CLOVER LEAF FINANCIAL CORP
Form 10QSB
August 14, 2002

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 June 30, 2002

OR

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

For the transition period ________________ to ________________

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 August 12, 2002
Common stock $.10 par value	648,550

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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)

	Ju
ASSETS	
Cash and due from banks	
Interest bearing deposits in other financial institutions	

Investment securities:
Available-for-sale, at fair value (cost of $14,952 and $14,037 at June 30, 2002 and December 31, 2001, respectively)
Federal Home Loan Bank stock
Loans
Allowance for loan losses

Net loans
Accrued interest receivable
Bank premises and equipment
Other assets

TOTAL ASSETS

LIABILITIES
Deposits:
Noninterest bearing
Interest bearing

Total deposits
Securities sold under agreements to repurchase
Federal Home Loan Bank advances
Accrued interest payable
Other liabilities

TOTAL LIABILITIES

STOCKHOLDERS' EQUITY
Preferred stock, $.10 par value - 250,000 shares authorized; none issued or outstanding at June 30, 2002 or December 31, 2001
Common stock, $.10 par value - 2,000,000 shares authorized; 661,250 shares issued at June 30, 2002 and December 31, 2001, respectively
Surplus
Retained earnings
Accumulated other comprehensive income
Unearned Employee Stock Ownership Plan shares

TOTAL STOCKHOLDERS' EQUITY

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY

See the accompanying notes to unaudited consolidated financial statements.

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

	Three Months Ended June 30,	
	2002	2001

Interest and Fee Income:			
Interest and fees on loans	$1,096	$1,168	
Interest on U.S. treasuries and agencies	163	249	
Interest on other securities	10	1	
Federal Home Loan Bank dividends	46	7	
Interest on deposits with banks	7	32	
TOTAL INTEREST AND FEE INCOME	1,322	1,457	
Interest Expense:			
NOW, money market and savings deposits	118	138	
Certificates of deposit	480	837	
Securities sold under agreements to repurchase	3	-	
Federal Home Loan Bank advances	36	22	
TOTAL INTEREST EXPENSE	637	997	
NET INTEREST INCOME	685	460	
Provision for loan losses	21	12	
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	664	448	
Noninterest Income:			
Service charges on deposit accounts	21	18	
Other service charges and fees	16	21	
Gain on sale of investment securities, net	-	5	
Gain on sale of loans	1	-	
Other	49	12	
TOTAL NONINTEREST INCOME	87	56	
Noninterest Expense:			
Salaries and employee benefits	294	244	
Occupancy and equipment, net	68	66	
Data processing	52	54	
Advertising and marketing	9	14	
Directors' fees	25	26	
Audit and accounting fees	30	40	
Other	119	65	
TOTAL NONINTEREST EXPENSE	597	509	
INCOME BEFORE INCOME TAXES	154	(5)	
Income Tax Expense (Benefit)	52	(18)	
NET INCOME	$ 102	$ 13	
Average Shares Outstanding:			
Basic and Diluted	648,550	N/A	
Basic and Diluted Earnings Per Share	$.16	N/A	

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)

	Six Months Ended June 30, 2002			
	Common Stock	Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)
Balance at December 31, 2001	$66	$6,134	$6,158	$177
Comprehensive income				
Net income	-	-	217	-
Other comprehensive income, net of tax:				
Change in unrealized gain on securities available-for-sale arising during the period, net of tax of $(41)	-	-	-	(79)
Reclassification adjustment, Net of tax of $(1)	-	-	-	(3)
Other comprehensive income net of tax of $(42)				
Comprehensive income				
Loan to ESOP for purchase of shares	-	-	-	-
Costs related to issuance of common stock	-	(68)	-	-
Balance at June 30, 2002	$66	$6,066	$6,375	$95

See the accompanying notes to unaudited consolidated financial statements.

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

	2002
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 of premiums on investments	
Deferred tax provision/(benefit)	
Realized gain on sale of investments	
Federal Home Loan Bank stock dividend	
Gain on sale of loans	
Proceeds from sales of loans held for sale	
Origination of loans held for sale	
Increase in accrued interest receivable	
(Increase) decrease in other assets	
Decrease in accrued interest payable	
Decrease in other liabilities	
Net cash 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	
Purchase of Federal Home Loan Bank stock, net	
Increase in loans, net	
Purchases of premises and equipment	
Net cash used in investing activities	
Cash Flows from Financing Activities	
Increase (decrease) in deposits	(
Proceeds from Federal Home Loan Bank advances	
Repayments of Federal Home Loan Bank advances	
Net increase in securities sold under agreements to repurchase	
Loans to ESOP for purchase of shares	
Cost associated with issuance of stock	
Net cash used in financing activities	
Net decrease in cash and cash equivalents	(
Cash and cash equivalents:	
Beginning	

Ending

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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.

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CLOVER LEAF FINANCIAL CORP.
NOTES TO UNAUDITEDCONSOLIDATED 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 state savings 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. Prior to that date, Clover Leaf Financial had no assets or liabilities. Accordingly, the accompanying unaudited consolidated financial statements for the three month and six month periods ending June 30, 2001 represent only the accounts of the Bank and its wholly owned subsidiary, Clover Leaf Financial Services, Inc.

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. 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 Per Share

Basic earnings per share are determined by dividing net income 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 are the same as basic earnings per share.

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CLOVER LEAF FINANCIAL CORP.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in Thousands, Except Per Share Data)	Three Months Ended June 30,	
	2002	2001
Net income available to common shareholders	$102	$13
Weighted average shares outstanding	661,250	N/A
Weighted average ESOP shares	(12,700)	N/A
Basic average shares outstanding	648,550	N/A
Basic and diluted earnings per share	$.16	N/A

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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 six-month periods ended June 30, 2002 and 2001, and its financial condition, asset quality, and capital resources as of

June 30, 2002. 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.

OVERVIEW

Net income for the second quarter of 2002 was $102,000 or $.16 per diluted common share compared to net income of $13,000 for the second quarter of 2001. Net income for the first six months of 2002 was $217,000 or $.34 per diluted common share compared to net income of $54,000 for the first six months of 2001. Prior to the formation and incorporation of Clover Leaf Financial in December 2001, the existing entity consisted of Clover Leaf Bank, a state-chartered mutual savings bank. Return on average assets for the second quarter and first six months of 2002 was .46% and .49%, respectively, compared to .06% and .13% for the second quarter and first six months of 2001, respectively. Return on average equity for the second quarter and first six months of 2002 was 3.28% and 3.51%, respectively, compared to .83% and 1.75% for the second quarter and first six months of 2001, respectively.

The increase in net income, for the quarters and six-month periods compared, resulted from increases in net interest income and noninterest income, partially offset by increases in the provision for loan losses, noninterest expenses, and income tax expense.

Total assets at June 30, 2002 decreased to $90,535,000 from $96,101,000 at December 31, 2001. Interest bearing due from bank balances decreased $9,398,000 during the first six months of 2002. Investment securities increased $1,156,000 from $17,371,000 at December 31, 2001 to $18,527,000 at June 30, 2002. Net loans increased $4,026,000 during the first six months of 2002. Total deposits decreased $10,585,000 during the first six months of 2002 to $70,348,000 from $80,933,000 at year-end 2001. A portion of the overall decrease in deposits and interest bearing deposits with banks was attributable to subscription funds of $6,411,000 held by the Bank at December 31, 2001as part of the stock offering that were subsequently returned to subscribers. Federal Home Loan Bank advances outstanding increased from $1,500,000 at December 31, 2001 to $7,000,000 at June 30, 2002.

Income Information - Quarter

Net interest income after provision for loan losses for the three months ended June 30, 2002 was $664,000, compared to $448,000 for the three months ended June 30, 2001, an increase of $216,000 or 48.2%. The increase in net interest income resulted primarily from a 93 basis point increase in the average net interest margin to 3.28% from 2.35% in the prior year. This increase in the average net interest margin is largely attributed to a decrease of 155 basis points paid on time deposits to 4.53% at June 30, 2002 from 6.08% in the prior year.

Interest income for the three months ended June 30, 2002 declined to $1.3 million, a decrease of $135,000, or 9.27% compared to the year-ago period. The decrease was primarily due to lower average yields on loans and securities, partially offset by higher average balances in loans. Average interest-earning assets for the three months ended June 30, 2002 were $84.3 million, an increase of $4.7 million, or 5.9%, over average interest-earning assets for the three months ended June 30, 2001 of $79.6 million. Average loan balances increased $4.0 million and average security balances grew by $2.1 million. This growth was partially offset by a decline of $1.4 million in interest bearing deposits in other financial institutions. The average loan yield declined 88 basis points to 6.71% at June 30, 2002 from 7.59% in the prior year. The average security yield declined 147 basis points to 4.63% at June 30, 2002 from 6.10% in the prior year.

Interest expense for the most recent three-month period fell by $361,000 to $637,000, a decrease of 36.2% compared to the same period last year. The decrease was primarily due to lower rates paid on interest-bearing deposits and borrowings, as well as to lower balances of certificates of deposit accounts and a higher concentration of non-interest-bearing and low interest-bearing deposits among total deposits for the period. Average rates paid on interest-bearing liabilities for the three months ended June 30, 2002 declined by 185 basis points to 3.65% from 5.50% for the same period last year. The average interest rate paid on certificates of deposit fell by 155 basis points to 4.53% for the three months ended June 30, 2002, from 6.08% for the prior-year period. For the three months ended June 30, 2002, average balances of lower-cost savings and money market accounts increased by $9.7 million, while average balances of certificates of deposits declined by $13.4 million compared to the three months ended June 30, 2001.

Non-interest income for the three months ended June 30, 2002 was $87,000 compared to $56,000 for the three months ended June 30, 2001, an increase of $31,000, or 55.4%. This increase was primarily attributable to a gain on sale of NYCE Corporation stock of $42,000. The stock, which was considered an Other Asset for balance sheet presentation, was liquidated due to a merger in the ATM servicing industry, which mandated our liquidation of the asset. This increase was partially offset by a slight decline in service charges and fees of $5,000 between the two periods. The Company also recorded net gains on sales of securities of $5,000 for the quarter ended June 30, 2001 compared to no gains for the current quarter ended.

Non-interest expense for the three months ended June 30, 2002 were $88,000, or 17.3% more than expense for the three months ended June 30, 2001. The increase was primarily attributable to increases in compensation and employee benefits of $50,000, or 20.5%, and in legal and collection expenses of $33,000. Compensation increased as a result of staff additions and annual merit increases, and additional legal and collection costs were attributable to the expenses related to working out our largest non-performing asset, and expenses related to the company's conversion to a public company. A portion of the expenses related to the non-performing asset is expected to be recovered when the loan settlement is received.

Income Information - Six Months

Net interest income after provision for loan losses for the six months ended June 30, 2002 was $1.3 million, compared to $917,000 for the six months ended June 30, 2001, an increase of $397,000, or 43.3%. The net interest margin for the six-month period was 3.09%, compared to a net interest margin of 2.21% for the six-month period ended June 30, 2001.

Interest income declined $284,000, or 9.6%, compared to the year-ago period. The decrease was primarily due to lower average yields on loans and securities, partially offset by higher average balances in loans. Average interest-

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earning assets for the six months ended June 30, 2002 were $83.7 million, an increase of $4.1 million, or 5.2%, over average interest-earning assets of $79.6 million for the six months ended June 30, 2001. Average loan balances increased $5.8 million, or 9.7% to $65.9 million for the period ended June 30, 2002 compared to $60.1 million for the same period in the prior year. Average security balances increased $2.0 million, or 12.1% to $18.5 million for the period ended June 30, 2002 compared to $16.5 for the same period in the prior year. The average loan yield declined 91 basis points to 6.84% at June 30, 2002 from 7.75% in the prior year. The average security yield declined 131 basis points to 4.98% at June 30, 2002 from 6.29% in the prior year.

Interest expense for the six-month period ended June 30, 2002 fell to $1.3 million, a decline of $707,000, or 35.1%, compared to the same period last year. The decrease was primarily due to lower rates paid on interest-bearing deposits, as well as to lower balances of certificate of deposit accounts and a higher concentration of non-interest-bearing and low interest-bearing deposits among total deposits for the period. The average interest paid on certificates of deposit fell by 151 basis points to 4.65% for the six months ended June 30, 2002, average balances of lower-cost savings and money market accounts increased by $11.1 million, while average balances of certificates of deposit declined by $12.2 million compared to the six months ended June 30, 2001.

As noted in the above discussion, the increase in the Bank's net interest income is due, in large part, to the relative changes in the yield and cost of the Bank's assets and liabilities as a result of decreasing market interest rates in calendar 2001 and early 2002. This decrease in market interest rates has reduced the cost of interest-bearing liabilities faster and to a greater extent than the rates on interest-earning assets such as loans and securities.

Non-interest income for the six months ended June 30, 2002 was $147,000 compared to $100,000 for the six months ended June 30, 2001, an increase of $47,000, or 47.0%. This increase was primarily attributable to a one- time gain of $42,000 from the sale of NYCE Corporation stock, as discussed above. The Company also recorded net gains on sale of loans of $19,000 for the current six-month period compared to no such gains for the same period a year ago. These increases to income are partially offset by a decline of $7,000, or 18.4% in services charges and other fees between the two periods, as well as a slight decline in other operating income.

Non-interest expense for the six months ended June 30, 2002 was $1.1 million, or $179,000 more than expenses for the six months ended June 30, 2001. The increase was primarily attributable to increases in compensation expenses, advertising, and legal and collection expenses. Salary expense increased $75,000, or 15.4%, as a result of staff additions and annual merit increases. Advertising expense increased $9,000, or 60.0%, as we have engaged an advertising firm to run an on-going advertising campaign for the bank. Legal and collection expense increased $48,000, or 800.0% as a result of the filing and accounting regulations related to being a public company, and as a result of expenses incurred related to working out our largest non-performing asset. A portion of the expenses related to the non-performing asset is expected to be recovered when the loan settlement is received.

FINANCIAL CONDITION

General

Certain components of Clover Leaf Financial's consolidated balance sheet at June 30, 2002 compared to December 31, 2001 are presented in summary form in the following table. Total assets decreased $5,566,000 to $90,535,000 compared to $96,101,000 at December 31, 2001. This decrease resulted from a decrease in interest bearing due from bank balances in the amount of $9,398,000, partially offset by an increase in gross loans outstanding of $4,022,000 and an increase in investment securities of $1,156,000. Total deposits decreased $10,585,000 from December 31, 2001 to June 30, 2002. Outstanding Federal Home Loan Bank advances increased from $1,500,000 at December 31, 2001 to $7,000,000 at June 30, 2002.

Selected Comparative Balance Sheet Items
(Dollars in Thousands)

	June 30 2002	December 31 2001
Total assets	$90,535	$96,101
Loans	67,103	63,081
Investment securities	18,527	17,371
Deposits	70,348	80,933
Securities sold under agreements to repurchase	375	354
Federal Home Loan Bank advances	7,000	1,500
Stockholders' equity	12,436	12,510

Loans

Gross loans increased 6.4%, or $4,022,000, from December 31, 2001 to June 30, 2002. Commercial real estate loans increased $6,929,000 during the first six months of 2002.

The following table presents the composition of the loan portfolio by type of borrower and major loan category and the percentage of each to the total portfolio at the date presented.

Loan Portfolio Composition
(Dollars in Thousands)

	June 30, 2002	December 31, 2001

Commercial borrowers:	Amount	Percent	Amount	Percent
Commercial, financial and agricultural	$ 6,039	9.0%	$ 7,732	12.3%
Commercial real estate	20,900	31.1	13,971	22.1
Real estate construction	577	0.9	1,193	1.9
Total commercial	27,516	41.0	22,896	36.3
Consumer borrowers:				
1-4 family residential real estate	35,932	53.6	33,773	53.5
Other consumer loans	3,655	5.4	6,412	10.2
Total consumer	39,587	59.0	40,185	63.7
Total loans	$67,103	100.0%	$63,081	100.0%

Investments

Total investments increased to $18,527,000, at June 30, 2002 compared to $17,371,000 at year-end 2001.

Investments in securities are made based on certain considerations, which include the interest rate, tax yield, settlement date and maturity date of the securities, Clover Leaf Financial's liquidity position, and anticipated cash needs and sources. The effect that the proposed securities would have on Clover Leaf Financial's credit and interest rate risk and risk-based capital is also considered. Clover Leaf Financial purchases securities to provide necessary liquidity for day-to-day operations, and when investable funds exceed loan demand.

Available-for-sale investment securities are recorded at fair value. Net unrealized gains on available-for-sale investment securities totaled $145,000 and $269,000 at June 30, 2002 and December 31, 2001, respectively.

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The following table presents the composition of investment securities at their carrying values at the date presented.

Investment Securities Portfolio Composition
(Dollars in Thousands)

	June 30 2002	Decemb 200
Available-for-sale securities:		
Obligations of U. S. government corporations and agencies	$ 7,695	$ 8,5
Mortgage-backed securities	6,070	4,3
Obligations of states and political subdivisions	856	8
Federal Home Loan Bank stock	3,367	3,0

Corporate securities	539	5
Total available-for-sale	$18,527	$17,3

Deposits

Clover Leaf Financial's deposit base is its primary source of liquidity and consists of deposits originating within the communities served by its banking locations. Deposits are Clover Leaf Financial's primary and most reliable funding source for interest earning assets.

Total deposits decreased $10,585,000 to $70,348,000 at June 30, 2002 from $80,933,000 at December 31, 2001. The overall decrease in deposits was partially attributable to subscription funds of $6,411,000 held in a non-interest bearing demand deposit account by the Bank as part of the stock offering that were subsequently returned to the subscribers. Those funds were on deposit at the Bank at December 31, 2001, as checks had already been returned to subscribers but not cashed until the first quarter of 2002. Time deposits decreased $5,907,000 from year-end 2001. Savings and money market deposits increased $2,051,000 from year-end 2001.

Balances in noninterest bearing demand deposits decreased $6,878,000 from year-end 2001. This decrease was primarily attributable to the subscription funds held by the Bank at December 31, 2001, as discussed above.

The following table sets forth the composition of deposits and the percentage of each category to total deposits at the dates presented.

Deposit Liability Composition
(Dollars in Thousands)

	June 30 2002		Decemb 200
	Amount	Percent	Amount
Noninterest bearing demand deposits	$ 6,183	8.8 %	$13,061
Interest bearing demand deposits	2,953	4.2	2,804
Savings and money market deposits	19,927	28.3	17,876
Time deposits $100,000 or more	4,782	6.8	7,445
Time deposits less than $100,000	36,503	51.9	39,747
Total deposits	$70,348	100.0%	$80,933

Borrowings

Clover Leaf Bank may obtain advances from the Federal Home Loan Bank of Chicago upon the security of the common stock it owns in that bank and certain of its residential mortgage loans and mortgage-backed securities, provided certain standards related to creditworthiness have been met. These advances are made pursuant to several credit programs, each of which has its own interest rate and range of maturities. Federal Home Loan Bank advances are generally available to meet seasonal and other deposit withdrawals and to permit increased lending.

Clover Leaf Bank had $7,000,000 and $1,500,000 outstanding in Federal Home Loan Bank advances at June 30, 2002 and December 31, 2001, respectively. The Federal Home Loan Bank advances outstanding at June 30, 2002 consisted of four advances. These advances were in the amount of $500,000, $1,000,000, $3,000,000 and $2,500,000 and had rates of 5.96%, 5.49%, 2.13%, and 2.12%, respectively. The increase in Federal Home Loan Bank advances during the first six months of 2002 was a result of increased loan demand and a decrease in available deposits to fund such demand.

Repurchase agreements in the amount of $375,000 and $354,000 were outstanding as of June 30, 2002 and December 31, 2001, respectively.

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 June 30, 2002, nonperforming assets totaled $1,692,000, or 1.87% of total assets, compared to nonperforming assets at year-end 2001 of $1,554,000 or 1.62% of total assets. Nonperforming assets at June 30, 2002 included $19,000 relating to foreclosed assets. There were no foreclosed assets in the nonperforming assets at December 31, 2001. Management does not anticipate any significant losses upon disposition of the foreclosed assets held at June 30, 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)

	June 30, 2002		December 31, 20	
	Loans and Foreclosed Property	Non-performing Assets	Loans and Foreclosed Property	Non-per Asse

Commercial borrowers:				
Commercial, financial and agricultural	$ 6,039	$ 449	$ 7,732	$
Commercial real estate	20,900	--	13,971	-
Real estate construction	577	503	1,193	
Total commercial	27,516	952	22,896	
Consumer borrowers:				
1-4 family residential real estate	35,932	528	33,773	
Other consumer loans	3,655	193	6,412	
Total consumer	39,587	721	40,185	
Total loans	67,103	1,673	63,081	1,
Foreclosed assets	19	19	--	-
Total	$67,122	$ 1,692	$63,081	$ 1,
Nonaccrual loans		$ 1,673		$ 1,
Accruing loans past due 90 days or more		--		
Troubled debt restructurings		--		-
Total nonperforming loans		1,673		1,
Foreclosed assets		19		-
Total nonperforming assets		$ 1,692		$ 1,
Nonperforming loans to total loans .		2.49%		2
Nonperforming assets to total loans and foreclosed assets		2.52%		2
Nonperforming assets to total assets		1.87%		1

Net charge-offs for the second quarter of 2002 totaled $35,000 compared to net recoveries of $2,000 for the second quarter of 2001. During the first six months of 2002, net charge-offs totaled $46,000 compared to $5,000 for the first six months of 2001. Net charge-offs as a percentage of average total loans was ..22% for the second quarter of 2002. During the second quarter of 2001, the Company reported net recoveries of $2,000. For the six months ended June 30, 2002 and 2001, net charge-offs as a percentage of average total loans was .15% and .02%, respectively.

Clover Leaf Financial's allowance for loan losses at June 30, 2002, decreased to $642,000 from $646,000 at December 31, 2001. At June 30, 2002, the allowance for loan losses represented 38.38% of non-performing loans compared to 41.57% and 102.75% at December 31, 2001 and June 30, 2001, respectively. The ratio of the allowance for loan losses to total loans was .97% at June 30, 2002 compared to 1.02% and 1.02% at December 31, 2001 and June 30, 2001, respectively. Management believes that the allowance for loan losses at June 30, 2002 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 boards of directors of our subsidiary banks, 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 our subsidiary banks' primary regulators, which can order the establishment of additional general or specific loss allowances. The Office of the Comptroller of the Currency, 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 reports 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 June 30, 2002, December 31, 2001, and June 30, 2001were approximately $1.7 million, $2.2 million, and $2.5 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 judgements, 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.

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 June 30		Six Months Ende June 30	
	2002	2001	2002	20
Balance at beginning of period	$ 656	$ 622	$ 646	$ 6
Loans charged off:				
Commercial, financial and agricultural	--	--	--	
Consumer	41	20	62	
Total charge-offs	41	20	62	
Recoveries of loans previously charged off:				
Consumer	6	22	16	
Total recoveries	6	22	16	
Net charge-offs (recoveries)	35	(2)	46	
Provision for loan losses	21	12	42	
Balance at end of period	$ 642	$ 636	$ 642	$ 6
Net charge-offs as a percent of average total loans	.05%	(.00)%	.07%	.
Allowance for loan losses to total loans ..	.97%	1.02%	.97%	1.
Allowance for loan losses to nonperforming loans	38.38%	102.75%	38.38%	102

CAPITAL RESOURCES

Capital Resources

Total stockholders' equity decreased $74,000 from $12,510,000 at December 31, 2001 to $12,436,000 at June 30, 2002. This decrease in stockholders' equity during the first six months of 2002 was primarily due to the additional purchase of shares by the Employee Stock Ownership Plan. Also contributing to the decline were payments made during 2002 relative to the stock offering completed in December 2001, and a decrease in the net unrealized gains within the available for sale securities portfolio from the level at December 31, 2001. Net income of $217,000 for the first six months of 2002 partially offset these items which reduced stockholders' equity during the same time period.

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 June 30, 2002, Clover Leaf Bank's Tier 1 and Total capital ratios were 16.67% and 17.74%, 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 June 30, 2002, was 11.16%. Accordingly, Clover Leaf Bank has satisfied these regulatory guidelines.

Liquidity and Capital Resources

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 June 30, 2002, Clover Leaf Bank had loan commitments of $3.7 million and unused lines of credit of $2.6 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 June 30, 2002, approximately $29.4 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

General. 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. 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.

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 June 30, 2002, 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

The Annual Meeting of Stockholders of the Company was held on May 28, 2002. At the meeting, Henry L. Malench and Robert W. Schwartz were elected to serve as directors with terms expiring in 2005. Continuing with terms expiring in 2003 were Dennis M. Terry, Joseph J. Gugger, and Kenneth P. Highlander. Continuing with terms expiring in 2002 were Gary D. Niebur and Philip H. Weber.

The matters approved by stockholders at the meeting and the number of votes cast for, against or withheld (as well as the number of abstentions and broker non-votes) as to each matter are set forth below:

	Number of Votes	
	For	Against
The election of the following directors for a three-year term:		
Henry L. Malench	532,507	0
Robert W. Schwartz	532,507	0

	For	Against	Abstain	Br Non-
The ratification of McGladrey & Pullen, LLP as independent auditors for the year ending December 31, 2002	532,207	0	300	0

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits: 99.1 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: No reports on Form 8-K were filed by Clover Leaf Financial during the second quarter of 2002.

EXHIBIT INDEX

EXHIBIT NO.	DESCRIPTION
99.1	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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: August 13, 2002

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

DATE: August 13, 2002 By:/s/ Darlene F. McDonald

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

Exhibit 99.1

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

Dennis M. Terry, Chief Executive Officer and Darlene F. McDonald, Chief Financial Officer of Clover Leaf Financial Corp. (the "Company") each certify that we have reviewed the quarterly report on Form 10-QSB for the quarter ended June 30, 2002. We further certify that:

(1) the report fully complies with the requirements of Sections 13(a) and 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: August 13, 2002 By:/s/ Dennis M. Terry

Dennis M. Terry
President and Chief
Executive Officer

DATE: August 13, 2002 By:/s/ Darlene F. McDonald

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