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CITIZENS FINANCIAL CORP /KY/

Form 10-Q

August 13, 2003

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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 June 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 August 11, 2003.

The date of this Report is August 13, 2003.

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Part I - Financial Information; Item 1 - Financial Statements

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

Six Months Ended June 30	2003
Revenues:	
Premiums and other considerations	\$18,323,113
Premiums ceded	(532,602)
Net premiums earned	17,790,511
Net investment income	2,751,839
Net realized investment losses	(164,728)
Other income	112,076
Total Revenues	20,489,698
Policy Benefits and Expenses:	
Policyholder benefits	10,682,128
Policyholder benefits ceded	(555,852)
Net benefits	10,126,276
Increase in net benefit reserves	3,956,813
Interest credited on policyholder deposits	345,572
Commissions	3,388,237
General expenses	3,425,195
Interest expense	189,609
Policy acquisition costs deferred	(1,137,316)
Amortization of deferred policy acquisition costs, value of insurance acquired, and goodwill	989,370
Total Policy Benefits and Expenses	21,283,756
Loss before income tax	(794,058)
Income Tax Benefit	(141,000)
Net Loss	\$ (653,058)
Net Loss Per Common Share	\$ (0.39)

Part I; Item 1 (continued)

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

Three Months Ended June 30	2003
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Revenues:	
Premiums and other considerations	\$9,084,178
Premiums ceded	(271,307)
-----	
Net premiums earned	8,812,871
Net investment income	1,377,850
Net realized investment gains (losses)	111,435
Other income	55,723
-----	
Total Revenues	10,357,879
-----	
Policy Benefits and Expenses:	
Policyholder benefits	5,424,917
Policyholder benefits ceded	(321,841)
-----	
Net benefits	5,103,076
Increase in net benefit reserves	2,274,626
Interest credited on policyholder deposits	180,687
Commissions	1,694,569
General expenses	1,613,123
Interest expense	97,401
Policy acquisition costs deferred	(557,774)
Amortization of deferred policy acquisition costs, value of insurance acquired, and goodwill	339,911
-----	
Total Policy Benefits and Expenses	10,745,619
-----	
Loss before income tax	(387,740)
Income Tax Benefit	(68,000)
-----	
Net Loss	\$ (319,740)
-----	
Net Loss Per Common Share	\$ (0.19)
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Part I; Item 1 (continued)

Citizens Financial Corporation and Subsidiaries  
 Condensed Consolidated Statements of Financial Condition

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June 30,  
2003

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ASSETS (Unaudited)

Investments:

Securities available for sale, at fair value:

Fixed maturities (amortized cost of \$100,059,180 and \$101,161,174 in 2003 and 2002, respectively)	\$ 105,844,331
Equity securities (cost of \$10,312,336 and \$7,108,735 in 2003 and 2002, respectively)	12,413,783
Investment real estate	3,210,542
Policy loans	4,318,561
Short-term investments	632,381

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Total Investments 126,419,598

Cash and cash equivalents	6,298,989
Accrued investment income	1,466,807
Reinsurance recoverable	2,697,334
Premiums receivable	288,170
Property and equipment	2,686,731
Deferred policy acquisition costs	10,182,816
Value of insurance acquired	3,366,665
Goodwill	755,782
Federal income tax receivable	310,158
Other assets	49,566

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Total Assets \$ 154,522,616  
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Part I; Item 1 (continued)

Citizens Financial Corporation and Subsidiaries  
Condensed Consolidated Statements of Financial Condition

June 30,  
2003

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LIABILITIES AND SHAREHOLDERS' EQUITY (Unaudited)

Liabilities:

Policy Liabilities:

Future policy benefits	\$ 106,492,701
Policyholder deposits	15,563,637
Policy and contract claims	1,711,743
Unearned premiums	239,500
Other	218,892

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Total Policy Liabilities	124,226,473
Note payable - bank	4,791,668
Note payable - related party	2,000,000
Accrued expenses and other liabilities	1,909,386
Deferred federal income tax	1,659,191
<hr/>	
Total Liabilities	134,586,718
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	5,062,842
Retained earnings	6,017,507
<hr/>	
Total Shareholders' Equity	19,935,898
<hr/>	
Total Liabilities and Shareholders' Equity	\$ 154,522,616
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Part I; Item 1 (continued)

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

Six Months Ended June 30	2003
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Cash Flows from Operations:	
Net loss	\$ (653,058)
Adjustments to reconcile net loss to cash from operations:	
Increase in benefit reserves	3,831,180
Increase (decrease) in claim liabilities	(85,452)
(Increase) decrease in reinsurance recoverable	(4,571)
Interest credited on policyholder deposits	345,572
Provision for amortization and depreciation, net of deferrals	188,922
Amortization of premium and accretion of discount on securities purchased, net	60,313
Net realized investment losses	164,728
Increase in accrued investment income	(136,771)
Change in other assets and liabilities	(20,630)
Decrease in deferred federal income tax liability	(141,000)
(Increase) decrease in federal income taxes receivable	(60,000)
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Net Cash provided by Operations	3,489,233

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Cash Flows from Investment Activities:	
Cost of securities acquired	(33,376,076)
Investments sold or matured	31,113,919
Investment management fees	(4,597)
Additions to real estate	(17,670)
Additions to property and equipment	(5,071)
Other investing activities, net	(79,433)
-----	
Net Cash used in Investment Activities	(2,368,928)
Cash Flows from Financing Activities:	
Policyholder deposits	308,623
Policyholder withdrawals	(833,851)
Payments on notes payable - bank	(987,500)
Repurchase of common stock	(7,759)
-----	
Net Cash used in Financing Activities	(1,520,487)
-----	
Net Increase (Decrease) in Cash and Cash Equivalents	(400,182)
Cash and Cash Equivalents at Beginning of Period	6,699,171
-----	
Cash and Cash Equivalents at End of Period	\$ 6,298,989
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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 six month periods ended June 30, 2003 and 2002 are as follows:

	-----		-----
	Three Months Ended June 30,		Six Months En
	-----	-----	-----
	2003	2002	2003
-----			
COMPREHENSIVE INCOME:			
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Net Loss	\$ (319,740)	\$ (1,847,998)	\$ (653,058)
Net unrealized gains (losses) on securities	2,420,849	328,811	2,839,083
Comprehensive Income (Loss)	\$2,101,109	\$ (1,519,187)	\$2,186,025

Note 3 - DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

The Company's derivatives outstanding at June 30, 2003 include approximately \$200,000 of embedded options on convertible bonds and \$2,000 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 \$1,932,000 for the six months ended June 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 \$225,000 and \$6,000 for the six months ended June 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 June 30, 2003 and 2002, and for the

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periods then ended is as follows:

	Three Months Ended June 30,		Six Months En
REVENUE:	2003	2002	2003
Home Service Life	\$ 2,259,771	\$ 2,313,622	\$ 4,547,712
Broker Life	1,367,436	1,492,992	2,831,642
Preneed Life	4,193,478	4,825,708	8,335,085
Dental	2,090,956	2,030,442	4,238,216
Other Health	334,803	355,325	701,771
Segment Totals	10,246,444	11,018,089	20,654,426
Net realized investment gains (losses)	111,435	(1,468,150)	(164,728)
Total Revenue	\$10,357,879	\$ 9,549,939	\$20,489,698

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

	Three Months Ended June 30,		Six Months En
NET INVESTMENT INCOME:	2003	2002	2003
Home Service Life	\$ 377,689	\$ 456,245	\$ 774,031
Broker Life	511,544	554,808	1,052,651
Preneed Life	466,522	389,733	876,356
Dental	5,096	7,286	11,733
Other Health	16,999	20,748	37,068
Segment Totals	\$1,377,850	\$1,428,820	\$2,751,839

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 \$9,066,000 and \$7,149,000 during the six months ended June 30, 2003 and 2002, respectively.

	Three Months Ended June 30,	Six Months En
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SEGMENT PROFIT (LOSS):	2003	2002	2003
Home Service Life	\$ (35,157)	\$ (144,248)	\$ 86,710
Broker Life	(240,873)	(181,591)	(175,664)
Preneed Life	(257,999)	(133,245)	(379,411)
Dental	63,984	(51,539)	205,896
Other Health	68,271	(136,049)	(177,252)
Segment Totals	(401,774)	(646,672)	(439,721)
Net realized investment gains (losses)	111,435	(1,468,150)	(164,728)
Interest expense	97,401	78,176	189,609
Loss before Federal Income Tax	\$ (387,740)	\$ (2,192,998)	\$ (794,058)

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 June 30,	2002	Six Months Ended
	2003		2003
Home Service Life	\$ 175,994	\$ 121,640	\$ 351,978
Broker Life	86,170	115,246	285,707
Preneed Life	131,698	283,588	450,373
Dental	14,231	14,848	28,525
Other Health	3,506	10,480	16,162
Segment Totals	411,599	\$ 545,802	\$1,132,745

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

ASSETS:	June 30,	December 31,
	2003	2002
Home Service Life	\$40,489,156	\$39,587,175
Broker Life	54,665,495	54,232,558
Preneed Life	56,950,744	51,991,206
Dental	554,483	658,963
Other Health	1,862,738	1,971,630
Segment Totals	\$154,522,616	\$148,441,532

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Part I; Item 1 (continued)

### Note 7 - LITIGATION

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 Company has evaluated Interpretation No. 46 and does not believe it will have a material impact on the financial statements.

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 Company has evaluated FAS 150 and does not believe it will have a material impact on the financial statements.

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

FINANCIAL POSITION. Shareholders' equity totaled approximately \$19,936,000 and \$17,758,000 at June 30, 2003 and December 31, 2002, respectively. These balances reflect an approximate 12% increase for the six months ended June 30, 2003. As described above, comprehensive income (loss) totaled approximately \$2,186,000 and \$(2,654,000) for the six months ended June 30, 2003 and 2002, respectively. A significant portion of comprehensive income (loss) is attributable to changes

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in the value of the Company's fixed maturity and equity portfolios. Fixed maturity portfolio positions decreased \$1,102,000 on an amortized cost basis and increased \$1,891,000 on a market value basis during the first six months of 2003. This gross appreciation of \$2,993,000 resulted primarily from increasing bond prices during the period. However, during July 2003, bond values declined and a significant portion of this appreciation was reversed. Equity securities comprised approximately 8.0% and 5.2% of the Company's total assets as of June 30, 2003 and December 31, 2002, respectively. Equity portfolio positions increased \$3,204,000 on a cost basis and \$4,652,000 on a market value basis, during the first six months of 2003, resulting in gross appreciation of \$1,448,000. Cash and cash equivalent positions also decreased approximately \$400,000 during the six months ended June 30, 2003.

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 produces an adverse impact on the value of the Company's bond portfolio, the opportunity to invest new money at higher yields is expected to 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 risk per unit of investment 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 \$719,000, or 7% during the three months ended June 30, 2003 compared to the three months ended June 30, 2002 but increased \$1,000 for the first six months of 2003 compared to the first six months of 2002. Below is a summary of net premiums earned by segment, for the three and six month periods ended June 30, 2003, along with the change from the prior year.

NET PREMIUMS EARNED	Three Months Ended June 30,		Six Months Ended June 30,	
	Total	Change	Total	Change
Home Service Life	\$ 1,866,814	\$ 27,658	\$ 3,742,157	\$ 80,3
Broker Life	835,213	(80,795)	1,736,119	(124,8
Preneed Life	3,708,073	(712,408)	7,423,037	(135,8
Dental	2,085,654	62,787	4,226,005	197,5
Other Health	317,117	(16,633)	663,193	(16,1
Segment Totals	\$ 8,812,871	\$ (719,391)	\$17,790,511	\$ 1,0

The Home Service Life growth is attributable to a continuing focus on providing quality service to existing agents and customers along with a moderate level of new agent recruiting. The Broker Life declines are 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. Dental premium increases are attributable to additional broker relationships and normal inflationary premium increases. The

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Other Health segment products are not being actively marketed.

The Company's Pretax Income (Loss) improved approximately \$1,805,000 to \$(388,000) for the three months ended June 30, 2003, and improved \$1,866,000 to \$(794,000) for the six months ended June 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 (losses) totaled \$111,000 and \$(164,728) for the three and six month periods respectively, ending June 30, 2003. Both the equity and fixed income investment markets improved significantly during the first six months of 2003. Segment Profit (Loss), which excludes net realized investment

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

gains (losses) and interest expense improved approximately \$245,000 to \$(402,000) for the three months ended June 30, 2003, and improved \$265,000 for the six months ended June 30, 2003, compared to the corresponding periods in 2002. Most of this improvement is attributable to favorable Home Service Life mortality, a reduction in Other Health disability claim and reserve levels, and improvement in Dental claim levels. These favorable impacts were partially offset by net declines in the Company's investment portfolio yield and adverse Broker Life and Preneed Life mortality.

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

Six Months Ended June 30	2003	2002
Investment Income	\$ 2,751,839	\$ 2,896,643
Realized and Unrealized Gains (Losses)	4,276,072	(2,456,404)
Total Return	\$ 7,027,911	\$ 440,239
Average Cash and Investments	\$128,685,929	\$113,549,504
Investment Income Yield - Annualized	4.28%	5.10%
Total Return - Annualized	10.92%	0.78%

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 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 \$3,489,000 for the six months ended June 30, 2003 compared to \$6,904,000 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 \$1,072,000 net recovery of federal income tax. The \$2,369,000 of cash used by investing activities for the six months ended June 30, 2003 resulted primarily from investing the proceeds of Preneed Life sales. The \$1,520,000 of cash used in financing activities during the first six 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 July 1, 2003 was paid by June 30, 2003, accordingly, the outstanding bank loan balance decreased by three quarterly installments. Due to continued investment losses and earnings pressure from lower yields on investments and

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cash equivalents, 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.

### 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:

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

- |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;
- |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

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. The primary changes in quantitative market risks during the six months ended June 30, 2003 are discussed in Part I, Item 2

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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 June 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 4. Submission of Matters to a Vote of Security Holders.

The 2003 annual meeting of shareholders of the Company was held on May 22, 2003. At the meeting, eight incumbent directors were re-elected to serve until the 2003 annual meeting of shareholders. The names of the incumbent directors and shares of the Company's Class A Stock voted for each were as follows:

Candidate	Votes
John H. Harralson, Jr.	1,364,917
Lane A. Hersman	1,292,093
Frank T. Kiley	1,312,293
Earle V. Powell	1,364,817
Thomas G. Ward	1,364,917
Darrell R. Wells	1,312,293
Margaret A. Wells	1,312,293

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

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- b). Reports on Form 8-K: On May 22, 2003 the Company filed a Form 8-K to furnish, pursuant to Item 12, a press release disclosing the Company's earnings for the first quarter of 2003.
- On May 23, 2003 the Company filed a Form 8-K to furnish, pursuant to Item 12, remarks by the Company's Executive Vice President and Chief Operating Officer at the Company's 2003 Annual Meeting.

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: August 12, 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