CITIZENS FIRST FINANCIAL CORP
Form 10-Q
May 15, 2003

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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 March 31, 2003 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

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

The Registrant had 1,455,155 shares of Common Stock outstanding as of April 30, 2003.

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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.

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PART I. FINANCIAL INFORMATION

Citizens First Financial Corp. and Subsidiary
Condensed Consolidated Balance Sheets
As of March 31, 2003 and December 31, 2002
(in thousands)

	March 31, 2003	December 31, 2002
ASSETS	(Unaudited)	
Cash and due from banks	$ 6,851	$ 10,730
Interest-bearing deposits and federal funds sold	27,463	22,853
Cash and cash equivalents	34,314	33,583
Available for sale securities	19,999	20,712
Mortgage loans held for sale	3,055	6,098
Loans	277,805	282,591
Allowance for loan losses	(2,441)	(3,753)
Net loans	275,364	278,838
Land in real estate joint venture	683	888
Premises and equipment	6,613	6,792
Federal Home Loan Bank of Chicago stock	4,827	4,697
Foreclosed real estate	2,958	1,500
Mortgage servicing rights, net of valuation allowance of $123,000 at March 31, 2003 and December 31, 2002	379	407
Other assets	3,479	3,541
Total assets	$ 351,671	$ 357,056
LIABILITIES AND STOCKHOLDERS EQUITY		
Liabilities		
Deposits	$ 245,546	$ 249,163
Long-term debt	70,750	72,825
Other liabilities	3,154	2,730
Total liabilities	319,450	324,718
Minority interest in real estate joint venture	349	444
Commitments and Contingent Liabilities		
Stockholders Equity		
Preferred stock, $.01 par value Authorized and unissued 1,000,000 shares		
Common stock, $.01 par value; authorized 8,000,000 shares; 2,817,500 shares issued and outstanding	28	28
Additional paid-in-capital	26,766	27,934
Retained earnings	27,563	25,837
Accumulated other comprehensive income	137	197
Less:		
Treasury shares, 1,360,845 and 1,361,996, respectively	(22,622)	(22,102)
Total stockholders equity	31,872	31,894

Total liabilities and stockholders equity	$ 351,671	$ 357,056

See notes to condensed consolidated financial statements

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Citizens First Financial Corp. and Subsidiary
Condensed Consolidated Statements of Income

	For the three months ended March 31, 2003	For the three months ended March 31, 2002
	(Unaudited and in thousands except share data)	
Interest income		
Interest on loans	$ 4,576	$ 5,434
Interest on investments, deposits with banks, federal funds sold and other	405	318
Total interest income	4,981	5,752
Interest expense		
Interest on deposits	1,605	2,107
Interest on borrowings	790	893
Total interest expense	2,395	3,000
Net interest income	2,586	2,752
Provision for loan losses	85	98
Net interest income after provision for loan losses	2,501	2,654
Noninterest income	217	225
Service charges on deposit accounts	217	225
Net gains on loan sales	344	173
Gain on sale of land in joint venture	194	0
Other	69	96
Total noninterest income	824	494
Noninterest expense		
Salaries and employee benefits	1,042	1,117
Net occupancy and equipment expenses	314	322
Deposit insurance expense	19	19
Data processing expense	89	77
Minority interest in net income of real estate joint venture	97	
Other	552	461
Total noninterest expense	2,113	1,996
Income before income taxes	1,212	1,152
Provision for income taxes	470	447
Net income	742	705
Other comprehensive income, net of tax		
Unrealized depreciation on available for sale securities	(60)	(38)
Comprehensive income	$ 682	$ 667

Basic earnings per share	$	0.51	$	0.48
Weighted average shares outstanding		1,456,651		1,465,135
Diluted earnings per share	$	0.46	$	0.45
Weighted average shares outstanding		1,599,916		1,581,328

See notes to condensed consolidated financial statements

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

	For the three months ended March 31, 2003	For the three months ended March 31, 2002
	(Unaudited and in thousands)	
Operating activities		
Net income	$ 742	$ 705
Adjustments to reconcile net income to net cash		
Provided (used) by operating activities:		
Provision for loan losses	85	98
ESOP compensation expense		104
Investment securities amortization, net	53	19
Minority interest in net income of real estate joint venture	97	
Gain on sale of land in real estate joint venture	(194)	
Net loss on sale of foreclosed property	3	41
Net gains on sale of mortgage loans	(344)	(173)
Amortization of mortgage servicing rights	84	17
Depreciation	183	187
Mortgage loans originated for sale	(18,275)	(11,300)
Proceeds from sale of mortgage loans	21,606	13,535
Federal Home Loan Bank dividends	(130)	(65)
Change in:		
Other assets	62	151
Other liabilities	208	165
Net cash provided by operating activities	4,180	3,484
Investing Activities		
Purchase of securities available for sale	(3,846)	(2,307)
Proceeds from maturities and principal paydowns		
on securities available for sale	4,408	1,520
Net changes in loans	1,528	4,140
Proceeds from sale of foreclosed property	400	550
Purchases of premises and equipment	(4)	(19)
Investment in land in real estate joint venture	(28)	(71)
Proceeds from sale of land real estate joint venture	427	
Net investment (distribution) of minority interest portion of real estate		
joint venture	(192)	36
Net cash provided by investing activities	2,693	3,849

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Financing Activities		
Net change in deposits	$ (3,617)	$ 9,684
Proceeds from borrowings		11,800
Repayment of borrowings	(2,075)	(7,893)
Purchase of treasury stock shares	(1,155)	(540)
Cash dividends paid on common stock	(153)	(105)
Exercise of stock options	604	25
Net changes in advances by borrowers for taxes and insurance	254	222
Net cash provided (used) by financing activities	(6,142)	13,193
Net change in cash and cash equivalents	731	20,526
Cash and cash equivalents, beginning of period	33,583	12,931
Cash and cash equivalents, end of period	$ 34,314	$ 33,457
Additional cash flows information:		
Interest paid	$ 2,710	$ 3,087
Income tax paid	$ 555	$ 45
Loans transferred to foreclosed property	$ 1,861	$ 742

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 consolidated financial position as of March 31, 2003 and December 31, 2002, and the consolidated statements of income and cash flows for the three months ended March 31, 2003 and 2002. All adjustments to the financial statements were of a normal recurring nature. These results have been determined on the basis of accounting principles generally accepted in the United States of America. The results of operations for the three months ended March 31, 2003 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 17, 2003, included in the Company s 2002 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 three months ended March 31, 2003 and 2002. 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.

4. Stock Options

The Company has a stock-based employee compensation plan, which is described more fully in Notes to Financial Statements included in the December 31, 2002 Annual Report to shareholders. The Company accounts for this plan under the recognition and measurement principles of APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations. No stock-based employee compensation cost is reflected in net income, as all options granted under the plan had an exercise price equal to the market value of the underlying common stock on the grant date. The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value provisions of Statement of Financial Accounting Standards (SFAS) No. 123, *Accounting for Stock-Based Compensation*, to stock-based employee compensation.

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	Three Months Ended March 31, 2003	Three Months Ended March 31, 2002
Net income, as reported	$ 742	$ 705
Less: Total stock-based employee compensation cost determined under the fair value based method, net of income taxes	(24)	(24)
Pro forma net income	$ 718	$ 681
Earnings per share:		
Basic as reported	$ 0.51	$ 0.48
Basic pro forma	$ 0.49	$ 0.46
Diluted as reported	$ 0.46	$ 0.45
Diluted pro forma	$ 0.45	$ 0.43

5. Recent Accounting Pronouncement

In November 2002, the FASB issued Interpretation No. 45, *Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others* (FIN 45). FIN 45 will change current practice in the accounting for and disclosure of guarantees. Guarantees meeting the characteristics described in FIN 45 are required to be initially recorded at fair value, which is different from the general current practice of recording a liability only when a loss is probable and reasonably estimable, as those terms are defined in FASB Statement No. 5, *Accounting for Contingencies.* FIN 45 also requires a guarantor to make new disclosures for virtually all guarantees even if the likelihood of the guarantor s having to make payments under the guarantee is remote.

In general, FIN 45 applies to contracts or indemnification agreements that contingently require the guarantor to make payments to the guaranteed party based on changes in an underlying asset, liability, or an equity security of the guaranteed party such as financial standby letters of credit.

Disclosure requirements of FIN 45 are effective for financial statements of interim or annual periods ending after December 31, 2002. The initial recognition and measurement provisions are applicable on a prospective basis to guarantees issued or modified after December 31, 2002, irrespective of the guarantor s fiscal year-end. The guarantor s previous accounting for guarantees issued prior to the date of FIN 45 initial applications should not be revised or restated to reflect the provisions of FIN 45.

The Company adopted FIN 45 on January 1, 2003. The adoption of FIN 45 does not currently have a material impact on the Company s consolidated financial statements.

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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 Bank was originally chartered in 1888 by the State of Illinois and in 1989 became a federally chartered 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 into loans and investment securities. The Bank originates one-to-four family residential mortgages, commercial, multi-family, construction and land, commercial real estate, agricultural, consumer and other loans. The Bank has a wholly-owned service corporation, CSL Service Corporation (CSL), which is an Illinois-chartered corporation that has invested in Williamsburg LLC (Williamsburg), a real estate development joint venture. CSL is a 50% owner of Williamsburg, which has two other investors. The accounts of Williamsburg are consolidated into the Company s financial statements. The 50% of Williamsburg not owned by CSL is recorded as a minority interest.

COMPARISON OF FINANCIAL CONDITION AT MARCH 31, 2003 and DECEMBER 31, 2002

Total assets decreased from $357.1 million at December 31, 2002 to $351.7 million at March 31, 2003. The $5.4 million or 1.5% decrease was primarily due to the decrease in loans and loans for sale.

Cash and cash equivalents increased from $33.6 million at December 31, 2002 to $34.3 million at March 31, 2003 an increase of $700,000 or 2.1%.

Available for sale securities decreased from $20.7 million at December 31, 2002 to $20.0 million at March 31, 2003, a decrease of $700,000 or 3.3%. The decrease was primarily due to the principal repayments of investment securities during the first three months of 2003.

Loans, net of allowance for loan losses and including loans held for sale, decreased from $284,936,000 at December 31, 2002 to $278,419,000 at March 31, 2003, a decrease of $6,517,000 or 2.3%. The decrease was primarily due to a $5.1 million decrease in residential real estate loans. The Company sells primarily fixed rate residential loans in the secondary market (primarily to the Federal Home Loan Mortgage Corporation) as a source of income from gains on sale and servicing fees and as a means of controlling interest rate risk. The Company experienced a continuing high volume in refinanced residential loans during the first three months of 2003 due to lower interest rates. Many of these loans (the majority of which were originated as fixed rate loans) were sold in the secondary market. The Company serviced $105.1 million and $103.7 million at March 31, 2003 and December 31, 2002, respectively.

The Company has a significant concentration in construction and commercial real estate loans related to the real estate market in Bloomington-Normal. Management believes that due to the continued strength of this market, this concentration does not pose a significant risk to the Company.

The allowance for loan losses is established through a provision for loan losses based on management s evaluation of the risks inherent in the loan portfolio and the general economy. The allowance for loan losses is maintained at an amount management considers adequate to cover estimated loses in loans receivable which are deemed probable and can be estimated based on information available to management at such time. While management believes the allowance for loan losses is sufficient to cover future loan losses inherent in its loan portfolio at this time, no assurances can be given that the level of the allowance for loan losses will be sufficient to cover future loan losses incurred or that future adjustments to the allowance for loan losses will not be necessary if economic and other conditions differ substantially from the economic and other conditions used by management to determine the current level of the allowance for loan losses. The allowance is based upon a number of factors, including asset classification, economic trends, industry experience and trends, industry and geographic concentrations, estimated collateral value, management s assessments of the credit risk inherent in the portfolio, historical loan loss experience, and the Company s

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underwriting policies. Management will continue to monitor and modify the allowance for loan losses as conditions dictate. Various regulatory agencies, as an integral part of their examination process, periodically review the allowance for loan losses. These agencies may require additional valuation allowances, based on their judgments of the information available at the time of the examination.

It is the policy of the Company to charge off loans when it is determined that they are no longer collectible. The policy for loans secured by real estate, which comprises the bulk of the loan portfolio, is to establish loss reserves in accordance with the loan classification process, based on generally accepted accounting practices. It is the Company s policy to obtain an appraisal or evaluation on all real estate acquired through foreclosure at the time of foreclosure.

The allowance for loan losses decreased from $3,753,000 at December 31, 2002 to $2,441,000 at March 31, 2003, a decrease of $1,312,000 or 35.0%. The decrease was primarily due to a $1.4 million write-down of a $3.3 million loan, which was transferred into foreclosed assets in the first quarter of 2003. The loan on a retail development was classified as non-accrual at December 31, 2002 and had a reserve of $1.4 million.

The Company s non-performing and potential problem loans decreased from $11,264,000 at December 31, 2002 to $8,307,000 at March 31, 2003, a decrease of $2,957,000 or 26.3%. The decrease was primarily attributable to the foreclosure of the $3.3 million loan noted above for a retail development that was classified as non-accrual at December 31, 2002. The non-performing and potential problem loans were considered impaired as of March 31, 2003 and December 31, 2002.

Non-performing loans, which are loans past due 90 days or more and non-accruing loans, decreased from $6,163,000 at December 31, 2002 to $5,433,000 at March 31, 2003. The ratio of the Company s allowance for loan losses to total non-performing loans was 44.9% and 60.9% at March 31, 2003 and December 31, 2002, respectively. Management believes that the problems with these borrowers are identified and not indicative of the loan portfolio in total.

Loans delinquent greater than 90 days decreased from $1,753,000 at December 31, 2002 to $1,033,000 at March 31, 2003, a decrease of $720,000 or 41.1%. The decrease was due primarily to the transfer of approximately of $990,000 of loans classified as delinquent at December 31, 2002 to nonaccrual status at March 31, 2003. Loans delinquent greater than 90 days at March 31, 2003 consist of 19 loans that are substantially collateralized and for which the Company believes that it has adequately reserved for any potential loss. The total is comprised principally of 13 residential mortgages with a balance of $843,000 and one commercial and industrial loan with a balance of $187,000. The largest loan delinquent greater than 90 days has a balance of $206,000.

Nonaccruing loans decreased from $4,410,000 at December 31, 2002 to $4,400,000 at March 31, 2003, a decrease of $10,000 or 0.2%. During the first quarter of 2003, a $3.3 million loan, which had been classified as nonaccrual at December 31, 2002, was foreclosed and transferred to foreclosed assets. As of March 31, 2003, the total is comprised principally of 13 construction and land development loans with a balance of $2,237,000, 7 residential loans with a balance of $1,157,000, 4 commercial & industrial loans with a balance of $427,000 and 2 nonresidential real estate loans with a balance of $395,000. For all of the non-accruing loans, the Company believes that it has adequately reserved for any potential loss.

Potential problem loans are loans that are not classified as nonaccrual or 90 days or more delinquent, but due to factors regarding the borrower, the loan or the economy may represent a possible loss to the Company. Potential problem loans decreased from $5,102,000 at December 31, 2002 to $2,874,000 at March 31, 2003, a decrease of $2,228,000 or 43.7%. The Company has established loan loss reserves of $517,000 at March 31, 2003 for potential problem loans. As of March 31, 2003, $1,261,000 of the total potential problem loans relates to one borrower. The borrower is a commercial developer who is a concern to the Company because of the concentration of loans to one borrower and the delays in the completion and sale of certain of his developments. Reserves of $350,000 have been established for the potential problem loans to this borrower. The remaining potential problem loans have a balance of $1,613,000 and consist of 9 residential loans with a balance of $1,183,000, 1 nonresidential real estate loan of $279,000,1 commercial and industrial loan of $133,000 and 2 consumer loans of $18,000. Reserves of $167,000 have been established for these remaining potential problem loans. These reserves are included in the reserves discussed above.

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Other assets especially mentioned (OAEM) loans increased from $12,590,000 at December 31, 2002 to $14,679,000 at March 31, 2003, an increase of $2,089,000 or 16.6%. OAEM loans are loans that are not classified as nonaccrual, delinquent or potential problem, but still require monitoring by the Company due to factors regarding the borrower, the loan or the economy. At March 31, 2003 $12,432,000 of this balance relates to loans to one borrower. It is the same commercial developer discussed above who because of the concentration of loans to one borrower and delays in completion and sale of certain of his developments has caused certain of his loans to be classified as OAEM loans. The remaining $2,247,000 of OAEM loans consist primarily of 5 commercial & industrial loans with a balance of $1,138,000, 2 nonresidential real estate loans with a balance of $574,000 and 9 residential real estate loans with a balance of $524,000.

Foreclosed assets held for sale increased from $1,500,000 at December 31, 2002 to $2,958,000 at March 31, 2003, an increase of $1,458,000 or 97.2%. The increase was due to the foreclosure of a $3.3 million loan for a retail development during the first quarter of 2003. The Bank charged-off $1.4 million through the allowance for loan losses when the property was transferred from loans to foreclosed assets held for sale. The repossessed building is substantially leased. Another financial institution, which had a loan on the same development, foreclosed on their portion in 2002. Properties being transferred to foreclosed assets are appraised or evaluated and, if required, loss reserves are established by management.

Mortgage servicing rights decreased from $407,000 at December 31, 2002 to $379,000 at March 31, 2003, a decrease of $28,000 or 6.9%. The decrease was due to the amortization of $84,000 of mortgage servicing rights, offset by newly capitalized assets of $56,000. Loans serviced for others totaled $105.1 million and $103.7 million at March 31, 2003 and December 31, 2002, respectively.

Deposits decreased from $249.2 million at December 31, 2002 to $245.5 million at March 31, 2003, a decrease of $3.7 million or 1.5%. The decrease was primarily due to a decrease of $3.4 million in certificates of deposit. Because of its higher level of cash and cash equivalents, the Company did not aggressively compete for deposits and as a result there was a decrease in certificates of deposit.

Long-term debt decreased from $72.8 million at December 31, 2002 to $70.8 million at March 31, 2003, a decrease of $2.0 million or 2.8%, due to maturities during the first quarter of 2003.

Other liabilities increased from $2,730,000 at December 31, 2002 to $3,154,000 at March 31, 2003, an increase of $424,000 or 15.5%. The increase was primarily due to a an increases of $254,000 in advances from borrowers for taxes and insurance and $105,000 in accounts payable.

Total stockholders equity decreased by $22,000, from $31,894,000 at December 31, 2002 to $31,872,000 at March 31, 2003. The decrease resulted from the purchase of treasury shares of $1,155,000, payment of $153,000 in dividends to shareholders, and a decrease in unrealized appreciation on available-for sale securities of $60,000, offset by the earnings of the Company of $742,000 for the three months ended March 31, 2003 and exercised stock options of $604,000.

COMPARISON OF OPERATING RESULTS FOR THE THREE MONTHS ENDED MARCH 31, 2003 and MARCH 31, 2002

GENERAL

Net income for the three months ended March 31, 2003 increased by $37,000 from $705,000 for the three months ended March 31, 2002 to $742,000 for the three months ended March 31, 2003. The increase was due primarily to an increase in the net gains on loan sales and the gain on sale of land in joint venture, offset by a decrease in net interest income.

INTEREST INCOME

Interest on loans decreased by $858,000 or 15.8%, from $5,434,000 for the three months ended March 31, 2002 to $4,576,000 for the three months ended March 31, 2003. Interest on loans decreased due to a decrease in the average yield on loans outstanding of 69 basis points and a $11.2 million decrease in the average balance of outstanding loans.

Interest on investments increased from $318,000 for the three months ended March 31, 2002 to $405,000 for the three months ended March 31, 2003, an increase of $87,000 or 27.4%. The increase was primarily due to a $19.5 million increase in the average balance of investment securities, FHLB stock and interest-bearing deposits, offset by a 97 basis point decrease in the average yield of these assets in 2003.

INTEREST EXPENSE

Interest on deposits decreased by $502,000 or 23.8%, from $2,107,000 for the three months ended March 31, 2002 to $1,605,000 for the three months ended March 31, 2003. The decrease was primarily due to a 96 basis point decrease in the average cost of deposits, offset by a $6.7 million increase in the average balance of deposits.

The interest on long-term debt decreased by $103,000 or 11.5%, from $893,000 for the three months ended March 31, 2002 to $790,000 for the three months ended March 31, 2003 as a result of a 56 basis point decrease in the average cost of borrowings.

PROVISION FOR LOAN LOSSES

The provision for loan losses was $85,000 for the three months ended March 31, 2003 and $98,000 for the three months ended March 31, 2002, a decrease of $13,000 or 13.3%.

NONINTEREST INCOME

Total noninterest income increased by $330,000 or 66.8%, from $494,000 for the three months ended March 31, 2002 to $824,000 for the three months ended March 31, 2003. The increase was due primarily to increases in gains on loan sales and gain on sale of land in joint venture. Net gains on loan sales increased by $171,000. The increase was due to the increase in loan sales in the first quarter of 2003 resulting from the lower interest rate environment. The $194,000 increase in net gain on sale of land in joint venture resulted from lot sales in the first quarter of 2003. There were no lot sales in the first quarter of 2002.

NONINTEREST EXPENSE

Total noninterest expense increased from $1,996,000 for the three moths ended March 31, 2002 to $2,113,000 for the three months ended March 31, 2003, an increase of $117,000 or 5.9%. Other noninterest expense increased by $93,000 primarily because of higher expenses related to delinquent loans and repossessed assets and higher professional fees related to a new overdraft protection deposit product. There was an increase of $95,000 in the minority income of a real estate joint venture because of lot sales in 2003. There were no lot sales in the first quarter of 2002.

INCOME TAX EXPENSE

Total income tax expense was $470,000 for the three months ended March 31, 2003, compared to $447,000 for the three months ended March 31, 2002, an increase of $23,000 or 5.1%. The increase was attributable to the increased taxable income for the three months ended March 31, 2003. The effective tax rate was 38.8% for the three months ended March 31, 2003 and 2002.

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CRITICAL ACCOUNTING POLICIES

The preparation of financial statements in conformity with accounting standards generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the related disclosure of contingent assets and liabilities. Actual results could differ from those estimates under different assumptions and conditions. Management believes that its critical accounting policies and significant estimates include determining the allowance for loan losses, the valuation of loan servicing rights and the valuation of foreclosed real estate.

Allowance for Loan Losses
The allowance for loan losses is a significant estimate that can and does change based on management s assumptions about specific borrowers and current general and economic and business conditions, among other factors. Management reviews the adequacy of the allowance for loan losses on at least a quarterly basis. The evaluation by management includes consideration of past loss experience, changes in the composition of the loan portfolio, the current economic condition and amount of loans outstanding, identified problem loans and the probability of collecting all amounts due.

The determination of the adequacy of the allowance for loan losses is based on estimates that are particularly susceptible to significant changes in the economic environment and market conditions. A worsening or protracted economic decline would increase the likelihood of additional losses due to credit and market risk and could create the need for additional loss reserves.

Mortgage Servicing Rights
The Company recognizes the rights to service loans as separate assets in the consolidated balance sheet. The total cost of loans when sold is allocated between loans and loan servicing rights based on the relative fair value of each. Mortgage servicing rights are subsequently carried at the lower of the initial carrying value, adjusted for amortization or fair value. Mortgage servicing rights are evaluated for impairment based on the fair value of those rights. Factors included in the calculation of fair value of the loan servicing rights include estimating the present value of future net cash flows, market loan prepayment speeds for similar loans, discount rates, servicing costs, and other economic factors. Servicing rights are amortized over the estimated period of net servicing revenue. It is likely that these economic factors will change over the life of the mortgage servicing rights, resulting in different valuations of the mortgage servicing rights. The differing valuations will affect the carrying value of the mortgage servicing rights on the consolidated balance sheet as well as the income recorded from mortgage servicing in the income statement. As of March 31, 2003 and December 31, 2002, mortgage servicing rights had carrying values of $379,000 and $470,000, respectively, net of valuation allowances of $123,000 at each date.

Foreclosed Real Estate
Foreclosed real estate is carried at the lower of cost or fair value less estimated selling costs. Management estimates the fair value of the properties based on current appraisal information. Fair value estimates are particularly susceptible to significant changes in the economic environment, market conditions, and the real estate market. A worsening or protracted economic decline would increase the likelihood of a decline in property values and could create the need to write down the properties through current operations.

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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 March 31, 2003, the Bank exceeded all of its regulatory capital requirements with Tier 1 capital of $31.1 million, or 8.9% of average total assets, which is above the required level of $14.0 million or 4.0%; and risk-based capital of $33.5 million or 14.0% of risk-weighted assets, which is above the required level of $19.1 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 March 31, 2003 cash and interest-bearing deposits totaled $34.3 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 March 31, 2003, the Bank had outstanding advances with the FHLB of $67.0 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 $54.9 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 March 31, 2003 the Bank had commitments to originate loans and unused lines of credit totaling $22.4 million. Certificate accounts which are scheduled to mature in one year or less from March 31, 2003 totaled $101.4 million. The Bank anticipates that it will have sufficient funds to meet its current commitments and maturing deposits.

CURRENT ACCOUNTING ISSUES

The Financial Accounting Standards Board (FASB) adopted Statement of Financial Accounting Standards (SFAS) No. 148, *Accounting for Stock-Based Compensation Transition and Disclosure*. This Statement amends FASB Statement No. 123, *Accounting for Stock-Based Compensation*. SFAS No. 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS No. 148 amends the disclosure requirements of SFAS No. 123 to require more prominent and more frequent disclosures in financial statements about the effects of stock-based compensation.

Under the provisions of SFAS No. 123, companies that adopted the fair value based method were required to apply that method prospectively for new stock option awards. This contributed to a ramp-up effect on stock-based compensation expense in the first few years following adoption, which caused concern for companies and investors because of the lack of consistency in reported results. To address that concern, SFAS No. 148 provides two additional methods of transition that reflect an entity s full complement of stock-based compensation expense immediately upon adoption, thereby eliminating the ramp-up effect.

SFAS No. 148 also improves the clarity and prominence of disclosures about the proforma effects of using the fair value based method of accounting for stock-based compensation for all companies regardless of the accounting method used by requiring that the data be presented more prominently and in a more user-friendly format in the footnotes to the financial statements. In addition, SFAS No. 148 improves the timeliness of those disclosures by requiring that this information be included in interim as well as annual financial

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statements. In the past, companies were required to make proforma disclosures only in annual financial statements.

The transition guidance and annual disclosure provisions of SFAS No. 148 are effective for fiscal years ending after December 15, 2002, with earlier application permitted in certain circumstances. The interim disclosure provisions are effective for financial reports containing financial statements for interim periods beginning after December 15, 2002.

The FASB has stated it intends to issue a new statement on accounting for stock-based compensation and will require companies to expense stock options using a fair value based method at date of grant. The implementation for this proposed state statement is not known.

In November 2002, the FASB issued Interpretation No. 45, *Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others* (FIN 45). FIN 45 will change current practice in the accounting for and disclosure of guarantees. Guarantees meeting the characteristics described in FIN 45 are required to be initially recorded at fair value, which is different from the general current practice of recording a liability only when a loss is probable and reasonably estimable, as those terms are defined in FASB Statement No. 5, *Accounting for Contingencies*. FIN 45 also requires a guarantor to make new disclosures for virtually all guarantees even if the likelihood of the guarantor s having to make payments under the guarantee is remote.

In general, FIN 45 applies to contracts or indemnification agreements that contingently require the guarantor to make payments to the guaranteed party based on changes in an underlying asset, liability, or an equity security of the guaranteed party such as financial standby letters of credit.

Disclosure requirements of FIN 45 are effective for financial statements of interim or annual periods ending after December 31, 2002. The initial recognition and measurement provisions are applicable on a prospective basis to guarantees issued or modified after December 31, 2002, irrespective of the guarantor s fiscal year-end. The guarantor s previous accounting for guarantees issued prior to the date of FIN 45 initial applications should not be revised or restated to reflect the provisions of FIN 45.

The Company adopted FIN 45 on January 1, 2003. The adoption of FIN 45 does not currently have a material impact on the Company s consolidated financial statements.

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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 months ended March 31, 2003 and 2002.

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, 2002. Please refer to the Company s 2002 Form 10-K for further discussion of the Company s market and interest rate risk.

ITEM 4. CONTROLS AND PROCEDURES

(a) Disclosure controls and procedures. Within 90 days before filing this report, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures. Our disclosure controls and procedures are the controls and other procedures that we designed to ensure that we record, process, summarize and report in a timely manner the information we must disclose in reports that we file with or submit to the SEC. C. William Landefeld, our President and Chief Executive Officer, and Dallas G. Smiley, our Senior Vice President and Chief Financial Officer, reviewed and participated in this evaluation. Based on this evaluation, Messrs. Landefeld and Smiley concluded that, as of the date of their evaluation, our disclosure controls were effective.

(b) Internal controls. Since the date of the evaluation described above, there have not been any significant changes in our internal accounting controls or in other factors that could significantly affect those controls.

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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 involve 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

Not applicable

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)
99.1	Certification of C. William Landefeld
99.2	Certification of Dallas G. Smiley

b. Reports on Form 8-K

Citizens First Financial Corp. filed the following
Form 8-K during the quarter ended March 31, 2003:
None

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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: May 14, 2003	/s/ C. William Landefeld	
		C. William Landefeld President
Date: May 14, 2003	/s/ Dallas G. Smiley	
		Dallas G. Smiley Chief Financial Officer

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CERTIFICATIONS

I, C. William Landefeld, Chief Executive Officer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Citizens First Financial Corp.;

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.

Date: May 14, 2003

/s/ C. William Landefeld

C. William Landefeld
Chief Executive Officer

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I, Dallas G. Smiley, Chief Financial Officer, certify that:

7. I have reviewed this quarterly report on Form 10-Q of Citizens First Financial Corp.;

8. 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;

9. 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;

10. 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:

d) 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;

e) 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

f) 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;

11. 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):

c) 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

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

12. 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.

Date: May 14, 2003

/s/ Dallas G. Smiley

Dallas G. Smiley
Chief Financial Officer

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11.0	Statement re: Computation of Per Share Earnings
99.1	Certification of C. William Landefeld
99.2	Certification of Dallas G. Smiley