CITIZENS FIRST FINANCIAL CORP
Form 10-Q
November 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 September 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 1,536,179 shares of Common Stock outstanding as of October 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 September 30, 2001 and December 31, 2000
(in thousands)

| | September 30, 2001 | December 2000 |
|---|---|---|
| ASSETS | (Unaudited) | |
| Cash and due from banks | $ 6,908 | $ 5,77 |
| Interest-bearing demand deposits | 9,720 | 5,23 |
| Cash and cash equivalents | 16,628 | 11,01 |
| Investment securities - available for sale | 14,313 | 15,05 |
| Mortgage loans held for sale | 351 | 1,49 |
| Loans | 287,908 | 285,31 |
| Allowance for loan losses | (2,196) | (1,82 |
| Net loans | 285,712 | 283,48 |
| Land in real estate joint venture | 1,073 | 1,22 |

| | | |
|---|---|---|
| Premises and equipment | 7,662 | 8,12 |
| Federal Home Loan Bank of Chicago stock | 4,393 | 4,16 |
| Other assets | 5,526 | 5,32 |
| Total assets | $335,658 | $329,89 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Liabilities | | |
| Deposits | $236,781 | $228,88 |
| Borrowings | 64,729 | 67,98 |
| Other liabilities | 2,696 | 3,12 |
| Total liabilities | 304,206 | 299,99 |
| Minority interest in real estate joint venture | 542 | 59 |
| 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 | 2 |
| Paid-in-capital | 27,632 | 27,55 |
| Retained earnings | 23,971 | 22,63 |
| Accumulated other comprehensive income (loss) | 69 | (2 |
| Less: | | |
| Treasury shares, 1,269,321 and 1,249,220, respectively | (20,317) | (19,97 |
| Unearned incentive plan shares, 5,391 and 19,916 | (70) | (27 |
| Unearned employee stock ownership plan shares, 40,250 and 64,400 shares | (403) | (644 |
| Total stockholders' equity | 30,910 | 29,30 |
| Total liabilities and stockholders' equity | $335,658 | $329,89 |

See notes to condensed consolidated financial statements

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Citizens First Financial Corp. and Subsidiary
Condensed Consolidated Income Statement

| | For the nine months ended September 30, 2001 | F mo Sep |
|---|---|---|
| | (Unaudited and in t except share | |
| Interest income: | | |
| Interest on loans | $ 17,473 | $ |
| Interest on investments | 1,215 | |

| | |
|---|---|
| Total interest income | 18,688 |
| Interest expense: | |
| Interest on deposits | 8,645 |
| Interest on borrowings | 2,677 |
| Total interest expense | 11,322 |
| Net interest income | 7,366 |
| Provision for loan losses | 540 |
| Net interest income after provision for loan losses | 6,826 |
| Other income: | |
| Service charges on deposit accounts | 666 |
| Net gain on sale of branch facility | 0 |
| Net realized losses on sale of available for sale securities | 0 |
| Net gains on loan sales | 563 |
| Gain on sale of land in joint venture | 341 |
| Other operating income | 288 |
| Total other income | 1,858 |
| Other expense: | |
| Salaries and employee benefits | 3,316 |
| Net occupancy and equipment expenses | 989 |
| Deposit insurance expense | 59 |
| Data processing expense | 198 |
| Other operating expense | 1,333 |
| Minority interest in net income of real estate joint venture | 167 |
| Total other expense | 6,062 |
| Income before income tax | 2,622 |
| Income tax expense | 1,018 |
| Net income | $ 1,604 |
| Basic earnings per share | $ 1.07 |
| Weighted average shares outstanding | 1,503,533 |
| Diluted earnings per share | $ 1.02 |
| Weighted average shares outstanding | 1,573,223 |

See notes to condensed consolidated financial statements



Citizens First Financial Corp. and Subsidiary
Condensed Consolidated Income Statement

| | For the three months ended September 30, 2001 |
|---|---|

| | (Unaudited and in except share |
|---|---|
| Interest income: | |
| Interest on loans | $5,687 |
| Interest on investments | 407 |
| Total interest income | 6,094 |
| Interest expense: | |
| Interest on deposits | 2,820 |
| Interest on borrowings | 877 |
| Total interest expense | 3,697 |
| Net interest income | 2,397 |
| Provision for loan losses | 180 |
| Net interest income after provision for loan losses | 2,217 |
| Other income: | |
| Service charges on deposit accounts | 207 |
| Net gains on loan sales | 240 |
| Gain on sale of land in joint venture | 108 |
| Other operating income | 101 |
| Total other income | 656 |
| Other expense: | |
| Salaries and employee benefits | 1,144 |
| Net occupancy and equipment expenses | 368 |
| Deposit insurance expense | 20 |
| Data processing expense | 58 |
| Other operating expense | 486 |
| Minority interest in net income of real estate joint venture | 51 |
| Total other expense | 2,127 |
| Income (loss) before income tax | 746 |
| Income tax expense (benefit) | 290 |
| Net income (loss) | $456 |
| Basic earnings (loss) per share | $0.30 |
| Weighted average shares outstanding | 1,512,128 |
| Diluted earnings (loss) per share | $0.28 |
| Weighted average shares outstanding | 1,612,541 |

See notes to condensed consolidated financial statements



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

| | For the nine months ended September 30, 2001 | F m Sept |
|---|---|---|
| | (Unaudited and in thousa | |
| Net income | $1,604 | |
| Other comprehensive income (losses), net of tax: | | |
| Unrealized gains (losses) on securities: | | |
| Unrealized holding gains during the period | 98 | |
| Less: Reclassification adjustment for losses included in net income | 0 | |
| Comprehensive income | $1,702 | |

| | For the three months ended September 30, 2001 | For mon Septemb |
|---|---|---|
| | (Unaudited and in thousan | |
| Net income (loss) | $ 456 | |
| Other comprehensive income (loss), net of tax: | | |
| Unrealized gains (losses) on securities: | | |
| Unrealized holding gains (losses) during the period | 73 | |
| Less: Reclassification adjustment for losses included in net income | 0 | |
| Comprehensive income (loss) | $ 529 | |

See notes to condensed consolidated financial statements

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

| | For the nine months ended September 30, 2001 |
|---|---|
| | (Unaudited and in |
| Operating activities | |
| Net income | $1,604 |
| Adjustments to reconcile net income to net cash Cash provided by operating activities: | |

| | |
|---|---|
| Provision for loan losses | 540 |
| ESOP compensation expense | 338 |
| Incentive plan compensation expense | 179 |
| Losses on sale of available for sale securities | 0 |
| Investment securities amortization, net | 78 |
| Minority interest in net income of real estate joint venture | 167 |
| Gain on sale of land in real estate joint venture | (341) |
| Net loss on sale of foreclosed property | 9 |
| Net gains on sale of mortgage loans | (563) |
| Net gains from sale of premises and equipment | 0 |
| Net gain on sale of branch facility | 0 |
| Depreciation | 608 |
| Mortgage loans originated for sale | (25,957) |
| Proceeds from sale of mortgage loans | 27,663 |
| Federal Home Loan Bank dividends | (227) |
| Change in: | |
| Other liabilities | (73) |
| Prepaid expenses and other assets | (22) |
| Net cash provided by operating activities | 4,003 |
| Investing Activities | |
| Purchase of securities available for sale | (7,475) |
| Proceeds from maturities and principal paydowns on securities available for sale | 8,301 |
| Proceeds from sales of securities available for sale | 0 |
| Purchase of Federal Home Loan Bank stock | 0 |
| Other net changes in loans | (3,191) |
| Proceeds from sale of foreclosed property | 243 |
| Purchases of premises and equipment | (146) |
| Net cash paid from sale of branch facility | 0 |
| Investment in land in real estate joint venture | (296) |
| Proceeds from sale of land real estate joint venture | 784 |
| Net distribution to minority interest portion of real estate joint venture | (216) |
| Proceeds from sale of premises and equipment | 0 |
| Net cash used by investing activities | (1,996) |

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| | |
|---|---|
| Financing Activities | |
| Net change in deposits | $7,895 |
| Proceeds from borrowings | 31,000 |
| Repayment of borrowings | (34,255) |
| Purchase of treasury stock shares | (364) |
| Cash dividend paid on common stock | (267) |
| Exercise of stock options | 16 |
| Net changes in advances by borrowers for taxes and insurance | (419) |
| Net cash provided by financing activities | 3,606 |
| Net change in cash and cash equivalents | 5,613 |
| Cash and cash equivalents, beginning of period | 11,015 |
| Cash and cash equivalents, end of period | $16,628 |

Additional cash flows information:

| | |
|---|---|
| Interest paid | $11,232 |
| Income tax paid | $682 |
| Loans transferred to foreclosed property | $428 |

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 September 30, 2001 and December 31, 2000, the results of operations and comprehensive income for the nine and three months ended September 30, 2001 and 2000 and the cash flows for the nine months ended September 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 nine months ended September 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 nine and three months ended September 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 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. The Bank originates one-to-four family residential mortgages, commercial, multi-family, construction and land, commercial real estate, agricultural, consumer and other loans.

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

Total assets increased from $329.9 million at December 31, 2000 to $335.7 million at September 30, 2001. The $5.8 million or 1.8% increase was primarily due to the increase in interest-bearing demand deposits, which is included in cash and cash equivalents.

Cash and cash equivalents increased from $11.0 million at December 31, 2000 to $16.6 million at September 30, 2001 an increase of $5.6 million or 50.9%. This increase resulted from increased deposits.

Investment securities decreased from $15.1 million at December 31, 2000 to $14.3 million at September 30, 2001, a decrease of $800,000 or 5.3%. The decrease was primarily due to the principal reduction of investment securities during the first nine 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 $286.1 million at September 30, 2001, an increase of $1.1 million or 0.4%.

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 $2,196,000 at September 30, 2001, an increase of $370,000 or 20.3%. An allowance for possible loan losses is established based on management's best judgment, which involves a continuing review of prevailing national and local economic conditions, changes in the size and composition of the portfolio and review of individual problem credits. Growth of the loan portfolio, loss experience, economic conditions, delinquency levels, credit mix, and selected credits are factors that affect judgments concerning the adequacy of the allowance. Actual losses on loans are charged against the allowance.



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 29.0% and 34.7% at September 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 $10,931,000 at September 30, 2001. The increase of $2,654,000 was attributable to increases of $1,027,000 in loans delinquent greater than 90 days, $1,296,000 in non-accruing loans and $331,000 in potential problem loans.

Loans delinquent greater than 90 days increased from $3,767,000 at December 31, 2000 to $4,794,000 at September 30, 2001, an increase of $1,027,000. As of September 30, 2001, $2,669,000 of this balance was for loans to three borrowers. The first borrower has a $1,115,000 loan secured by lots in a retail development. Subsequent to September 30, 2001, the lots were sold to a real estate developer and the loans were repaid. The Bank incurred a loss of approximately $4,000 on this transaction relating to unpaid real estate taxes. A second borrower had approximately $1,214,000 in loans that were delinquent greater than 90 days at September 30, 2001. Subsequent to September 30, 2001, this borrower repaid $830,000 of these loans with no loss to the Bank. The same borrower has loans for $533,000 classified as potential problem loans at September 30, 2001. The collateral for the remaining loans to this borrower are single-family homes and residential lots. The Company believes that the remaining loans have adequate collateral and no material loss is expected to be incurred. The third borrower is an aviation firm that has declared bankruptcy and has loans for $340,000 that were delinquent greater than 90 days at September 30, 2001. In addition to these delinquent loans, this firm has loans for $717,000 classified as potential problem loans at September 30, 2001. The borrower is attempting to sell the business. Based on the value of the collateral for the loans, the Company does not believe that a loss will be incurred relating to these loans. The other $2,125,000 of loans delinquent greater than 90 days at September 30, 2001 are individual residential and consumer loans for which the Company believes that it has adequately reserved for any potential loss.

Non-accruing loans increased from $1,493,000 at December 31, 2000 to $2,789,000 at September 30, 2001, an increase of $1,296,000. The increase pertains to $1.2 million in loans made to a residential contractor for which a specific reserve of $150,000 has been established. 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. The Company is waiting for the bankruptcy trustee to complete the distribution of the proceeds to creditors.



Potential problem loans increased from $3,017,000 at December 31, 2000 to $3,348,000 at September 30, 2001, an increase of $331,000. As of September 30, 2001, $2,600,000 of the total relates to three borrowers. An aviation firm and an individual borrower with potential problem loans of $717,000 and $533,00 respectively, were discussed in the section pertaining to loans delinquent greater than 90 days. The third borrower is a residential contractor with $1,350,000 in loans. The loans to this borrower are current but because of previous payment problems with this borrower these loans have been classified as potential problem loans. Based on the value of the collateral and the borrower's income, management does not anticipate a loss on these loans. The remaining potential problem loans are four loans for single-family residences. 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 $1,073,000 at September 30, 2001, a decrease of $147,000 or 12.0%. The decrease was due to the sale of lots in the real estate development.

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

Deposits increased from $228.9 million at December 31, 2000 to $236.8 million at September 30, 2001, an increase of $7.9 million or 3.4%. The increase was due primarily to a $6.8 million increase in time deposits.

Borrowings decreased from $68.0 million at December 31, 2000 to $64.7 million at September 30, 2001, a decrease of $3.3 million or 4.9%. Debt repaid during the first nine months of 2001 was due to normal maturities and repayments. Proceeds from the increase in deposits were used to reduce borrowings during the first nine months of 2001.

Other liabilities decreased from $3,123,000 at December 31, 2000 to $2,696,000 at September 30, 2001 a decrease of $427,000 or 13.7%, due primarily to a $425,000 decrease in borrower escrow funds for taxes and insurance.

Total stockholders' equity capital increased by $1.6 million or 5.4%, from $29.3 million at December 31, 2000 to $30.9 million at September 30, 2001. The increase resulted from the earnings of the Company of $1,604,000 for the nine months ended September 30, 2001, the recognition of earned incentive plan and ESOP shares of $517,000 and a $98,000 increase in accumulated other comprehensive income offset by the purchase of treasury shares of $364,000 and the payment of $267,000 in dividends to shareholders.

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COMPARISON OF OPERATING RESULTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2001 and SEPTEMBER 30, 2000

GENERAL

Net income for the nine months ended September 30, 2001 decreased by $140,000 from $1,744,000 for the nine months ended September 30, 2000 to $1,604,000 for the nine months ended September 30, 2001. The decrease was primarily due to lower net interest income for the first nine months of 2001 offset by gains on loan sales. The 2000 results contain a $2.4 million gain on the sale of a branch facility, offset by a $2.0 million loan loss provision for loans to a real estate developer and a $378,000 loss on the sale of investment securities.

INTEREST INCOME

Interest on loans increased by $65,000 or 0.4%, from $17,408,000 for the nine months ended September 30, 2000 to $17,473,000 for the nine months ended September 30, 2001. Interest on loans increased due to an increase in the average balance of loans outstanding of $4.4 million. The effect of this increase on interest on loans was offset by a decrease in the average yield on loans outstanding of 25 basis points and an increase in non-accrual loans.

Interest on investments increased from $1,062,000 for the nine months ended September 30, 2000 to $1,215,000 for the nine months ended September 30, 2001, an increase of $153,000 or 14.4%. The increase was due to a $6.8 million increase in the average balances of interest-bearing demand deposits, FHLB stock and investment securities in 2001 offset by a 40 basis point decrease in the average yield on investments and interest-bearing deposits.

INTEREST EXPENSE
Interest on savings deposits increased by $1,160,000 or 15.5%, from $7,485,000 for the nine months ended September 30, 2000 to $8,645,000 for the nine months ended September 30, 2001. The increase was due to a $17.0 million increase in the average balance of deposits and a 33 basis point increase in the average cost of deposits.

The interest on borrowings decreased by $294,000 or 9.9%, from $2,971,000 for the nine months ended September 30, 2000 to $2,677,000 for the nine months ended September 30, 2001 primarily as a result of a 41 basis point decrease in the average cost of borrowings.

PROVISION FOR LOAN LOSSES
The provision for loan losses was $540,000 for the nine months ended September 30, 2001 and $2,360,000 for the nine months ended September 30, 2000. The decrease was due to the $2.0 million additional provision for potential losses for loans of $4.1 million to a real estate developer. 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.

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OTHER INCOME
Total other income decreased by $1,688,000 or 47.6%, from $3,546,000 for the nine months ended September 30, 2000 to $1,858,000 for the nine months ended September 30, 2001. The amount for the nine months ended September 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 $160,000 for the nine months ended September 30, 2000 to $563,000 for the nine months ended September 30, 2001, an increase of $403,000 or 251.9%. The lower interest rate environment in the first nine months of 2001 resulted in increased loan originations, sales and gains on sale of loans. Other operating income decreased from $438,000 for the nine months ended September 30, 2000 to $288,000 for the nine months ended September 30, 2001, a decrease of $150,000 or 34.2%. The decrease resulted primarily from reduced sold loan servicing fees.

OTHER EXPENSES
Total other expenses decreased by $287,000 or 4.5%, from $6,349,000 for the nine months ended September 30, 2000 to $6,062,000 for the nine months ended September 30, 2001. Salaries and benefits decreased by $293,000 or 8.1%, from $3,609,000 for the nine months ended September 30, 2000 to $3,316,000 for the nine months ended September 30, 2001. The decrease was primarily due to an increased standard cost allocation as a result of increased loan originations. Other operating expense decreased from $1,463,000 for the nine months ended September 30, 2000 to $1,333,000 for the nine months ended September 30, 2001, a decrease of $130,000 or 8.9%, 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 $1,018,000 for the nine months ended September 30, 2001, compared to $1,107,000 for the nine months ended September 30, 2000. The decrease is attributable to lower taxable income for the nine months ended September 30, 2001. The effective tax rate was 38.8% for the nine months ended September 30, 2001 and 2000.

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

GENERAL

Net results for the three months ended September 30, 2001 increased by $1,123,000 from a net loss of $667,000 for the three months ended September 30, 2000 to net income of $456,000 for the three months ended September 30, 2001. The increase was due primarily to the additional $2.0 million ($1.2 million after-tax) loan loss provision recorded in the third quarter of 2000.

INTEREST INCOME

Interest on loans decreased by $312,000 or 5.2%, from $5,999,000 for the three months ended September 30, 2000 to $5,687,000 for the three months ended September 30, 2000. Interest on loans decreased due to a $2.2 million decrease in the average balance of loans outstanding, an increase in the non-accrual loans and a decrease in the average yield on loans outstanding of 61 basis points.

Interest on investments increased from $378,000 for the three months ended September 30, 2000 to $407,000 for the three months ended September 30, 2001, an increase of $29,000 or 7.7%. The increase was due to an $11.1 million increase in the average balances of interest-bearing



demand deposits, FHLB stock and investment securities in 2001. There was a 165 basis point decrease in the average yield on investments and interest-bearing deposits.

INTEREST EXPENSE

Interest on deposits increased by $178,000 or 6.7%, from $2,642,000 for the three months ended September 30, 2000 to $2,820,000 for the three months ended September 30, 2001. The increase was primarily due to a $20.8 million increase in the average balance of deposits.

The interest on borrowings decreased by $218,000 or 19.9%, from $1,095,000 for the three months ended September 30, 2000 to $877,000 for the three months ended September 30, 2001 as a result of a $642,000 decrease in average borrowings and a 84 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 September 30, 2001 and $2,120,000 for the three months ended September 30, 2000. The decrease was due to the $2.0 million provision for loan losses for potential losses related to $4.1 million in loans outstanding to a real estate developer. 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 increased by $275,000 or 72.2%, from $381,000 for the three months ended September 30, 2000 to $656,000 for the three months ended September 30, 2001. The increase was due to increased net gains on loan sales and gain on sale of land in real estate joint venture. Net gains on loan sales increased from $54,000 for the three months ended September 30, 2000 to $240,000 for the three months ended September 30, 2001, an increase of $186,000 or 344.4%. The lower interest rate environment in 2001 resulted in increased loan originations, sales and gains on sale of loans. Other operating income decreased from $114,000 for the three months ended September 30, 2000 to $101,000 for the three months ended September 30, 2001, a decrease of $13,000 or 11.4% due to a decrease in sold loan servicing fees.

OTHER EXPENSES

Total other expenses increased by $136,000 or 6.8%, from $1,991,000 for the three months ended September 30, 2000 to $2,127,000 for the three months ended September 30, 2001. The increase was primarily due to a $65,000 increase in net occupancy and equipment expenses resulting primarily from a $43,000 increase in depreciation expense and a $51,000 increase in minority interest in net income of real estate joint venture.

INCOME TAX EXPENSE

Total income tax expense was $290,000 for the three months ended September 30, 2001, compared to a tax benefit of $423,000 for the three months ended September 30, 2000. The change is attributable to the taxable income for the three months ended September 30, 2001 compared to the tax loss for the three months ended September 30, 2000. The effective tax rate was 38.9% for the three months ended September 30, 2001 and 38.8% for the tax benefit for the three months ended September 30, 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 September 30, 2001, the Bank exceeded all of its regulatory capital requirements with Tier 1 capital of $29.2 million, or 8.8% of average total assets, which is above the required level of $13.2 million or 4.0%; and risk-based capital of $31.3 million or 13.3% of risk-weighted assets, which is above the required level of $18.9 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 September 30, 2001 cash and interest-bearing deposits totaled $16.6 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 September 30, 2001, the Bank had outstanding advances with the FHLB of $60.5

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 $55.2 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 September 30, 2001 the Bank had commitments to originate loans and unused lines of credit totaling $20.9 million. Certificate accounts which are scheduled to mature in one year or less from September 30, 2001 totaled $130.5 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.

In July, 2001, SFAS No. 143, "Accounting for Asset Retirement Obligations" was issued. SFAS No. 143 establishes standards for accounting and reporting of obligations associated with the retirement of tangible long-lived assets and associated asset retirement costs. SFAS No. 143 is effective June 15, 2002. The adoption of this standard is not expected to have an impact on the Company.

In October, 2001, SFAS No. 144, "Accounting for Impairment or Disposal of Long-Lived Assets" was issued. Under SFAS No. 144, long-lived assets to be sold within one year must be separately identified and carried at the lower of carrying value or fair value less costs to sell.

Long-lived assets expected to be held longer than one year are subject to depreciation and must be written down to fair value upon impairment. Long-lived assets no longer expected to be sold within one year, such as foreclosed real estate, must be written down to the lower of of current fair value or fair value at the date of foreclosure adjusted to reflect depreciation since acquisition.

SFAS No. 144 must be implemented by January 1, 2002. The adoption of this statement is not expected to have an impact on the Company.



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 nine months ended September 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
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)

b. Reports on Form 8-K
Citizens First Financial Corp. filed a Form 8-K on August 24, 2001 related to the implementation of a Stock Repurchase Program.

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: November 14, 2001 /s/ C. William Landefeld
C. William Landefeld
President

Date: November 14, 2001 /s/ Dallas G. Smiley
Dallas G. Smiley
Chief Financial Officer