million compared to $3.4 million for the same period in 2014, a decrease of $82,000, or 2.4%. Decreases in shares tax, dues and subscriptions, and ATM/debit card fees and supplies were partially offset by increases in FDIC fees, professional fees and property related expenses.

Income Taxes. Income tax expense of $30,000 and $36,000 were recorded for the six month periods ended June 30, 2015 and 2014, respectively. A federal tax rate of 34% was applicable to taxable income in both periods. The decrease in tax expense is due to the decrease in reported taxable income.

Comparison of Results of Operations for the Years Ended December 31, 2014 and 2013

(dollars in thousands)

	2014	2013	$ change	% change
Interest income	$7,037	$7,166	$ (129)	(1.8)%
Interest expense	599	674	(75)	(11.1)%
Net interest income	6,438	6,492	(54)	(0.8)%
Provision for loan losses	212	174	38	21.8 %
Net interest income after provision for loan losses	6,226	6,318	(92)	(1.5)%
Non-interest income	828	982	(154)	(15.7)%
Non-interest expenses	6,726	6,885	(159)	(2.3)%
Income before income taxes	328	415	(87)	(21.0)%
Income tax expense	27	61	(34)	(55.7)%
Net income	$301	$354	$ (53)	(15.0)%

Net Income. FNB recorded net income of $301,000 for the year ended December 31, 2014 compared to net income of $354,000 for the year ended December 31, 2013, a decrease of $53,000, or 15.0%. Basic net income per share was $8.46 for the year ended December 31, 2014 as compared to basic net income per share of $9.94 for the year ended December 31, 2013. The decrease in earnings was primarily attributable to decreases in interest rates, which resulted in lower net interest income.

Net Interest Income and Margin. Net interest income for the year ended December 31, 2014 decreased by $54,000, or 0.8%, compared to the same period in 2013. Net interest margin decreased to 2.99% from 3.15%, for the respective periods. The decrease in net interest income and net interest margin was driven by a continuing declining interest rate environment throughout the year.

Interest Income. Interest income for the year ended December 31, 2014 decreased by $129,000, or 1.8%, to $7.0 million from $7.2 million for the same period in 2013. This decrease includes decreases of $86,000, or 1.3%, in interest on loans and $58,000, or 0.8%, in interest from securities offset by a $15,000, or 0.2%, increase in interest on deposits in banks. The average balance of loans outstanding increased to approximately $142.2 million for the year ended December 31, 2014 from $133.0 million for 2013, while loan yields during the respective periods fell from 5.62% to 5.31%. Average investment balances decreased to $31.3 million for 2014 from $37.2 million for 2013 with security yields declining to 1.58% from 1.61%.

During 2014, interest rates continued the downward trend experienced over the last several years. FNB's balance sheet structure is similar to most other banks, with liabilities and deposits having shorter maturities than assets. Thus, during the beginning of this declining rate cycle, FNB's margins increased, as deposit rates fell at a faster pace than loan rates. Now, as the cycle persists, margins are decreasing as loan yields continue to fall due to a decreasing interest rate environment.

Interest Expense. Interest expense for the year ended December 31, 2014 decreased by $75,000, or 11.1%, to $599,000 from $674,000 for the same period in 2013. The decrease in interest expense on deposits was due to lower average rates paid during the year. The overall cost of interest bearing deposits fell to 0.27% for the year ended December 31, 2014 from 0.31% for the same period in 2013.

Provisions for Loan Losses. Provisions for loan losses charged to earnings are based on management's judgment after considering a variety of factors, including current economic conditions, diversification of the loan portfolio, and delinquency statistics. Also considered by management in determining the amounts charged to earnings are the allowance for loan loss evaluations performed on a regular basis. These evaluations are based upon management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, and estimated value of any underlying collateral. Provisions for loan losses charged to operations in 2014 were $212,000 compared to $174,000 charged in 2013. The increase in the provision for loan losses reflects an increase in the level of substandard loans. For additional comments about FNB's credit risk, see "Loan Quality and Allowance for Loan Losses".

Non-Interest Income. FNB recorded non-interest income of $828,000 for the year ended December 31, 2014, a decrease of $154,000, or 15.7%, compared to income of $982,000 recorded in 2013. This decrease was due mostly to the decrease in realized gain on sales of available for sale securities. Realized gains on sales of securities were $129,000 in 2013 compared to no realized gains in 2014. Financial services income fell to $269,000 for the year ended December 31, 2014 from $317,000 for 2013, a decrease of $48,000, or 15.1%.

Non-Interest Expenses. Total non-interest expenses for the year ended December 31, 2014 were $6,726,000 compared to $6,885,000 for the same period in 2013, a decrease of $159,000, or 2.3%. Decreases in ATM and debit card fees, PA shares tax and miscellaneous operating expenses were partially offset by increases in occupancy expenses and professional fees.

Comparing the year ended December 31, 2014 with the same period in 2013, the following discussion further breaks down the variances in other operating expenses. Occupancy expenses increased to $585,000 from $575,000, a $10,000, or 1.7% increase, due to increased utilities and maintenance expenses. Equipment depreciation and maintenance decreased to $701,000 from $744,000, a $43,000, or 5.8% decrease, due to reduction in service contract expense at the Fredericksburg facility. Salaries expense decreased to $3.5 million from $3.6 million, a $37,000, or 1.0% decrease. Other operating expenses decreased to $741,000 from $765,000, a $24,000, or 3.1%, decrease due to lower recording/satisfaction fee and contribution expenses. PA shares tax decreased to $128,000 from $168,000, a $40,000, or 23.8%, decrease.

Income Taxes. Income tax expense of $27,000 and $61,000 was recorded for the years ended December 31, 2014 and 2013, respectively. The decrease in the tax expense recorded is due to lower levels of taxable net income for the 2014 period. FNB's effective tax rate for the years ended December 31, 2014 and 2013 were 8.2% and 14.7% respectively. The decrease in the effective tax rate was due to the increase in the proportion of tax-exempt income compared to taxable income.

Comparison of Financial Condition as of June 30, 2015 and December 31, 2014

(dollars in thousands)	June 30, 2015	December 31, 2014	$ Change	% Change
Cash and cash equivalents	$42,513	$45,167	$(2,654)	(5.9)%
Securities	30,629	30,690	(61)	(0.2)%
Loans, net	145,212	140,677	4,535	3.2%
Other assets	14,055	14,134	(79)	(0.6)%
Total assets	$232,409	$230,668	$1,741	0.8%
Deposits	$214,109	$212,708	$1,401	0.7%
Other liabilities	2,544	2,427	117	4.8%
Stockholders' equity	15,756	15,533	223	1.4%
Total liabilities and stockholders' equity	$232,409	$230,668	$1,741	0.8%

Balance Sheet. Total assets at June 30, 2015 were $232.4 million, an increase of $1.7 million, or 0.8%, compared to total assets of $230.7 million at December 31, 2014. The increase was due largely to an increase in loan demand, specifically as it pertains to consumer loans.

Net loans outstanding increased by $4.5 million or, 3.2%, to $145.2 million at June 30, 2015 from $140.7 million at December 31, 2014. This increase included an increase in consumer loans of $3.4 million, or 10.9%, and a $2.2 million increase in commercial construction loans.

Total securities decreased by $61,000 or 0.2%, to $30.6 million at June 30, 2015 from $30.7 million at December 31, 2014. The primary purposes of FNB's investment portfolio are to provide a source of liquidity sufficient to meet deposit withdraws or loan funding demands, to assist in the management of interest rate risk and to secure certain public deposits. As securities were maturing or called, FNB did not immediately replace those securities.

Cash and cash equivalents decreased by $2.7 million, or 5.9%, to $42.5 million at June 30, 2015 from $45.2 million at December 31, 2014, due to a decrease in cash balances associated with an increase in loan activity over the period reviewed. Cash and due from banks decreased to $37.6 million at June 30, 2015 from $40.0 million at December 31, 2014. Interest bearing deposits in banks decreased to $1.9 million at June 30, 2015 from $2.2 million at December 31, 2014.

FNB's deposit base is comprised of demand deposits, savings accounts, and time deposits obtained from individuals, businesses and municipalities within the communities where branch offices are located. Deposits increased by $1.4 million, or 0.7%, to $214.1 million at June 30, 2015 from $212.7 million at December 31, 2014. The increase includes an increase in savings accounts of $2.1 million, and an increase in demand deposits of $1.7 million. These increases were partially offset by a decrease in time deposits of $2.4 million.

Loan Quality and Allowance for Loan Losses. As of June 30, 2015, charge-offs to average loans outstanding was 0.08% and the ratio of non-performing loans to total loans was 2.6%. The allowance for loan losses at June 30, 2015 was $1.2 million, or 0.8% of loans outstanding, compared to an allowance at December 31, 2014 of $1.1 million, or 0.8% of loans outstanding. Management believes reserve levels are adequate to absorb any probable losses in the loan portfolio.

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Comparison of Financial Condition as of December 31, 2014 and December 31, 2013

(dollars in thousands)	December 31, 2014	December 31, 2013	$ Change	% Change
Cash and cash equivalents	$ 45,167	$ 24,120	$21,047	87.3 %
Securities	30,690	33,136	(2,446)	(7.4)%
Loans, net	140,677	141,902	(1,225)	(0.9)%
Other assets	14,134	15,070	(936)	(6.2)%
Total assets	$ 230,668	$ 214,228	$16,440	7.7 %
Deposits	$ 212,708	$ 197,122	$15,586	7.9 %
Other liabilities	2,427	3,029	(602)	(19.9)%
Stockholders' equity	15,533	14,077	1,456	10.3 %
Total liabilities and stockholders' equity	$ 230,668	$ 214,228	$16,440	7.7 %

Balance Sheet. Total assets at December 31, 2014 were $230.7 million, an increase of $16.4 million, or 7.7%, compared to total assets of $214.2 million at December 31, 2013. The increase in assets year over year was primarily due to an increase in cash balances, associated with an increase in deposits.

Cash on hand and in banks increased by $21.0 million, or 87.3%, to $45.2 million at December 31, 2014 from $24.1 million at December 31, 2013. The increase was due mostly to increases in deposits, coupled with a decline in loan demand between December 31, 2013 and December 31, 2014.

Securities decreased by $2.4 million, or 7.4%, to $30.7 million at December 31, 2014 from $33.1 million at December 31, 2013. The primary decrease in securities was in U.S. Government agency securities, which decreased to $23.6 million at December 31, 2014 from $25.9 million at December 31, 2013. As securities were maturing or called, FNB did not immediately replace those securities.

Net loans outstanding decreased by $1.2 million, or 0.9%, to $140.7 million at December 31, 2014 from $141.9 million at December 31, 2013. This decline includes a decrease of approximately $1.6 million, or 46.1%, year over year in construction loans, a decrease of approximately $1.5 million, or 2.8%, year over year in mortgages, and a decrease in agricultural loans of $1.3 million, or 6.4%. These decreases were partially offset by increases in commercial loans of $1.6 million, or 12.1%, and consumer loans of $1.6 million, or 4.9%, year over year. Loan demand from qualified borrowers during the current economic climate has been significantly lower than FNB's historical average, which has had a negative impact on all of FNB's loan portfolio balances.

FNB's deposit base is comprised of noninterest bearing demand deposits, interest bearing demand accounts, savings accounts, and time deposits obtained from individuals and businesses within the communities where branch offices are located. Deposits increased by $15.6 million, or 7.9%, to $212.7 million at December 31, 2014 from $197.1 million at December 31, 2013. Non-interest bearing demand deposits increased $6.1 million, or 16.8%, to $42.8 million at December 31, 2014 from $36.6 million at December 31, 2013. Interest bearing demand deposits increased $11.8 million, or 20.2% to $70.1 million at December 31, 2014 from $58.3 million at December 31, 2013. Savings accounts increased $966,000, or 1.6%, to $62.4 million at December 31, 2014 from $61.5 million at December 31, 2013.

Loan Quality and Allowance for Loan Losses. As of December 31, 2014, charge-offs, net of recoveries, to average loans outstanding were less than 0.14%. The allowance for loan losses at December 31, 2014 was $1.1 million, or 0.8%, of loans outstanding, compared to an allowance at December 31, 2013 of $1.1 million, or 0.8%, of loans outstanding. Management believes reserve levels are adequate to absorb any probable losses in the loan portfolio.

Non-Performing Assets

Non-performing assets include non-accrual loans, restructured loans, loans 90 days past due which are still accruing interest, other real estate owned (OREO) and impaired loans. Non-accrual loans represent loans where interest accruals have been discontinued. Restructured loans are loans in which the borrower has been granted a concession on the interest rate or the original repayment terms due to financial distress and the loan is performing according to the revised terms. The following is a summary of non-performing assets (dollars in thousands):

	June 30, 2015	December 31, 2014	December 31, 2013
Non-accrual loans	$3,228	$ 3,985	$ 2,928
Loans 90 days past due and still accruing			
Other real estate owned (OREO)	512	407	511
Total non-performing assets	$3,740	$ 4,392	$ 3,439

Capital Resources

FNB seeks to maintain a strong capital base to support growth and allow for future business expansion and to provide stability to current operations. Stockholders' equity at June 30, 2015 increased to $15.8 million, an increase of $223,000, or 1.4%, from $15.5 million at December 31, 2014. Stockholders' equity at December 31, 2014 increased by $1.5 million, or 10.3%, compared to $14.1 million at December 31, 2013. Included in stockholders' equity is the fair value adjustment (net of taxes) for securities classified as available for sale. These securities appreciated in value by a net $95,000 during the period from December 31, 2014 to June 30, 2015 and by $1.1 million during the period from December 31, 2013 to December 31, 2014. Thus, excluding the securities appreciation, stockholders' equity increased by $130,000 and $340,000 during the respective six and twelve month periods. The increase during the six months ended June 30, 2015 resulted from the net income of $201,000. The increase during the year ended December 31, 2014 resulted for the most part from the net income of $301,000.

FNB is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on FNB's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, FNB must meet specific capital guidelines that involve quantitative measures of FNB's assets, liabilities, and certain off-balance sheet items calculated under regulatory accounting practices. The capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require FNB to maintain minimum amounts and ratios (set forth in the tables below) of Total Capital and Tier I Capital (as defined in the regulations) to risk-weighted assets, and of Tier I capital to average assets.

To be categorized as well capitalized, FNB must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the following table (dollar figures are in thousands). As of June 30, 2015, December 31, 2014 and 2013, the most recent notification from regulatory agencies categorized FNB as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since those notifications that management believes have changed those categories.

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
June 30, 2015:						
Total capital (to risk-weighted assets)	$18,246	11.4%	$12,812	8.0%	$16,015	10.0%
Tier 1 capital (to risk-weighted assets)	17,033	10.6%	6,406	4.0%	9,609	6.0 %
Tier 1 capital (to average assets)	17,033	7.3 %	9,339	4.0%	11,673	5.0 %
December 31, 2014:						
Total capital (to risk-weighted assets)	$17,975	11.7%	$12,327	8.0%	$15,409	10.0%
Tier 1 capital (to risk-weighted assets)	16,832	10.9%	6,164	4.0%	9,246	6.0 %
Tier 1 capital (to average assets)	16,832	7.5 %	9,041	4.0%	11,301	5.0 %
December 31, 2013:						
Total capital (to risk-weighted assets)	$17,698	11.3%	$12,484	8.0%	$15,605	10.0%
Tier 1 capital (to risk-weighted assets)	16,565	10.6%	6,242	4.0%	9,363	6.0 %
Tier 1 capital (to average assets)	16,565	7.6 %	8,666	4.0%	10,832	5.0 %

The approval of the OCC is required if the total of all dividends declared by a national bank in any calendar year exceeds FNB's net profits (as defined) for that year combined with its retained net profits for the preceding two calendar years. FNB did not need approval for any of its dividends declared for either 2014 or 2013. To date, there have not been any dividends declared by FNB in 2015.

Off-Balance Sheet Arrangements

FNB is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financial needs of its customers. These financial instruments include commitments to extend credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheets.

FNB's exposure to credit loss in the event of nonperformance by the other party to the financial instrument of commitments to extend credit is represented by the contractual amount of those instruments. FNB uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments. The following table identifies the contract or notional amount of those instruments:

(dollars in thousands)	June 30, 2015	December 31, 2014	December 31, 2013
Financial instruments whose contract amounts represent risk:			
Commitments to extend credit	$1,247	$ 168	$ 815
Unfunded commitments under lines of credit	$22,190	$ 22,737	$ 23,028
Standby letters of credit	$4,970	$ 5,028	$ 4,605

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. FNB evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by FNB upon extension of credit, is based on management's credit evaluation. Collateral held varies but may include personal and commercial real estate, accounts receivable, inventory and equipment.

Standby letters-of-credit are conditional commitments issued by FNB to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters-of-credit is essentially the same as that involved in extending loan facilities to customers. FNB generally holds collateral supporting those commitments when deemed necessary by management.

Critical Accounting Policies

The foregoing discussion and analysis of financial condition and results of operations is based upon FNB’s financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America, or US GAAP. US GAAP is complex and requires management to apply significant judgment to various accounting, reporting and disclosure matters. Management must use assumptions and estimates to apply these principles where actual measurement is not possible or practical. Actual results may differ from these estimates under different assumptions or conditions. In management’s opinion, the most critical accounting policies and estimates impacting FNB’s financial statements are listed below. These policies are critical because they are highly dependent upon subjective or complex judgments, assumptions and estimates. Changes in such estimates may have a significant impact on the financial statements.

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near-term relate to the determination of the allowance for loan losses, the valuation of real estate acquired in connection with foreclosures or in satisfaction of loans, loan servicing rights, the valuation of deferred tax assets, other-than-temporary impairment of securities, and the fair value of financial instruments.

Concentrations of Credit Risk

Most of FNB’s activities are with customers located within Lebanon, Berks, and Schuylkill counties of Pennsylvania. Types of securities that FNB invests in are described below. The types of lending that FNB engages in are discussed on the next page. FNB does not have any significant concentrations to any one industry or customer.

FNB’s investment portfolio consists principally of obligations of the United States and its agencies and obligations of state and political subdivisions. In the opinion of management, there is no concentration of credit risk in its investment portfolio. FNB places deposits in correspondent accounts and, on occasion, sells federal funds to qualified financial institutions. Management believes credit risk associated with correspondent accounts and with federal funds sold is not significant. Therefore, management believes that these particular practices do not subject FNB to unusual credit risk.

Investment Securities - Available for Sale

Management determines the appropriate classification of debt and equity securities at the time of purchase and re-evaluates such designation as of each balance sheet date. Purchases and sales of investment securities are accounted for on a trade date basis.

All investment securities are classified as available for sale as FNB intends to hold such securities for an indefinite period of time but not necessarily to maturity. Securities available for sale are carried at fair value. Any decision to sell a security classified as available for sale would be based on various factors, including movement in interest rates, changes in maturity mix of FNB's assets, liabilities, liquidity needs, regulatory capital considerations, and other similar factors. Unrealized gains and losses are excluded from earnings and reported as increases or decreases in other comprehensive income or loss. Realized gains or losses, determined on the basis of the cost of the specific securities sold, are included in earnings. Premiums and discounts are recognized in interest income using the interest method over the terms of the securities.

Declines in the fair value of available-for-sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other than temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of FNB to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

In regard to debt securities, if FNB does not intend to sell the securities and it is more likely than not that it will not be required to sell the debt security before recovery, FNB will then evaluate whether a credit loss has occurred. To determine whether a credit loss has occurred, FNB compares the amortized cost of the debt security to the present value of the cash flows FNB expects to be collected. If FNB expects a cash flow shortfall, it will consider a credit loss to have occurred and will then consider the impairment to be other than temporary. FNB will recognize the amount of the impairment loss related to the credit loss in its results of operation, with the remaining portion of the loss recorded through comprehensive income, net of applicable taxes.

Restricted Stocks

Restricted investments in bank stocks, which represents the required investment in common stock of correspondent banks, are carried at cost and consists of stock of the Federal Reserve Bank, Federal Home Loan Bank of Pittsburgh (“FHLB”), and Atlantic Community Bankers Bank. Federal law requires a member institution of the FHLB to hold FHLB stock according to a predetermined formula. Management’s determination of whether these investments are impaired is based on their assessment of the ultimate recoverability of their cost rather than by recognizing temporary declines in value. Accordingly, these investments are restricted assets, carried at cost because these stocks are not actively traded and have no readily determinable market value.

The determination of whether a decline affects the ultimate recoverability of their cost is influenced by criteria such as (1) the significance of the decline in net assets of the correspondent bank as compared to the capital stock amount for the correspondent bank and the length of time this situation has persisted, (2) commitments by the correspondent bank to make payments required by law or regulation and the level of such payments in relation to the operating performance of the correspondent bank, and (3) the impact of legislative and regulatory changes on institutions and, accordingly, on the customer base of the correspondent bank.

Management believes no impairment charge is necessary related to the restricted stock as of December 31, 2014 and June 30, 2015.

Loans

Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are stated at the principal amount outstanding, net of unearned income, the allowance for loan losses and any deferred fees or costs. Interest is accrued on the principal balances outstanding and is credited to income as earned. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the yield (interest income) by the interest method based on the contractual terms of the related loans, or if the commitment expires unexercised, recognized in income upon expiration.

The loan receivable portfolio is segmented into commercial loans, residential mortgage loans and consumer loans. Commercial loans consist of the following classes: commercial and industrial, commercial construction, commercial mortgage loans, and agriculture loans. Consumer loans consist of home equity lines of credit and all other consumer loans. A substantial portion of the loan portfolio is represented by residential mortgage loans throughout Lebanon, Berks, and Schuylkill counties of Pennsylvania.

The accrual of interest on loans is discontinued when the contractual payment of principal or interest has become 90 days past due or management has serious doubts about further collectability of principal or interest, even though the loan is currently performing. A loan may remain on accrual status if it is in the process of collection and is either guaranteed or well secured. When a loan is placed on nonaccrual status, unpaid interest credited to income in the current year is reversed and unpaid interest accrued in prior years is charged against the allowance for loan losses. Interest payments received on nonaccrual loans are generally either applied against principal or reported as interest income, according to management’s judgment as to the collectability of principal. Generally, loans are restored to accrual status when the obligation is brought current, has performed in accordance with the contractual terms for a reasonable period of time and the ultimate collectability of the total contractual principal and interest is no longer in doubt. The past due status of all classes of loans receivable is determined based on contractual due dates for loan payments.

Allowance for Loan Losses

The allowance for credit losses consists of the allowance for loan losses and the reserve for unfunded lending commitments. The allowance for loan losses represents management's estimate of losses inherent in the loan portfolio as of the balance sheet date and is recorded as a reduction to loans. The reserve for unfunded lending commitments, if any, represents management's estimate of losses inherent in its unfunded loan commitments and is recorded in other liabilities on the balance sheet. The allowance for loan losses is increased by the provision for loan losses, and decreased by charge-offs, net of recoveries. Loans deemed to be uncollectible are charged against the allowance for loan losses, and subsequent recoveries, if any, are credited to the allowance. All, or part, of the principal balance of loans receivable are charged off to the allowance as soon as it is determined that the repayment of all, or part, of the principal balance is highly unlikely. Because all identified losses are immediately charged off, no portion of the allowance for loan losses is restricted to any individual loan or groups of loans, and the entire allowance is available to absorb any and all loan losses.

The allowance for loan losses is maintained at a level considered adequate to provide for losses that can be reasonably anticipated. Management performs a quarterly evaluation of the adequacy of the allowance. The allowance is based on FNB's past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, composition of the loan portfolio, current economic conditions and other relevant factors. This evaluation is inherently subjective as it requires material estimates that may be susceptible to significant revision as more information becomes available.

The allowance consists of specific, general, and unallocated components. The specific component relates to loans that are classified as impaired. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers nonclassified loans that have been segmented into groups with similar characteristics and is based on historical loss experience adjusted for qualitative factors.

A loan is considered impaired when, based on current information and events, it is probable that FNB will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis for commercial and construction loans and is measured as the difference between a loan's carried value on the balance sheet and its fair market value. Based on the nature of the loan, its fair value reflects one of the following three measures: (1) the fair market value of collateral; (2) the present value of the expected future cash flows; or (3) the loan's value as observable in the secondary market.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, FNB does not separately identify individual consumer and residential loans for impairment disclosures.

The allowance calculation methodology includes further segregation of loan classes into risk rating categories. The borrower's overall financial condition, repayment sources, guarantors and value of collateral, if appropriate, are evaluated annually for commercial loans or when credit deficiencies arise, such as delinquent loan payments, for commercial and consumer loans. Credit quality risk ratings include regulatory classifications of special mention, substandard, doubtful and loss. Loans criticized as special mention have potential weaknesses that deserve management's close attention. If uncorrected, the potential weaknesses may result in deterioration of the repayment prospects. Loans classified as substandard have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They include loans that are inadequately protected by the current sound net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans classified doubtful have all the weaknesses inherent in loans classified substandard with the added characteristic that collection or liquidation in full, on the basis of current conditions and facts, is highly improbable. Loans classified as a loss are considered uncollectible and are charged to the allowance for loan losses. Loans not classified are rated pass.

In addition, federal regulatory agencies, as an integral part of their examination process, periodically review FNB’s allowance for loan losses and may require the Company to recognize additions to the allowance based on their judgments about information available to them at the time of their examination, which may not be currently available to management. Based on management’s comprehensive analysis of the loan portfolio, management believes the current level of the allowance for loan losses is adequate.

Other Real Estate Owned

Foreclosed properties are those properties for which FNB has taken physical possession in connection with loan foreclosure proceedings.

At the time of foreclosure, foreclosed real estate is recorded at lower of cost of fair value less cost to sell, which becomes the property’s new basis. Any write-downs based on the asset’s fair value at date of acquisition are charged to the allowance for loan losses. After foreclosure, these assets are carried as “other real estate owned” at the new basis. Improvements to the property are added to the basis of the assets. Costs incurred in maintaining foreclosed real estate and subsequent adjustments to the carrying amount of the property are classified as “other expenses.”

At December 31, 2014 and 2013, other real estate owned was approximately $407,000 and $511,000, respectively, and is included in other assets on the balance sheets. Changes in the valuation allowance are included in other expenses.

Income Taxes

The provision for income taxes is based on income as reported in the financial statements. Certain items of income and expense are recognized in different periods for financial reporting purposes than for federal income tax purposes. Deferred income taxes are provided on the liability method whereby deferred tax assets are recognized for deductible temporary differences and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax basis. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

In accordance with ASC 740, Accounting for Uncertainty in Income Taxes, FNB accounts for uncertain tax positions, if any, as required. Using that guidance, as of “year-end,” FNB has no uncertain tax positions that qualify for either recognition or disclosure in the financial statements. The years 2011 and forward are open for purposes of potential audits by the taxing authorities.

Off-Balance Sheet Financial Instruments

FNB is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financial needs of its customers. These financial instruments include commitments to extend credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheets.

FNB's exposure to credit loss in the event of nonperformance by the other party to the financial instrument of commitments to extend credit is represented by the contractual amount of those instruments. FNB uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

Fair Value of Financial Instruments

FNB uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. In accordance with FASB ASC Topic 820 - Fair Value Measurements and Disclosures, the fair value of certain assets and liabilities is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for FNB’s various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instruments. FASB ASC 820, excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented may not necessarily represent the underlying fair value of FNB.

UNAUDITED COMPARATIVE PER SHARE DATA

The following table shows information about Citizens' and FNB's respective income per common share, dividends per share and book value per share, and similar information giving effect to the merger. In presenting the comparative pro forma information for the time periods shown, we assumed that the merger occurred as of the date presented, in the case of the book value per share information, and the beginning of the period presented, in the case of the dividend and income information. See "Unaudited Pro Forma Combined Condensed Consolidated Financial Data."

Citizens anticipates that the merger will provide the combined company with financial benefits that include reduced operating expenses and greater revenue. The pro forma information, while helpful in illustrating the financial characteristics of Citizens following the merger under one set of assumptions, does not reflect these benefits and, accordingly, does not attempt to predict or suggest future results. The pro forma information also does not necessarily reflect what the historical results of Citizens would have been had its companies been combined during these periods.

The information in the following table is based on, and should be read together with, the historical financial information presented in this document. See "Unaudited Pro Forma Combined Condensed Consolidated Financial Data."

	Citizens Historical	**FNB Historical**	Pro Forma **Combined (Unaudited)**	**Equivalent Pro Forma Combined (Unaudited)** [5]
Basic Earnings per Share:				
For the year ended December 31, 2014	$4.41	$8.46	$4.10	$ 51.64
For the six months ended June 30, 2015 (unaudited)	$2.09	$5.66	$1.95	$ 24.59
Diluted Earnings per Share:				
For the year ended December 31, 2014	$4.40	$8.46	$4.10	$ 51.64
For the six months ended June 30, 2015 (unaudited)	$2.09	$5.66	$1.95	$ 24.59
Cash Dividends per Share:				
For the year ended December 31, 2014 [1] [2]	$2.17	$1.00	$1.57	$ 19.78
For the six months ended June 30, 2015 (unaudited) [2]	$0.81	$0.00	$0.81	$ 10.21
Book Value per Share at: [3] [4]				
December 31, 2014	$32.83	$472.41	$34.44	$ 433.95
June 30, 2015 (unaudited)	$34.03	$478.05	$35.52	$ 447.60
Common Shares Outstanding at:				

December 31, 2014	3,038,956	35,628	3,375,641
June 30, 2015 (unaudited)	3,028,676	35,628	3,365,361
Weighted Average Common Shares Outstanding used in earnings per share computation:			
Basic:			
For the year ended December 31, 2014	3,038,298	35,628	3,374,983
For the six months ended June 30, 2015 (unaudited)	3,022,945	35,628	3,359,630
Diluted:			
For the year ended December 31, 2014	3,039,593	35,628	3,376,278
For the six months ended June 30, 2015 (unaudited)	3,023,479	35,628	3,360,164

(1) Citizen's cash dividend for 2014 includes a special dividend of $0.60 per share.

(2) The pro forma combined cash dividend per share amounts assume that Citizens would have declared cash dividends per share on Citizens common stock, including the Citizens common stock issued in the merger for FNB common stock, equal to its historical cash dividends per share declared on the Citizens common stock.

(3) Book value per share excludes accumulated other comprehensive income (loss).

(4) The pro forma combined book value per share of Citizens' common stock is based upon the pro forma combined common shareholders' equity divided by the total pro forma common shares of the combined entity.

(5) The equivalent pro forma per FNB share was obtained by multiplying the pro forma combined amounts by the exchange ratio of 12.6000 and does not reflect the receipt of cash by holders of FNB common stock.

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MARKET PRICE AND DIVIDEND INFORMATION

Citizens common stock is quoted on the OTC Pink under the trading symbol “CZFS.” The following table lists the quarterly high and low bid prices per share of Citizens common stock and the cash dividends declared for the periods indicated. High and low bid prices reported on the OTC Pink reflect inter-dealer quotations without retail markup, markdown or commissions, and may not necessarily represent actual transactions.

	Citizens Common Stock		
	High	**Low**	**Dividends**
Quarter Ended			
September 30, 2015 (through [ ], 2015)	$[ ]	$[ ]	$ [ ]
June 30, 2015	50.25	48.10	0.405
March 31, 2015	53.75	49.50	0.405
December 31, 2014	54.25	52.00	0.400
September 30, 2014	54.50	51.25	0.400
June 30, 2014	58.26	52.25	0.385
March 31, 2014	58.99	49.10	0.385
December 31, 2013	54.00	47.00	0.385

You should obtain current market quotations for Citizens common stock, as the market price of Citizens common stock will fluctuate between the date of this document and the date on which the merger is completed, and thereafter. You can get these quotations on the Internet, from a newspaper or by calling your broker.

FNB common stock is not publicly traded and, to FNB’s knowledge, trades sporadically in private transactions. For the periods presented in the above table, FNB is aware of the following transactions: 22 shares traded during the quarter ended December 31, 2013, 20 shares traded during the quarter ended March 31, 2014, and 34 shares traded during the quarter ended June 30, 2014. FNB has no knowledge of the share price of any of these transactions. For the periods presented in the above table, FNB paid a dividend solely during the quarter ended December 31, 2014, in the amount of $1.00 per share.

As of June 30, 2015, there were approximately 1,542 holders of record of Citizens necessary for common stock. As of June 30, 2015, there were approximately 324 holders of record of FNB common stock. These numbers do not reflect the number of persons or entities who may hold their stock in nominee or “street name” through brokerage firms.

Following the merger, the declaration of dividends will be at the discretion of the Citizens Board of Directors and will be determined after consideration of various factors, including earnings, cash requirements, the financial condition of Citizens, applicable state law and government regulations, and other factors deemed relevant by the Citizens Board of Directors.

UNAUDITED PRO FORMA COMBINED CONDENSED CONSOLIDATED FINANCIAL DATA

The unaudited pro forma combined condensed consolidated financial information has been prepared using the acquisition method of accounting, giving effect to the merger. The unaudited pro forma combined condensed consolidated balance sheet combines the historical information of Citizens and of FNB as of June 30, 2015 and assumes that the merger was completed on that date. The unaudited pro forma combined condensed consolidated income statement combines the historical financial information of Citizens and of FNB and gives effect to the merger as if it had been completed as of January 1, 2014 and carried forward through the interim period presented. The unaudited pro forma combined condensed consolidated financial information is presented for illustrative purposes only and is not necessarily indicative of the results of operations or financial condition had the merger been completed on the date described above, nor is it necessarily indicative of the results of operations in future periods or the future financial condition and results of operations of the combined entities. The financial information should be read in conjunction with the accompanying Notes to the Unaudited Pro Forma Combined Condensed Consolidated Financial Information. Certain reclassifications have been made to FNB historical financial information in order to conform to Citizens' presentation of financial information.

The actual value of Citizens' common stock to be recorded as consideration in the merger will be based on the closing price of Citizens' common stock as of the merger completion date. The proposed merger is targeted for completion late in the fourth quarter of 2015. There can be no assurance that the merger will be completed as anticipated. For purposes of the pro forma financial information, the fair value of Citizens' common stock to be issued in connection with the merger was based on Citizens' closing stock price of $49.00 as of June 30, 2015.

The pro forma financial information includes estimated adjustments, including adjustments to record FNB's assets and liabilities at their respective fair values, and represents Citizens' pro forma estimates based on available fair value information as of the date of the merger agreement. In some cases, where noted, more recent information has been used to support estimated adjustments in the pro forma financial information.

The pro forma adjustments are subject to change depending on changes in interest rates, the components of assets and liabilities, as additional information that may become available, and as additional analyses are performed. The final allocation of the purchase price for the merger will be determined after the merger is consummated and after completion of a thorough analysis to determine the fair value of FNB's tangible and identifiable intangible assets and liabilities as of the date the merger is completed. Increases or decreases in the estimated fair values of the net assets as compared with the information shown in the unaudited pro forma combined condensed consolidated financial information may change the amount of the purchase price allocated to goodwill and other assets and liabilities and may impact Citizens' statement of operations due to adjustments in yield and/or amortization of the adjusted assets or liabilities. Any changes to FNB's stockholders' equity, including results of operations from June 30, 2015 through the date the merger is completed, will also change the purchase price allocation, which may include the recording of a lower or higher amount of goodwill. The final adjustments may be materially different from the unaudited pro forma adjustments presented herein.

We estimate $1.9 million of Citizens pre-tax merger-related costs to be incurred in connection with the merger. These costs are related to professional fees, change in control payments, employee severance costs and retention bonuses, system conversion costs and other expenses that will be incurred by Citizens, which will reduce Citizens' earnings in the 2015 fiscal year, and are excluded from the pro forma statements. We anticipate that the merger will provide the combined company with financial benefits that include reduced operating expenses. The unaudited pro forma combined condensed consolidated financial data, while helpful in illustrating the financial characteristics of the combined company under one set of assumptions, does not reflect the benefits of expected cost savings or opportunities to earn additional revenue and, accordingly, does not attempt to predict or suggest future results. It also does not necessarily reflect what the historical results of the combined company would have been had our companies been combined during these periods.

The unaudited pro forma combined condensed consolidated financial information has been derived from and should be read in conjunction with the historical consolidated financial statements and the related notes of Citizens and of FNB, which appear elsewhere in this document.

Unaudited Pro Forma Combined Condensed Consolidated Balance Sheet
As of June 30, 2015 *

(in thousands)	**Citizens Historical**	**FNB Historical**	**Pro Forma Adjustments**		**Pro Forma Combined**
ASSETS:					
Cash and cash equivalents:					
Noninterest-bearing	$9,910	$37,593	$(6,807)	**(1)**	$40,696
Interest-bearing	1,002	4,920	—		5,922
Total cash and cash equivalents	10,912	42,513	(6,807)		46,618
Interest bearing time deposits with other banks	5,960	—	—		5,960
Available-for-sale securities	304,792	30,629	—		335,421
Loans held for sale	1,152	—	—		1,152
Total loans	571,651	146,425	(3,457)	**(2)**	714,619
Allowance for loan losses	(6,959)	(1,213)	1,213	**(3)**	(6,959)
Loans, net	564,692	145,212	(2,244)		707,660
Premises and equipment	12,582	3,996	(169)	**(4)**	16,409
Accrued interest receivable	3,584	286	—		3,870
Goodwill	10,256	—	7,794	**(8)**	18,050
Bank owned life insurance	20,615	4,587	—		25,202
Other assets	7,934	5,186	2,328	**(5)**	15,448
TOTAL ASSETS	$942,479	$232,409	$903		$1,175,791
LIABILITIES:					
Deposits:					
Noninterest-bearing	$100,469	$43,420	$—		$143,889
Interest-bearing	691,418	170,689	161	**(6)**	862,268
Total deposits	791,887	214,109	161		1,006,157
Borrowed funds	39,194	—	—		39,194
Accrued interest payable	674	24	—		698
Other liabilities	7,499	2,520	—		10,019
TOTAL LIABILITIES	839,254	216,653	161		1,056,068
STOCKHOLDERS' EQUITY	103,225	15,756	742	**(7)**	119,723
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$942,479	$232,409	$903		$1,175,791

The accompanying notes are an integral part of these unaudited financial statements.

*Assumes that the merger was completed as of June 30, 2015 utilizing the acquisition method of accounting. Estimated fair value adjustments for loans, core deposit intangible assets, premises and equipment, and deposits were determined by the management of Citizens and of FNB. Actual fair value adjustments, where appropriate, will be determined as of the merger completion date and will be amortized and accreted into income.

(1)

The adjustment results from the assumption that cash and cash equivalents will be used to pay for after tax one-time merger and integration expenses of FNB. These expenses are actually charged against FNB's income and result in a charge to Citizens' goodwill. One-time merger and integration costs include $481,000 in estimated professional fees and estimated vendor contract termination penalties of $1.5 million. The adjustment also includes cash consideration of $5.5 million paid to FNB stockholders.

(2)

The pro forma statement of financial condition includes a fair value credit adjustment to total loans to reflect the credit condition of FNB's loan portfolio in the amount of $2.9 million, which represents a mark of 2.1% on FNB's outstanding loan portfolio. In order to determine the adjustment related to credit deterioration, Citizens employed a detailed due diligence process. Members of Citizens' senior management team, loan review and credit department functions, supported by its outside loan review firm, conducted a comprehensive review of FNB's loan portfolio, underwriting methodology, loan-related policies and loan portfolio management processes. The individual loan file review included a representative sample of commercial loan relationships and adversely classified assets and watch list credits. In total, the individual loan file review covered approximately 62% of the total commercial loan balance and 32% of total loans outstanding, and resulted in $1.6 million of the total $2.9 million fair value credit adjustment considered accretable and the remaining $1.3 million non-accretable. Citizens will update and finalize its analysis at closing, which may significantly change from the initial estimate.

The pro forma adjustment of $3.5 million also includes a fair value adjustment to total loans reflecting differences in interest rates in the amount of $500,000, which was based primarily on an analysis of current market interest rates, loan types, maturity dates and potential prepayments. The fair value adjustment will be amortized through loan interest income over the estimated lives of the affected loans. The weighted average remaining life of the loan portfolio was estimated at approximately 4.7 years.

(3)

Represents the reversal of FNB’s allowance for loan losses. Purchased loans acquired in a business combination are recorded at fair value and the recorded allowance of the acquired company is not carried over.

(4)

Represents the adjustment to estimate the fair value of acquired premises and equipment, specifically leasehold improvements, at the acquisition date.

(5)

Citizen’s estimate of the fair value of core deposit intangible is $2.2 million. The core deposit intangible was determined by applying a 1.30% premium on FNB’s core deposits, which was based on current market data for similar transactions. The core deposit intangible will be amortized into noninterest expense over a ten year period using the sum-of-the-years digits methodology.

The adjustment also represents $127,000 in net deferred tax assets resulting from the fair value adjustments related to the acquired assets and liabilities, identifiable intangibles and other deferred tax items. The actual deferred tax adjustment will depend on facts and circumstances existing at the time of the merger. The fair value adjustment of the net deferred tax asset assumes an effective tax rate of 34%.

(6)

The deposits include a fair value adjustment to time deposits to reflect differences in interest rates in the amount of $161,000, which was based primarily on an analysis of current market interest rates and maturity dates. This fair value adjustment will be accreted into interest expense over the estimated useful lives of the affected time deposits, which is 1.1 years.

(7)

Reflects elimination of FNB's stockholders' equity of $15.8 million. This amount is offset by the issuance of Citizen's common stock totaling $300,000, and the addition of Citizen's additional paid-in capital related to the issuance of common stock of $16.2 million. The value of the stock was determined by assuming that 75% of the total consideration paid will be in the form of common stock and the remaining 25% will be paid in cash.

(8)

Represents additional goodwill as a result of the merger calculated as the fair value of consideration paid in the acquisition of FNB, less amounts allocated to fair value of identifiable assets acquired and liabilities assumed. The purchase price, purchase price allocation, and financing of the transaction are as follows (in thousands):

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Estimated Transaction Value		$21,997
FNB's Stockholders' Equity at June 30, 2015	15,756	
Purchase Accounting Adjustments:		
Gross Loans - Credit	(2,940)	
Gross Loans - Rate	(517)	
Loan Loss Reserve Reversal	1,213	
Core Deposit Intangible	2,201	
Premises and equipment	(169)	
Deposits	(161)	
	(373)	
Net Deferred Tax Asset	127	
	(246)	
Estimated FNB Transaction-Related Expenses (net of tax)	(1,307)	
FNB Adjusted Stockholders' Equity		14,202
Estimated Goodwill Allocation		$7,794

Unaudited Pro Forma Combined Condensed Consolidated Income Statement
For the Year Ended December 31, 2014 *

(in thousands, except share data)	**Citizens Historical**	**FNB Historical**	**Pro Forma Adjustments**		**Pro Forma Combined**
INTEREST AND DIVIDEND INCOME:					
Interest and fees on loans	$28,324	$6,423	$457	**(1)**	$ 35,204
Interest-bearing deposits with banks	82	82			164
Investment securities:					
Taxable	3,337	488			3,825
Nontaxable	3,354	44			3,398
Dividends	194				194
TOTAL INTEREST AND DIVIDEND INCOME	35,291	7,037	457		42,785
INTEREST EXPENSE:					
Deposits	4,347	599	(147)	**(2)**	4,799
Borrowed funds	606				606
TOTAL INTEREST EXPENSE	4,953	599	(147)		5,405
NET INTEREST INCOME	30,338	6,438	604		37,380
Provision for loan losses	585	212			797
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	29,753	6,226	604		36,583
NON-INTEREST INCOME:					
Service charges	4,297	434			4,731
Trust	688	103			791
Brokerage and insurance	567				567
Investment securities gains, net	616				616
Gains on loans sold	236	45			281
Earnings on bank owned life insurance	507	166			673
Other	445	80			525
TOTAL NON-INTEREST INCOME	7,356	828			8,184
NON-INTEREST EXPENSES:					
Salaries and employee benefits	11,505	3,532			15,037
Occupancy	1,287	585	(18)	**(3)**	1,854
Furniture and equipment	362	701			1,063
Professional fees	902	239			1,141
Federal depository insurance	461	187			648
Pennsylvania shares tax	686	128			814
Other	4,962	1,354	400	**(4)**	6,716
TOTAL NON-INTEREST EXPENSES	20,165	6,726	383		27,274
Income before provision for income taxes	16,944	328	222		17,494
Provision for income taxes	3,559	27	75	**(5)**	3,661
NET INCOME	$13,385	$301	$146		$ 13,832
PER COMMON SHARE DATA:					
Basic	$4.41	$8.46			$ 4.10
Diluted	$4.40	$8.46			$ 4.10
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:					
Basic	3,038,298	35,628	336,685		3,374,983

Diluted	3,039,593	35,628	336,685	3,376,278

The accompanying notes are an integral part of these unaudited financial statements.

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Unaudited Pro Forma Combined Condensed Consolidated Income Statement
For the Six Months Ended June 30, 2015 *

(in thousands, except share data)	Citizens Historical	FNB Historical	Pro Forma Adjustments		Pro Forma Combined
INTEREST AND DIVIDEND INCOME:					
Interest and fees on loans	$14,168	$3,163	$229	**(1)**	$17,560
Interest-bearing deposits with banks	70	52			122
Investment securities:					
Taxable	1,519	285			1,804
Nontaxable	1,649	22			1,671
Dividends	133				133
TOTAL INTEREST AND DIVIDEND INCOME	17,539	3,522	229		21,290
INTEREST EXPENSE:					
Deposits	2,044	282	(14	) **(2)**	2,312
Borrowed funds	347				347
TOTAL INTEREST EXPENSE	2,391	282	(14	)	2,659
NET INTEREST INCOME	15,148	3,240	243		18,631
Provision for loan losses	240	125			365
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	14,908	3,115	243		18,266
NON-INTEREST INCOME:					
Service charges	2,004	205			2,209
Trust	374	50			424
Brokerage and insurance	382				382
Investment securities gains, net	301				301
Gains on loans sold	98				98
Earnings on bank owned life insurance	306	85			391
Other	218	67			285
TOTAL NON-INTEREST INCOME	3,683	407			4,090
NON-INTEREST EXPENSES:					
Salaries and employee benefits	6,049	1,691			7,740
Occupancy	717	321	(9	) **(3)**	1,029
Furniture and equipment	215	353			568
Professional fees	412	116			528
Federal depository insurance	232	101			333
Pennsylvania shares tax	401	49			450
Other	2,737	660	180	**(4)**	3,577
TOTAL NON-INTEREST EXPENSES	10,763	3,291	171		14,225
Income before provision for income taxes	7,828	231	72		8,131
Provision for income taxes	1,519	30	24	**(5)**	1,573
NET INCOME	$6,309	$201	$47		$6,557
PER COMMON SHARE DATA:					
Basic	$2.09	$5.66			$1.95
Diluted	$2.09	$5.66			$1.95
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:					
Basic	3,022,945	35,628	336,685		3,359,630

Diluted	3,023,479	35,628	336,685	3,360,164

The accompanying notes are an integral part of these unaudited financial statements.

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*Assumes that the merger was completed as of the beginning of the fiscal year presented and carried forward through the interim period presented using the acquisition method of accounting. Estimated fair value adjustments for loans, core deposit intangible assets, premises and equipment, and deposits were determined by the management of Citizens and of FNB. Actual fair value adjustments, where appropriate, will be determined as of the merger completion date and will be amortized and accreted into income.

(1)

For purposes of the pro forma impact, the accretable portion related to loans for the credit fair value adjustment and the amount related to the interest rate fair value adjustment were accreted over an assumed average life of 4.7 years.

(2)

Adjustment to reflect the estimated fair value of time deposits for differences in interest rates, which was based primarily on an analysis of current market interest rates and maturity dates. This fair value adjustment will be accreted into interest expense over the estimated useful lives of the affected time deposits, which is 1.1 years.

(3)

Adjustment to reflect the estimated fair value of acquired premises and equipment, specifically leasehold improvements, at the acquisition date. The adjustment will be amortized over the remaining lease period.

(4)

Amount represents core deposit amortization of $2.2 million over a ten year period using the sum-of-the-years digits methodology.

(5)

Assumes an effective tax rate of 34%.

SPECIAL MEETING OF STOCKHOLDERS OF THE FIRST NATIONAL BANK OF FREDERICKSBURG

Date, Time and Place

FNB is mailing this joint proxy statement/prospectus to you as an FNB stockholder on or about [ ], 2015. With this document, FNB is sending you a notice of the special meeting of FNB stockholders and a form of proxy that is solicited by the FNB Board of Directors. The special meeting will be held at [ ], on [ ], [ ], 2015, at [ ], local time.

Matters to be Considered

Merger Proposal. The purpose of the special meeting of FNB stockholders is to vote on the approval of the merger agreement by which FNB will merge with and into First Citizens.

Adjournment Proposal. You are also being asked to vote upon a proposal to adjourn or postpone the special meeting of stockholders, if necessary or appropriate, including adjournments or postponements to permit further solicitation of proxies in favor of the approval of the merger agreement.

The FNB Board of Directors knows of no additional matters that will be presented for consideration at the special meeting.