CITIZENS FIRST FINANCIAL CORP
Form 10-Q
August 14, 2001

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10 - Q

QUARTERLY REPORT UNDER SECTION 13 OR 15 (d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2001   Commission File No.: 0-27740

CITIZENS FIRST FINANCIAL CORP.
(Exact name of registrant as specified in its charter)

DELAWARE	37-1351861
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer I.D. No.)

2101 North Veterans Parkway, Bloomington, Illinois 61704
(Address of principal executive offices)

Registrant's telephone number: (309) 661-8700

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 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 past 90 days.

(1)   Yes x No
(2)   Yes x No

The Registrant had 1,568,512 shares of Common Stock outstanding as of July 31, 2001.

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Statements contained in this Form 10-Q which are not historical facts are forward-looking statements, as that term is described in the Private Securities Litigation Reform Act of 1995. The forward-looking statements are generally identifiable by the use of such words as "believes", "expects", "anticipates", "estimates", "projects", "intends" or similar expressions. Such forward-looking statements are subject to risk and uncertainties which could cause actual results to differ materially from those projected. Such risks and uncertainties include potential change in interest rates, competitive factors in the financial services industry, general and local economic conditions, the effect of new legislation and other risks detailed in documents filed by the Company with the Securities and Exchange Commission from time to time.

PART I. -- FINANCIAL INFORMATION

Citizens First Financial Corp. and Subsidiary
Condensed Consolidated Balance Sheet
As of June 30, 2001 and December 31, 2000
(in thousands)

	June 30, 2001	December 31, 2000
ASSETS	(Unaudited)	
Cash and due from banks	$ 7,267	$ 5,779
Interest-bearing demand deposits	9,861	5,236
Cash and cash equivalents	17,128	11,015
Investment securities - available for sale	13,705	15,054
Mortgage loans held for sale	4,162	1,494
Loans	284,648	285,315
Allowance for loan losses	(2,186)	(1,826)
Net loans	282,462	283,489
Land in real estate joint venture	905	1,220
Premises and equipment	7,849	8,124
Federal Home Loan Bank of Chicago stock	4,323	4,166

Other assets	5,459	5,328
Total assets	$335,993	$329,890
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Deposits	$241,775	$228,886
Borrowings	59,814	67,984
Other liabilities	3,285	3,123
Total liabilities	304,874	299,993
Minority interest in real estate joint venture	480	591
Commitments and Contingent Liabilities		
Stockholders' Equity		
Preferred stock, $.01 par value Authorized and unissued - 1,000,000 shares	---	---
Common stock, $.01 par value; 8,000,000 shares Authorized; 2,817,500 shares issued and outstanding	28	28
Paid-in-capital	27,606	27,559
Retained earnings	23,609	22,634
Accumulated other comprehensive loss	(4)	(29)
Less:		
Treasury shares, 1,248,988 and 1,249,220	(19,972)	(19,970)
Unearned incentive plan shares, 10,233 and 19,916	(145)	(272)
Unearned employee stock ownership plan shares, 48,300 and 64,400 shares	(483)	(644)
Total stockholders' equity	30,639	29,306
Total liabilities and stockholders' equity	$335,993	$329,890

See notes to condensed consolidated financial statements

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Citizens First Financial Corp. and Subsidiary
Condensed Consolidated Income Statement

	For the six months ended June 30, 2001
	(Unaudited and in except share
Interest income:	
Interest on loans	$ 11,786
Interest on investments	808
Total interest income	12,594
Interest expense:	
Interest on deposits	5,825
Interest on borrowings	1,800

Total interest expense	7,625
Net interest income	4,969
Provision for loan losses	360
Net interest income after provision for loan losses	4,609
Other income:	
Net gain on sale of branch facility	0
Net realized losses on sale of available for sale securities	0
Net gains on loan sales	323
Gain on sale of land in joint venture	233
Other operating income	646
Total other income	1,202
Other expense:	
Salaries and employee benefits	2,172
Net occupancy and equipment expenses	620
Deposit insurance expense	39
Data processing expense	140
Other operating expense	848
Minority interest in net income of real estate joint venture	116
Total other expense	3,935
Income before income tax	1,876
Income tax expense	728
Net income	$ 1,148
Basic earnings per share	$ 0.77
Weighted average shares outstanding	1,499,236
Diluted earnings per share	$ 0.74
Weighted average shares outstanding	1,551,704

See notes to condensed consolidated financial statements

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Citizens First Financial Corp. and Subsidiary
Condensed Consolidated Income Statement

	For the three months ended June 30, 2001	For the months June 30
	(Unaudited and in thousa except share data)	
Interest income:		
Interest on loans	$ 5,752	$
Interest on investments	412	

Total interest income	6,164	
Interest expense:		
Interest on deposits	2,904	
Interest on borrowings	852	
Total interest expense	3,756	
Net interest income	2,408	
Provision for loan losses	180	
Net interest income after provision for loan losses	2,228	
Other income:		
Net gain on sale of branch facility	0	
Net realized losses on sale of available for sale securities	0	
Net gains on loan sales	218	
Gain on sale of land in joint venture	233	
Other operating income	361	
Total other income	812	
Other expense:		
Salaries and employee benefits	998	
Net occupancy and equipment expenses	312	
Deposit insurance expense	20	
Data processing expense	70	
Other operating expense	573	
Minority interest in net income of real estate joint venture	116	
Total other expense	2,089	
Income before income tax	951	
Income tax expense	369	
Net income	$ 582	$
Basic earnings per share	$ 0.39	$
Weighted average shares outstanding	1,505,681	1,8
Diluted earnings per share	$ 0.37	$
Weighted average shares outstanding	1,580,421	1,9

See notes to condensed consolidated financial statements

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Citizens First Financial Corp. and Subsidiary
Condensed Consolidated Statement of Comprehensive Income

	For the six months ended June 30, 2001	For month June
	(Unaudited and in tho	
Net income	$1,148	$

Other comprehensive income (loss), net of tax:		
Unrealized gains (losses) on securities:		
Unrealized holding gains (losses) during the period	25	
Less: Reclassification adjustment for losses included in net income	0	
Comprehensive income	$1,173	$

	For the three months ended June 30, 2001	For mont June
	(Unaudited and in th	
Net income	$582	$
Other comprehensive income (loss), net of tax:		
Unrealized gains (losses) on securities:		
Unrealized holding gains (losses) during the period	(51)	
Less: Reclassification adjustment for losses included in net income	0	
Comprehensive income	$531	$

See notes to condensed consolidated financial statements

CITIZENS FIRST FINANCIAL CORP. AND SUBSIDIARY
Condensed Consolidated Statement of Cash Flows

	For the six months ended June 30, 2000	For the months e June 30,
	audited and in thousand	
Operating activities		
Net income	$ 1,148	$
Adjustments to reconcile net income to net cash		
Cash provided (used) by operating activities:		
Provision for loan losses	360	
ESOP compensation expense	216	
Incentive plan compensation expense	119	
Losses on sale of available for sale securities	0	
Investment securities amortization, net	45	
Minority interest in net income of real estate joint venture	116	
Gain on sale of land in real estate joint venture	(233)	
Net gains on sale of mortgage loans	(323)	
Net gain on sale of branch facility	0	(
Depreciation	377	
Mortgage loans originated for sale	(14,451)	(
Proceeds from sale of mortgage loans	12,106	

Federal Home Loan Bank dividends	(157)	
Change in:		
Other liabilities	227	
Prepaid expenses and other assets	5	
Net cash provided (used) by operating activities	(445)	
Investing Activities		
Purchase of securities available for sale	(4,355)	
Proceeds from maturities and principal paydowns on securities available for sale	5,700	
Proceeds from sales of securities available for sale		
Purchase of Federal Home Loan Bank stock	0	(
Other net changes in loans	452	(1
Proceeds from sale of foreclosed property	63	
Purchases of premises and equipment	(102)	
Net cash paid from sale of branch facility		(2
Investment in land in real estate joint venture	0	
Proceeds from sale of land real estate joint venture	548	
Distribution to minority interest portion of real estate joint venture	(227)	
Proceeds from sale of premises and equipment	0	
Net cash provided (used) by investing activities	2,079	(3

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Financing Activities		
Net change in deposits	12,889	21,441
Proceeds from borrowings	26,000	38,925
Repayment of borrowings	(34,170)	(27,094)
Purchase of treasury stock shares	(2)	(1,045)
Cash dividend paid on common stock	(173)	(198)
Net changes in advances by borrowers for taxes and insurance	(65)	(28)
Net cash provided by financing activities	4,479	32,001
Net change in cash and cash equivalents	6,113	2,280
Cash and cash equivalents, beginning of period	11,015	13,176
Cash and cash equivalents, end of period	$ 17,128	$ 15,456
Additional cash flows information:		
Interest paid	$ 7,336	$ 6,873
Income tax paid	$ 625	$ 715
Loans transferred to foreclosed property	$ 215	$ 285

See notes to condensed consolidated financial statements

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Citizens First Financial Corp.

Notes to Condensed Consolidated Financial Statements

1. Background Information

Citizens First Financial Corp. (the "Company") was incorporated in January, 1996 and on May 1, 1996 acquired all of the outstanding shares of common stock of Citizens Savings Bank (the "Bank") upon the Bank's conversion from a federally chartered mutual savings bank to a federally chartered stock savings bank. The Company purchased 100% of the outstanding capital stock of the Bank using 50% of the net proceeds from the Company's initial stock offering which was completed on May 1, 1996. In April 1999, the Bank was converted from a federally chartered savings bank to an Illinois state savings bank.

The Company sold 2,817,500 shares of common stock in the initial offering at $10.00 per share, including 225,400 shares purchased by the Bank's Employee Stock Ownership Plan (the "ESOP"). The ESOP shares were acquired by the Bank with proceeds from a Company loan totaling $2,254,000. The net proceeds of the offering totaled $27,012,000; $28,175,000 less $1,163,000 in underwriting commissions and other expenses. The Company's stock is traded on the NASDAQ National Market under the symbol "CFSB".

2. Statement of Information Furnished

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with Form 10-Q instructions and Rule 10-01 of Regulation S-X, and in the opinion of management reflect all adjustments necessary to present a fair statement of the financial position as of June 30, 2001 and December 31, 2000, the results of operations and comprehensive income for the six and three months ended June 30, 2001 and 2000 and the cash flows for the six months ended June 30, 2001 and 2000. All adjustments to the financial statements were of a normal recurring nature. These results have been determined on the basis of generally accepted accounting principles. The results of operations for the six months ended June 30, 2001 are not necessarily indicative of the results to be expected for the entire fiscal year.

The condensed consolidated financial statements are those of the Company and the Bank. These condensed consolidated financial statements should be read in conjunction with the audited financial statements and notes thereto, dated January 19, 2001, included in the Company's 2000 Annual Report to Shareholders.

3. Earnings Per Share

Basic earnings per share have been computed based upon the weighted average common shares outstanding for the six and three months ended June 30, 2001 and 2000. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the Company.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

GENERAL

Citizens First Financial Corp. (the "Company") is the holding company for Citizens Savings Bank (the "Bank"). The Company completed its initial offering of 2,817,500 shares of common stock on May 1, 1996 in connection with the conversion of the Bank from the mutual to stock form of ownership. Prior to the Company's acquisition of the Bank on May 1, 1996, the Company had no material assets or operations.

The Bank was originally chartered in 1888 by the State of Illinois and in 1989 became a federally chartered savings bank. In April 1999, the Bank was converted from a federally chartered savings bank to an Illinois state savings bank. The Bank's principal business consists of the acceptance of retail deposits from the general public in the area surrounding its main and branch offices and the investment of these deposits, together with funds generated from operations and borrowings, primarily in one-to-four family residential mortgages. The Bank also originates commercial, multi-family, construction and land, commercial real estate, agricultural, consumer and other loans.

COMPARISON OF FINANCIAL CONDITION AT JUNE 30, 2001 and DECEMBER 31, 2000

Total assets increased from $329.9 million at December 31, 2000 to $336.0 million at June 30, 2001. The $6.1 million or 1.8% increase was primarily due to the increase in interest-bearing demand deposits, which is included in cash and cash equivalents, and mortgage loans held for sale.

Cash and cash equivalents increased from $11.0 million at December 31, 2000 to $17.1 million at June 30, 2001 an increase of $6.1 million or 55.5%. This increase resulted from increased deposits.

Investment securities decreased from $15.1 million at December 31, 2000 to $13.7 million at June 30, 2001, a decrease of $1.4 million or 9.3%. The decrease was primarily due to the principal reduction of investment securities during the first six months of 2001.

Loans, net of allowance for loan losses and including loans held for sale, increased from $285.0 million at December 31, 2000 to $286.6 million at June 30, 2001, an increase of $1.6 million or 0.6%.

The Company maintains an allowance for loan losses to absorb losses inherent in the loan portfolio. The allowance for losses increased from $1,826,000 at December 31, 2000 to $2,186,000 at June 30, 2001, an increase of $360,000 or 19.7%. The allowance is based on ongoing assessments of the probable estimated losses inherent in the loan portfolio. The methodology for assessing the appropriateness of the allowance consists of several key elements, which include a formula allowance and a specific allowance for identified problem loans.

The formula allowance is calculated by applying loss factors to outstanding loans based on the internal risk grade of such loans. Changes in risk grades of both performing and non-performing loans affect the amount of the formula allowance. Loss factors are based on historical loss experience and may be adjusted for significant factors that, in management's judgment, affect the collectibility of the portfolio as of the evaluation date. Loss factors are based on (1) historical loss experience over a five-year period, which management believes approximates a business

cycle; (2) individual evaluations of residential, commercial real estate, construction, agricultural, commercial and consumer loans and (3) expected charge-offs by loan classification for one-year.

The Company also evaluates various conditions affecting the current lending operations and adjusts the historical loss factors accordingly. The conditions evaluated include (1) general economic and business conditions affecting the

Company's lending areas; (2) collateral values; (3) loan volumes and concentrations; (4) seasoning of the loan portfolio; (5) specific industry conditions and (6) recent loss experience in particular segments of the portfolio.

A specific allowance is established in cases where management has identified significant conditions or circumstances related to a loan that management believes indicate the probability that a loss has been incurred.

The allowance for loan losses is based upon estimates of probable losses inherent in the loan portfolio. The amount of actual losses can vary significantly from the estimated amounts. The methodology includes several features that are intended to reduce the differences between estimated and actual losses. The Company closely monitors any difference of actual and estimated losses and adjusts the methodology accordingly.

There were no changes in estimation methods or assumptions that affected our methodology for assessing the appropriateness of the allowance for loan losses from December 31, 2000 to June 30, 2001. The increased allowance in 2001 was related to the increase in delinquent and other problem loans.

Non-performing loans are loans which are past due 90 days or more, and non-accruing loans. The ratio of the Company's allowance for loan losses to total non-performing loans was 34.4% and 34.7% at June 30, 2001 and December 31, 2000, respectively. Despite an increase in the allowance for loan losses, the ratio decreased due to an increase in non-accrual loans. Management believes that the problems with these borrowers are isolated and not indicative of the loan portfolio in total.

The Bank's internally classified loans, which include non-performing loans, in addition to potential problem loans, increased from $8,277,000 at December 31, 2000 to $11,198,000 at June 30, 2001. The increase of $2,921,000 was attributable to a $1,838,000 increase in potentially problem loans and a $1,271,000 increase in non-accrual loans.

Loans delinquent greater than 90 days decreased from $3,767,000 at December 31, 2000 to $3,579,000 at June 30, 2001, a decrease of $188,000. As of December 31, 2000, there were two borrowers with loans of approximately $3.0 million delinquent greater than 90 days that are not included in the loans delinquent greater than 90 days at June 30, 2001. The first borrower, a residential developer with approximately $1.2 million in loans, was transferred to non-accrual status during the second quarter of 2001. The Company expects that the properties supporting the residential construction loans will be completed and sold in 2001. A specific reserve of $150,000 has been established for these loans. The Company believes that this reserve adequately covers any possible losses relating to these loans. During the first six months of 2001, the Bank refinanced the second borrower, a residential developer with approximately $1.8 million in loans. This refinanced developer has remained current on their loan payments. Since December 31, 2000 a $1.1 million loan secured by lots in a retail development and $1.3 million in loans to a another borrower have become delinquent greater than 90 days. The loan for the retail development is to the same borrowers that are discussed regarding potential problem loans. The collateral for the other new delinquent borrower is residential lots and homes and agricultural land. The Company

believes that these loans have adequate collateral and no loss will be incurred. The other loans delinquent greater than 90 days at June 30, 2001 are individual residential loans for which the Company believes there will be no loss.

Non-accruing loans increased from $1,493,000 at December 31, 2000 to $2,764,000 at June 30, 2001, an increase of $1,271,000. The increase pertains to $1.2 million in loans made to a residential contractor. The remaining non-accruing loans pertain to loans made to a residential real estate developer. The developer, PAK Builders, an Illinois general partnership, had $4.2 million in loans with the Bank for the development of 27 residential properties. On August 3, 2000 they filed for bankruptcy protection. A bankruptcy trustee is handling the disposition of PAK Builders' assets. During 2000, the Company charged off $2.8 million of the loans outstanding to PAK Builders. Based on the cash and real estate currently held by the trustee and the Bank's expected portion of these assets, management believes that there will be no additional losses relative to PAK Builders. It is expected that the trustee will complete the distribution of the proceeds to creditors by the third quarter of 2001.

The balance of potential problem loans increased from $3,017,000 at December 31, 2000 to $4,855,000 at June 30, 2001, an increase of $1,838,000. The balance primarily relates to three borrowers. The first is a commercial mortgage for $3.3 million for a retail development. Subsequent to year-end, the borrowers requested and were granted a loan modification of the interest rate and maturity for their loan on a building in this development. The loan was delinquent less than 30 days at December 31, 2000. As of June 2001 this loan is contractually current. The modifications were requested because of the borrowers' difficulties meeting their combined obligations to other lenders. The collateral for the Company's loan for this development is a commercial building and property in a large shopping center. The building that serves as the Bank's collateral is leased and, in addition, the borrowers have personally guaranteed the loan. Management believes there will be no loss related to this loan. The second borrower is an aviation firm with potential problem loans totaling $1.1 million. The collateral for the loans are mortgages on a hanger and office maintenance building. The loans are listed as potential problem loans because the borrower has filed for protection under bankruptcy laws. Based on appraisals of the property, no loss is expected on these loans. The third borrower is an individual with loans totaling $394,000. The loans are contractually delinquent one month. The collateral for the loans is residential properties. Based on the value of the collateral management does not anticipate a loss on these loans.

Land in real estate joint venture decreased from $1,220,000 at December 31, 2000 to $905,000 at June 30, 2001, a decrease of $315,000 or 25.8%. The decrease was due to the sale of lots in the development.

Other assets increased from $5.3 million at December 31, 2000 to $5.5 million at June 30, 2001, an increase of $200,000 or 3.8%.

Deposits increased from $228.9 million at December 31, 2000 to $241.8 million at June 30, 2001, an increase of $12.9 million or 5.6%. The increase was due primarily to an increase in bank internal demand deposits of $6.5 million and a $4.8 million increase in time deposits. In prior periods, the Bank utilized demand deposit accounts at an unaffiliated commercial bank rather than internal demand accounts for certain bank activities.

Borrowings decreased from $68.0 million at December 31, 2000 to $59.8 million at June 30, 2001, a decrease of $8.2 million or 12.1%. Debt repaid during the first six months of 2001 was due to normal maturities and repayments. Proceeds from the increase in deposits were used to reduce borrowings during the first half of 2001.

Other liabilities increased from $3,123,000 at December 31, 2000 to $3,285,000 at June 30, 2001 an increase of $162,000 or 5.2%.

Total stockholders' equity capital increased by $1.3 million or 4.5%, from $29.3 million at December 31, 2000 to $30.6 million at June 30, 2001. The increase resulted from the earnings of the Company of $1,148,000 for the six months ended June 30, 2001, offset by the payment of $172,000 in dividends to shareholders, a $25,000 increase in accumulated other comprehensive income and recognition of earned incentive plan and ESOP shares of $342,000.

COMPARISON OF OPERATING RESULTS FOR THE SIX MONTHS ENDED JUNE 30, 2001 and JUNE 30, 2000

GENERAL

Net income for the six months ended June 30, 2001 decreased by $1,263,000 from $2,411,000 for the six months ended June 30, 2000 to $1,148,000 for the six months ended June 30, 2001. The decrease was primarily due to a $2.4 million gain on the sale of a branch facility offset by a $378,000 loss on the sale of investment securities in the first six months of 2000.

INTEREST INCOME

Interest on loans increased by $377,000 or 3.3%, from $11,409,000 for the six months ended June 30, 2000 to $11,786,000 for the six months ended June 30, 2001. Interest on loans increased due to an increase in the average balance of loans outstanding of $7.6 million. The effect of this increase on interest on loans was offset by a decrease in the average yield on loans outstanding of 9 basis points and an increase in non-accrual loans.

Interest on investments increased from $684,000 for the six months ended June 30, 2000 to $808,000 for the six months ended June 30, 2001, an increase of $124,000 or 18.1%. The increase was due to a $4.7 million increase in the average balances of interest-bearing demand deposits, FHLB stock and investment securities in 2001 and a 24 basis point increase in the average yield on investments and interest-bearing deposits.

INTEREST EXPENSE

Interest on savings deposits increased by $982,000 or 20.3%, from $4,843,000 for the six months ended June 30, 2000 to $5,825,000 for the six months ended June 30, 2001. The increase was due to a $14.6 million increase in the average balance of deposits and a 55 basis point increase in the average cost of deposits.

The interest on borrowings decreased by $76,000 or 4.1%, from $1,876,000 for the six months ended June 30, 2000 to $1,800,000 for the six months ended June 30, 2001 primarily as a result of a 21 basis point decrease in the average cost of borrowings.

PROVISION FOR LOAN LOSSES

The provision for loan losses was $360,000 for the six months ended June 30, 2001 and $240,000 for the three months ended June 30, 2000. The increase was due to the increase in internally classified loans. The provision for both periods reflects management's analysis of the Company's loan portfolio based on information which is currently available to it at such time. In particular, management considers the level of non-performing loans and potential problem loans. While management believes that the allowance for loan losses is sufficient based on information currently available, no assurances can be made that future events or conditions or regulatory directives will not result in increased provisions for loan losses or additions to the Bank's allowance for losses which may adversely affect net income.

OTHER INCOME

Total other income decreased by $1,963,000 or 62.0%, from $3,165,000 for the six months ended June 30, 2000 to $1,202,000 for the six months ended June 30, 2001. The amount for the six months ended June 30, 2000 includes a $2,445,000 net gain on the sale of a branch facility. This gain was offset by a $378,000 loss on the sale of securities incurred in a restructuring of the investment portfolio. Net gains on loan sales increased from $106,000 for the six months ended June 30, 2000 to $323,000 for the six months ended June 30, 2001, an increase of $217,000 or 204.7%. The lower interest rate environment in the first six months of 2001 resulted in increased loan originations, sales and gains on sale of loans. Other operating income decreased from $770,000 for the six months ended June 30, 2000 to $646,000 for the six months ended June 30, 2001, a decrease of $124,000 or 16.1%. The decrease resulted primarily from decreased ATM fees of $14,000, loan fees of $51,000 and lower office rental income of $16,000.

OTHER EXPENSES

Total other expenses decreased by $423,000 or 9.7%, from $4,358,000 for the six months ended June 30, 2000 to $3,935,000 for the six months ended June 30, 2001. Salaries and benefits decreased by $268,000 or 11.0%, from $2,440,000 for the six months ended June 30, 2000 to $2,172,000 for the six months ended June 30, 2001. The decrease was primarily due to lower employee benefit expenses and other staffing changes. Other operating expense decreased from $1,022,000 for the six months ended June 30, 2000 to $848,000 for the three months ended June 30, 2001, a decrease of $174,000 or 17.0%, primarily because of lower legal and professional fees associated with the 2000 Annual Meeting of Shareholders, and operational efficiencies.

INCOME TAX EXPENSE

Total income tax expense was $728,000 for the six months ended June 30, 2001, compared to $1,530,000 for the six months ended June 30, 2000. The decrease is attributable to lower taxable income for the six months ended June 30, 2001. The effective tax rate was 38.8% for the six months ended June 30, 2001 and 2000.

COMPARISON OF OPERATING RESULTS FOR THE THREE MONTHS ENDED JUNE 30, 2001 and JUNE 30, 2000

GENERAL

Net income for the three months ended June 30, 2001 decreased by $1,320,000 from $1,902,000 for the three months ended June 30, 2000 to $582,000 for the three months ended June 30, 2001. The decrease was due to a $2.4 million gain on the sale of a branch facility in the second quarter of 2000.

INTEREST INCOME

Interest on loans decreased by $123,000 or 2.1%, from $5,875,000 for the three months ended June 30, 2000 to $5,752,000 for the three months ended June 30, 2000. Interest on loans decreased due to an increase in the non-accrual loans and a decrease in the average yield on loans outstanding of 27 basis points.

Interest on investments increased from $332,000 for the three months ended June 30, 2000 to $412,000 for the three months ended June 30, 2001, an increase of $80,000 or 24.1%. The increase was due to a $8.0 million increase in the average balances of interest-bearing demand deposits, FHLB stock and investment securities in 2001. There was a 27 basis point decrease in the average yield on investments and interest-bearing deposits.

INTEREST EXPENSE

Interest on savings deposits increased by $459,000 or 18.8%, from $2,445,000 for the three months ended June 30, 2000 to $2,904,000 for the three months ended June 30, 2001. The increase was due to a $20.4 million increase in the average balance of deposits and a 36 basis point increase in the average cost of deposits.

The interest on borrowings decreased by $220,000 or 20.5%, from $1,072,000 for the three months ended June 30, 2000 to $852,000 for the three months ended June 30, 2001 as a result of a $8.6 million decrease in average borrowings and a 52 basis point decrease in the average cost of borrowings.

PROVISION FOR LOAN LOSSES

The provision for loan losses was $180,000 for the three months ended June 30, 2001 and $120,000 for the three months ended June 30, 2000. The increase was due to the increase in internally classified loans. The provision for both periods reflects management's analysis of the Company's loan portfolio based on information which is currently available to it at such time. In particular, management considers the level of non-performing loans and potential problem loans. While management believes that the allowance for loan losses is sufficient based on information currently available, no assurances can be made that future events or conditions or regulatory directives will not result in increased provisions for loan losses or additions to the Bank's allowance for losses which may adversely affect net income.

OTHER INCOME

Total other income decreased by $1,934,000 or 70.4%, from $2,746,000 for the three months ended June 30, 2000 to $812,000 for the three months ended June 30, 2000. The amount for the three months ended June 30, 2000 includes a $2,445,000 net gain on the sale of a branch facility. This gain was offset by a $378,000 loss on the sale of securities incurred in a restructuring of the investment portfolio. Net gains on loan sales increased from $47,000 for the three months ended June 30, 2000 to $218,000 for the three months ended June 30, 2001, an increase of $171,000 or 363.8%. The lower interest rate environment in 2001 resulted in increased loan originations, sales and gains on sale of loans. Other operating income decreased from $410,000 for the three months ended June 30, 2000 to $361,000 for the three months ended June 30, 2001, a decrease of $49,000 or 12.0%. The decrease resulted primarily from decreased loan fees of $38,000 and lower office rental income of $5,000.

OTHER EXPENSES

Total other expenses decreased by $117,000 or 5.3%, from $2,206,000 for the three months ended June 30, 2000 to $2,089,000 for the three months ended June 30, 2001. Salaries and benefits decreased by $169,000 or 14.5%, from $1,167,000 for the three months ended June 30, 2000 to $998,000 for the three months ended June 30, 2001. The decrease was primarily due to the efficiencies achieved from the sale of a branch facility in 2000 and other staffing changes.

INCOME TAX EXPENSE

Total income tax expense was $369,000 for the three months ended June 30, 2001, compared to $1,208,000 for the three months ended June 30, 2000. The increase is attributable to higher taxable income for the three months ended June 30, 2001. The effective tax rate was 38.8% for the three months ended June 30, 2001 and 2000.

LIQUIDITY AND CAPITAL RESOURCES

The Company's primary sources of funds are deposits, principal and interest payments on loans and securities, sales of loans and securities and FHLB advances. While maturing and scheduled amortization of loans are predictable sources of funds, deposit outflows and mortgage prepayments are greatly influenced by general interest rates, economic conditions and competition. The Bank's liquidity requirement, which may be varied at the direction of the Bank's regulators depending on economic conditions and deposit flows, is based upon a percentage of the Bank's deposits and short-term borrowings.

At June 30, 2001, the Bank exceeded all of its regulatory capital requirements with Tier 1 capital of $29.1 million, or 8.9% of average total assets, which is above the required level of $13.1 million or 4.0%; and risk-based capital of $31.2 million or 13.3% of risk-weighted assets, which is above the required level of $18.8 million or 8.0%.

The Company's most liquid assets are cash and interest-bearing demand accounts. The level of these accounts is dependent on the operating, financing, lending and investing activities during any given period. At June 30, 2001 cash and interest-bearing deposits totaled $17.1 million.

The Company has other sources of liquidity if a need for additional funds arises, including FHLB advances, loan sales, brokered deposits and Fed funds. At June 30, 2001, the Bank had outstanding advances with the FHLB of $55.6 million. The FHLB maintains two limitations on borrowing availability based on (1) FHLB stock ownership and (2) total assets. The Bank currently meets the stock limitation; however, this limit may be raised by the purchase of additional FHLB stock. Based on the total assets limitations, the Bank may increase its borrowings with the FHLB by approximately $60.5 million. The ability to borrow this amount would require meeting regulatory mandated loan and collateral limits. Depending upon market conditions and the pricing of deposit products and FHLB borrowings, the Bank may utilize FHLB advances to fund loan originations.

At June 30, 2001 the Bank had commitments to originate loans and unused lines of credit totaling $18.5 million. Certificate accounts which are scheduled to mature in one year or less from June 30, 2001 totaled $133.4 million. The Bank anticipates that it will have sufficient funds to meet its current commitments and maturing deposits.

Current Accounting Issues

During 1998, the Financial Accounting Standards Board ("FASB") issued Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities". This Statement requires companies to record derivatives on the balance sheet at their fair value. This new Statement applies to all entities. Statement No. 137 amended the effective date of Statement No. 133 to fiscal years beginning after June 15, 2000. This Statement may not be applied retroactively to financial statements of prior periods. The adoption of this Statement had no material impact on the Company's financial position or results of operation.

In July 2001, the Financial Accounting Standards Board issued SFAS No. 141, "Business Combinations" and SFAS No. 142 "Goodwill and Other Intangible Assets".

SFAS No. 141 requires that all business combinations be accounted for using the purchase method of accounting and requires separate recognition of intangible assets that meet certain criteria. This statement applies to all business combinations after June 30, 2001. SFAS No. 142 requires that an intangible asset that is acquired shall be initially recognized and measured based on its fair value. This statement also provides that

goodwill should not be amortized, but shall be tested for impairment annually, or more frequently if circumstances indicate potential impairment, through a comparison of fair value to its carrying amount. SFAS No. 142 is effective for fiscal periods beginning after December 15, 2001. The adoption of these statements will have no impact on the Company's financial condition or results of operation.

Item 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Sources of market risk include interest rate risk, foreign currency exchange rate risk, commodity price risk and equity price risk. The Company is only subject to interest rate risk. The Company purchased no financial instruments for trading purposes during the three and six months ended June 30, 2001 and 2000.

The principal objective of the Company's interest rate risk management function is to evaluate the interest rate risk included in balance sheet accounts, determine the level of risk appropriate given the Company's business strategy, operating environment, capital and liquidity requirements and performance objectives, and manage the risk consistent with Board of Director approved guidelines. Through such management, the Company seeks to reduce the vulnerability of its operations to changes in interest rates. The Company monitors its interest rate risk as such risk relates to its operating strategies. The Company's Board of Directors reviews the Company's interest rate risk position on a quarterly basis. The Company's Asset/Liability Committee is comprised of the Company's senior management under the direction of the Board of Directors, with the Committee responsible for reviewing with the Board of Directors its activities and strategies, the effect of those strategies on the Company's net interest margin, the market value of the portfolio and the effect that changes in the interest rates will have on the Company's portfolio and its exposure limits. The extent of the movement of interest rates is an uncertainty that could have a negative impact on the earnings of the Company.

In recent years, the Company has utilized the following strategies to manage interest rate risk: (1) originating for investment adjustable-rate residential mortgage and fixed-rate one-to-four family loans with maturities of 10 years or less; (2) generally selling fixed-rate one-to-four family loans with maturities exceeding 10 years in the secondary market without recourse and on a servicing retained basis; (3) increasing its origination of shorter term and/or adjustable rate commercial loans; and (4) investing in shorter term investment securities which may generally bear lower yields as compared to longer term investments, but which may better position the Company for increases in market interest rates.

The Company's interest rate and market risk profile has not materially changed from the year ended December 31, 2000. Please refer to the Company's 2000 Form 10-K for further discussion of the Company's market and interest rate risk.

PART II. -- OTHER INFORMATION

Item 1. Legal Proceedings

The Company is not involved in any legal proceedings of a material nature at this time other than those occurring in the ordinary course of business, which in the aggregate involves amounts which are believed by management to be immaterial to the financial condition of the Company.

Item 2. Changes in Securities and Use of Proceeds
Not applicable.

Item 3. Defaults Upon Senior Securities
Not applicable.

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

a. The Company's Annual Meeting of Shareholders was held on April 23, 2001.
b. See Item 4-c below.
c. At such meeting the shareholders approved the following matters:

1. The election of the following individuals as Directors:

	Votes For	Votes Withheld	Term
Dr. Lowell M. Thompson	1,269,494	57,205	3 years
Ronald C. Wells	1,270,519	56,180	3 years

Additionally, the following individuals are the other Directors whose term of office as a Director continued after the meeting:

L. Carl Borngasser
Harold L. Hoeferle
C. William Landefeld
Arthur W. Mier

2. The ratification of Olive LLP as independent auditor of the Company for the fiscal year ending December 31, 2001, as reflected by 1,294,137 votes for, 28,462 votes against and 4,100 abstentions.

Item 5. Other Information
Not applicable.

Item 6. Exhibits and Reports on Form 8-K

a. Exhibits
   11.0 Statement re: Computation of Per Share Earnings (filed herewith)

b. Reports on Form 8-K
   Citizens First Financial Corp. filed the following Form 8-K during the quarter ended June 30, 2001: None

Exhibit Index

SIGNATURES

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

Citizens First Financial Corp.

Date: August 14, 2001

/s/ C. William Landefeld

C. William Landefeld
President

Date: August 14, 2001

/s/ Dallas G. Smiley

Dallas G. Smiley
Chief Financial Officer