

Citizens Financial Services, Inc.
23-2265045
Attachment to Form 8937

REPORT OF ORGANIZATIONAL ACTIONS AFFECTING BASIS OF SECURITIES

Form 8937 Part I, Box 9:

The securities subject to reporting include all shares of Citizens Financial Services, Inc. (“Citizens”) common stock issued in exchange for the outstanding common stock of MidCoast Community Bancorp, Inc. (“MidCoast”) as a result of the merger which closed April 17, 2020.

Form 8937 Part II, Box 14:

On April 17, 2020 Citizens, the holding company for First Citizens Community Bank (FCCB”), completed its acquisition of MidCoast .

As a result of the Merger, MidCoast shareholders exchanged their common stock into a right to receive either 0.1065 shares of Citizens common stock, \$6.50 in cash, or a combination of cash and common stock of Citizens, subject to proration and allocation to ensure that 75% of the total number of shares of MidCoast common stock being exchanged for Citizens common stock and 25% exchanged for cash. To the extent that the exchange would have resulted in the issuance of a fractional share of Citizens common stock to an MidCoast shareholder, a cash payment equal to \$61.00 per share, which represented the market value of Citizens stock on the date the merger agreement was signed, was paid in lieu of issuing a fractional share of Citizens common stock.

Form 8937 Part II, Box 15:

The Merger of MidCoast with and into Citizens qualifies as a tax-free exchange within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended. As a result, each MidCoast shareholder’s tax consequences are as follows:

- MidCoast shareholders who receive solely cash in exchange for all of his or her MidCoast common stock as a result of the Merger will be treated as having received full payment for his or her MidCoast common stock. Consequently, since the shareholder did not receive any Citizens common stock, there will be no new basis to compute. Gain or loss will be recognized by those holders receiving solely cash for MidCoast common stock pursuant to the Merger equal to the difference in the amount of cash received by a holder of MidCoast common stock and such holder’s cost basis in such shares of MidCoast common stock. If the MidCoast common stock was held as a capital asset, any gain or loss will be a short-term or long-term capital gain or loss depending on the time the shareholder held the MidCoast common stock;
- No gain or loss will be recognized by those holders receiving solely shares of Citizens common stock in exchange for shares of MidCoast common stock pursuant to the Merger (except with respect to any cash received in lieu of fractional shares). The aggregate basis of the Citizens common stock received in the Merger will be the same as the aggregate basis of the MidCoast common stock for which it was exchanged (decreased by any cash received instead of fractional share interests in Citizens common stock);

- In general, a gain (but not loss) may be recognized by MidCoast shareholders who receive shares of Citizens common stock and cash in exchange for shares of MidCoast common stock pursuant to the Merger. Such shareholders will recognize gain, if any, equal to the lesser of (1) the amount of cash received or (2) the amount of gain “realized” in the transaction (i.e., the amount by which (i) the cash plus fair market value of the Citizens common stock received in the merger exceeds (ii) the shareholder’s basis in the MidCoast common stock surrendered in exchange for the cash and Citizens common stock. The aggregate basis of the Citizens common stock received in the Merger by a MidCoast shareholder who receives a combination of Citizens common stock and cash in exchange for his or her MidCoast common stock will be the same as the aggregate basis of the MidCoast common stock for which it was exchanged, decreased by the amount of cash received in the Merger (except with respect to any cash received instead of fractional share interests in Citizens common stock), decreased by any basis attributable to fractional share interests in Citizens common stock for which cash is received, and increased by the amount of gain recognized on the exchange, but excluding any gain or loss recognized with respect to fractional share interests in Citizens common stock for which cash is received;
- A holder of MidCoast common stock who receives cash instead of a fractional share of Citizens common stock will generally be treated as having received the fractional share pursuant to the Merger and then as having exchanged the fractional share for cash in a redemption by Citizens. As a result, a holder of MidCoast common stock will generally recognize a gain or loss equal to the difference between the amount of cash received and the basis in his or her fractional share interest as set forth above. The gain or loss will generally be a capital gain or loss, and will be a 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; and
- The holding period of Citizens common stock received in exchange for shares of MidCoast common stock will include the holding period of the MidCoast common stock for which it is exchanged.

If holders of MidCoast common stock acquired different blocks of MidCoast common stock at different times or at different prices, any gain or loss will be determined separately with respect to each block of MidCoast common stock and such holder’s basis and holding period in their shares of Citizens common stock may be determined with reference to each block of MidCoast common stock. Any such holders should consult their tax advisors regarding the manner in which cash and Citizens common stock received in the exchange should be allocated among different blocks of MidCoast common stock and with respect to identifying the bases or holding periods of the particular shares of Citizens stock received in the Merger.