CLOVER LEAF FINANCIAL CORP
Form 10QSB
November 14, 2003

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-QSB

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

For the quarterly period ended September 30, 2003

OR

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

For the transition period to
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Commission File No. 0-33413

CLOVER LEAF FINANCIAL CORP.
(Exact Name of Registrant as Specified in its Charter)

Delaware	37-1416016
(State of incorporation)	(IRS Employer Identification No.)

200 East Park Street, Edwardsville, Illinois	62025
(Address of Principal Executive Offices)	(Zip Code)

(618) 656-6122
(Registrant's Telephone Number, including area code)

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 the past 90 days.

Yes [X] No [ ]

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

Class	Outstanding at November 13, 2003
Common stock $.10 par value	640,950

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CLOVER LEAF FINANCIAL CORP.
CONSOLIDATED BALANCE SHEETS (Unaudited)
(Dollars in Thousands, except per share data)

	Sept
ASSETS	
Cash and due from banks	
Interest bearing deposits in other financial institutions	
Total cash and cash equivalents	

Securities available-for-sale	
Federal Home Loan Bank stock	
Loans, net of allowance for loan losses of $761 at September 30, 2003 and $690 at December 31, 2002	
Bank premises and equipment	
Accrued interest receivable	
Other assets	
TOTAL ASSETS	
LIABILITIES	
Deposits:	
Noninterest bearing	
Interest bearing	
Total deposits	
Federal Home Loan Bank advances	
Other borrowings	
Accrued interest payable	
Other liabilities	
TOTAL LIABILITIES	
STOCKHOLDERS' EQUITY	
Preferred stock, $.10 par value - 250,000 shares authorized; none issued or outstanding at September 30, 2003 or December 31, 2002	
Common stock, $.10 par value - 2,000,000 shares authorized; 661,250 shares issued at September 30, 2003 and December 31, 2002, respectively	
Surplus	
Retained earnings	
Accumulated other comprehensive income	
Treasury Stock, 20,300 shares at cost at September 30, 2003	
Unearned Employee Stock Ownership Plan shares	
TOTAL STOCKHOLDERS' EQUITY	
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	

See the accompanying notes to unaudited consolidated financial statements.

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CLOVER LEAF FINANCIAL CORP.
CONSOLIDATED STATEMENTS OF INCOME (Unaudited)
(Dollars in Thousands)

	Three Months Ended September 30,	
	2003	2002
Interest Income and dividend income:		

Loans, including fees	$1,058	$1,142
Securities	157	168
Federal Home Loan Bank dividends	58	42
Interest-bearing deposits in other banks	12	10
TOTAL INTEREST AND FEE INCOME	1,285	1,362
Interest Expense:		
Deposits	467	555
Federal Home Loan Bank advances	48	62
Other borrowings	1	1
TOTAL INTEREST EXPENSE	516	618
NET INTEREST INCOME	769	744
Provision for loan losses	19	24
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	750	720
Noninterest Income:		
Service charges on deposit accounts	17	22
Other service charges and fees	17	15
Loan servicing fees	16	5
Gain on sale of loans	16	50
Gain on sale of investments	-	3
Gain on sale of assets	58	-
Other	26	3
TOTAL NONINTEREST INCOME	150	98
Noninterest Expense:		
Salaries and employee benefits	333	306
Occupancy and equipment, net	70	106
Data processing	58	51
Advertising and marketing	19	12
Directors' fees	31	25
Audit and accounting fees	15	17
Legal & collection expense	365	7
Other	94	92
TOTAL NONINTEREST EXPENSE	985	616
Net income (loss) before income taxes (credits)	(85)	202
Income taxes (credits)	(38)	66
NET INCOME (LOSS)	$ (47)	$ 136
Average Shares Outstanding:		
Basic and Diluted	629,317	648,550
Basic and Diluted Earnings (Loss) Per Share	$(.08)	$.21

See the accompanying notes to unaudited consolidated financial statements.

CLOVER LEAF FINANCIAL CORP.
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME (Unaudited)
(Dollars in Thousands)

	Nine Months Ended September 30,				
	Common Stock	Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock
Balance at December 31, 2002	$ 66	$ 6,066	$ 6,653	$ 94	--
Comprehensive income					
Net income	--	--	268	--	--
Other comprehensive income, net of tax:					
Change in unrealized gain on securities available-for-sale arising during the period, net of tax of $1	--	--	--	(3)	--
Comprehensive income					
Allocation of ESOP shares	--	3	--	--	--
Purchase of treasury stock	--	--	--	--	(342)
Balance at September 30, 2003	$ 66	$ 6,069	$ 6,921	$ 91	$ (342)

See the accompanying notes to unaudited consolidated financial statements.

CLOVER LEAF FINANCIAL CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
(Dollars in Thousands)

	2003
Cash Flows from Operating Activities	
Net income	
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation	
Provision for loan losses	
Net amortization (accretion) on investments	
Deferred tax provision	
Realized gain on sale of investments	
Federal Home Loan Bank stock dividend	
Gain on sale of loans	
Gain on sale of assets	
Proceeds from sales of loans held for sale	
Origination of loans held for sale	(
Allocation of ESOP shares	
Decrease (increase) in accrued interest receivable	
(Increase)/Decrease in other assets	
Decrease in accrued interest payable	
Increase/(Decrease) in other liabilities	
Net cash provided by (used in) operating activities	
Cash Flows from Investing Activities:	
Purchase of securities available-for-sale	(
Proceeds of sales and maturities of securities available-for-sale and paydowns	
Proceeds on sale of assets	
Purchase of Federal Home Loan Bank stock, net	
Increase in loans, net	
Purchases of premises and equipment	
Net cash provided by (used in) investing activities	
Cash Flows from Financing Activities	
Increase (decrease) in deposits	
Proceeds from Federal Home Loan Bank advances	
Net increase in other borrowings	
Loans to ESOP for purchase of shares	
Purchase of Treasury Stock	
Costs associated with issuance of stock	
Net cash provided by (used in) financing activities	
Net decrease in cash and cash equivalents	
Cash and cash equivalents:	
Beginning	
Ending	
Supplemental Disclosures of Cash Flow Information	
Cash paid for:	
Interest	
Income taxes	
Supplemental disclosure of non cash investing activities	
Assets acquired through foreclosure	

See the accompanying notes to unaudited consolidated financial statements.

CLOVER LEAF FINANCIAL CORP.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note A--Principles of Accounting

The consolidated financial statements of Clover Leaf Financial Corp. ("Clover Leaf Financial" or the "Company") have been prepared in accordance with accounting principles generally accepted in the United States of America and in the banking industry and with the instructions to Form 10-QSB. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for annual reporting. Reference is hereby made to the notes to consolidated financial statements contained in Clover Leaf Financial's annual report on Form 10-KSB. The foregoing consolidated financial statements are unaudited. However, in the opinion of management, all adjustments necessary for a fair presentation of the consolidated financial statements have been made. All such adjustments are of a normal recurring nature. The results of operations for the interim periods presented herein are not necessarily indicative of the results to be expected for the full year.

The consolidated financial statements include the accounts of the Company's subsidiary. Clover Leaf Financial is a bank holding company that engages in its business through its sole subsidiary, Clover Leaf Bank (the "Bank"), an Illinois-chartered commercial bank. All material intercompany transactions and balances are eliminated. Clover Leaf Financial was organized at the direction of the Board of Directors of the Bank for the purpose of owning all of the outstanding capital stock of the Bank following the completion of the Bank's mutual-to- stock conversion. Clover Leaf Financial offered for sale 661,250 shares of its outstanding common stock in a public offering to eligible depositors and members of the general public and this offering was completed on December 27, 2001.

In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the consolidated balance sheet and revenues and expenses for the period. Significant estimates which are particularly susceptible to change in a short period of time include the determination of the market value of investments and the allowance for loan losses. Actual results could differ significantly from those estimates.

Note B--Business Segments

Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information," requires business segments to be reported based on the way management organizes segments within an organization for making operating decisions and assessing performance. Management has not included disclosures regarding segments since management makes operating decisions and assesses performance based on Clover Leaf Financial as a whole.

Note C--Net Income (Loss) Per Share

Basic earnings (loss) per share are determined by dividing net income (loss) by the weighted average number of common shares outstanding. Shares acquired by the ESOP are held in trust but are not considered in the weighted average shares outstanding until the shares are committed for allocation or vested to an employee's individual account.

The Company has not issued any stock options or other potentially dilutive shares, therefore, diluted earnings (loss) are the same as basic earnings (loss) per share.

CLOVER LEAF FINANCIAL CORP.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in Thousands, Except Per Share Data)	Three Months Ended September 30,	
	2003	2002
Net income (loss)	$(47)	$136
Weighted average shares outstanding	640,921	661,250
Weighted average ESOP shares	(11,604)	(12,700)
Basic average shares outstanding	629,317	648,550
Basic and diluted earnings (loss) per share	$(.08)	$.21

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

The following discussion describes Clover Leaf Financial's results of operations during the three-month and nine-month periods ended September 30, 2003 and 2002, and its financial condition, asset quality, and capital resources as of September 30, 2003. This discussion should be read in conjunction with Clover Leaf Financial's unaudited consolidated financial statements and notes thereto. The results of operations for the interim periods presented herein are not necessarily indicative of the results to be expected for the full year.

FORWARD-LOOKING STATEMENTS

This filing and future filings made by Clover Leaf Financial with the Securities and Exchange Commission, as well as other filings, reports and press releases made or issued by Clover Leaf Financial, and oral statements made by executive officers or directors of Clover Leaf Financial may include forward-looking statements, which are based on assumptions and describe future plans, strategies, projections and expectations of Clover Leaf Financial. These forward-looking statements are generally identified by use of terms "believe", "expect", "anticipate", "should", "planned", "estimated" and "potential". Examples of forward-looking statements include, but are not limited to, estimates with respect to Clover Leaf Financial's financial condition, results of operations and business that are subject to various factors which could cause actual results to differ materially from these estimates and most other statements that are not historical in nature. These factors include, but are not limited to, general and local economic conditions, changes in interest rates, deposit flows, demand for mortgage and other loans, real estate values, and competition; changes in accounting principles, policies or guidelines; changes in legislation or regulation; and other economic, competitive, governmental, regulatory, and technological factors affecting Clover Leaf Financial's operations, pricing, products and services.

FINANCIAL CONDITION

At September 30, 2003, total assets were $104.1 million, an increase of $8.6 million, or 9.0%, from $95.5 million at December 31, 2002. Loans receivable at September 30, 2003 were $69.9 million, an increase of $2.4 million, or 3.6%, from $67.5 at December 31, 2002. Commercial business, one-to-four family and commercial real estate loans increased $98,000 (1.7%), $1.5 million (4.3%) and $3.6 million (15.8%), respectively, compared to the 2002 year end. These increases were due to a continued focus by the Bank on commercial lending and an interest rate environment that favors consumers. The increases were partially offset by a $2.6 million, or 55.9% decline in consumer installment loans, and a $187,000, or 24.6% decline in construction loans. Securities, including Federal Home Loan Bank stock, increased $6.8 million, or 40.6%, to $23.7 million at September 30, 2003 from $16.9 million at December 31, 2002. The Bank experienced significant deposit growth resulting in higher cash balances. The Bank used those funds to purchase additional securities, which have a more attractive yield than interest-bearing cash accounts. As a result of this increased investment activity, the Bank's cash balances decreased $1.1 million or 14.3% to $7.0 million at September 30, 2003 from $8.1 million at December 31, 2002. Bank premises and equipment increased $405,000, or 21.2% to $2.3 million at September 30, 2003. The increase resulted, primarily, from a purchase of land that the Bank completed in January of 2003. The land is being held for the purpose of building an additional branch office.

Deposits as of September 30, 2003 were $80.2 million, an increase of $7.7 million, or 10.6%, from December 31, 2002. The increase in deposits was primarily in the interest-bearing categories, with time deposits showing the greatest increase. Short-term time deposits have continued to be a popular product due to the volatile stock market and lack of high yielding investment options for consumers.

Federal Home Loan Bank advances as of September 30, 2003 remained at $9.0 million, showing no change from December 31, 2002. Increased deposit volume has allowed the Bank to fund loan growth and security purchases without borrowing additional funds.

Total stockholders' equity as of September 30, 2003 was $12.7 million, a decrease of $65,000 or 0.5% from December 31, 2002. The decrease in equity from December 31, 2002 to September 30, 2003 was the result of the purchase of 20,300 shares of treasury stock totaling $342,000 by Clover Leaf Financial during the first nine months of 2003. This decrease in equity was partially offset by the recording of $268,000 in net income and the amortization of Unearned Employee

Stock Ownership Plan shares of $12,000. The remaining increase was due to the change in the unrealized gain on investment securities held of sale. At September 30, 2003 there were 640,950 shares of common stock outstanding, at a book value of $19.74 per share.

ASSET QUALITY

Clover Leaf Financial's asset quality management program, particularly with regard to loans, is designed to analyze potential risk elements and to support the growth of a high quality loan portfolio. Clover Leaf Financial's policies, consistent with regulatory guidelines, require that loans and other assets are classified as substandard, doubtful or loss if they are determined to be of lesser quality. Assets which possess some weaknesses, but do not warrant classification in the aforementioned categories are required to be designated as special mention. Management regularly reviews the asset portfolio to determine whether any assets require classification in accordance with applicable regulatory guidelines and accounting principles generally accepted in the United States of America.

At September 30, 2003, nonperforming assets totaled $2,138,000, or 2.05% of total assets, compared to nonperforming assets at year-end 2002 of $1,742,000, or 1.80% of total assets. There were no foreclosed assets at September 30, 2003. The Bank held $18,000 of foreclosed assets at December 31, 2002.

The following table sets forth a summary of Clover Leaf Financial's loan portfolio mix and nonperforming assets.

Loan Portfolio Mix and Nonperforming Assets
(Dollars in Thousands)

	September 30, 2003		
	Loans and Foreclosed Assets	Non-performing Assets	Lo For A
Real Estate			
One- to four-family......................	$35,781	$1,080	$
Commercial...............................	26,403	608	
Construction and land....................	574	-	
Non-real estate			
Consumer................................	2,044	142	
Commercial business.....................	5,857	308	
Gross loans..............................	70,659	2,138	
Foreclosed assets........................	-	-	
Total...........................	$70,659	$2,138	$
Nonaccrual loans.........................		$1,697	
Accruing loans past due			

90 days or more......................	441
Troubled debt restructurings..............	-
Total nonperforming loans............	2,138
Foreclosed assets.........................	-
Total nonperforming assets...........	$2,138
Nonperforming loans to gross loans.........	3.03%
Nonperforming assets to gross loans and foreclosed assets................	3.03%
Nonperforming assets to total assets.......	2.05%

The Bank recorded net recoveries of $5,000 for the third quarter of 2003 compared to net recoveries of $4,000 for the third quarter of 2002. During the first nine months of 2003, net recoveries totaled $7,000 compared to net charge-offs of $42,000 for the first nine months of 2002. Net recoveries as a percentage of average total loans was .01% for the three and nine months ended September 30, 2003 compared to net charge offs as a percentage of average total loans of (.01)% and .06% for the three and nine months ended September 30, 2002, respectively.

Clover Leaf Financial's allowance for loan losses at September 30, 2003, increased to $761,000 from $690,000 at December 31, 2002. At September 30, 2003, the allowance for loan losses represented 35.59% of non-performing loans compared to 40.02% at December 31, 2002. The ratio of the allowance for loan losses to total loans was 1.08% at September 30, 2003 compared to 1.01% at December 31, 2002. Management believes that the allowance for loan losses at September 30, 2003 was adequate to absorb probable losses inherent in the loan portfolio. However, past loan loss experience as it relates to current portfolio mix, evaluation of potential losses in the portfolio, subsequent changes in economic conditions and other factors may require changes in the levels of the allowance for loan losses.

Potential Problem Loans. We utilize an internal asset classification system as a means of reporting problem and potential problem assets. At each scheduled meeting of the board of directors of our subsidiary bank, a watch list is presented, showing all loans listed as "Special Mention," "Substandard," "Doubtful" and "Loss." An asset is classified Substandard if it is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Substandard assets include those characterized by the distinct possibility that we will sustain some loss if the deficiencies are not corrected. Assets classified as Doubtful have all the weaknesses inherent in those classified Substandard with the added characteristic that the weaknesses present make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable. Assets classified as Loss are those considered uncollectible and viewed as non-bankable assets, worthy of charge-off. Assets that do not currently expose us to sufficient risk to warrant classification in one of the aforementioned categories, but possess weaknesses that may or may not be within the control of the customer are deemed to be Special Mention.

Our determination as to the classification of our assets and the amount of our valuation allowances is subject to review by the Bank's primary regulators, which can require the establishment of additional general or specific loss allowances. The Office of Banks and Real Estate, in conjunction with the other federal banking agencies, has adopted an interagency policy statement on the allowance for loan losses. The policy statement provides guidance for financial institutions on both the responsibilities of management for the assessment and establishment of adequate allowances and guidance for banking agency examiners to use in determining the adequacy of general valuation guidelines. Generally, the policy statement recommends that (1) institutions have effective systems and controls to identify, monitor and address asset quality problems; (2) management has analyzed all significant factors that affect the collectibility of the portfolio in a reasonable manner; and (3) management has established acceptable allowance evaluation processes that meet the objectives set forth in the policy statement. Management believes it has established an adequate allowance for probable loan losses. We analyze our process regularly, with modifications made if needed, and report those results four times per year at meetings of our board of directors however, there can be no assurance that regulators, in reviewing our loan portfolio, will not request us to materially increase our allowance for loan losses at the time. Although management believes that adequate specific and general loan loss allowances have been established, actual losses are dependent upon future events and, as such, further additions to the level of specific and general loan loss allowances may become necessary.

Potential problem loans are loans included on the watchlist presented to the Board of Directors that do not meet the definition of a non-performing loan, but where known information about possible credit problems of borrowers causes management to have serious doubts as to the ability of such borrowers to comply with present loan repayment terms. The aggregate principal amounts of potential problem loans as of September 30, 2003 and December 31, 2002, were $1.9 million, and $2.1 million, respectively.

Allowance for Loan Losses. Management believes the allowance for loan losses accounting policy is critical to the portrayal and understanding of our financial condition and results of operations. As such, selection and application of this "critical accounting policy" involves judgments, estimates and uncertainties that are susceptible to change. In the event that different assumptions or conditions were to prevail, and depending upon the severity of such changes, the possibility of materially different financial condition or results of operations is a reasonable likelihood.

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The following table presents information pertaining to the activity in and an analysis of Clover Leaf Financial's allowance for loan losses for the periods presented.

Allowance For Loan Losses
(Dollars in Thousands)

	Three Months Ended September 30	
	2003	2002
Balance at beginning of period..................	$737	$642
Loans charged off:		

Consumer	1	23	
Total charge-offs	1	23	
Recoveries of loans previously charged off:			
Commercial, financial and agricultural	-	-	
Consumer	6	27	
Total recoveries	6	27	
Net charge-offs (recoveries)	(5)	(4)	
Provision for loan losses	19	24	
Balance at end of period	$761	$670	
Net charge-offs (recoveries) as a percent of average total loans	(.01)%	(.01)%	
Allowance for loan losses to gross loans	1.08%	1.01%	
Allowance for loan losses to nonperforming loans	35.59%	53.60%	

Income Information - Quarter

The Bank recorded a net loss for the three months ended September 30, 2003 of $47,000, compared to net income of $136,000 for the three months ended September 30, 2002.

Interest income for the three months ended September 30, 2003 decreased $77,000, or 5.7% to $1.3 million. The average loan yield declined 89 basis points to 5.69% at September 30, 2003 from 6.58% for the same period in the prior year. The Bank's loan rate was negatively impacted by the high volume of mortgage loan refinancing activity as well as the decline in the prime rate, which impacted those commercial loans that re-price with the prime rate. The average security yield declined 77 basis points to 3.85% at September 30, 2003 from 4.62% for the same period in the prior year. The security yield was negatively impacted by the re-pricing of floating rate instruments. Also contributing to the decline in security yield was a large number of maturities and security calls, which were then replaced with lower yielding securities. Despite a decline in average yields on loans and securities, this loss of income was partially offset by increased income from higher average loan and security balances. Average interest-earning assets for the three months ended September 30, 2003 was $98.2, an increase of $11.3 million, or 13.0%, over average interest-earning assets for the three months ended September 30, 2002 of $86.9 million. Average loan balances increased $4.0 million, or 6.0% over the same period last year. Average security balances increased $4.2 million, or 23.0% over the same period last year. Although the end of period balance has declined, activity during the period has caused the balance of average interest bearing deposits in other financial institutions to increase $3.1 million.

Interest expense for the most recent three-month period fell by $102,000 to $516,000, a decrease of 16.5% compared to the same period last year. The decrease was primarily due to lower rates paid on interest-bearing deposits and borrowings. The average rate paid on interest-bearing liabilities for the three months ended September 30, 2003 declined by 88 basis points to 2.53% from 3.41% for the same period last year. The largest rate decline was seen in certificates of deposits where the average interest rate paid fell by 118 basis points to 3.07% for the three months ended September 30, 2003, from 4.25% for the prior-year period.

Provision for loan losses for the three months ended September 30, 2003 was $19,000, compared to $24,000 for the three months ended September 30, 2002, a decrease of $5,000, or 20.8%. Despite significant loan growth, the Bank has experienced very little loss, which has allowed the Bank to record less monthly provision expense and still maintain an adequate loan loss reserve in relation to the total non-performing loans and total outstanding gross loan receivables. Management periodically reevaluates the allowance for loan losses to ensure the provision is maintained at a level that represents management's best estimate of probable loan losses in the loan portfolio.

Net interest income after provision for loan losses for the three months ended September 30, 2003 was $750,000, compared to $720,000 for the three months ended September 30, 2002, an increase of $30,000, or 4.2%. The increase in net interest income resulted primarily from the growth in interest earning assets, and a decline in the rate paid on interest bearing liabilities to 2.53% from 3.41% for the same period last year.

Non-interest income for the three months ended September 30, 2003 was $150,000 compared to $98,000 for the three months ended September 30, 2002, an increase of $52,000, or 53.1%. This increase is attributable to the gain on sale of assets of $58,000 for the current year period, compared to no similar gains the same period last year. Due to highway expansion, the Bank was required to sell a portion of its property to the Illinois Department of Transportation. The $58,000 gain recorded in the third quarter represents the value received for the property over the Bank's recorded value.

Non-interest expense for the three months ended September 30, 2003 increased by $369,000, or 59.9% from $616,000 for the three months ended September 30, 2002. The increase was primarily attributable to increases in legal and collection expenses of $358,000, or 5,114.3%, and increases in compensation and employee benefits of $27,000, or 8.8%. The increase in legal and collection expense is due to expenses associated with and the resolution of a lawsuit brought against the Bank by the Bank's former President, as previously disclosed. Compensation increased as a result of staff additions and annual merit and bonus increases. These increases were slightly offset by a decrease in occupancy and equipment expenses.

Income Information - Nine Months

Net income for the nine months ended September 30, 2003 was $268,000, or 24.1% lower than net income of $353,000 for the nine months ended September 30, 2002.

Interest income for the nine months ended September 30, 2003 decreased $123,000 or 3.1% to $3.9 million. The decrease was primarily due to lower average yields on loans and securities, partially offset by higher average balances in loans, interest-bearing deposits in other financial institutions and securities. Average interest-earning assets for the nine months ending September 30, 2003 were $99.0 million, an increase of $12.6 million, or 14.6%, over average interest-earning assets for the nine months ended September 30, 2002 of $86.4 million. Average loan balances increased $4.6 million. Average interest bearing deposits in other financial institutions increased $2.9 million, and average security balances increased $5.1 million. The average loan yield declined 80 basis points to 5.95% at September 30, 2003 from 6.75% for the same period in the prior year. As stated above in the quarterly income analysis, the Bank's loan rate was negatively impacted by the high volume of mortgage loan refinancing activity and the declining prime rate. The average security yield declined 106 basis points to 3.80% at September 30, 2003 from 4.86% for the same period in the prior year. The security yield was negatively impacted by the re-pricing of floating rate instruments. Also contributing to the decline was a large number of maturities and security calls, which were then replaced with lower yielding securities.

Interest expense for the nine-month period ended September 30, 2003 decreased to $1.7 million, a decline of $249,000, or 12.9%, compared to the same period last year. The decrease was due to lower rates paid on interest-bearing deposits and borrowings. The average rate paid on interest-bearing liabilities for the nine months ended September 30, 2003 declined by 88 basis points to 2.80% from 3.68% for the same period last year. The average interest paid on certificates of deposit fell by 121 basis points to 3.31% for the nine months ended September 30, 2003, from 4.52% for the prior-year period.

Provision for loan losses for the nine months ended September 30, 2003 was $64,000, compared to $66,000 for the nine months ended September 30, 2002, a decrease of $2,000, or 3.0%. As stated above in the quarterly income analysis, despite significant loan growth, the Bank has been able to record less monthly provision expense and still maintain an adequate loan loss reserve in relation to total nonperforming loans and total outstanding gross loan receivables.

Net interest income after provision for loan losses for the nine months ended September 30, 2003 increased $128,000, or 6.3% to $2.2 million. The increase in the Bank's net interest income resulted primarily from the growth in interest earning assets, and a decline in the rate paid on interest bearing liabilities to 2.80% from 3.68% for the same period last year.

Non-interest income for the nine months ended September 30, 2003 was $527,000 compared to $245,000 for the nine months ended September 30, 2002, an increase of $282,000, or 115.1%. This increase was primarily attributable to the increase in the gain on sale of loans of $204,000. These loans were sold with servicing rights being maintained by the Bank. The Bank also recorded $73,000 in gain on sale of assets for the current nine-month period compared to no such gains for the same period a year ago. This gain related to the sale of a portion of the Bank's property to the Illinois Department of Transportation in order to facilitate highway expansion, as discussed above in the quarterly income analysis.

Non-interest expense for the nine months ended September 30, 2003 was $2.3 million or $523,000 more than expenses for the nine months ended September 30, 2002. The increase was primarily attributable to increases in legal and collection expenses, compensation expenses, directors' fees, and advertising expense. Legal expense increased $374,000, or 613.1% as a result of the expenses associated with and the resolution of a lawsuit brought against the Bank by the Bank's former President, as previously disclosed. Salary expense increased $116,000, or 13.3%, as a result of staff additions and annual merit increases. Directors' fees increased $19,000, or 25.7% due to the addition of one board member as one current director retired and elected emeritus status. Advertising expense increased $16,000, or 44.4% due to increased focus on promoting the Bank and various new products. These increases were offset slightly by a $40,000, or 16.7% decrease in occupancy and equipment expense. Occupancy and equipment costs were higher in 2002 due to a $27,000 one time adjustment to real estate property tax expense and a $15,000 increase in building maintenance as several projects were completed to enhance the efficiency and appearance of the current building.

LIQUIDITY AND CAPITAL RESOURCES

Total stockholders' equity decreased $65,000 from December 31, 2002 and was $12.7 million, at September 30, 2003. This decrease in stockholders' equity during the first nine months of 2003 was the result of the purchase of 20,300 shares of treasury stock totaling $342,000, and a decrease of $3,000 in the unrealized gain on investment securities available for sale, partially offset by the recording of $268,000 in net income and amortization of Unearned Employee Stock Ownership Plan shares of $12,000.

Financial institutions are required to maintain ratios of capital to assets in accordance with guidelines promulgated by the federal banking regulators. The guidelines are commonly known as "Risk-Based Guidelines" as they define the capital level requirements of a financial institution based upon the level of credit risk associated with holding various categories of assets. The Risk-Based Guidelines require minimum ratios of Tier 1 and Total Capital to risk-weighted assets of 4% and 8%, respectively. At September 30, 2003, Clover Leaf Bank's Tier 1 and Total Capital ratios were 15.71% and 16.84%, respectively. In addition to the Risk-Based Guidelines, the federal banking agencies have established a minimum leverage ratio guideline for financial institutions (the "Leverage Ratio Guideline"). The Leverage Ratio Guideline provides for a minimum ratio of Tier 1 capital to average assets of 4%. Clover Leaf Bank's leverage ratio at September 30, 2003, was 10.29%. Accordingly, Clover Leaf Bank has satisfied these regulatory guidelines.

Clover Leaf Bank's primary sources of liquidity or internally generated funds are principal and interest payments on loans receivable, cash flows generated from operations, and cash flows generated by investments. External sources of liquidity consist primarily of increases in deposits.

At September 30, 2003, Clover Leaf Bank had loan commitments of $6.6 million and unused lines of credit of $4.2 million. Clover Leaf Bank believes it has adequate resources to fund loan commitments as they arise. If Clover Leaf Bank requires funds beyond its internal funding capabilities, advances from the Federal Home Loan Bank of Chicago are available. At September 30, 2003, approximately $24.4 million of time deposits were scheduled to mature within one year. We expect that substantially all of these time deposits either will be renewed upon maturity or will be placed in money market accounts at Clover Leaf Bank. Clover Leaf Bank intends to sell a greater percentage of its residential real estate loan originations, which will provide additional liquidity.

Sources of Funds

Deposits have been our primary source of funds for lending and other investment purposes. In addition to deposits, we derive funds primarily from principal and interest payments on loans. These loan repayments are a relatively stable source of funds, while deposit inflows and outflows are significantly influenced by market interest rates. Matured and called investments have added significantly to the Bank's source of funds during 2003, with over $10 million either being called or maturing. Borrowings may be used on a short-term basis to compensate for reductions in the availability of funds from other sources, and may be used on a longer-term basis for general business purposes.

ITEM 3. CONTROLS AND PROCEDURES

The Company's Chief Executive Officer and Chief Financial Officer have concluded, based on their evaluation as of the end of the period covered by this quarterly report, that the Company's disclosure controls and procedures (as defined in Securities Exchange Act Rules 13a-15(e) and 15d-15(e)) are effective to ensure that information required to be disclosed in the reports that the

Company files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. There has been no change in the Company's internal control over financial reporting during the most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Clover Leaf Bank is involved, from time to time, as plaintiff or defendant in various legal actions arising in the normal course of its business. At September 30, 2003, Clover Leaf Bank was not involved in any material legal proceedings.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits: 31.1 Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification of Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8-K: A Form 8-K was filed by Clover Leaf Financial on August 7, 2003.

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SIGNATURES

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

CLOVER LEAF FINANCIAL CORP.
(Registrant)

DATE: November 13, 2003

By:/s/ Dennis M. Terry
Dennis M. Terry
President and Chief Executive Officer

DATE: November 13, 2003

By:/s/ Darlene F. McDonald
Darlene F. McDonald
Senior Vice President and Treasurer (Principal Financial And Accounting Officer)