CITIZENS FINANCIAL CORP /KY/
Form 10-Q
November 13, 2002

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

FORM 10-Q

X QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2002

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	61-1187135
(State of Incorporation)	(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 ~~X~~ 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 - 1,701,628 as of November 11, 2002.

The date of this Report is November 12, 2002.

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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	2002
Revenues:	
Premiums and other considerations	$ 29,503,837
Premiums ceded	(964,938)
Net premiums earned	28,538,899
Net investment income	4,308,775
Net realized investment losses	(2,497,769)
Other income	374,937
Total Revenues	30,724,842
Policy Benefits and Expenses:	
Policyholder benefits	14,394,220
Policyholder benefits ceded	(1,039,057)
Net benefits	13,355,163
Increase in net benefit reserves	9,796,081
Interest credited on policyholder deposits	572,568
Commissions	5,577,016
General expenses	5,017,477
Interest expense	234,053
Policy acquisition costs deferred	(2,080,972)
Amortization of deferred policy acquisition costs, value of insurance acquired, and goodwill	1,598,876
Total Policy Benefits and Expenses	34,070,262
Loss before income tax and cumulative effect of a change in accounting principle	(3,345,420)
Income Tax Benefit	(628,000)
Loss before cumulative effect of a change in accounting principle	$(2,717,420)
Cumulative effect from prior years (since January 1, 1999) of accounting for embedded options	---
Net Loss	$ (2,717,420)
Per Share Amounts:	
Loss before cumulative effect of a change in accounting principle	$ (1.58)
Cumulative effect from prior years (since January 1, 1999) of accounting for embedded options	---
Net Loss	$ (1.58)

Part I; Item 1 (continued)

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

Three Months Ended September 30	2002
Revenues:	
Premiums and other considerations	$ 11,069,060
Premiums ceded	(319,665)
Net premiums earned	10,749,395
Net investment income	1,412,132
Net realized investment losses	(701,218)
Other income	266,107
Total Revenues	11,726,416
Policy Benefits and Expenses:	
Policyholder benefits	4,597,113
Policyholder benefits ceded	(189,383)
Net benefits	4,407,730
Increase in net benefit reserves	4,096,554
Interest credited on policyholder deposits	169,527
Commissions	2,039,036
General expenses	1,742,364
Interest expense	74,649
Policy acquisition costs deferred	(797,187)
Amortization of deferred policy acquisition costs, value of insurance acquired, and goodwill	679,222
Total Policy Benefits and Expenses	12,411,895
Loss before Income Tax	(685,479)
Income Tax Benefit	(213,000)
Net Loss	$ (472,479)
Net Loss Per Common Share	$ (0.27)

Part I; Item 1 (continued)

Citizens Financial Corporation and Subsidiaries
Condensed Consolidated Statements of Financial Condition

	September 30, 2002
ASSETS	(Unaudited)
Investments:	
Securities available for sale, at fair value:	
Fixed maturities (amortized cost of $88,791,034 and $75,872,277 in 2002 and 2001 respectively)	$ 91,615,254
Equity securities (cost of $8,231,002 and $7,055,402 in 2002 and 2001, respectively)	8,973,606
Investment real estate	3,280,652
Mortgage loans on real estate	156,000
Policy loans	4,127,296
Short-term investments	652,192
Total Investments	108,805,000
Cash and cash equivalents	12,768,616
Accrued investment income	1,372,345
Reinsurance recoverable	2,530,243
Premiums receivable	460,775
Property and equipment	2,819,191
Deferred policy acquisition costs	9,588,640
Value of insurance acquired	3,748,105
Goodwill	755,782
Federal income tax receivable	290,015
Other assets	315,837
Total Assets	$ 143,454,549

Part I; Item 1 (continued)

Citizens Financial Corporation and Subsidiaries
Condensed Consolidated Statements of Financial Condition

	September 30, 2002
LIABILITIES AND SHAREHOLDERS' EQUITY	(Unaudited)
Liabilities:	
Policy Liabilities:	
Future policy benefits	$ 99,056,386
Policyholder deposits	15,768,245

Policy and contract claims	1,602,030
Unearned premiums	242,590
Other	222,908
Total Policy Liabilities	116,892,159
Notes payable	6,108,334
Accrued expenses and other liabilities	2,197,799
Deferred federal income tax	482,716
Total Liabilities	125,681,008
Commitments and Contingencies	
Shareholders' Equity:	
Common stock, 6,000,000 shares authorized; 1,701,628 and 1,716,815 shares issued and outstanding in 2002 and 2001, respectively	1,701,628
Additional paid-in capital	7,233,429
Accumulated other comprehensive income	2,313,279
Retained earnings	6,525,205
Total Shareholders' Equity	17,773,541
Total Liabilities and Shareholders' Equity	$ 143,454,549

Part I; Item 1 (continued)

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

Nine Months Ended September 30	2002
Cash Flows from Operations:	
Net loss	$(2,717,420)
Adjustments to reconcile net loss to cash from operations:	
Increase in benefit reserves	9,701,374
Increase (decrease) in claim liabilities	159,674
Decrease in reinsurance recoverable	225,437
Interest credited on policyholder deposits	572,568
Provision for amortization and depreciation, net of deferrals	(250,520)
Amortization of premium and accretion of discount on securities purchased, net	20,018
Net realized investment losses	2,497,769
(Increase) decrease in accrued investment income	18,205
Change in other assets and liabilities	166,587
Increase (decrease) in deferred federal income tax liability	(314,034)
(Increase) decrease in federal income taxes receivable	2,564,918
Cumulative effect of a change in accounting principle	---

Net Cash provided by Operations	12,644,576
Cash Flows from Investment Activities:	
Cost of securities acquired	(48,773,836)
Investments sold or matured	32,308,112
Investment management fees	(45,618)
Additions to property and equipment, net	(30,347)
Other investing activities, net	9,353
Net Cash used in Investment Activities	(16,532,336)
Cash Flows from Financing Activities:	
Policyholder deposits	588,023
Policyholder withdrawals	(1,310,077)
Payments on notes payable - bank	(987,500)
Repurchase of common stock	(67,696)
Net Cash used in Financing Activities	(1,777,250)
Net Increase (decrease) in Cash and Cash Equivalents	(5,665,010)
Cash and Cash Equivalents at Beginning of Period	18,433,626
Cash and Cash Equivalents at End of Period	$12,768,616

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, 2001 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, net of related tax, for the three months and nine months ended September 30, 2002 and 2001 are as follows:

	Three Months Ended September 30,		Nine Months Ended

COMPREHENSIVE INCOME:	2002	2001	2002
Net Loss	$ (472,479)	$ (2,286,165)	$ (2,717,420)
Net Unrealized gains (losses) on securities	965,148	(227,430)	556,174
Comprehensive Income (Loss)	$ 492,669	$ (2,513,595)	$ (2,161,246)

Note 3 - DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

Effective January 1, 2001, the Company adopted Financial Accounting Standards Board Statement (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities", as amended by SFAS Nos. 137 and 138. This statement requires that all derivatives be recognized as either assets or liabilities in the balance sheet at their fair value, and sets forth the manner in which gains or losses thereon are to be recorded. The treatment of such gains and losses is dependent upon the type of exposure, if any, for which the derivative is designed as a hedge. Currently, the Company has not designated any derivatives as hedges. In accordance with SFAS 133, as of January 1, 2001, the Company recorded a $311,211 transition adjustment loss. This adjustment represents the cumulative market value change (since January 1, 1999) of options embedded within convertible bonds, along with a recalculation of discount accretion for the related host bonds and corresponding income tax impacts. The net transition adjustment includes a $539,090 gross market value decline, $67,558 of discount accretion, and a $160,321 income tax benefit.

Note 4 - NET REALIZED INVESTMENT GAINS AND LOSSES, NET OF EXPENSES

The Company recorded pretax reductions to the carrying value of available for sale securities totaling $2,095,000 and $2,634,000 for the nine months ended September 30, 2002 and 2001, respectively, relating to declines in value which were considered by management to be other than temporary. These amounts are reported as additions to net realized investment losses. The Company also includes certain direct, incremental investment management fees with net realized investment losses presented in the Condensed Consolidated Statements of Income. Such costs are based directly on or, are primarily associated with, realized capital gains and losses. Costs included with realized investment losses totaled $23,000 and $54,000 for the nine months ended September 30, 2002 and 2001, respectively.

Part I; Item 1 (continued)

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.

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, 2002 and 2001, and for the periods then ended is as follows:

	Three Months Ended September 30,		Nine Months Ended Sep	
REVENUE:	2002	2001	2002	
Home Service Life	$ 2,405,316	$ 2,346,090	$ 7,035,222	$
Broker Life	1,485,669	1,684,895	4,531,884	
Preneed Life	6,092,054	2,763,516	14,445,028	
Dental	2,077,379	1,884,305	6,120,719	
Other Health	367,216	361,044	1,089,758	
Segment Totals	12,427,634	9,039,850	33,222,611	2
Net realized investment losses	(701,218)	(3,100,898)	(2,497,769)	(
Total Revenue	$ 11,726,416	$ 5,938,952	$ 30,724,842	$ 2

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:	2002	2001	2002	
Home Service Life	$ 435,698	$ 526,394	$ 1,368,774	$
Broker Life	527,574	661,800	1,669,919	
Preneed Life	425,155	388,358	1,190,448	
Dental	5,454	7,907	19,762	
Other Health	18,251	23,012	59,872	
Segment Totals	$ 1,412,132	$ 1,607,471	$ 4,308,775	$

The Company evaluates performance based on several factors, of which the primary financial measure is segment profit. Segment profit represents pretax earnings, except that net realized investment gains and interest expense are excluded. A significant portion of the Company's realized investment gains and losses are generated from investments in equity securities. The equities portfolio averaged (on a cost basis) $7,179,000 and $11,370,000 during the nine months ended September 30, 2002 and 2001, respectively.

	Three Months Ended September 30,		Nine Months Ended Sep	
SEGMENT PROFIT (LOSS):	2002	2001	2002	
Home Service Life	$ 145,625	$ 42,374	$ (2,227)	$
Broker Life	(49,071)	181,013	(192,069)	
Preneed Life	(163,181)	(101,278)	(512,479)	
Dental	131,685	81,070	236,903	
Other Health	25,330	(70,942)	(143,726)	
Segment Totals	90,388	132,237	(613,598)	
Net realized investment losses	(701,218)	(3,100,898)	(2,497,769)	(
Interest expense	74,649	127,504	234,053	
Loss before income tax and cumulative effect of a change in accounting principle	$ (685,479)	$ (3,096,165)	$ (3,345,420)	$ (

Depreciation and amortization amounts below consist of depreciation expense along with amortization of the value of insurance acquired and deferred policy acquisition costs. Goodwill amortization of $23,000 and $74,000 is also included for the three months and nine months, respectively, ended September 30, 2001. As further described in Note 8, beginning in 2002, goodwill amortization is no longer permitted.

	Three Months Ended September 30,		Nine Months Ended Sep	
DEPRECIATION AND AMORTIZATION:	2002	2001	2002	
Home Service Life	$ 250,420	$ 352,726	$531,330	$
Broker Life	119,652	158,360	395,604	
Preneed Life	363,395	240,451	827,933	
Dental	13,946	18,005	43,638	
Other Health	9,542	10,677	31,952	
Segment Totals	$ 756,955	$ 780,219	$1,830,457	$

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

ASSETS:	September 30, 2002	December 31, 2001
Home Service Life	$44,606,794	$ 44,818,038
Broker Life	53,422,217	54,954,194
Preneed Life	42,941,370	34,138,535
Dental	558,511	726,728
Other Health	1,925,657	1,959,588
Segment Totals	$143,454,549	$ 136,597,083

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 whose policies were issued in Ohio and 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 to which the plaintiffs have not yet responded. 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 PRONOUNCEMENTS

In June 2001, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards No. 141, "Business Combinations", and No. 142, "Goodwill and Other Intangible Assets", effective for fiscal years beginning after December 15, 2001. Under the new rules, goodwill will no longer be amortized but will be subject to annual impairment tests in accordance with the Statements. Other intangible assets will continue to be amortized over their useful lives. The Company adopted the new rules on accounting for goodwill and other intangible assets in the first quarter of 2002. Application of the

nonamortization provisions of the Statement is expected to increase net income approximately $90,000 ($0.05 per share) per year. During 2002, the Company completed the first step in evaluating the potential impairment of its goodwill. Based on the results of this test, there was no impairment.

Below is a proforma illustration of earnings adjusted to exclude the goodwill amortization recorded during 2001.

	Three Months Ended September 30,		Nine Months Ended Sep	
DESCRIPITON:	2002	2001	2002	
Net Loss excluding goodwill amortization	$ (472,479)	$ (2,263,661)	$ (2,717,420)	$(
Goodwill amortization	---	22,504	---	
Net Loss - as reported	$ (472,479)	$ (2,286,165)	$ (2,717,420)	$ (
Net Loss per Share:				
Excluding goodwill amortization	$ (0.27)	$ (1.31)	$ (1.58)	
As reported	$ (0.27)	$ (1.32)	$ (1.58)	

Part I; Item 1 (continued)

Note 9 - DEBT

The Company did not meet a bank loan covenant relating to a ratio of outstanding bank debt to adjusted earnings as of September 30, 2002. The Company has begun an evaluation of strategic alternatives necessary for returning to compliance and has implemented certain measures designed to increase product margins and reduce operating expenses. In addition, the Company plans to raise approximately $2 million of cash from subordinated debt or other sources, with the funds used as a capital contribution to its principal insurance subsidiary, Citizens Security Life Insurance Company. Based on these actions, the lender has waived the covenant violation for the third quarter of 2002.

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

FINANCIAL POSITION. Shareholders' equity totaled $17,774,000 and $20,002,000 at September 30, 2002 and December 31, 2001, respectively. These balances represent a 2.5% increase and an 11.1% decrease for the three months and nine months ended September 30, 2002, respectively. As described above, comprehensive income (loss) totaled $492,000 and $(2,514,000) for the three months ended September 30, 2002 and 2001, respectively. For the nine months ended September 30, 2002 and 2001 comprehensive losses totaled $(2,161,000) and $(2,950,000), respectively. A significant portion of the 2002 comprehensive loss is attributable to changes in the value of the Company's fixed maturity and equity portfolios. As of September 30, 2002 and December 31, 2001, equity securities comprised approximately 6% of the Company's total assets, and 50% and 41%, respectively of shareholders' equity. Accordingly, as also described below, the Company's financial position can be significantly affected by movements in the

equities markets. Equity portfolio positions increased $1,176,000 on a cost basis and $857,000 on a market value basis, during the first nine months of 2002. Fixed maturity portfolio positions increased $12,919,000 on an amortized cost basis and $14,081,000 on a market value basis during the same period. Cash and cash equivalent positions decreased by $5,665,000, to $12,769,000 during the nine months ended September 30, 2002 and comprise approximately 8.9% and 13.5% of total assets at September 30, 2002 and December 31, 2001, respectively.

Equity markets continue to be highly volatile and have declined during 2002 to a greater extent than previously anticipated. In addition, interest yields on fixed maturity investments have also declined during 2002 to a greater extent than previously anticipated. Accordingly, although the Company had maintained significant cash and cash equivalent balances in anticipation of potentially rising interest rates, the significant decline in short-term rates has and, continues to adversely impact the Company's investment portfolio yield and operating earnings. The Company's 2002 investment impairments include writedowns of certain highly publicized companies such as Cablevision ($362,000), MCI/Worldcom ($348,000) and Adelphia ($145,000). Due to continuing accounting investigations at a wide range of companies and the generally adverse economic environment, the Company cannot predict the potential of future investment impairments. The 2002 environment described above has produced a higher level of qualitative investment risk. However, measures of quantitative risk per unit of investment are not believed to have changed significantly from those previously disclosed in the Company's 2001 Form 10-K

OPERATIONS. Net premiums and other considerations increased $3,394,000 or 46% during the three months ended September 30, 2002 compared to the three months ended September 30, 2001 and increased $6,954,000, or 32% during the first nine months of 2002 compared to the first nine months of 2001. For the first nine months of 2002, Preneed Life, Home Service Life, and Dental premium increases were $6,888,000, $222,000, and $71,000, respectively, while Broker Life experienced a modest decrease. The Preneed Life segment growth is attributable primarily to continued expansion into independently owned funeral homes and a joint marketing agreement with a casket distributor. Preneed Life growth also accounts for approximately eighty-five percent of the Increase in Net Benefit Reserves for nine months ended September 30, 2002. Broker Life and Dental premium reductions are primarily attributable to increased competition in the broker market, and the mid-2001 loss of certain dental groups which had above average claim rates. The Other Health segment represents approximately 4% of total premium.

Pretax earnings (loss) (before the cumulative effect of a new accounting principle) improved $2,411,000 to $(685,000) for the three months ended September 30, 2002 compared to the third quarter of 2001, primarily due to an approximate $2,400,000 decrease in realized investment losses along with improved segment results. Pretax Segment Profit (Loss) (excluding realized investment gains and interest expense) for the three months ended September 30, 2002 was $90,000, compared to $132,000 for 2001. This change is due primarily to higher Broker Life mortality and lower interest yields, partially offset by improved Home Service Life mortality and Other Health morbidity. The Pretax Segment Profit (Loss) for the nine months ended September 30, 2002 and 2001 were $(614,000) and $362,000, respectively. This decrease resulted primarily from lower interest and higher disability claim levels. Below are the approximate, annualized pretax investment income and total return yields for the nine months ended September 30, 2002 and 2001.

Part I; Item 2 (continued)

Nine Months Ended September 30	2002	2001

Investment Income	$ 4,308,775	$ 4,948,968
Realized and Unrealized Losses	(1,654,740)	(3,821,408)
Total Return	$ 2,654,035	$ 1,127,560
Average Cash and Investments	$ 115,261,875	$ 113,278,571
Investment Income Yield - Annualized	4.98%	5.82%
Total Return - Annualized	3.07%	1.33%

The change in the Company's effective income tax rate is due to the lack of tax loss carryback potential for a portion of the Company's operations.

CASH FLOW, LIQUIDITY AND RATINGS. Cash flow from operations totaled $12,645,000 for the nine months ended September 30, 2002 compared to $4,767,000 for the same period in the prior year. This increase is primarily attributable to growth in Preneed Life business. The $16,532,000 of cash used by investing activities for the nine months ended September 30, 2002 resulted primarily from investing the proceeds of Preneed Life sales and $5,665,000 of cash and short term funds into fixed maturity securities. The $1,777,000 of cash used in financing activities during the first three quarters of 2002 is primarily attributable to bank loan principal repayments along with annuity and Universal Life account withdrawals. Due to continued investment losses and earnings pressure from lower yields on investments and cash equivalents, and in consideration of bank loan covenants, the Company has begun evaluating options for strengthening its overall financial position, including reassessing the strategic value of its business segments. Initial steps have been taken to improve product pricing margins and reduce operating costs. Continuation of existing earnings trends could also prompt state insurance department regulatory action and/or rating agency reevaluations. However, in an effort to maintain its existing rating, the Company plans to contribute approximately $2 million of statutory capital to its principal insurance subsidiary, Citizens Security Life Insurance Company. The Company expects to obtain these funds from a subordinated borrowing or other sources.

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 companies;
|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 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;

Part I; Item 2 (continued)

|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

The primary changes in quantitative market risks during the nine months ended September 30, 2002 are discussed in Part I, Item 2 above.

Part I; Item 4 - Controls and Procedures

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES. Based on an evaluation of the Company's disclosure controls and procedures within the past 90 days, the Company has concluded that such controls and procedures provide reasonable assurance that material information relating to the Company, including its consolidated subsidiaries, is made known to the Company's principal executive and financial officers.

CHANGES IN INTERNAL CONTROLS. There have been no significant changes in the Company's internal controls or changes in other factors that could significantly affect these controls subsequent to their evaluation, nor has the Company implemented any corrective actions regarding significant deficiencies or material weaknesses in internal controls.

Part II - Other Information

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

a). Exhibits: See Exhibit Index enclosed.

b). Reports on Form 8-K: None.

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

Darrell R. Wells
President and Chief Executive Officer

By: /s/ Brent L. Nemec

Brent L. Nemec
Treasurer and Principal Accounting Officer

Date: November 12, 2002

Part II - Other Information (continued)

Certification of Principal Executive Officer
Certification for Quarterly Report on Form 10Q

I, Darrell R. Wells, certify that:

1) I have reviewed this quarterly report on Form 10-Q of Citizens Financial Corporation;

2) Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3) Based on my knowledge, the financial statements and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4) The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

   a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

   b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

   c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5) The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

   a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6) The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Signature and Title: /s/ Darrell R. Wells - CEO Date: 11/12/2002

Part II - Other Information (continued)

Certification of Principal Financial Officer
Certification for Quarterly Report on Form 10Q

I, Brent L. Nemec, certify that:

1) I have reviewed this quarterly report on Form 10-Q of Citizens Financial Corporation;

2) Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3) Based on my knowledge, the financial statements and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4) The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

   a) designed such disclosure controls and procedures to ensure that

material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5) The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6) The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Signature and Title: /s/ Brent L. Nemec - CFO Date: 11/12/2002

EXHIBIT INDEX

Exhibit No.	Description
11	Statement re: computation of per share earnings
99.1	Certification of Chief Executive Officer
99.2	Certification of Chief Financial Officer

EXHIBIT 11

Citizens Financial Corporation and Subsidiaries
Computation of Per Share Earnings
(Unaudited)

Nine Months Ended September 30	2002	
Numerator(s):		
Loss before cumulative effect of a change in accounting principle	$ (2,717,420)	$
Cumulative effect of a change in accounting principle	---	
Net Loss	$ (2,717,420)	$
Denominator:		
Weighted average common shares	1,716,477	
Earnings Per Share:		
Loss before cumulative effect of a change in accounting principle	$ (1.58)	$
Cumulative effect of a change in accounting principle	---	
Net Loss	$ (1.58)	$

Three Months Ended September 30	2002	
Numerator:		
Net Loss	$ (472,479)	$
Denominator:		
Weighted average common shares	1,715,811	
Earnings Per Share:		
Net Loss	$ (0.27)	$

EXHIBIT 99.1
Citizens Financial Corporation and Subsidiaries
CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350

In connection with the Quarterly Report on Form 10-Q of Citizens Financial Corporation (the "Company") for the quarterly period ended September 30, 2002, as filed with the Securities and Exchange Commission on the date hereof (the "Report") I, Darrell R. Wells, Chief Executive Officer of the Company, certify pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ Darrell R. Wells

Darrell R. Wells
Chief Executive Officer

Date: November 12, 2002

EXHIBIT 99.2
Citizens Financial Corporation and Subsidiaries
CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350

In connection with the Quarterly Report on Form 10-Q of Citizens Financial Corporation (the "Company") for the quarterly period ended September 30, 2002, as filed with the Securities and Exchange Commission on the date hereof (the "Report") I, Brent L. Nemec, Vice President and Chief Financial Officer of the Company, certify pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ Brent L. Nemec

Brent L. Nemec
Chief Financial Officer

Date: November 12, 2002