

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

FORM 10-Q

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

For the quarterly period ended June 30, 2008

Commission file number 2-96144

CITIZENS FINANCIAL CORP.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

55-0666598

(I.R.S. Employer Identification No.)

213 Third Street, Elkins, West Virginia

(Address of principal executive offices)

26241

(Zip Code)

(304) 636-4095

(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report.)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Sections 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

<u>Class</u>	<u>Outstanding at August 13, 2008</u>
Common Stock (\$2 par value)	1,829,504

FORM 10-Q
CITIZENS FINANCIAL CORP.
Quarter Ended June 30, 2008

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PART I ITEM I - FINANCIAL INFORMATION
CITIZENS FINANCIAL CORP.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands of dollars)

	June 30, 2008 (Unaudited)	December 31, 2007 *
<u>ASSETS</u>		
Cash and due from banks	\$ 7,019	\$ 7,050
Interest bearing deposits with other banks	1,881	12
Securities available for sale, at fair value	75,460	58,559
Loans, less allowance for loan losses of \$1,844 and \$1,763, respectively	174,796	170,939
Premises and equipment, net	4,178	4,260
Accrued interest receivable	1,369	1,385
Other assets	4,949	4,390
Total Assets	\$269,652	\$246,595
 <u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>		
Deposits:		
Noninterest bearing	\$ 28,977	\$ 27,920
Interest bearing	194,006	173,376
Total deposits	222,983	201,296
Short-term borrowings	14,997	19,656
Long-term borrowings	8,063	2,719
Other liabilities	2,671	1,843
Total liabilities	248,714	225,514
Commitments and contingencies	-	-
 <u>SHAREHOLDERS' EQUITY</u>		
Common stock, \$2.00 par value, authorized 4,500,000 issued 2,250,000	4,500	4,500
Retained earnings	21,302	20,999
Accumulated other comprehensive income/(loss)	(1,032)	(586)
Treasury stock at cost, 420,496 shares	(3,832)	(3,832)
Total shareholders' equity	20,938	21,081
Total Liabilities and Shareholders' Equity	\$269,652	\$246,595

*From audited financial statements.

The accompanying notes are an integral part of these financial statements.

CITIZENS FINANCIAL CORP.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(In thousands of dollars, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
	(Unaudited)		(Unaudited)	
<u>INTEREST INCOME</u>				
Interest and fees on loans	\$ 3,001	\$ 3,387	\$ 6,124	\$ 6,687
Interest and dividends on securities:				
Taxable	509	471	902	966
Tax-exempt	202	128	413	232
Interest on interest bearing deposits with other banks	7	25	31	46
Interest on federal funds sold	9	4	11	9
Total interest income	3,728	4,015	7,481	7,940
<u>INTEREST EXPENSE</u>				
Interest on deposits	1,489	1,471	3,003	2,885
Interest on short-term borrowings	93	167	219	333
Interest on long-term borrowings	63	34	94	71
Total interest expense	1,645	1,672	3,316	3,289
Net interest income	2,083	2,343	4,165	4,651
Provision for loan losses	222	449	348	656
Net interest income after provision for loan losses	1,861	1,894	3,817	3,995
<u>NONINTEREST INCOME</u>				
Trust department income	53	57	137	111
Brokerage fees	41	40	89	77
Service fees	272	266	513	502
Insurance commissions	11	9	13	9
Security gains	4	-	4	-
Secondary market loan fees	16	40	29	66
Other	53	63	119	151
Total noninterest income	450	475	904	916
<u>NONINTEREST EXPENSE</u>				
Salaries and employee benefits	994	998	1,896	1,968
Net occupancy expense	106	102	222	210
Equipment expense	92	104	191	213
Data processing	141	128	288	265
Director fees	69	72	129	135
Postage	42	42	95	84
Professional service fees	68	74	144	140
Stationery	31	31	60	75
Software expense	60	48	125	84
Net cost of operation of other real estate	18	131	18	182
Other	256	283	509	552
Total noninterest expense	1,877	2,013	3,677	3,908
Income before income taxes	434	356	1,044	1,003
Income tax expense	81	85	229	279
Net income	\$ 353	\$ 271	\$ 815	\$ 724
Basic and fully diluted earnings per common share	\$ 0.19	\$ 0.15	\$ 0.45	\$ 0.40
Weighted average shares outstanding	1,829,504	1,829,504	1,829,504	1,829,504
Dividends per common share	\$ 0.12	\$ 0.12	\$ 0.24	\$ 0.24

The accompanying notes are an integral part of these financial statements.

CITIZENS FINANCIAL CORP.
STATEMENTS OF COMPREHENSIVE INCOME/LOSS
(In thousands of dollars)

	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2008	2007	2008	2007
	(Unaudited)		(Unaudited)	
Net income	\$ 353	\$ 271	\$ 815	\$ 724
Other comprehensive income:				
Gross unrealized losses				
arising during the period	(1,368)	(369)	(715)	(184)
Adjustment for income tax benefit	<u>520</u>	<u>141</u>	<u>272</u>	<u>70</u>
	(848)	(228)	(443)	(114)
Less: Reclassification adjustment				
for losses included in net income	(4)	-	(4)	-
Adjustment for income tax benefit	<u>1</u>	<u>-</u>	<u>1</u>	<u>-</u>
	(3)	-	(3)	-
Other comprehensive loss, net of tax	<u>(851)</u>	<u>(228)</u>	<u>(446)</u>	<u>(114)</u>
Comprehensive income/(loss)	<u>\$ (498)</u>	<u>\$ 43</u>	<u>\$ 369</u>	<u>\$ 610</u>

The accompanying notes are an integral part of these financial statements.

CITIZENS FINANCIAL CORP.
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(In thousands of dollars)

Six Months Ended June 30, 2008 and 2007
(unaudited)

	<u>Common Stock</u>		<u>Retained</u>	<u>Accumulated</u>	<u>Treasury</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>	<u>Earnings</u>	<u>Other</u>	<u>Stock</u>	<u>Share-</u>
				<u>Comprehensive</u>		<u>holders'</u>
				<u>Income/(Loss)</u>		<u>Equity</u>
Balance, January 1, 2008	2,250,000	\$4,500	\$ 20,999	\$ (586)	\$ (3,832)	\$ 21,081
Net income	-	-	815	-	-	815
Net change in unrealized gain/(loss) on securities	-	-	-	(446)	-	(446)
Cash dividends declared (\$0.24 per share)	-	-	(439)	-	-	(439)
Effect of initial application of emerging issues task force issue No. 06-4, net of tax	-	-	(53)	-	-	(53)
Effect of changing pension plan measurement date pursuant to SFAS No. 158, net of tax	-	-	(20)	-	-	(20)
Balance June 30, 2008	<u>2,250,000</u>	<u>\$4,500</u>	<u>\$ 21,302</u>	<u>\$ (1,032)</u>	<u>\$ (3,832)</u>	<u>\$ 20,938</u>
Balance, January 1, 2007	2,250,000	\$4,500	\$ 20,843	\$ (1,233)	\$ (3,832)	\$ 20,278
Net income	-	-	724	-	-	724
Net change in unrealized gain/(loss) on securities	-	-	-	(114)	-	(114)
Cash dividends declared (\$0.24 per share)	-	-	(439)	-	-	(439)
Balance June 30, 2007	<u>2,250,000</u>	<u>\$4,500</u>	<u>\$ 21,128</u>	<u>\$ (1,347)</u>	<u>\$ (3,832)</u>	<u>\$ 20,449</u>

The accompanying notes are an integral part of these financial statements.

CITIZENS FINANCIAL CORP.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands of dollars)

	Six Months Ended June 30,	
	2008	2007
Cash flows from operating activities:	(Unaudited)	
Net Income	\$ 815	\$ 724
Adjustments to reconcile net income to cash provided by operating activities:		
Provision for loan losses	348	656
Depreciation and amortization	159	162
Amortization on securities	4	19
Gain on sale/call of securities	(4)	-
Loss on sale of other real estate	-	21
Provision for loss on other real estate	-	112
Decrease in accrued interest receivable	16	66
(Increase)/decrease in other assets	(246)	192
Increase in other liabilities	709	38
Cash provided by operating activities	1,801	1,990
Cash flows from investing activities:		
Principal payments, available for sale securities	1,807	888
Proceeds from sales of available for sale securities	484	274
Proceeds from maturities and calls, available for sale securities	12,110	10,155
Purchases of available for sale securities	(32,021)	(8,403)
Purchases of premises and equipment	(71)	(50)
Proceeds from sale of other real estate	248	144
Increase in loans	(4,453)	(3,401)
Cash used in investing activities	(21,896)	(393)
Cash flows from financing activities:		
Cash dividends paid	(439)	(439)
Decrease in short-term borrowing	(4,659)	(918)
Acquisition of long-term borrowing	5,530	-
Repayment of long-term borrowing	(186)	(534)
Increase in time deposits	3,430	1,202
Increase/(decrease) in other deposits	18,257	(535)
Cash provided by/(used in) financing activities	21,933	(1,224)
Net increase/(decrease) in cash and cash equivalents	1,838	373
Cash and cash equivalents at beginning of period	7,062	6,095
Cash and cash equivalents at end of period	\$ 8,900	\$ 6,468
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	\$ 3,268	\$ 3,274
Income taxes	178	470
Supplemental Schedule of Noncash Investing and Financing Activities:		
Other real estate and other assets acquired in settlement of loans	\$ 248	\$ 1,257
Unrealized gain/(loss) on securities available for sale	(719)	(184)

The accompanying notes are an integral part of these financial statements.

CITIZENS FINANCIAL CORP. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - BASIS OF PRESENTATION

The accounting and reporting policies of Citizens Financial Corp. and Subsidiary ("Citizens", "the company" or "we") conform to U.S. generally accepted accounting principles and to general policies within the financial services industry. The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

The condensed consolidated statements contained herein include the accounts of Citizens Financial Corp. and its wholly-owned subsidiary Citizens National Bank ("the bank"). All significant intercompany balances and transactions have been eliminated. The information contained in the financial statements is unaudited except where indicated. In the opinion of management, all adjustments for a fair presentation of the results of the interim periods and all adjustments that are necessary to make the financial statements no misleading have been made. All such adjustments were of a normal, recurring nature. The results of operations for the six-month and three-month periods ended June 30, 2008, are not necessarily indicative of the results to be expected for the full year. The financial statements and notes included herein should be read in conjunction with those included in Citizens' 2007 Annual Report to Shareholders and Form 10-K.

NOTE 2 - SPLIT-DOLLAR LIFE INSURANCE ARRANGEMENT

In September 2006, the Emerging Issues Task Force (EITF) issued EITF 06-4, "Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements." This consensus concludes that for a split-dollar life insurance arrangement within the scope of this Issue, an employer should recognize a liability for future benefits in accordance with SFAS 106 (if, in substance, a postretirement benefit plan exists) or APB Opinion No. 12 (if the arrangement is, in substance, an individual deferred compensation contract) based on the substantive agreement with the employee. The consensus is effective for fiscal years beginning after December 15, 2007. Accordingly the company must record a liability for the post retirement cost of the insurance policies carried by the bank to fund the directors and executive officers supplemental retirement plan. Additional information related to this plan can be found in our Note 11 of our 2007 Annual Report to Shareholders and Form 10-K.

The company adopted this issue in the first quarter 2008 as a change in accounting principle through a cumulative-effect adjustment to retained earnings of approximately \$53,000, net of income tax. This adjustment is presented on our condensed consolidated statements of changes in shareholders' equity in this report.

NOTE 3 - RECLASSIFICATIONS

Certain accounts in the condensed consolidated financial statements for 2007, as previously presented, have been reclassified to conform with current year classifications.

NOTE 4 - SECURITIES

The amortized cost, unrealized gains, unrealized losses and estimated fair values of securities at June 30, 2008 and December 31, 2007 are summarized as

follows (in thousands):

	June 30, 2008			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Carrying Value (Estimated Fair Value)
Available for sale:				
U.S. Government agencies and corporations.....	\$ 24,833	\$ 198	\$ 152	\$ 24,879
Mortgage backed securities- U.S. Government agencies and corporations.....	18,636	22	519	18,139
Tax exempt state and political subdivisions.....	22,383	60	206	22,237
Corporate debt securities	9,182	14	78	9,118
Federal Reserve Bank stock.....	108	-	-	108
Federal Home Loan Bank stock....	816	-	-	816
Community Financial Services Inc. stock.....	163	-	-	163
Total securities available for sale.....	<u>\$ 76,121</u>	<u>\$ 294</u>	<u>\$ 955</u>	<u>\$ 75,460</u>

	December, 31, 2007*			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Carrying Value (Estimated Fair Value)
	(Unaudited)			
Available for sale:				
U.S. Government agencies and corporations.....	\$ 28,084	\$ 227	\$ 19	\$28,291
Mortgage backed securities- U.S. Government agencies and corporations.....	6,587	14	41	6,561
Tax exempt state and political subdivisions.....	22,717	91	215	22,594
Federal Reserve Bank stock.....	108	-	-	108
Federal Home Loan Bank stock.....	842	-	-	842
Community Financial Services Inc. Stock.....	163	-	-	163
Total securities available for sale.....	<u>\$ 58,501</u>	<u>\$ 333</u>	<u>\$ 275</u>	<u>\$58,559</u>

* From audited financial statements

The tables below provide summaries of securities available for sale which were in an unrealized loss position at June 30, 2008 and December 31, 2007. As of June 30, 2008, these securities had a total fair value of \$42,493,000 and carried unrealized losses of \$955,000, or 2.2%. Securities which have been in a continuous loss position for the past twelve months total \$8,910,000. The unrealized loss pertaining to these securities is \$58,000 or 0.7%. The majority of these losses are on securities issued by U.S. government agencies and corporations which carry the implied faith and credit of the U.S. Government. The other losses are on municipal instruments and corporate debt securities. With the exception of one municipal which is not rated, all of these instruments carry A ratings from the major credit rating agencies. With the excellent credit quality in our portfolio,

we believe these unrealized losses are the result of changing interest rates, and we will be able to fully recover our investment. In addition, no losses have been recognized on the \$29,020,000 of securities that carried unrealized losses at December 31, 2007.

	June 30, 2008					
	Securities Available for Sale					
	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Government agencies and corporations	\$ 5,336	\$ 152	\$ -	\$ -	\$ 5,336	\$ 152
Mortgage backed securities-U.S. Government agencies and corporations	13,032	491	2,208	28	15,240	519
Tax exempt state and political subdivisions	7,608	176	6,702	30	14,310	206
Corporate debt securities	7,607	78	-	-	7,607	78
Total securities available for sale	<u>\$33,583</u>	<u>\$897</u>	<u>\$ 8,910</u>	<u>\$ 58</u>	<u>\$42,493</u>	<u>\$ 955</u>

	December 31, 2007*					
	Securities Available for Sale					
	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Government agencies and corporations	\$ -	\$ -	\$10,973	\$ 19	\$10,973	\$ 19
Mortgage backed securities-U.S. Government agencies and corporations	-	-	4,887	40	4,887	41
Tax exempt state and political subdivisions	11,243	193	1,917	23	13,160	215
Total securities available for sale	<u>\$11,243</u>	<u>\$193</u>	<u>\$17,777</u>	<u>\$ 82</u>	<u>\$29,020</u>	<u>\$ 275</u>

*From audited financial statements.

The maturities, amortized cost and estimated fair values of the bank's securities at June 30, 2008 are summarized as follows (in thousands):

	Available for sale	
	Amortized Cost	Estimated Fair Value
Due within 1 year	\$22,831	\$22,872
Due after 1 but within 5 years	32,452	32,169
Due after 5 but within 10 years	14,795	14,586
Due after 10 years	4,956	4,746
Equity securities	1,087	1,087
	<u>\$76,121</u>	<u>\$75,460</u>

Mortgage backed securities have remaining contractual maturities ranging from 1 day to 19.75 years and are reflected in the maturity distribution schedule shown above based on their anticipated average life to maturity, which ranges from 0.04 to 11.07 years. The company's equity securities are required to be held for membership in the Federal Reserve and Federal Home Loan Bank and are shown at cost since they may only be sold to the respective issuer or another member at par. The company's remaining equities consist of a minimal investment in Silverton Bank, a correspondent bank the company uses for several services.

The proceeds from sales, calls and maturities of securities, including

principal payments received on mortgage backed securities, and the related gross gains and losses realized for the six month periods ended June 30, 2008 and 2007 are as follows (in thousands):

	Proceeds From			Gross Realized	
	Sales	Calls and Maturities	Principal Payments	Gains	Losses
June 30, 2008:					
Securities available for sale	\$ 484	\$ 12,110	\$ 1,807	\$ 4	\$ -
June 30, 2007:					
Securities available for sale	\$ 274	\$ 10,155	\$ 888	\$ -	\$ -

At June 30, 2008 and December 31, 2007 securities with an amortized cost of \$33,054,000 and \$32,208,000, respectively, with estimated fair values of \$33,015,000 and \$32,358,000, respectively, were pledged to secure public deposits, securities sold under agreements to repurchase, and for other purposes required or permitted by law.

At June 30, 2008, the company had a concentration within its corporate debt securities classification which included obligations of financial services industry companies having an approximate amortized cost of \$9,182,000 and an estimated fair value of \$9,118,000. There were no concentrations with any one issuer.

NOTE 5 - LOANS

Total loans are summarized as follows (in thousands):

	<u>June 30, 2008</u>	<u>December 31, 2007</u>
Commercial, financial and agricultural	\$ 20,995	\$ 21,015
Real estate - construction	13,198	12,497
Real estate - home equity	6,646	6,798
Real estate - residential mortgage	60,672	61,726
Real estate - commercial mortgage	60,417	57,921
Installment loans	11,438	10,903
Other	3,407	2,012
Total loans	<u>176,773</u>	<u>172,872</u>
Less:		
Allowance for loan losses	1,844	1,763
Net deferred loan origination fees and costs	<u>133</u>	<u>54</u>
Loans, net	<u>\$174,796</u>	<u>\$170,939</u>

* From audited financial statements

Loans in a nonaccrual status were \$3,553,000 and \$4,487,000 at June 30, 2008 and December 31, 2007, respectively.

Many of the loans in a nonaccrual status are also considered impaired. At June 30, 2008 our recorded investment in impaired loans was \$2,926,000. The valuation allowance assigned to these loans totaled \$620,000. Our average investment in the impaired loans was \$3,385,000 during the quarter. The amount of interest income recorded on them in the second quarter was \$8,000 while the amount of interest collected was \$57,346. Impaired loans at December 31, 2007 were \$4,038,000.

NOTE 6 - ALLOWANCE FOR LOAN LOSSES

Analyses of the allowance for loan losses are presented below (in

thousands):

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2008	2007	2008	2007
Balance at beginning of period	\$ <u>1,921</u>	\$ <u>1,822</u>	\$ <u>1,763</u>	\$ <u>1,873</u>
Loans charged off:				
Commercial and industrial	283	100	283	185
Real estate - res. mortgage	-	-	11	-
Real estate - comm. mortgage	24	75	24	242
Consumer and other	1	5	1	24
Total	<u>308</u>	<u>180</u>	<u>319</u>	<u>451</u>
Recoveries:				
Commercial and industrial	6	-	48	-
Real estate - res. mortgage	-	-	1	-
Real estate - comm. mortgage	-	-	-	-
Consumer and other	3	12	3	25
Total recoveries	<u>9</u>	<u>12</u>	<u>52</u>	<u>25</u>
Net losses	299	168	267	426
Provision for loan losses	222	449	348	656
Balance at end of period	\$ <u>1,844</u>	\$ <u>2,103</u>	\$ <u>1,844</u>	\$ <u>2,103</u>

NOTE 7 - DEPOSITS

The following is a summary of interest bearing deposits by type (in thousands):

	June 30, 2008	December 31, 2007
Interest bearing checking	\$ 63,148	\$ 45,698
Money market accounts	5,493	5,406
Savings accounts	21,251	21,589
Certificates of deposit under \$100,000	59,446	59,984
Certificates of deposit of \$100,000 or more	44,668	40,699
Total	<u>\$194,006</u>	<u>\$173,376</u>

* From audited financial statements

NOTE 8 - BORROWINGS

The following table summarizes our borrowings by type (in thousands):

	June 30, 2008	December 31, 2007
Short-term borrowings:		
Securities sold under agreements to repurchase	\$13,297	\$14,258
Federal funds purchased	1,700	1,400
Overnight advances from Federal Home Loan Bank of Pittsburgh (FHLB) line of credit	-	3,998
Total	<u>\$14,997</u>	<u>\$19,656</u>
Long-term borrowings:		
Advances from FHLB	\$ <u>8,063</u>	\$ <u>2,719</u>

* From audited financial statements

NOTE 9 - EMPLOYEE BENEFIT PLANS

The components of net periodic benefit cost of our pension and other benefit plans are presented below (in thousands):

	Three Months Ended June 30 ,				Six Months Ended June 30 ,			
	Pension Benefits		Other Benefits		Pension Benefits		Other Benefits	
	2008	2007	2008	2007	2008	2007	2008	2007
Service cost	\$ 50	\$ 29	\$ 4	\$ 5	\$ 79	\$ 58	\$ 8	\$ 10
Interest cost	80	72	7	7	154	144	15	14
Expected return on plan assets	(88)	(82)	-	-	(176)	(165)	-	-
Net amortization and deferral	<u>22</u>	<u>20</u>	<u>3</u>	<u>2</u>	<u>36</u>	<u>40</u>	<u>6</u>	<u>4</u>
Net periodic cost	<u>\$ 64</u>	<u>\$ 39</u>	<u>\$ 14</u>	<u>\$ 14</u>	<u>\$ 93</u>	<u>\$ 77</u>	<u>\$ 29</u>	<u>\$ 28</u>

In the first half of 2008 we contributed \$70,000 to our pension plan. Our pension plan calls for a minimum contribution of approximately \$123,000 for the remainder of 2008. Payments totaling \$128,000 were contributed to the plan during 2007.

NOTE 10 - COMMITMENTS AND CONTINGENCIES

The company is not aware of any commitments or contingencies which may reasonably be expected to have a material impact on operating results, liquidity or capital resources. Known commitments and contingencies include the maintenance of reserve balances with the Federal Reserve, various legal actions arising in the normal course of business and commitments to extend credit.

NOTE 11 - FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK

The subsidiary bank is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets. The contract amounts of those instruments reflect the extent of involvement the bank has in particular classes of financial instruments.

Financial instruments whose contract amounts represent credit risk (in thousands)	June 30, 2008 (Unaudited)	December 31, 2007 *
Commitments to extend credit	\$22,776	\$24,603
Standby letters of credit	801	301
Total	<u>\$23,577</u>	<u>\$24,904</u>

The bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments. The bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

* From audited financial statements.

NOTE 12 - EARNINGS PER SHARE

Basic earnings per share is based on the weighted average number of shares

outstanding during the period. For the six months ended June 30, 2008 and 2007 the weighted average number of shares outstanding was 1,829,504. During the periods ended June 30, 2008 and 2007 the company did not have any dilutive securities.

NOTE 13 - FAIR VALUE MEASUREMENTS

SFAS No. 157, Fair Value Measurements, defines fair value, establishes a framework for measuring fair value, establishes a three-level valuation hierarchy for disclosure of fair value measurement and enhances disclosure requirements for fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follow:

- Level 1 Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Following is a description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy:

Securities

Where quoted prices are available in an active market, securities are classified within level 1 of the valuation hierarchy. Level 1 securities would include highly liquid government bonds, mortgage products and exchange traded equities. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, or discounted cash flow. Level 2 securities would include U.S. agency securities, mortgage-backed agency securities, obligations of states and political subdivisions and certain corporate, asset backed and other securities. In certain cases where there is limited activity or less transparency around inputs to the valuation, securities are classified within level 3 of the valuation hierarchy. Currently, all of the Company's securities are considered to be Level 2 securities.

Impaired loans

SFAS No. 157 applies to loans measured for impairment using the practical expedients permitted by SFAS No. 114, Accounting by Creditors for Impairment of a Loan, including impaired loans measured at an observable market price (if available), or at the fair value of the loan's collateral (if the loan is collateral dependent). Fair value of the loan's collateral, when the loan is dependent on collateral, is determined by appraisals or independent valuation which is then adjusted for the cost related to liquidation of the collateral. Impaired loans are discussed further in Note 5.

Other Real Estate Owned

Certain assets such as other real estate owned (OREO) are measured at fair value less cost to sell. We believe that the fair value component in its valuation follows the provisions of SFAS No. 157. At June 30, 2008, the company had no OREO.

NOTE 14 - SIGNIFICANT NEW ACCOUNTING PRONOUNCEMENTS

In December 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 141(R), "Business Combinations" (SFAS 141(R)). The Standard will significantly change the financial accounting and reporting of business combination transactions. SFAS 141(R) establishes the criteria for how an acquiring entity in a business combination recognizes the assets acquired and liabilities assumed in the transaction; establishes the acquisition date fair value as the measurement objective for all assets acquired and liabilities assumed; and requires the acquirer to disclose to investors and other users all of the information they need to evaluate and understand the nature and financial effect of the business combination. Acquisition related costs including finder's fees, advisory, legal, accounting valuation and other professional and consulting fees are required to be expensed as incurred. SFAS 141(R) is effective for fiscal years beginning after December 15, 2008 and early implementation is not permitted. The company does not expect the implementation to have a material impact on its consolidated financial statements.

In December 2007, the FASB issued Statement of Financial Accounting Standards No.160, "Noncontrolling Interests in Consolidated Financial Statements" (SFAS 160). SFAS 160 requires the company to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. This Statement is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. Earlier adoption is prohibited. The company does not expect the implementation of SFAS 160 to have a material impact on its consolidated financial statements.

In March 2008, the FASB issued Statement of Financial Accounting Standards No. 161, "Disclosures about Derivative Instruments and Hedging Activities - an amendment of FASB Statement No. 133" (SFAS 161). SFAS 161 changes the disclosure requirements for derivative instruments and hedging activities. Entities are required to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under Statement 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance and cash flows. SFAS 161 is effective for fiscal years and interim periods beginning after November 15, 2008, with early application permitted. The company does not expect the implementation of SFAS 161 to have a material impact on its consolidated financial statements.

Part 1 Item 2
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

INTRODUCTION

The following discussion and analysis presents the significant changes in financial condition and results of operations of Citizens Financial Corp. and its subsidiary, Citizens National Bank of Elkins, for the periods indicated. It should be read in conjunction with the consolidated financial statements and accompanying notes thereto, which are included elsewhere in this document. Readers are also encouraged to obtain our Annual Report on Form 10-K for additional information. You may obtain our Form 10-K through various internet sites including www.cnbelkins.com.

Description of Business

Citizens Financial Corp. is a \$270 million Delaware corporation headquartered in Elkins, WV. From there our wholly-owned subsidiary, Citizens National Bank of Elkins, provides loan, deposit, trust, brokerage and other banking and related services to customers in northcentral and eastern West Virginia and nearby areas through six branch offices. We conduct no business other than the ownership of our subsidiary bank.

FORWARD LOOKING STATEMENTS

This report contains forward looking statements which reflect our current expectations based on information available to us. These forward looking statements involve uncertainties related to the general economic conditions in our nation and other broad based issues such as interest rates and regulations as well as other factors which may be more specific to our own operations including factors set forth in the "Risk Factors" section of our Form 10-K for the fiscal year ended December 31, 2007. Examples of such factors may include our ability to attract and retain key personnel, implementing new technological systems, providing new products to meet changing customer and competitive demands, our ability to successfully manage growth strategies, controlling costs, maintaining our net interest margin, maintaining good credit quality, and others. Forward looking statements can be identified by words such as "may", "will", "expect", "anticipate", "believe", "estimate", "plans", "intends", or similar words. We do not attempt to update any forward looking statements. When provided, we intend forward looking information to assist readers in understanding anticipated future operations and we include them pursuant to applicable safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Although we believe the expectations reflected in our forward looking statements are reasonable, actual results could differ materially.

CRITICAL ACCOUNTING POLICIES

Our consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles and follow general practices within the financial services industry. Application of these principles requires us to make estimates, assumptions, and judgments that affect the amounts reported in our financial statements and accompanying notes. These estimates, assumptions, and judgments are based on information available as of the date of the financial statements and could change as new information becomes available. Consequently, later financial statements could reflect different estimates, assumptions, and judgments.

Some policies rely more heavily on the use of estimates, assumptions, and judgments than others and, therefore, have a greater possibility of producing results that could be materially different than originally reported. Our most significant accounting policies, including an explanation of how assets and liabilities are valued, may be found in Note 1 to the consolidated financial statements in our 2007 Annual Report to Shareholders and Form 10-K.

The allowance for loan losses represents our estimate of probable credit losses inherent in the loan portfolio. Determining the amount of the allowance requires significant judgment and the use of estimates related to the amount and timing of expected future cash flows on impaired loans, the estimated amount of losses in pools of homogeneous loans and the effect of various economic and business factors, all of which may be subject to significant change. Due to these uncertainties, as well as the sensitivity of our financial statements to the assumptions and estimates needed to determine the allowance, we have identified the determination of the allowance for loan losses as a critical accounting estimate. As such, it could be subject to revision as new information becomes available. Should this occur, changes to the provision for loan losses, which may increase or decrease future earnings, may be necessary. A discussion of the methods we use to determine our allowance for loan losses is presented later in this report.

OVERVIEW

As the national economy continues to struggle in the wake of housing crisis and uncertainty in oil prices, our local economy has begun exhibiting signs of a slowdown. Higher fuel costs have affected both the lumber and trucking industries in our area. Furthermore, the decline in the housing market has softened demand for logging and lumber production, and in turn prompted employee layoffs within local industry. Consumers have also been affected by the higher fuel and food prices in markets where the median household income is well below the national average. As these trends continue, demand for loans remains lower than we would like. However, during the first half of 2008 assets grew by \$23.1 million or 9.4% to \$269.7 million primarily due to a \$21.7 million increase in deposits. This includes a temporary deposit from one of our customers of approximately \$8 million that is expected to remain at our institution for no more than six months. The remaining \$13.7 million increase is primarily centered in interest bearing checking. Our asset growth consisted of a \$3.9 million increase in loans to \$176.8 million and a \$16.9 million increase in our investment portfolio to \$75.5 million.

The first six months of 2008 produced net income of \$815,000 which was \$91,000 or 12.6% higher than the same period last year. The increase in income is largely attributable to a lower provision for loan loss of \$348,000 in 2008 compared to \$656,000 in 2007, as well as lower expenses related to foreclosed properties falling by \$164,000 to \$18,000 in 2008. These savings were partially offset by continued pressure on our net interest margin as market interest rates have fallen 325 basis points since September 2007.

A more detailed discussion of the factors impacting our results of operations and financial condition follows. Amounts and percentages used in that discussion have been rounded.

RESULTS OF OPERATIONS

NET INTEREST INCOME

Net interest income is the primary component of our earnings. It is the difference between interest and fee income generated by interest earning assets and interest expense incurred to carry interest bearing liabilities. Net interest income is affected by changes in balance sheet composition and interest rates. We attempt to maximize net interest income by determining the optimal product mix in light of current and expected yields on assets, cost of funds and economic conditions while maintaining an acceptable degree of risk.

Like many financial institutions across the country, Citizens has experienced net interest margin compression during the first half of 2008, as Federal Reserve target rates have been reduced by 325 basis points since September 2007. Our net interest margin for the first six months of 2008 of 3.69% is 52 basis points lower than our margin for the same period last year. This compression is primarily the result of decreasing loan rates on our variable rate products combined with competitive pressures to continue to price certificates of deposit higher than we would like.

As noted above, net interest income is comprised of two components, interest income and interest expense. Despite a \$10.6 million increase in our average earning asset base, interest income in 2008 is down by \$459,000 to \$7,481,000 as our yield on earning assets declined by 62 basis points. Interest expense increased by \$27,000 due to a \$8.8 million increase in average interest bearing liabilities.

As reflected on our income statement, net interest income decreased by \$486,000 to \$4,165,000 during the first six months of 2008. On a tax equivalent basis, net interest income decreased by the lesser amount of \$375,000 to \$4,417,000 as Citizens increased its investment in tax-exempt municipal bonds in the latter part of 2007. Similarly, for the second quarter, net interest income decreased by \$260,000 to \$2,083,000.

As the current rate environment is expected to continue into 2009, Citizens will continue to look for opportunities to decrease our cost of interest bearing liabilities. Since the end of June 2008, Citizens has been able to reduce rates on a number of large deposit accounts. We expect that these rate reductions will improve our cost of funding and ultimately strengthen our net interest margin.

PROVISION FOR LOAN LOSSES

The provision for loan losses is management's estimate of the amount which must be charged against current earnings in order to maintain the allowance for loan losses at a level considered adequate to provide for losses which are inherent in the loan portfolio. Because of this, the amount of the provision is subject to the estimation techniques and judgments involved in assessing the allowance which may cause the provision to increase or decrease in the future. We determine the amount of the provision, as well as the adequacy of the allowance for loan losses, quarterly.

For the first half of 2008 the provision for loan losses was \$348,000 compared to \$656,000 during the first half of 2007. The second quarter provision was \$222,000 in 2008 compared to \$449,000 in 2007. The provision was higher in 2007 due to one particular commercial credit involving an enterprise that exhibited increased business risk last year and ultimately

failed at the end of last year. The amount of the provision for loan losses is a function of our overall assessment of loan quality and the adequacy of the allowance for loan losses, which itself relies on significant use of judgment and estimates, the provision for loan losses expense may increase or decrease in the future. Please refer to the Credit Quality and Allowance for Loan Losses section of this report where we further discuss the estimation methods and assumptions we use in analyzing the allowance and the quality of our loan portfolio.

NONINTEREST INCOME

Noninterest income decreased slightly by \$12,000 or 1.3% to \$904,000 during the first half of 2008. This decrease was largely due to a \$37,000 decrease in fee income from our secondary market mortgage program, as demand for these mortgages has softened. Other noninterest income also declined by \$32,000 and mainly consisted of decreased revenue from check cashing fees, wire transfer fees, and income derived from the outsourcing of our official check program.

The largest component of noninterest income continues to be service fees which increased \$11,000 to \$513,000 as a result of higher ATM and debit card program fees. Our involvement in trust and brokerage services continues to be a major contributor to noninterest income. Collectively, our trust and brokerage programs have increased \$38,000 in the first half of 2008.

During the second quarter, noninterest income decreased by \$25,000 or 5.3% to \$450,000. Much like the year-to-date decrease, this decline is mainly the result of lower loan volumes in our secondary market mortgage program which was \$24,000 less in the second quarter of 2008 compared to the same period in 2007.

NONINTEREST EXPENSE

Noninterest expense includes all items of expense other than interest expense, the provision for loan losses, and income taxes. Historically our level of noninterest expense has been higher than average, partly due to the relatively smaller branch facilities we operate. Therefore, controlling noninterest expense is a key factor to achieving higher earnings.

During the first half of 2008, noninterest expense has decreased by \$231,000 or 5.9% to \$3,677,000. Our largest noninterest expense, salaries and employee benefits, decreased \$72,000 as we experienced lower medical insurance costs. We also benefitted from a \$164,000 decrease in costs related to foreclosed properties, as we had an unusually high number of these properties in 2007. Costs related to foreclosures in the first half of 2008 totaled \$18,000. Other costs such as equipment expense, stationery, and director fees were down a combined \$43,000.

Our cost savings were partially offset due to increased software costs of \$41,000, as we are implementing a new loan processing software that we believe will improve efficiency in our lending function. In addition, data processing, occupancy, and postage expenses have increased by a combined \$46,000.

Analogous to the change in the year-to-date noninterest expense, the \$1,877,000 of expense recorded in the second quarter was \$136,000 or 6.8% less than the comparable period in 2007. The majority of this savings was related to foreclosed property costs which decreased \$113,000 to \$18,000.

There are a number of factors which could negatively impact noninterest expense in the future. For example, salaries and benefits could rise if medical claims under our partially self-insured group medical plan increase. Also, we may incur additional costs related to compliance with the Sarbanes-Oxley Act. Currently we are required to comply with Section 404a of the Act and issue a conclusion about management's assessment of internal control over financial reporting. We currently expect that in 2009 we will be required to have our independent accountants attest to our conclusions.

INCOME TAXES

Our provision for income taxes for the first half of 2008 of \$229,000 includes both federal and state income taxes. At this level taxes were 21.9% of pretax income. Through six months of 2007 income tax expense totaled \$279,000 or 27.8% of pretax income. During the second quarter of 2008 we recorded taxes of \$81,000 or 18.7% of pretax income compared to \$85,000 or 23.9% during the comparable period last year. Except for income earned on loans to and bonds issued by municipalities and earnings on certain life insurance policies, all of our income is taxable. The decrease in the tax rate in 2008 is primarily attributable to increased earnings on tax-exempt municipal bonds.

FINANCIAL CONDITION

LOAN PORTFOLIO

Ripple effects from the national housing crisis and high fuel prices continue to influence both consumers and industry in our markets. Our local lumber, trucking, and tourism industries have experienced reduced activity. The unsteadiness in the economy combined with higher food and fuel costs, have influenced consumers to limit spending. All of these factors have contributed to limiting our loan growth during the first half of 2008 with total loans growing by \$3.9 million to \$176.8 million.

Most of our loan growth in the first six months of 2008 has been centered in commercial real estate lending which grew \$2.5 million to \$60.4 million. This growth was primarily comprised of three large loans to fund projects at a local ski resort. Other commercial loans, not secured by real estate, remained stable at \$21.0 million during the first half of the year. Most of our commercial loans are secured by real estate whether or not repayment is linked to cash generated by the use or sale of the real property. In cases where repayment is linked to such use, the timing and stability of cash flow, secondary sources of repayment, loan guarantees, and collateral valuations are all important considerations in granting the loan.

In addition, other loans primarily comprised of tax-exempt entities grew by \$1.4 million to \$3.4 million as we helped fund a local project. We expect to disburse an additional \$1.5 million on this project by year-end.

Retail lending, or lending to consumers for autos, homes, or for other purposes, has been difficult for Citizens over the past several years. Auto manufacturers and specialty mortgage companies have launched aggressive campaigns to pull consumers away from traditional banking institutions. Residential mortgage lending declined by \$1.1 million to \$60.7 million over the first six months of 2008, while construction loans increased by \$701,000 to \$13.2 million over the same time period. Installment loans increased by \$535,000 to \$11.4 million during the first half of the year, as Citizens has continued to maintain attractive

automobile rates and has incorporated a new lending program on recreational vehicles into our product offerings. We believe this new program will add quality loans to our portfolio and give us another opportunity to reach consumers in our markets. Citizens will continue to actively seek new strategies and programs to increase the retail segment of our business in order to enhance portfolio diversification and reduce the inherent risk in our portfolio.

CREDIT QUALITY AND ALLOWANCE FOR LOAN LOSSES

Despite the weak economic situation impacting the nation and our local markets, we believe Citizens continues to take appropriate action to systematically reduce the risk in our credit portfolio by relying on the improvements we have made with respect to our personnel, monitoring process, and loan grading processes. Additional information related to our improvements can be found in our 2007 annual report to shareholders on Form 10-K.

During the first quarter of 2008, we began the liquidation process of the commercial customer mentioned earlier that accounted for the majority of our loan charge-offs last year. During the second quarter, we continued that process and recognized an additional \$275,000 of loss on this credit. We do not expect any additional charge-offs related to this particular credit. Absent this charge, we would have had net recoveries of \$8,000 for the first half of 2008. Impaired loans at June 30 were \$2.9 million or \$1.1 million less than at December 31, 2007, as a result of this process. We continue to establish detailed strategies to manage those loans which carry the greatest risk and monitor them continuously.

The inherent risk of loss in our loan portfolio is addressed through our allowance for loan losses. We determine the amount of our allowance quarterly by evaluating specific larger loans, as well as pools of similar homogeneous loans. Adjustments to pooled factors for various trends, economic conditions, changes in our credit management practices and abilities, and other factors may also be made. By employing a disciplined methodology we arrive at an allowance for loan losses that we believe is adequate to provide for losses that are inherent in the loan portfolio. As of June 30, our allowance was \$1,844,000 or 1.04% of gross loans, compared to \$1,763,000 or 1.02% at year-end. The allowance included specific reserves totaling \$620,000 at June 30, which was substantially the same as year-end at \$624,000. Additional reserves on the remaining pools totaled \$646,000 at June 30, compared to \$308,000 at year-end. Since this portion of our allowance is based on our loan loss history, the increase of \$338,000 is primarily the result of adding the large commercial charge-off we sustained last year to our historical losses calculation. Other adjustments to pooled factors totaled \$578,000 at June 30 which was similar to year-end at \$631,000. At December 31, our allowance also contained an unallocated reserve of \$200,000 due to the economic uncertainty present at that time. We believe we have adequately addressed those uncertainties through the other factors indicated above and, therefore, have no unallocated reserve remaining at June 30, 2008.

In many cases, our security position helps limit our risk of loss, and we believe we are well equipped to manage and resolve the risks contained in our portfolio. Based on information available to us, we believe our analyses are comprehensive and our allowance is adequate as of the report date. However, there can be no assurance that additional provisions for the loan losses will be required in the future as a result of changes in the assumptions which underlie our estimations or changes in economic

conditions or the conditions of individual borrowers.

SECURITIES PORTFOLIO AND FEDERAL FUNDS SOLD

Funds which are not needed to satisfy loan demand or operating needs are invested in securities as a means of improving earnings while also providing liquidity and balancing interest sensitivity concerns. The securities we purchase are limited to U.S. government agency issues, including mortgage backed issues of U.S. agencies, obligations of state and political subdivisions, and investment grade corporate debt. All of our securities are classified as available for sale. The Board of Directors is informed of all securities transactions each month and a series of policy statements limit the amount of credit and interest rate risk we may take.

Our securities portfolio grew by \$16.9 million to \$75.5 million during the first half of 2008. A portion of this growth is due to an investment transaction in which we funded a \$5 million security purchase with long-term borrowings from Federal Home Loan Bank. We expect this \$5 million transaction to have a pre-tax profit margin between 1.0% and 1.9% over the next two years, depending on the interest rate environment. In addition, increasing deposits funded the remaining securities growth. Specifically, one of our customers has made a deposit of approximately \$8 million that is expected to remain in the bank for six months. We have invested \$6.2 million of these funds in short-term corporate bonds with at least "A" credit ratings and the remaining balance in short-term certificates of deposit. All such certificates of deposit are less than \$100,000 each and are fully FDIC insured.

Our investment strategies for the first half of the year have led us to invest a significant portion of this growth in mortgage-backed securities issued by U.S. government agencies. These securities provide a good source of cash flow with average lives of less than six years, while providing a reasonable return on investment in today's market. We have not and do not intend to invest in mortgage-backed securities with sub-prime exposure. All of our mortgage-backed securities carry the implied faith and credit of the U.S. government. We purchased a total of \$13.9 million in mortgage-backed securities, as well as \$6.5 million of U.S. government agency bonds, \$9.1 million of corporate debt securities, and \$2.0 million in municipal instruments during the first half of 2008.

Overall our portfolio is made up of \$24.9 million in agency securities, \$18.1 million in mortgage-backed securities, \$22.2 million in municipals, \$9.1 million in corporate debt securities, and \$1.1 million in correspondent and Federal Reserve Bank stock. We monitor credit ratings on our investments on a monthly basis. With the exception of one municipal bond which is not rated, all of these instruments carry good to exceptional credit ratings from the major credit rating agencies.

Our short-term investments, including federal funds sold and interest bearing deposits with other banks, have increased \$1.9 million since year end and include the certificate of deposit investments we made in response to the large customer deposit mentioned above.

DEPOSITS AND OTHER FUNDING SOURCES

Deposits have grown \$21.7 million since year end with most of the growth centered in interest bearing checking, which grew by \$17.5 million. This growth included the \$8 million temporary deposit mentioned earlier in this report that is expected to be withdrawn within six months. In

addition, certificates of deposit increased by \$3.4 million and noninterest bearing demand deposits increased by \$1.1 million.

Our short-term borrowings consist of repurchase agreements and overnight borrowings such as Federal Funds purchased. These borrowings totaled \$14,997,000 at June 30 and were down \$4.7 million since year-end. The decrease was primarily attributable to a decline in the amount of overnight borrowings since year end.

Our long-term borrowings historically consist of Federal Home Loan Bank borrowings. During the first half of 2008, we borrowed \$5 million in order to invest in a mortgage-backed security as noted earlier. In addition we borrowed \$530,000 to match fund a fixed rate loan for one of our customers. At June 30, 2008, long-term borrowings totaled \$8,063,000 and had increased \$5.3 million since year-end.

CAPITAL RESOURCES

Our total capital of \$20,938,000 or 7.8% of total assets is similar to our position at year-end when capital was \$21,081,000 or 8.5% of assets. Our percentage of capital relative to assets has decreased in part due to the deposit increase including the \$8 million temporary deposit. Our risk based capital measures, which are established for all banks through the regulatory process, continue to easily exceed required levels. We have no knowledge of any items or trends which are likely to materially impair our capital position.

LIQUIDITY

The objective of our liquidity management program is to ensure the continuous availability of funds to meet the withdrawal demands of customers, the credit needs of borrowers, and to provide for other operational needs. Liquidity is provided by various sources including unpledged investment securities, federal funds sold, loan repayments, a stable and growing deposit base and, when necessary, external borrowings.

We monitor liquidity on a regular basis by preparing projected balance sheets and analyzing our sources and uses of funds. Historically, we have satisfied our liquidity needs through internal sources of funds with the exception of certain loans which have been funded by borrowing from the Federal Home Loan Bank of Pittsburgh. Currently, we have access to approximately \$95 million through various FHLB programs in addition to available borrowing facilities with other correspondent banks.

Our liquidity demands were low during the first half of 2008, as we continued to experience reduced loan demand. Aside from specific transactions designed to enhance earnings such as the \$5 million investment transaction mentioned in this report, we expect to satisfy our liquidity needs primarily through internal sources.

IMPACT OF INFLATION

The consolidated financial statements and related data included in this report were prepared in accordance with accounting principles generally accepted in the United States of America, which require our financial position and results of operations to be measured in terms of historical dollars except for the available for sale securities portfolio. Consequently, the relative value of money generally is not considered. Nearly all of our assets and liabilities are monetary in nature and, as a

result, interest rates and competition in the market area tend to have a more significant impact on our performance than the effect of inflation.

However, inflation does affect noninterest expenses such as personnel costs and the cost of services and supplies we use. We attempt to offset increasing costs by controlling the level of noninterest expenditures and increasing levels of noninterest income. Because inflation rates have generally been low during the time covered by the accompanying consolidated financial statements, the impact of inflation on our earnings has not been significant. As previously noted in this report we have recently experienced increasing fuel and food prices impacting our economy. However, based on current Federal Reserve policy we do not expect inflation to materially impact our financial position or results of operations in the foreseeable future.

Part I Item 4 Controls and Procedures

As of the end of the period covered by this Quarterly Report on Form 10-Q, the company, under the supervision and with the participation of management, including the chief executive officer and principal financial officer, carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Exchange Act Rule 13a-14. Based upon that evaluation, the chief executive officer and principal financial officer concluded that our disclosure controls and procedures are effective in timely alerting them to material information relating to the company which is required to be included in our periodic SEC filings. Subsequent to the date of that evaluation, there have been no significant changes in our internal controls or in other factors that could significantly offset internal controls, nor were any corrective actions required with regard to significant deficiencies or material weaknesses.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings:

As of June 30, 2008, Citizens Financial Corp. was involved in various legal proceedings which occur in the normal course of business. We believe all such litigation will be resolved without materially affecting our financial position or results of operations. There are no other material proceedings known to be threatened or contemplated against either Citizens Financial Corp. or Citizens National Bank.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds: None.

Item 3. Defaults upon Senior Securities: None.

Item 4. Submission of Matters to a Vote of Security Holders: The annual meeting of shareholders of Citizens Financial Corp. was held on April 19, 2008. The shareholders determined that the maximum number of directors would be fixed at nine and that directors Max L. Armentrout, William T. Johnson, Jr., and L.T. Williams will serve three year terms ending in April 2011. Each of these directors was unopposed.

In addition to the foregoing nominees, the following seven (6) persons were serving as members of the Board of Directors as of the report date for terms to expire in the year indicated for each member: Robert N. Alday (2009); William J Brown (2010); Edward L. Campbell (2010); Cyrus K. Kump (2009); Robert J. Schoonover (2010); and John A. Yeager (2009).

Item 5. Other Information: None.

Item 6. Exhibits:

The following exhibits are filed with this report:

<u>Exhibit No.</u>	<u>Description of Exhibit</u>
31.1	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350
31.2	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350
32.1	Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350
32.2	Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350

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 FINANCIAL CORP.

Date: 8/13/08

/s/ Robert J. Schoonover
Robert J. Schoonover
President and
Chief Executive Officer

Date: 8/13/08

/s/ Thomas K. Derbyshire
Thomas K. Derbyshire
Vice President, Treasurer and
Principal Financial Officer

Citizens Financial Corp.
Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Robert J. Schoonover, President and Chief Executive Officer of Citizens Financial Corp., certify that:

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

2. Based on my knowledge, this 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 report;

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

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;

(b) Designed such internal control over financial reporting, or cause such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for internal purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: 8/13/08

/s/Robert J. Schoonover
Robert J. Schoonover
President and Chief Executive Officer

Citizens Financial Corp.
Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Thomas K. Derbyshire, Vice President, Treasurer and Principal Financial Officer of Citizens Financial Corp., certify that:

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

2. Based on my knowledge, this 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 report;

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

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and have:

(b) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;

(b) Designed such internal control over financial reporting, or cause such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for internal purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: 8/13/08

/s/Thomas K. Derbyshire
 Thomas K. Derbyshire

V.P., Treasurer & Principal Financial Officer

Citizens Financial Corp.

**Certification Pursuant to Section 906 of the Sarbanes-Oxley
Act of 2002, 18 U.S.C. Section 1350**

I, Robert J. Schoonover, President and Chief Executive Officer of Citizens Financial Corp. (the "company") certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350 that:

1. the Quarterly Report on Form 10-Q of the company for the quarterly period ended June 30, 2008 as filed with the Securities and Exchange Commission on the date hereof (the "report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. the information contained in the report fairly presents, in all material respects, the financial condition and results of operations of the company.

Date: 8/13/08

/s/ Robert J. Schoonover
Robert J. Schoonover
President and
Chief Executive Officer

Citizens Financial Corp.

**Certification Pursuant to Section 906 of the Sarbanes-Oxley
Act of 2002, 18 U.S.C. Section 1350**

I, Thomas K. Derbyshire, Vice President, Treasurer and Principal Financial Officer of Citizens Financial Corp. (the "company") certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350 that:

1. the Quarterly Report on Form 10-Q of the company for the quarterly period ended June 30, 2008 as filed with the Securities and Exchange Commission on the date hereof (the "report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. the information contained in the report fairly presents, in all material respects, the financial condition and results of operations of the company.

Date: 8/13/08

/s/ Thomas K. Derbyshire
Thomas K. Derbyshire
Vice President, Treasurer, and
Principal Financial Officer