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CITIZENS FINANCIAL CORP /KY/  
Form 10-Q  
November 14, 2003

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934  
For the quarterly period ended September 30, 2003

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 0-20148

CITIZENS FINANCIAL CORPORATION  
(Exact name of registrant as specified in its charter)

Kentucky  
(State of Incorporation)

61-1187135  
(I.R.S. Employer Identification No.)

12910 Shelbyville Road, Louisville, Kentucky 40243  
(Address of principal executive offices)

(502) 244-2420  
(Registrant's telephone number)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Sections 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant is an accelerated filer (as determined in Rule 12b-2 of the Securities Exchange Act of 1934). Yes  No

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: Class A Stock - 1,685,228 as of November 12, 2003.

The date of this Report is November 14, 2003.

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Part I - Financial Information; Item 1 - Financial Statements

Citizens Financial Corporation and Subsidiaries  
Condensed Consolidated Statements of Operations  
(Unaudited)

Nine Months Ended September 30	2003
-----	
Revenues:	
Premiums and other considerations	\$27,088,830
Premiums ceded	(826,587)
-----	
Net premiums earned	26,262,243
Net investment income	4,332,680
Net realized investment gains (losses)	760,829
Other income	158,832
-----	
Total Revenues	31,514,584
-----	
Policy Benefits and Expenses:	
Policyholder benefits	15,965,187
Policyholder benefits ceded	(766,275)
-----	
Net benefits	15,198,912
Increase in net benefit reserves	5,979,186
Interest credited on policyholder deposits	522,627
Commissions	4,999,926
General expenses	5,217,787
Interest expense	279,677
Policy acquisition costs deferred	(1,623,450)
Amortization of deferred policy acquisition costs, value of insurance acquired, and goodwill	1,461,102
-----	
Total Policy Benefits and Expenses	32,035,767
-----	
Loss before income tax	(521,183)
Income Tax Benefit	(121,000)
-----	
Net Loss	\$ (400,183)
-----	
Net Loss Per Common Share	\$ (0.24)
-----	

Part I; Item 1 (continued)

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Citizens Financial Corporation and Subsidiaries  
 Condensed Consolidated Statements of Operations  
 (Unaudited)

Three Months Ended September 30	2003
-----	
Revenues:	
Premiums and other considerations	\$ 8,765,717
Premiums ceded	(293,985)
-----	
Net premiums earned	8,471,732
Net investment income	1,580,841
Net realized investment gains (losses)	925,557
Other income	46,756
-----	
Total Revenues	11,024,886
Policy Benefits and Expenses:	
Policyholder benefits	5,283,059
Policyholder benefits ceded	(210,423)
-----	
Net benefits	5,072,636
Increase in net benefit reserves	2,022,373
Interest credited on policyholder deposits	177,055
Commissions	1,611,689
General expenses	1,792,592
Interest expense	90,068
Policy acquisition costs deferred	(486,134)
Amortization of deferred policy acquisition costs, value of insurance acquired, and goodwill	471,732
-----	
Total Policy Benefits and Expenses	10,752,011
-----	
Income (Loss) before income tax	272,875
Income Tax Expense (Benefit)	20,000
-----	
Net Income (Loss)	\$ 252,875
-----	
Net Income (Loss) Per Common Share	\$ 0.15
-----	

Part I; Item 1 (continued)

Citizens Financial Corporation and Subsidiaries  
 Condensed Consolidated Statements of Financial Condition

September 30,  
 2003

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ASSETS

(Unaudited)

Investments:

Securities available for sale, at fair value:

Fixed maturities (amortized cost of \$102,252,796 and \$101,161,174 in 2003 and 2002, respectively)	\$ 106,902,419
Equity securities (cost of \$12,553,529 and \$7,108,735 in 2003 and 2002, respectively)	14,946,354
Investment real estate	3,189,618
Policy loans	4,347,610
Short-term investments	632,381

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 Total Investments 130,018,382

Cash and cash equivalents	4,007,597
Accrued investment income	1,427,560
Reinsurance recoverable	2,605,526
Premiums receivable	262,057
Property and equipment	2,639,783
Deferred policy acquisition costs	10,366,836
Value of insurance acquired	3,230,070
Goodwill	755,782
Federal income tax receivable	310,158
Other assets	24,102

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 Total Assets \$ 155,647,853

Part I; Item 1 (continued)

Citizens Financial Corporation and Subsidiaries  
 Condensed Consolidated Statements of Financial Condition

September 30,  
 2003

LIABILITIES AND SHAREHOLDERS' EQUITY

(Unaudited)

Liabilities:

Policy Liabilities:

Future policy benefits	\$ 108,487,159
Policyholder deposits	15,505,662
Policy and contract claims	1,577,726
Unearned premiums	239,500
Other	229,340

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 Total Policy Liabilities 126,039,387

Note payable - bank	4,462,502
Note payable - related party	2,000,000
Accrued expenses and other liabilities	2,075,534

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Deferred federal income tax	1,408,030
-----	
Total Liabilities	135,985,453
Commitments and Contingencies	
Shareholders' Equity:	
Common stock, 6,000,000 shares authorized; 1,685,228 and 1,686,828 shares issued and outstanding in 2003 and 2002, respectively	1,685,228
Additional paid-in capital	7,170,321
Accumulated other comprehensive income	4,536,469
Retained earnings	6,270,382
-----	
Total Shareholders' Equity	19,662,400
-----	
Total Liabilities and Shareholders' Equity	\$ 155,647,853
-----	

Part I; Item 1 (continued)

Citizens Financial Corporation and Subsidiaries  
Condensed Consolidated Statements of Cash Flows  
(Unaudited)

Nine Months Ended September 30 2003

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Cash Flows from Operations:

Net loss	\$ (400,183)
Adjustments to reconcile net loss to cash from operations:	
Increase in benefit reserves	5,824,530
Increase (decrease) in claim liabilities	(219,469)
Decrease in reinsurance recoverable	280,730
Interest credited on policyholder deposits	522,627
Provision for amortization and depreciation, net of deferrals	59,851
Amortization of premium and accretion of discount on securities purchased, net	63,281
Net realized investment (gains) losses	(760,829)
Increase in accrued investment income	(97,524)
Change in other assets and liabilities	66,404
Decrease in deferred federal income tax liability	(121,000)
(Increase) decrease in federal income taxes receivable	(60,000)
-----	
Net Cash provided by Operations	5,158,418
Cash Flows from Investment Activities:	
Cost of securities acquired	(61,311,997)
Investments sold or matured	55,699,136
Investment management fees	(12,552)
Additions to real estate	(26,529)

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Additions to property and equipment	(12,195)
Other investing activities, net	(101,172)
-----	
Net Cash used in Investment Activities	(5,765,309)
Cash Flows from Financing Activities:	
Policyholder deposits	417,888
Policyholder withdrawals	(1,178,146)
Payments on notes payable - bank	(1,316,666)
Repurchase of common stock	(7,759)
-----	
Net Cash used in Financing Activities	(2,084,683)
Net Increase (Decrease) in Cash and Cash Equivalents	(2,691,574)
Cash and Cash Equivalents at Beginning of Period	6,699,171
-----	
Cash and Cash Equivalents at End of Period	\$ 4,007,597
-----	

Part I; Item 1 (continued)

Citizens Financial Corporation and Subsidiaries  
Notes to Condensed Consolidated Financial Statements  
(Unaudited)

Note 1 - BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q in conformity with accounting principles generally accepted in the United States. The accompanying unaudited condensed financial statements reflect all adjustments which are, in the opinion of management, necessary to a fair presentation of the results for the interim periods. All such adjustments are of a normal recurring nature. For further information, refer to the December 31, 2002 consolidated financial statements and footnotes included in the Company's annual report on Form 10-K.

Note 2 - COMPREHENSIVE INCOME

The components of comprehensive income (loss), net of related tax, for the three and nine month periods ended September 30, 2003 and 2002 are as follows:

	-----		-----	
	Three Months Ended September 30,		Nine Months Ended	
	-----		-----	
COMPREHENSIVE INCOME:	2003	2002	2003	
-----				
Net Income (Loss)	\$ 252,875	\$ (472,479)	\$ (400,183)	\$
Net Unrealized gains (losses) on securities	(526,373)	965,148	2,312,710	

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Comprehensive Income (Loss)	\$ (273,498)	\$ 492,669	\$ 1,912,527	\$
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Note 3 - DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

The Company's derivatives outstanding at September 30, 2003 include approximately \$195,000 of embedded options on convertible bonds and \$134,000 of other open option positions. Hedge accounting is not used for these securities and changes in market value are reported currently as realized gains or losses.

Note 4 - NET REALIZED INVESTMENT GAINS (LOSSES), NET OF EXPENSES

The Company recorded pretax reductions to the carrying value of available for sale securities totaling \$135,000 and \$2,095,000 for the nine months ended September 30, 2003 and 2002, respectively, relating to declines in value which were considered by management to be other than temporary. These amounts are included along with other net realized losses. The Company also nets certain direct, incremental investment management fees against net realized investment gains and losses presented in the Condensed Consolidated Statements of Operations. Such costs are based directly on or, are primarily associated with capital gains. Costs netted against realized investment gains and losses total \$236,000 and \$23,000 for the nine months ended September 30, 2003 and 2002, respectively.

Note 5 - INCOME TAXES

Current taxes are provided based on estimates of the projected effective annual tax rate. Deferred taxes reflect the net effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

Part I; Item 1 (continued)

Note 6 - SEGMENT INFORMATION

The Company's operations are managed along five principal insurance product lines: Home Service Life, Broker Life, Preneed Life, Dental, and Other Health. Products in all five lines are sold through independent agency operations. Home Service Life consists primarily of traditional life insurance coverage sold in amounts of \$10,000 and under to middle and lower income individuals. This distribution channel is characterized by a significant amount of agent contact with customers throughout the year. Broker Life product sales consist primarily of simplified issue and graded-benefit policies in amounts of \$10,000 and under. Other products in this segment which are not aggressively marketed include: group life, universal life, annuities and participating life coverages. Preneed Life products are sold to individuals in connection with prearrangement of their funeral and include single premium and multi-pay policies with coverages generally in amounts of \$10,000 and less. These policies are generally sold to older individuals at increased premium rates. Dental products are term coverages generally sold to small and intermediate size employer groups. Other Health products include various accident and health coverages sold to individuals and employer groups. Segment information as of September 30, 2003 and 2002, and for the periods then ended is as follows:

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	Three Months Ended September 30,		Nine Months Ended Sep	
REVENUE:	2003	2002	2003	
Home Service Life	\$ 2,267,969	\$ 2,405,316	\$ 6,815,681	\$
Broker Life	1,485,946	1,485,669	4,317,588	
Preneed Life	3,953,455	6,092,054	12,288,540	1
Dental	2,052,254	2,077,379	6,290,470	
Other Health	339,705	367,216	1,041,476	
Segment Totals	10,099,329	12,427,634	30,753,755	3
Net realized investment gains (losses)	925,557	(701,218)	760,829	(
Total Revenue	\$ 11,024,886	\$ 11,726,416	\$ 31,514,584	\$ 3

Below are the net investment income amounts which are included in the revenue totals above.

	Three Months Ended September 30,		Nine Months Ended Sep	
NET INVESTMENT INCOME:	2003	2002	2003	
Home Service Life	\$ 434,121	\$ 435,698	\$ 1,208,152	\$
Broker Life	580,429	527,574	1,633,080	
Preneed Life	537,241	425,155	1,413,597	
Dental	7,047	5,454	18,780	
Other Health	22,002	18,251	59,070	
Segment Totals	\$ 1,580,840	\$ 1,412,132	\$ 4,332,679	\$

Part I; Item 1 (continued)

The Company evaluates performance based on several factors, of which the primary financial measure is segment profit. Segment profit represents pretax earnings, except net realized investment gains and interest expense are excluded. A significant portion of the Company's realized investment gains are generated from investments in equity securities. The equities portfolio averaged (on a cost basis) approximately \$9,941,000 and \$7,179,000 during the nine months ended September 30, 2003 and 2002, respectively.



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SEGMENT PROFIT (LOSS):	Three Months Ended September 30,		Nine Months Ended Sep
	2003	2002	2003
Home Service Life	\$ (122,951)	\$ 145,625	\$ (36,241)
Broker Life	(312,089)	(49,071)	(487,753)
Preneed Life	(59,469)	(163,181)	(438,880)
Dental	(10,726)	131,685	195,170
Other Health	(57,379)	25,330	(234,631)
Segment Totals	(562,614)	90,388	(1,002,335)
Net realized investment gains (losses)	925,557	(701,218)	760,829
Interest expense	90,068	74,649	279,677
Gain (Loss) before income tax	\$ 272,875	\$ (685,479)	\$ (521,183)

Depreciation and amortization amounts below consist of depreciation expense along with amortization of the value of insurance acquired and deferred policy acquisition costs.

DEPRECIATION AND AMORTIZATION:	Three Months Ended September 30,		Nine Months Ended Sep
	2003	2002	2003
Home Service Life	\$ 196,679	\$ 250,420	\$ 548,657
Broker Life	182,691	119,652	468,398
Preneed Life	147,511	363,395	597,884
Dental	15,759	13,946	44,284
Other Health	7,918	9,542	24,080
Segment Totals	\$ 550,558	\$ 756,955	\$ 1,683,303

Segment asset totals are determined based on policy liabilities outstanding in each segment.

ASSETS:	September 30, 2003	December 31, 2002
Home Service Life	\$ 40,533,336	\$ 39,587,175
Broker Life	54,070,858	54,232,558
Preneed Life	58,511,130	51,991,206
Dental	586,657	658,963
Other Health	1,945,872	1,971,630

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Segment Totals	\$155,647,853	\$148,441,532
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Part I; Item 1 (continued)

### Note 7 - LITIGATION

United Liberty Life Insurance Company ("United Liberty"), which the Company acquired in 1998, is defending an action in an Ohio state court brought by two policyholders. The Complaint refers to a particular class of life insurance policies that United Liberty issued over a period of years ending around 1971. It alleges that United Liberty's dividend payments on these policies from 1993 through 1999 were less than the required amount. It does not specify the amount of the alleged underpayment but implies a maximum of about \$850,000. The plaintiffs also allege that United Liberty is liable to pay punitive damages, also in an unspecified amount, for breach of an implied covenant of good faith and fair dealing to the plaintiffs in relation to the dividends. The action has been certified as a class action on behalf of all policyholders who were Ohio residents and whose policies were still in force in 1993. United Liberty has denied the material allegations of the Complaint and is defending the action vigorously. Pre-trial discovery is continuing. United Liberty has filed a motion for summary judgment, which has been fully briefed and argued and awaits decision by the Court. At United Liberty's request, an initial mediation session has been completed and negotiations are continuing. As a pre-requisite for the mediation, United Liberty offered to settle the matter for payments over time, which would include attorneys' fees, and which would be contingent upon an exchange or reformation of the insurance policies currently owned by the members of the class. At this stage of the litigation, the Company is unable to determine whether an unfavorable outcome of the action is likely to occur or, alternatively, whether the chance of such an outcome is remote. Therefore, at this time, management has no basis for estimating potential losses, if any. In addition, the Company is party to other lawsuits in the normal course of business. Management believes that recorded claims liabilities are adequate to ensure that these other suits will be resolved without material financial impact to the Company.

### NOTE 8 - RECENTLY ISSUED ACCOUNTING STANDARDS

In January 2003, the Financial Accounting Standards Board (FASB) issued Interpretation No. 46, Consolidation of Variable Interest Entities, an Interpretation of Accounting Research Bulletin (ARB) No. 51 which states certain criteria for use in consolidating another entity. The provisions of Interpretation No. 46 had no impact on the financial statements of the Company.

In May 2003, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 150, Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity (FAS 150), effective for interim reporting periods beginning after June 15, 2003. Under the new rules, certain financial instruments classified as equity will be required to be presented as liabilities. The provisions of FAS 150 had no impact on the financial statements of the Company.

Part I; Item 2 - Management's Discussion and Analysis

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FINANCIAL POSITION. Shareholders' equity totaled approximately \$19,662,000 and \$17,758,000 at September 30, 2003 and December 31, 2002, respectively. These balances reflect an approximate 11% increase for the nine months ended September 30, 2003. As described above, comprehensive income (loss) totaled approximately \$1,913,000 and \$(2,161,000) for the nine months ended September 30, 2003 and 2002, respectively. A significant portion of comprehensive income (loss) is attributable to changes in the value of the Company's fixed maturity and equity portfolios. Fixed maturity portfolio positions increased \$1,092,000 on an amortized cost basis and increased \$2,949,000 on a market value basis during the first nine months of 2003. This gross appreciation of \$1,857,000 resulted primarily from increasing bond prices during the period. Equity securities comprised approximately 9.6% and 5.2% of the Company's total assets as of September 30, 2003 and December 31, 2002, respectively. Equity portfolio positions increased \$5,445,000 on a cost basis and \$7,184,000 on a market value basis, during the first nine months of 2003, resulting in gross appreciation of \$1,739,000. Cash and cash equivalent positions also decreased approximately \$2,692,000 during the nine months ended September 30, 2003 primarily due to increased fixed maturity and equity security investments.

Equity markets continue to be volatile but were much more favorable during 2003 than results experienced during the prior three years. Late in the second quarter of 2003, interest yields on fixed maturity investments finally began to rise. Although this adversely impacts the market value of the Company's bond portfolio, the opportunity to invest new money at higher yields would have a positive impact on the Company's operating earnings. Additionally, improving economic activity and equity valuations have resulted in a lower level of securities impairment writedowns during 2003. The 2003 environment as described continues to generate a relatively high level of qualitative investment risk. However, measures of quantitative investment risk are not believed to have changed significantly from those previously disclosed in the Company's 2002 Form 10-K.

OPERATIONS. Net premiums and other considerations decreased approximately \$2,278,000, or 21% during the three months ended September 30, 2003 compared to the three months ended September 30, 2002 and decreased \$2,277,000, or 8% for the first nine months of 2003 compared to the first nine months of 2002. Below is a summary of net premiums earned by segment, for the three and nine month periods ended September 30, 2003, along with the change from the prior year.

NET PREMIUMS EARNED	Three Months Ended September 30,		Nine Months Ended September 30,	
	Total	Change	Total	Change
Home Service Life	\$ 1,821,080	(64,488)	\$ 5,563,237	\$ (2,277,000)
Broker Life	888,522	32,821	2,624,641	(2,277,000)
Preneed Life	3,400,085	(2,191,979)	10,823,122	(2,277,000)
Dental	2,044,997	(25,746)	6,271,002	(2,277,000)
Other Health	317,048	(28,271)	980,241	(2,277,000)
Segment Totals	\$ 8,471,732	\$ (2,277,663)	\$ 26,262,243	\$ (2,277,000)

The Home Service Life growth for the year is attributable to a continuing focus on providing quality service to existing agents and customers along with a

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moderate level of new agent recruiting, although some agents have expressed concern about a recent premium rate increase. The Broker Life decline for the year is primarily attributable to competition from other carriers in the final expense marketplace. Preneed life premiums are lower, due in part to the Company's decision to emphasize the lower annual premium "multi-pay" policies rather than "single-pay" policies and some loss of volume attributable to reducing commission levels and the rate of annual growth credited to policies. During 2003, Dental premiums were favorably impacted by additional broker relationships and normal inflationary premium increases. The Other Health segment products are not being actively marketed.

The Company's Pretax Income (Loss) improved approximately \$958,000 to \$273,000 for the three months ended September 30, 2003, and improved \$2,824,000 to \$(521,000) for the nine months ended September 30, 2003, compared to the corresponding periods in 2002. Most of this improvement is attributable to improving realized investment gains (losses). Net realized investment gains totaled \$926,000 and \$761,000 respectively, for the three

Part I; Item 2 - Management's Discussion and Analysis, continued

and nine month periods ending September 30, 2003, compared to realized losses of \$701,000 and \$2,498,000 respectively, for the three and nine month periods ending September 30, 2002. Both the equity and fixed income investment markets improved significantly during the first nine months of 2003. Segment Profit (Loss), which excludes net realized investment gains (losses) and interest expense declined approximately \$653,000 to \$(563,000) for the three months ended September 30, 2003, and declined \$389,000 to \$(1,002,000) for the nine months ended September 30, 2003, compared to the corresponding periods in 2002. A significant portion of the adverse impact for the three and nine month periods ended September 30, 2003 relates to the approximate 54 basis point decline in investment yields as shown below. However, investment yields for the three months ended September 30, 2003 were approximately 46 basis points higher than yields during the first six months of 2003. Additionally, for the three months ended September 30, 2003, mortality was unfavorable in the Home Service and Broker Life lines and Dental claim rates were higher, compared to the three months ended September 30, 2002. For the nine months ended September 30, 2003, Preneed Life results were somewhat favorably impacted by a variety of pricing and agent compensation actions taken, while mortality and morbidity results in the other business segment were relatively stable.

Below are pretax investment income and total return, along with approximate annualized yields for the nine months ended September 30, 2003 and 2002.

Nine Months Ended September 30	2003	2002
Investment Income	\$ 4,332,680	\$ 4,308,775
Realized and Unrealized Gains (Losses)	4,357,479	(1,654,740)
<b>Total Return</b>	<b>\$ 8,690,159</b>	<b>\$ 2,654,035</b>
 Average Cash and Investments	 \$ 130,248,047	 \$ 115,261,875
Investment Income Yield - Annualized	4.44%	4.98%
Total Return - Annualized	8.90%	3.07%

The Company's effective income tax rate differs from the statutory federal rate primarily due to the effect of the small life insurance company deduction which

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allows certain companies to reduce their taxable income by up to 60% before computing provisions for regular and alternative minimum tax.

CASH FLOW AND LIQUIDITY. Cash flow from operations totaled \$5,158,000 for the nine months ended September 30, 2003 compared to \$12,645,000 for the same period in the prior year. This positive cash flow for both periods is primarily attributable to growth in Preneed Life business, although the 2002 total also includes an approximate \$2,565,000 net recovery of federal income tax. The \$5,765,000 of cash used by investing activities for the nine months ended September 30, 2003 resulted primarily from investing the proceeds of Preneed Life sales. The \$2,085,000 of cash used in financing activities during the first nine months of 2003 is primarily attributable to bank loan principal repayments along with annuity and Universal Life account withdrawals. The quarterly bank loan payment due on October 1, 2003 was paid by September 30, 2003, accordingly, the outstanding bank loan balance decreased by four quarterly installments during 2003. Due to continued earnings pressure from lower yields on investments and other competitive impacts on product margins, the Company is completing a strategic review of its products and operations. A key element of this initiative is improving profitability of the Preneed, Home Service, and Broker Life segments by increasing premiums, strengthening underwriting practices, modifying commissions, and where possible, lowering interest crediting or policy growth rates. Regarding the currently scheduled debt repayments, the Company believes its available funds will be adequate to service 2003 debt obligations and, with other available assets, will probably be adequate to service debt obligations through 2004. In addition, the Company's Chairman has expressed potential willingness to loan the Company an additional \$3,000,000 if necessary, which could service debt obligations through the majority of 2006. For the quarter ended September 30, 2003, the Company did not meet one of its bank debt covenants (debt to earnings ratio), however the lender has waived this violation. In return for the waiver and recognizing the Company may not meet this covenant as of December 31, 2003, the Company's Chairman agreed to personally guarantee the outstanding bank debt. During the fourth quarter of 2003, the Company expects to negotiate an appropriate fee for this personal guarantee will attempt to renegotiate the debt to earnings ratio covenant.

Part I; Item 2 - Management's Discussion and Analysis, continued

### FORWARD-LOOKING INFORMATION.

All statements, trend analyses and other information contained in this report relative to markets for the Company's products and trends in the Company's operations or financial results, as well as other statements including words such as "anticipate", "believe", "plan", "estimate", "expect", "intend", and other similar expressions, constitute forward-looking statements under the Private Securities Litigation Reform Act of 1995. These forward-looking statements are subject to known and unknown risks, uncertainties and other factors which may cause actual results to be materially different from those contemplated by the forward-looking statements. Such factors include, among other things:

- |X| the market value of the Company's investments, including stock market performance and prevailing interest rate levels;
- |X| customer and agent response to new products, distribution channels and marketing initiatives, including exposure to unrecoverable advanced commissions;
- |X| mortality, morbidity, lapse rates, and other factors which may affect the profitability of the Company's insurance products;
- |X| regulatory changes or actions, including those relating to regulation of insurance products and insurance companies;

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- |X| ratings assigned to the Company and its subsidiaries by independent rating organizations which the Company believes are important to the sale of its products;
- |X| general economic conditions and increasing competition which may affect the Company's ability to sell its products;
- |X| the Company's ability to achieve anticipated levels of operating efficiencies and meet cash requirements based upon projected liquidity sources;
- |X| unanticipated adverse litigation outcomes; and
- |X| changes in the Federal income tax laws and regulations which may affect the relative tax advantages of some of the Company's products.

There can be no assurance that other factors not currently anticipated by management will not also materially and adversely affect the Company's results of operations.

### Part I; Item 3 - Quantitative and Qualitative Disclosures about Market Risk

QUANTITATIVE AND QUALITATIVE RISK. Changes in quantitative and qualitative market risks during the nine months ended September 30, 2003 are discussed in Part I, Item 2 above.

### Part I; Item 4 - Controls and Procedures

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES. Management of the Company conducted an evaluation of its disclosure controls and procedures, with the supervision and participation of its Chief Executive Officer and Chief Financial Officer, as of the end of the period covered by this quarterly report. The Company does not expect that its disclosure controls and procedures will prevent all error and fraud. Such a control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must balance the constraint of prudent resource expenditure with a judgmental evaluation of risks and benefits. Based on this evaluation of disclosure controls and procedures, the Company's Chief Executive Officer and Chief Financial Officer have concluded that such controls and procedures provide reasonable assurance that material information required to be included in the Company's periodic SEC reports is made known on a timely basis to the Company's principal executive and financial officers.

CHANGES IN INTERNAL CONTROLS. There has been no change in the Company's internal control over financial reporting identified in connection with the evaluation, that occurred during the fiscal quarter ended September 30, 2003 that materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

### Part II - Other Information

#### Item 6. Exhibits and Reports on Form 8-K.

- a). Exhibit 11: Statement re: computation of per share earnings.
- Exhibit 31.1: Certification of Chief Executive Officer

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Exhibit 31.2: Certification of Chief Financial Officer  
Exhibit 32.1: Certification of Chief Executive Officer  
Exhibit 32.2: Certification of Chief Financial Officer

- b). Reports on Form 8-K: On August 15, 2003 the Company filed a Form 8-K to furnish, pursuant to Item 12, a press release disclosing the Company's earnings for the second quarter of 2003.

SIGNATURES

In accordance with the requirements of the Securities and Exchange Act of 1934, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CITIZENS FINANCIAL CORPORATION

BY: /s/ Darrell R. Wells

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Darrell R. Wells  
President and Chief Executive Officer

BY: /s/ Brent L. Nemec

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Brent L. Nemec  
Treasurer and Principal Accounting Officer

Date: November 14, 2003

EXHIBIT INDEX

Exhibit No.	Description
11	Statement re: computation of per share earnings
31.1	Certification of Chief Executive Officer
31.2	Certification of Chief Financial Officer
32.1	Certification of Chief Executive Officer
32.2	Certification of Chief Financial Officer