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CLOVER LEAF FINANCIAL CORP

Form 10KSB

March 31, 2003

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-KSB

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

For the Fiscal Year Ended December 31, 2002

OR

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

For the transaction period from _____ to _____

Commission File Number: 0-33413

CLOVER LEAF FINANCIAL CORP.

(Exact Name of Registrant as Specified in its Charter)

Delaware

37-1416016

(State or Other Jurisdiction of
Incorporation or Organization)

(I.R.S. Employer
Identification Number)

200 East Park Street, Edwardsville, Illinois

62025

(Address of Principal Executive Office)

(Zip Code)

(618) 656-6122

(Registrant's Telephone Number including area code)

Securities Registered Pursuant to Section 12(b) of the Act: None

Securities Registered Pursuant to

Section 12(g) of the Act: Common Stock, par value \$0.10 per share

(Title of Class)

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 twelve months (or for such shorter period that the
Registrant was required to file reports) and (2) has been subject to such
requirements for the past 90 days.

YES ☒ NO ☐.

Indicate by check mark if disclosure of delinquent filers pursuant to Item
405 of Regulation S-B is not contained herein, and will not be contained, to the
best of Registrant's knowledge, in definitive proxy or information statements
incorporated by reference in Part III of this Form 10-KSB or any amendments to
this Form 10-KSB. ☐

The registrant's revenues for the fiscal year ended December 31, 2002 were
\$5.8 million.

As of February 28, 2003, there were issued and outstanding 656,450 shares
of the Registrant's Common Stock. The aggregate value of the voting stock held
by non-affiliates of the Registrant, computed by reference to the closing price

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of the Common Stock as of February 28, 2003 was \$6.8 million.

DOCUMENTS INCORPORATED BY REFERENCE

1. Portions of the 2002 Annual Report to Stockholders (Parts II and IV)
2. Proxy Statement for the 2003 Annual Meeting of Stockholders (Part III)

PART I

ITEM 1. Business

Clover Leaf Financial Corp.

Clover Leaf Financial Corp. was organized at the direction of the Board of Directors of Clover Leaf Bank, SB for the purpose of acting as the stock holding company of Clover Leaf Bank. Clover Leaf Financial's assets consist primarily of the outstanding capital stock of Clover Leaf Bank and cash and investments of \$2.1 million, representing a portion of the net proceeds from Clover Leaf Financial's stock offering completed December 27, 2001. At December 31, 2002, 661,250 shares of Clover Leaf Financial's common stock, par value \$0.10 per share, were held by the public. Clover Leaf Financial's principal business is overseeing and directing the business of Clover Leaf Bank and investing the net stock offering proceeds retained by it. At December 31, 2002, Clover Leaf Financial had total consolidated assets of \$95.5 million, total deposits of \$72.5 million and stockholders' equity of \$12.7 million.

Clover Leaf Financial's office is located at 200 East Park Street, Edwardsville, Illinois 62025. Its telephone number is (618) 656-6122.

Clover Leaf Bank

Founded in 1889, Clover Leaf Bank converted its charter from an Illinois-chartered savings bank to an Illinois-chartered commercial bank in December 2002. Clover Leaf Bank operates from its main office in Edwardsville, Illinois, and one branch office. Clover Leaf Bank's deposits are insured by the Bank Insurance Fund, as administered by the Federal Deposit Insurance Corporation, up to the maximum amount permitted by law.

Clover Leaf Bank's executive office is located at 200 East Park Street, Edwardsville, Illinois 62025. Its telephone number is (618) 656-6122.

Market Area

Clover Leaf Bank's lending and deposit-gathering area is concentrated in the neighborhoods surrounding its two offices in Edwardsville, Illinois, which is located in Madison County. The population of Madison County grew 3.9% from 1990 to 2000, compared to an 8.6% increase in the population of the State of Illinois during the same period. During this same period, however, our local market area, consisting of Edwardsville and surrounding towns, has experienced a significant increase in housing starts. The economy in Clover Leaf Bank's market area is not dependent on any single employer or type of business. While Madison County's economy is primarily industrial, Edwardsville, as the county seat, has a primarily service-oriented economy. The three largest employers in Madison County, all of which are headquartered in Edwardsville, are Southern Illinois University at Edwardsville, the Madison County Government and Edwardsville Community Schools.

Competition

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We face significant competition in both originating loans and attracting deposits. Madison County has a significant number of financial institutions, many of which are significantly larger and have greater financial resources than Clover Leaf Bank, and all of which are our competitors to varying degrees. Our competition for loans comes principally from commercial banks, savings institutions, mortgage banking companies, credit unions and insurance companies. Our most direct competition for deposits historically has come from commercial banks and credit unions. We face additional competition for deposits from non-depository competitors such as mutual funds, securities and brokerage firms and insurance companies. Management believes that the Gramm-Leach-Bliley Act, which permits affiliation among banks, securities firms and insurance companies, will increase competition in our market area.

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Lending Activities

General. Our loan portfolio consists primarily of one- to four-family residential real estate loans. The vast majority of these loans have fixed rates of interest. In addition to one- to four-family residential real estate loans, our loan portfolio consists of commercial and consumer loans, and, to a lesser extent, construction and overdraft loans.

In an effort to increase our interest income and to reduce the risk to our net income from changes in market interest rates, we have emphasized the origination of commercial real estate and commercial business loans. Compared to our residential mortgage loans, commercial real estate and commercial business loans generally have higher interest rates and are more sensitive to changes in market interest rates because they have adjustable interest rates and shorter terms to maturity. In addition, in order to improve our asset quality and reduce our delinquencies, we have discontinued our indirect automobile lending.

Loan Portfolio Composition. The following table shows the composition of our loan portfolio in dollar amounts and in percentages (before deductions for deferred fees and allowances for losses) as of the dates indicated.

At December 31,				
2002		2001		
Amount	Percent	Amount	Percent	
(Dollars in Thousands)				
Real Estate Loans:				
One- to four-family	\$ 34,300	50.26%	\$ 33,773	53.53%
Commercial	22,797	33.40	13,971	22.14
Construction and land	761	1.12	1,193	1.89
	-----	-----	-----	-----
Total real estate loans	57,858	84.78	48,937	77.56
	-----	-----	-----	-----
Other Loans:				
Consumer:				
Deposit account	--	--	80	0.13
Automobile	1,425	2.09	3,136	4.97
Home equity	1,611	2.36	1,639	2.60
Other	1,595	2.34	1,572	2.49
	-----	-----	-----	-----
Total consumer loans ..	4,631	6.79	6,427	10.19
	-----	-----	-----	-----
Commercial business	5,759	8.43	7,732	12.25

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	-----	-----	-----	-----
Total gross loans ..	68,248	100.00%	63,096	100.00%
Less:				
Deferred fees and discounts	14		15	
Allowance for losses	690		646	
	-----		-----	
Total loans receivable, net	\$ 67,544		\$ 62,435	
	=====		=====	

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The following table illustrates the interest rate sensitivity of our loan portfolio at December 31, 2002. Mortgages that have adjustable or renegotiable interest rates are shown as maturing in the period during which the full principal amount of the mortgage is due. The schedule does not reflect the effects of possible prepayments or enforcement of due-on-sale clauses.

	Due in one year or less		Due after one year through five years		Due after five years	
	-----		-----		-----	
		Weighted		Weighted		Weighted
	Amount	Average	Amount	Average	Amount	Average
	-----	Rate	-----	Rate	-----	Rate
	(Dollars in Thousands)					
Real Estate loans:						
One- to four-family ..	\$ 3,148	6.78%	\$11,306	6.60%	\$19,846	6.40%
Commercial	5,874	5.99	16,512	6.30	411	7.96
Construction and land	761	6.87	--	--	--	--
Commercial business loans	2,863	5.50	2,457	6.69	439	5.93
Consumer loans	2,923	6.49	1,389	7.80	319	7.15
Gross loans	\$15.569	6.20%	\$31,664	6.50%	\$21,015	6.46%

The total amount of loans due after December 31, 2003 which have predetermined interest rates is \$41 million, while the total amount of loans due after such date which have floating or adjustable interest rates is \$11 million.

One- to Four-Family Residential Real Estate Loans. Historically, we have emphasized the origination of one- to four-family loans secured by residential real estate. As of December 31, 2002, these loans totaled \$34.3 million, or 50.3% of our total loan portfolio. Virtually all of our residential real estate loans have fixed rates of interest. Currently, we do not offer adjustable interest rates on our one- to four-family mortgage loans primarily because our customers prefer fixed-rate mortgage loans in the relatively low interest rate environment that currently exists. We generally retain most of the loans that we originate, although in the past we have sold loans on a servicing-retained basis. We intend to sell a greater percentage of our residential real estate loan originations on a servicing-retained basis. At December 31, 2002, we were servicing \$10.3 million in loans for others.

We currently offer one- to four-family residential mortgage loans with terms of 5, 15 and 30 years. Our five-year loans provide for principal and

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interest amortization of up to 30 years with a balloon payment at the end of the five-year term. All of our 15- and 30-year loans amortize over the term of the loan.

For one- to four-family residential real estate loans, we may lend up to 80% of the property's appraised value, or up to 90% of the property's appraised value if the borrower obtains private mortgage insurance. We require title insurance on all of our one- to four-family mortgage loans, and we also require that fire and extended coverage casualty insurance (and, if appropriate, flood insurance) be maintained in an amount equal to at least the lesser of the loan balance or the replacement cost of the improvements on the property. We require a property appraisal for all mortgage loans that are underwritten to comply with secondary market standards. Appraisals are conducted by our on-staff appraisers as well as independent appraisers from a list approved by our board of directors. Our residential real estate loans include "due-on-sale" clauses.

Commercial Real Estate Loans. We have increased our emphasis on commercial real estate lending in recent years. Loans secured by commercial real estate totaled \$22.8 million, or 33.4% of our total loan portfolio as of December 31, 2002. Our commercial real estate loans are secured predominately by office buildings, and to a lesser extent warehouse properties and more specialized properties such as churches. We originate commercial real estate loans with a maximum term of three years. We offer both adjustable and fixed rates of interest on commercial real estate loans, with the interest rate for adjustable rate loans tied to the prime interest rate. Our largest commercial real estate loan at December 31, 2002 had a principal balance of \$1.1 million and was collateralized by a law office building. This loan is performing in accordance with its terms.

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Commercial real estate loans generally have higher interest rates than the interest rates on residential mortgage loans, and are more sensitive to changes in market interest rates because they often have adjustable interest rates and shorter terms. Commercial real estate loans have significant additional risk compared to one- to four-family residential mortgage loans, as they typically involve large loan balances concentrated with single borrowers or groups of related borrowers. In addition, the repayment of commercial real estate loans typically depends on the successful operation of the related real estate project, and thus may be subject to a greater extent than residential mortgage loans to adverse conditions in the real estate market or in the economy generally.

In our underwriting of commercial real estate loans, we may lend up to 80% of the property's appraised value in the case of loans secured by apartments, and up to 75% of the property's appraised value on loans secured by other commercial properties. We require independent appraisals for all commercial real estate loans in excess of \$250,000. For loans that do not exceed this amount, we require that an officer prepare a memorandum of value detailing comparable values based upon tax bills, prior appraisals, and income information on revenue-producing property. Decisions to lend are based on the economic viability of the property and the creditworthiness of the borrower. Creditworthiness is determined by considering the character, experience, management and financial strength of the borrower, and the ability of the property to generate adequate funds to cover both operating expenses and debt service. In evaluating whether to make a commercial real estate loan, we place primary emphasis on the ratio of net cash flow to debt service on the property, and we generally require a ratio of cash flow to debt service of at least 120%, computed after deduction for a vacancy factor and property expenses we deem appropriate.

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We require title insurance on all of our commercial real estate loans, and we also require that fire and extended coverage casualty insurance (and, if appropriate, flood insurance) be maintained. In addition, we generally require that the borrower personally guarantee the repayment of the loan.

Construction and Land Loans. We originate two types of residential construction loans: (i) construction/speculative loans, and (ii) construction/permanent loans. As of December 31, 2002, construction and land loans totaled \$.8 million, or 1.1% of our total loan portfolio.

Construction/speculative loans are made to area homebuilders who do not have, at the time the loan is originated, a signed contract with a homebuyer who has a commitment for permanent financing with either Clover Leaf Bank or another lender. The homebuyer may enter into a purchase contract either during or after the construction period. These loans have the risk that the builder will have to make interest and principal payments on the loan and finance real estate taxes and other holding costs of the completed home for a significant time after the completion of construction. Funds are disbursed in phases as construction is completed. All construction/speculative loans require that the builder-borrower personally guarantee the full repayment of the principal and interest on the loan. These loans are generally originated for a term of twelve months, with interest rates that are tied to the prime lending rate, and with a loan-to-value ratio of no more than 75% of the lower of cost or the estimated value of the completed property. Generally, we limit our construction/speculative loans to one property per borrower at any given time, and the largest number of construction/speculative loans we have originated to a single borrower at any given time was for three properties. At December 31, 2002, the largest outstanding concentration of credit to one builder consisted of one construction/speculative loan with an aggregate balance of \$170,000, which was performing in accordance with its terms.

Construction/permanent loans are made to either a homebuilder or a homeowner who, at the time of construction, has a signed contract together with a commitment for permanent financing from Clover Leaf Bank for the finished home. The construction phase of a loan generally lasts up to six months, and the interest rate charged generally corresponds to the rate of the committed permanent loan, with loan-to-value ratios of up to 80% (or up to 90% if the borrower obtains private mortgage insurance) of the appraised estimated value of the completed property or cost, whichever is less. Following the initial 6-month period, construction/permanent loans convert to permanent loans, regardless of whether the construction phase has been completed. At December 31, 2002 the largest single outstanding construction loan of this type had an outstanding balance of \$155,500 and was performing in accordance with its terms.

Construction lending generally involves a greater degree of risk than other one- to four-family mortgage lending. The repayment of the construction loan is, to a great degree, dependent upon the successful and timely completion of the home construction. Construction delays or the financial impairment of the builder may further impair the borrower's ability to repay the loan.

Our procedures for underwriting construction/speculative loans include an assessment of the borrower's credit history and the borrower's ability to meet other existing debt obligations, as well as payment of principal and interest on the proposed loan. We use the same underwriting standards and procedures for construction/permanent lending as we do for one- to four-family residential real estate lending.

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We also originate land development loans to area homebuilders that are secured by individual unimproved or improved residential building lots. Land loans are generally offered with variable prime-based interest rates with terms of up to two years. The maximum loan-to-value ratio is 65% of the lower of cost or appraised value of the property.

Consumer Loans. Our consumer loans consist primarily of automobile loans, home equity lines of credit and overdraft loans, loans secured by deposits and securities, and unsecured personal loans. As of December 31, 2002, consumer loans totaled \$4.6 million, or 6.8% of our total loan portfolio.

Automobile loans are generally offered with maturities of up to 60 months for new automobiles, while loans secured by used automobiles will have maximum terms that vary depending on the age of the automobile. We require all borrowers to maintain collision insurance on automobiles securing loans in excess of \$1,000, with Clover Leaf Bank listed as loss payee. In those instances where the borrower fails to maintain adequate insurance coverage, we are further protected against loss by vendors single interest insurance coverage.

Our indirect automobile loans have experienced higher than average delinquency and loss rates, and we discontinued this type of automobile lending in July 2000. Our automobile loan portfolio totaled \$1.4 million, or 2.1% of total loans at December 31, 2002, compared to \$3.1 million, or 5.0% of total loans, at December 31, 2001.

Home equity lines of credit are generally made for owner-occupied homes, and are secured by first or second mortgages on residential properties. We are attempting to increase our originations of home equity loans through targeted marketing. We generally offer home equity lines of credit with a maximum loan to appraised value ratio of 85% (including senior liens on the subject property). We currently offer these loans for terms of up to 10 years, and with adjustable rates that are tied to the prime lending rate.

We offer overdraft loans by providing unsecured lines of credit to qualifying checking account holders. The line of credit must be pre-approved by Clover Leaf Bank's loan department. Overdraft loans totaled \$.2 million, or .4% of our total loan portfolio as of December 31, 2002.

Consumer loans generally entail greater credit risk than residential mortgage loans, particularly in the case of loans that are unsecured or are secured by assets that tend to depreciate in value, such as automobiles. In these cases, repossessed collateral for a defaulted consumer loan may not provide an adequate source of repayment for the outstanding loan and the remaining value often does not warrant further substantial collection efforts against the borrower. Further, consumer loan collections depend on the borrower's continuing financial stability, and therefore are more likely to be adversely affected by job loss, divorce, illness or personal bankruptcy.

Our procedures for underwriting consumer loans include an assessment of the borrower's credit history and ability to meet other existing debt obligations, as well as payments of principal and interest on the proposed loans. The stability of the borrower's monthly income may be determined by verification of gross monthly income from primary employment, and additionally from any verifiable secondary income. Although the borrower's creditworthiness is a primary consideration, the underwriting process also includes a comparison of the value of the collateral security, if any, to the proposed loan amount. We require independent appraisals for all consumer loans in excess of \$50,000. For loans that do not exceed this amount, we require that an officer prepare a memorandum of value detailing comparable values based upon tax bills or other available information.

Commercial Business Loans. We currently offer commercial business loans to existing customers in our market area, some of which are secured in part by additional real estate collateral. We make various types of secured and unsecured commercial business loans for the purpose of financing equipment acquisition, expansion, working capital and other general business purposes. The terms of these loans are generally for less than three years. Equipment loans usually involve a one-time disbursement of funds, with repayment over the term of the loan, while operating lines of credit involve multiple disbursements and revolving notes that can be renewed annually. The loans are either negotiated on a fixed-rate basis or carry variable interest rates indexed to the prime rate. At December 31, 2002, we had 73 commercial business loans outstanding with an aggregate balance of \$5.8 million, or 8.4%, of the total loan portfolio. As of December 31, 2002, our largest commercial business loan consisted of our participation interest in a \$632,000 loan to a car dealer, which is secured by stock of the car dealership.

In recent years, we have increased our emphasis on commercial business lending. These loans tend to have higher rates of interest than residential mortgage loans, and are more sensitive to changes in market interest rates because they often have adjustable interest rates and shorter terms. In addition, commercial business lending gives us greater access to commercial borrowers that may open transactional checking accounts with Clover Leaf Bank.

Commercial credit decisions are based upon a complete credit review of the borrower. A determination is made as to the borrower's ability to repay in accordance with the proposed terms as well as an overall assessment of the credit risks involved. Personal guarantees of borrowers are generally required. In evaluating a commercial real estate loan, we place primary emphasis on the ratio of net cash flow to debt service for the property, generally requiring a ratio of at least 120%. Credit agency reports of the borrower's credit history as well as bank checks and trade investigations supplement the analysis of the borrower's creditworthiness. Collateral supporting a secured transaction is also analyzed to determine its marketability and liquidity. Commercial business loans generally bear higher interest rates than residential loans, but they also may involve a higher risk of default since their repayment generally depends on the successful operation of the borrower's business.

Loan Originations, Purchases, Sales and Servicing. Although we originate both fixed-rate and adjustable-rate loans, our ability to generate each type of loan depends upon borrower demand, market interest rates, borrower preference for fixed- versus adjustable-rate loans, and the interest rates offered on each type of loan by competing lenders in our market area. This includes banks, savings institutions, credit unions, mortgage banking companies, and life insurance companies. Loan originations are derived from a number of sources, including existing or prior customers and walk-in customers.

Loan originations are adversely affected by rising interest rates, which typically result in decreased loan demand. Accordingly, the volume of our loan originations and the interest rates we can charge on loans vary from period to period. One- to four-family residential mortgage loans are generally underwritten to conform to Fannie Mae and Freddie Mac seller/servicer guidelines, and are currently originated on a fixed interest rate basis only. We generally retain the loans that we originate. When we do sell mortgage loans, we generally retain the servicing rights, which means that we will continue to collect payments on the loans and supervise foreclosure proceedings, if necessary. We retain a portion of the interest paid by the borrower on the loans, generally 25 basis points, as consideration for our services. We currently service \$10.3 million of loans for others, and we intend to sell a portion of our one- to four-family residential mortgage loans in the future in

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an effort to reduce our interest rate risk.

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The following table summarizes our loan origination and repayment activities for the periods indicated. We did not purchase any loans during the periods indicated.

	Years Ended December,	
	2002	2001
	(In Thousands)	
Loans receivable, net, at beginning of period	\$62,435	\$56,859
Originations by type:		
Real estate		
One- to four-family	26,076	13,358
Commercial	13,289	11,836
Construction and land	--	--
Non-real estate		
Consumer	1,614	1,845
Commercial business	--	2,952
Total loans originated	40,979	29,991
Sales and Repayments		
Sales:		
Real estate		
One- to four-family	8,204	3,091
Commercial	--	--
Construction and land	--	--
Non-real estate		
Consumer	--	--
Commercial business		
Total loans sold	8,204	3,091
Principal repayments	27,709	21,432
Total reductions	35,913	24,523
Increase in other items, net	43	108
Net increase	5,109	5,576
Loans receivable, net, at end of period	\$67,544	\$62,435

Loan Approval Procedures and Authority. Our lending activities are subject to written underwriting standards and loan origination procedures adopted by management and the Board of Directors. For single family, owner-occupied real estate loans, the President of Clover Leaf Bank is authorized to approve loans up to \$250,000, while the Senior Vice President is authorized to approve loans up to \$200,000. For secured commercial real estate loans and construction and land loans, the President and Senior Vice President are authorized to approve loans up to \$150,000 and \$75,000, respectively; for secured consumer loans, these officers may approve loans up to \$50,000; and for overdrafts and unsecured credits, these officers may approve loans up to \$25,000 and \$15,000, respectively. When acting together, these officers may approve new loans in

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amounts up to 150% of their combined lending limits, and may approve renewals of commercial business and commercial real estate loans in amounts up to 200% of their combined lending limits where there has been no deterioration in either the payment pattern or financial strength of the borrower. However, the entire Board of Directors must approve all loans in excess of \$625,000. In addition, the Board of Directors generally ratifies all pre-authorized loan approvals.

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Asset Quality

Delinquent Loans. The following table sets forth Clover Leaf Bank's loan delinquencies by type, amount and percentage at December 31, 2002.

Loans Delinquent For:								
60-89 Days			90 Days and Over			Total Delinquencies		
Number	Amount	Percent of Loan Category	Number	Amount	Percent of Loan Category	Number	Amount	
(Dollars in Thousands)								
Real Estate:								
Commercial	1	\$ 41	0.2%	1	\$ 151	0.7%	2	\$ 192
One- to four-family	11	557	1.6	1	29	0.1	12	586
Consumer	26	128	2.8	1	5	0.1	27	133
Commercial business .	3	272	4.7	1	10	0.2	4	282
Total	41	\$ 998	1.5%	4	\$ 195	0.3%	45	\$1,193
=====	=====	=====	=====	=====	=====	=====	=====	=====

Loan Delinquencies and Collection Procedures. When a borrower fails to make required payments on a loan, we take a number of steps to induce the borrower to correct the delinquency and restore the loan to a current status. We will send a borrower a reminder notice 15 days after an account becomes delinquent, and our employees are authorized to use their discretion whether direct telephone contact is required at that time. If the borrower does not remit the entire payment due by the end of the month, we try to make direct contact with the borrower to arrange a payment plan. If a satisfactory payment plan is not established within 50 days of a delinquency, we will send a demand letter to the borrower. If a satisfactory payment plan has not been arranged within 60 days following a delinquency, we may instruct our attorneys to institute foreclosure proceedings depending on the loan-to-value ratio or our relationship with the borrower. Foreclosed property is held as other real estate owned.

Our policies require that management continuously monitor the status of the loan portfolio and report to the Board of Directors on a monthly basis. These reports include information on delinquent loans and foreclosed real estate and our actions and plans to cure the delinquent status of the loans and to dispose of any real estate acquired through foreclosure.

Non-Performing Loans. All loans are reviewed on a regular basis and are placed on non-accrual status when, in the opinion of management, there is reasonable probability of loss of principal or the collection of additional interest is deemed insufficient to warrant further accrual. Generally, we place

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all loans 90 days or more past due on non-accrual status. In addition, we place any loan on non-accrual status if any part of it is classified as loss or if any part has been charged-off. When a loan is placed on non-accrual status, total interest accrued and unpaid to date is reversed. Subsequent payments are either applied to the outstanding principal balance or recorded as interest income, depending on the assessment of the ultimate collectibility of the loan. Loans are charged-off no later than 120 days following their delinquency, unless the loans are well-collateralized or in the process of collection.

As of December 31, 2002, our total non-accrual loans amounted to \$1.5 million compared to \$1.4 million at December 31, 2001. The largest contributor to the commercial non-accrual is a credit to a cabinet manufacturer that burned in a fire. Clover Leaf Bank received partial settlement from the insurance company in 2002, and the remaining balance of \$283,000 is expected in 2003.

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The table below sets forth the amounts and categories of non-performing assets in our loan portfolio. For all years presented, we had no troubled debt restructurings (which involve forgiving a portion of interest or principal on loans or making loans at materially less than market interest rates), and no foreclosed assets.

	Years Ended December 31,	
	2002	2001
	-----	-----
	(Dollars in Thousands)	
Non-accruing loans:		
One- to four-family	\$ 809	\$ 390
Construction	182	483
Commercial business	283	462
Commercial real estate	59	--
Consumer	196	104
	-----	-----
Total	\$1,529	1,439
	-----	-----
Accruing loans delinquent more than 90 days:		
One- to four-family	29	16
Commercial business	10	28
Commercial real estate	151	--
Consumer	5	71
	-----	-----
Total	195	115
	-----	-----
Total non-performing loans	\$1,724	\$1,554
	=====	=====
Total non-performing loans as a percentage of total assets.....	1.80%	1.62%
	=====	=====
Allowance for loan losses as a percentage of non-performing loans	40.02%	41.57%
	=====	=====
Allowance for loan losses as a percentage of gross loans receivable	1.01%	1.02%
	=====	=====

For the years ended December 31, 2002 and 2001, respectively, \$119,000 and \$87,000 of gross interest income would have been recorded had our non-accruing

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loans been current in accordance with their original terms.

Troubled Debt Restructurings. A troubled debt restructuring occurs when we, for economic or legal reasons related to a borrower's financial difficulties, grant a concession to the borrower, either as a deferment or reduction of interest or principal on the loan, that we would not otherwise consider. We had no troubled debt restructurings as of December 31, 2002.

Real Estate Owned. Real estate owned consists of property acquired through formal foreclosure or by deed in lieu of foreclosure and is recorded at the lower of recorded investment or fair value. Write-downs from recorded investment to fair value which are required at the time of foreclosure are charged to the allowance for loan losses. After transfer, the property is carried at the lower of recorded investment or fair value, less estimated selling expenses. Adjustments to the carrying value of the properties that result from subsequent declines in value are charged to operations in the period in which the declines occur. We held no property that was classified as real estate owned as of December 31, 2002 and December 31, 2001.

Classification of Assets. Our policies, consistent with regulatory guidelines, require that we classify loans and other assets, such as securities, that are considered to be of lesser quality, as substandard, doubtful, or loss assets. An asset is considered 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 the savings institution will sustain some loss if the deficiencies are not corrected. Assets classified as doubtful have all of 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 uncollectable and of such little value that their continuance as assets is not warranted. Assets that do not expose us to risk sufficient to warrant classification in one of the aforementioned categories, but which possess some weaknesses, are required to be designated as special mention by management.

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When we classify assets as either substandard or doubtful, we allocate for analytical purposes a portion of our general valuation allowances or loss reserves to these assets as deemed prudent by management. General allowances represent loss allowances that have been established to recognize the probable risk associated with lending activities, but which have not been allocated to particular problem assets. When we classify problem assets as loss, we are required either to establish a specific allowance for losses equal to 100% of the amount of the assets so classified, or to charge-off the amount of the assets. Our determination as to the classification of assets and the amount of valuation allowances is subject to review by regulatory agencies, which can order the establishment of additional loss allowances. Management regularly reviews our asset portfolio to determine whether any assets require classification in accordance with applicable regulatory guidelines and generally accepted accounting principles.

On the basis of management's review of our assets, at December 31, 2002, we had classified a total of \$3.7 million of our loans and other assets as follows:

At or For the Year
Ended

December 31, 2002

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(In Thousands)

Special Mention	\$	2,189
Substandard		1,309
Doubtful assets		186
Loss assets		28

Total	\$	3,712
		=====
General loss allowance ...	\$	426
Specific loss allowance ..		264
Charge-offs		--

Allowance for Loan Losses. The following table sets forth information regarding our allowance for loan losses and other ratios at or for the dates indicated.

	Years Ended December 31,	
	2002	2001
	-----	-----
	(Dollars in Thousands)	
Balance at beginning of period	\$ 646	\$ 625
Charge-offs:		
One- to four-family	--	--
Commercial business	--	(4)
Consumer	(105)	(127)
	-----	-----
	(105)	(131)
Recoveries:		
Commercial business	4	--
Consumer	52	64
	-----	-----
	56	64
	-----	-----
Net charge-offs	(49)	(67)
Additions charged to operations	93	88
	-----	-----
Balance at end of period	\$ 690	\$ 646
	=====	=====
Ratio of net charge-offs during the period to average loans outstanding during the period	.07%	0.11%
	=====	=====
Ratio of net charge-offs during the period to average non-performing assets	2.84%	4.31%
	=====	=====

The allowance for loan losses is a valuation account that reflects our evaluation of the credit losses inherent in our loan portfolio. We maintain the allowance through provisions for loan losses that we charge to income. We charge losses on loans against the allowance for loan losses when we believe the collection of loan principal is unlikely.

Our evaluation of risk in maintaining the allowance for loan losses includes the review of all loans on which the collectibility of principal may not be reasonably assured. We consider the following factors as part of this

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evaluation: our historical loan loss experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, peer group information and prevailing economic conditions. There may be other factors that may warrant our consideration in maintaining an allowance at a level sufficient to provide for probable losses. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available or as future events change. Although we believe that we have established and maintained the allowance for loan losses at adequate levels, future additions may be necessary if economic and other conditions in the future differ substantially from the current operating environment.

In addition, the Illinois Office of Banks and Real Estate and the Federal Deposit Insurance Corporation, as an integral part of their examination process, periodically review our loan portfolio and the related allowance for loan losses. The Illinois Office of Banks and Real Estate and the Federal Deposit Insurance Corporation may require us to increase the allowance for loan losses based on their judgments of information available to them at the time of their examination, thereby adversely affecting our results of operations.

Allocation of the Allowance for Loan Losses. The following table presents our allocation of the allowance for loan losses by loan category and the percentage of loans in each category to total loans at the periods indicated.

Years Ended December 31,						
2002				2001		
Amount of Loan Loss Allowance	Loan Amounts By Category	Percent of Loans in Each Category To Total Loans		Amount of Loan Loss Allowance	Loan Amounts By Category	Percent of Loans in Each Category To Total Loans
-----	-----	-----		-----	-----	-----
(Dollars in Thousands)						
Real Estate Loans:						
One- to four-family	\$ 253	\$ 34,300	50.26%	\$ 244	\$ 33,773	53.53%
Commercial	279	22,797	33.40	212	13,971	22.14
Construction and land	--	761	1.12	--	1,193	1.89
Commercial business	44	5,759	8.43	36	7,732	12.25
Consumer	114	4,631	6.79	154	6,427	10.19
Total	\$ 690	\$ 68,248	100.00%	\$ 646	\$ 63,096	100.00%
=====	=====	=====		=====	=====	=====

Management evaluates the total balance of the allowance for loan losses based on several factors that are not loan specific but are reflective of the losses inherent in the loan portfolio, including management's periodic review of loan collectibility in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, prevailing economic conditions such as housing trends, inflation rates and unemployment rates, geographic concentrations of loans within Clover Leaf Bank's immediate market area, and both peer financial institution historic loan loss experience and allowance for loan loss levels.

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Investment Activities

Clover Leaf Bank is permitted under federal and state law to invest in various types of liquid assets, including U.S. Government obligations, securities of various federal agencies and of state and municipal governments, deposits at the Federal Home Loan Bank of Chicago, certificates of deposit of federally insured institutions, certain bankers' acceptances and federal funds. Within certain regulatory limits, Clover Leaf Bank may

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also invest a portion of its assets in commercial paper and corporate debt securities. We are also required to invest in Federal Home Loan Bank stock. See "Regulation" and "Management's Discussion and Analysis of Financial Condition and Results of Operations--Liquidity and Capital Resources."

SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," requires that securities be categorized as "held to maturity," "trading securities" or "available for sale," based on management's intent as to the ultimate disposition of each security. SFAS No. 115 allows debt securities to be classified as "held to maturity" and reported in financial statements at amortized cost only if the reporting entity has the positive intent and ability to hold those securities to maturity. Securities that might be sold in response to changes in market interest rates, changes in the security's prepayment risk, increases in loan demand, or other similar factors cannot be classified as "held to maturity."

Debt and equity securities held for current resale are classified as "trading securities." These securities are reported at fair value, and unrealized gains and losses on the securities are included in earnings. Clover Leaf Bank does not currently use or maintain a trading account. Debt and equity securities not classified as either "held to maturity" or "trading securities" are classified as "available for sale." These securities are reported at fair value, and unrealized gains and losses on the securities are excluded from earnings and reported, net of deferred taxes, as a separate component of equity. Clover Leaf Bank has classified all of its securities as available for sale.

All of our securities carry market risk insofar as increases in market interest rates may cause a decrease in their market value. Many also carry prepayment risk insofar as they may be called prior to maturity in times of low market interest rates, so that we may have to invest the funds at a lower interest rate. Investments in securities are made based on certain considerations, which include the interest rate, tax considerations, yield, settlement date and maturity of the security, our liquidity position, and anticipated cash needs and sources. The effect that the proposed security would have on our credit and interest rate risk and risk-based capital is also considered. We purchase securities to provide necessary liquidity for day-to-day operations, and when investable funds exceed loan demand.

Generally, the investment policy of Clover Leaf Bank, as established by the Board of Directors, is to invest funds among various categories of investments and maturities based upon our liquidity needs, asset/liability management policies, investment quality, marketability and performance objectives.

Our investment policy does not permit engaging directly in hedging activities or purchasing high-risk mortgage derivative products.

Our debt securities are mainly composed of securities issued by the U.S. Government and government agencies (primarily Federal Home Loan Bank, Fannie Mae and Freddie Mac), although from time to time we make other investments as

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permitted by applicable laws and regulations.

The following table sets forth information relating to the amortized cost and fair value of our securities, all of which are classified as available for sale. For further information, see Notes 1 and 3 of the Notes to Consolidated Financial Statements.

	December 31,			
	2002		2001	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In Thousands)			
Federal agencies	\$ 9,352	\$ 9,426	\$ 8,352	\$ 8,532
State and municipal	844	852	862	874
Mortgage-backed securities	2,601	2,613	4,311	4,365
Corporate	509	557	512	535
	-----	-----	-----	-----
Total	\$13,306	\$13,448	\$14,037	\$14,306
	=====	=====	=====	=====

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The following table sets forth the scheduled maturities, amortized cost and weighted average yields for our securities at December 31, 2002. Due to the current interest rate environment, the Company has experienced significant calls on securities. Therefore, the following schedule reflects maturity by call date if that date is different than the stated maturity date.

	Due in one year or less		Due after one year through five years		Due after five years through ten years		Due aft
	Amortized Cost	Weighted Average Rate	Amortized Cost	Weighted Average Rate	Amortized Cost	Weighted Average Rate	
	-----	-----	-----	-----	-----	-----	-----
	(Dollars in Thousands)						
U. S. Government							
agency securities ..	\$ 4,001	4.80%	\$ 3,394	6.00%	\$ 1,956	2.44%	\$
Obligations of							
states and political							
subdivisions	270	4.53	574	5.14	--	--	
Mortgage-backed							
securities	--	--	--	--	731	7.47	1,8
Corporate	--	--	509	6.88	--	--	
	-----	-----	-----	-----	-----	-----	-----
Total	\$ 4,271	4.78%	\$ 4,477	5.98%	\$ 2,687	3.81%	\$ 1,8
	=====	=====	=====	=====	=====	=====	=====

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. Loan repayments are a relatively

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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.

Deposits. Residents of our primary market area are our main source of deposits. Deposit account terms vary, with the principal differences being the minimum balance required, the time periods the funds must remain on deposit and the interest rate. We do not use brokers to obtain deposits. Our deposit products include demand and NOW, money market, savings, and term certificate accounts. In recent years, and in connection with our emphasis on the origination of commercial business loans, we have promoted money market accounts with adjustable interest rates. Interest rates paid, maturity terms, service fees and withdrawal penalties are established by Clover Leaf Bank on a periodic basis. Management determines the rates and terms based on rates paid by our competitors, our needs for funds or liquidity, growth goals and federal and state regulations.

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Deposit Accounts by Type. The following table sets forth the dollar amount of our deposits in the various types of deposit programs as of the dates indicated.

	Years Ended December 31,			
	2002		2001	
	Amount	Percent	Amount	Percent
	(Dollars in Thousands)			
Transactions and savings deposits:				
Demand accounts	\$ 7,153	9.87%	\$13,061	16.14%
Savings accounts	3,998	5.52	3,983	4.92
NOW accounts	2,844	3.92	2,804	3.46
Money market accounts	17,329	23.90	13,893	17.17
	-----	-----	-----	-----
Total non-certificates	31,324	43.21	33,741	41.69
	-----	-----	-----	-----
Certificates of deposit:				
0.00 - 3.99%	18,024	24.86	8,177	10.10
4.00 - 5.99%	18,169	25.07	18,570	22.94
6.00 - 7.99%	--	--	14,993	18.53
	-----	-----	-----	-----
Total certificates of deposit	36,193	49.93	41,740	51.57
	-----	-----	-----	-----
Individual retirement accounts:				
0.00 - 3.99%	1,320	1.82	674	0.83
4.00 - 5.99%	3,650	5.04	2,297	2.84
6.00 - 7.99%	--	--	2,481	3.07
	-----	-----	-----	-----
Total individual retirement accounts	4,970	6.86	5,452	6.74
	-----	-----	-----	-----
Total time deposits	\$41,163	56.79	\$47,192	58.31
	=====	=====	=====	=====
Total deposits	\$72,487	100.00%	\$80,933	100.00%

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Time Deposit Rates and Maturities. The following table indicates interest rate and maturity information for our time deposits as of December 31, 2002.

Interest Rate	Maturity				Total
	One Year or Less	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 years	
(In Thousands)					
0.00-3.99%	\$11,756	\$ 5,844	\$ 1,744	\$ --	\$19,344
4.00-5.99%	14,906	--	570	6,343	21,819
Total time deposits	\$26,662	\$ 5,844	\$ 2,314	\$ 6,343	\$41,163

Time Deposit Balances and Maturities. The following table indicates balance and maturity information for our time deposits as of December 31, 2002.

	Maturity				
	3 Months or Less	Over 3 to 6 Months	Over 6 to 12 Months	Over 12 Months	Total
	(In Thousands)				
Time deposits less than \$100,000 ...	\$ 8,203	\$ 6,736	\$ 8,843	\$12,459	\$36,241
Time deposits of \$100,000 or more ..	1,057	713	1,110	2,042	4,922
Total time deposits	\$ 9,260	\$ 7,449	\$ 9,953	\$14,501	\$41,163

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-

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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.

The following table sets forth the maximum month-end balance and average balance of Federal Home Loan Bank advances for the periods indicated. Other than Federal Home Loan Bank advances, we had no other borrowings during the periods indicated.

Years Ended December 31,	
2002	2001

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	-----	-----
	(In Thousands)	
Maximum Balance:		
FHLB advances.....	\$9,000	\$3,000
Average Balance:		
FHLB advances.....	\$5,675	\$1,849

The following table sets forth total borrowings and the weighted average interest rate paid on such borrowings at the dates indicated.

	Years Ended December 31,	
	-----	-----
	2002	2001
	-----	-----
	(Dollars in Thousands)	
FHLB advances.....	\$9,000	\$1,500
Weighted average interest rate of FHLB advances.....	2.83%	5.65%

REGULATION

The following summarizes certain laws and regulations that are considered material to Clover Leaf Financial and Clover Leaf Bank. However, this summary does not purport to be complete and is qualified in its entirety by reference to applicable laws and regulations. Any change in this regulation, whether by the Federal Deposit Insurance Corporation, the Illinois Office of Banks and Real Estate, the Board of Governors of the Federal Reserve System, the Illinois General Assembly or Congress, could have a material adverse impact on Clover Leaf Financial and Clover Leaf Bank.

Clover Leaf Financial

Holding Company Acquisitions. Clover Leaf Financial is a bank holding company within the meaning of the Bank Holding Company Act and is registered with and regulated by the Federal Reserve Board. Federal law generally prohibits a company, without prior Federal Reserve approval, from acquiring the ownership or control of any bank. In accordance with Federal Reserve Board policy, Clover Leaf Financial is expected to act as a source of financial strength to Clover Leaf Bank and to commit resources to support Clover Leaf Bank in circumstances where Clover Leaf Financial might not do so absent such policy. Under the Bank Holding Company Act, Clover Leaf Financial is subject to periodic examination by the Federal Reserve Board and will be required to file periodic reports of its operations and such additional information as the Federal Reserve Board may require. Clover Leaf Financial also is subject to regulation by, the Commissioner under the Illinois Bank Holding Company Act.

Bank Holding Company Act Activities and Other Limitations. A bank holding company is a legal entity separate and distinct from its subsidiary bank. Normally, the major source of a holding company's revenue is dividends from its subsidiary bank. The right of a bank holding company to participate as a stockholder in any distribution of assets of its subsidiary bank upon its liquidation or reorganization is subject to the prior claims of creditors of the subsidiary bank. The subsidiary bank is subject to claims by creditors for long-term and short-term

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debt obligations, including obligations for federal funds purchased and securities sold under repurchase agreements, as well as deposit liabilities.

The Bank Holding Company Act also prohibits a bank holding company, with certain exceptions, from acquiring more than 5% of the voting shares of any company that is not a bank and from engaging in any business other than banking or managing or controlling banks. Under the Bank Holding Company Act, the Federal Reserve Board is authorized to approve the ownership of shares by a bank holding company in any company, the activities of which the Federal Reserve Board has determined to be so closely related to banking or to managing or controlling banks as to be a proper incident thereto. The Federal Reserve Board has by regulation determined that certain activities are closely related to banking within the meaning of the Bank Holding Company Act. These activities include operating a mortgage company, finance company, credit card company, factoring company, trust company or savings association; performing certain data processing operations; providing limited securities brokerage services; acting as an investment or financial advisor; acting as an insurance agent for certain types of credit-related insurance; leasing personal property on a full-payout, non-operating basis; providing tax planning and preparation services; operating a collection agency; and providing certain courier services. The Federal Reserve Board also has determined that certain other activities, including real estate brokerage and syndication, land development and property management, are not closely related to banking and a proper incident thereto. In making such determinations, the Federal Reserve Board is required to weigh the expected benefit to the public, such as greater convenience, increased competition or gains in efficiency, against the possible adverse effects, such as undue concentration of resources, decreased or unfair competition, conflicts of interest or unsound banking practices.

A bank holding company that is registered as a "financial holding company" is also permitted to engage in activities that are financial in nature or incidental to such financial activities. Activities that are considered financial in nature include: securities underwriting, dealing and market making; insurance underwriting; and merchant banking. Clover Leaf Financial has not elected to qualify as a financial holding company, although it may seek to do so in the future. Bank holding companies may qualify to become a financial holding company if:

- o each of its depository institution subsidiaries is "well capitalized";
- o each of its depository institution subsidiaries is "well managed";
- o each of its depository institution subsidiaries has at least a "satisfactory" Community Reinvestment Act rating at its most recent examination; and
- o the bank holding company has filed a certification with the Federal Reserve Board that it elects to become a financial holding company.

Sarbanes-Oxley Act of 2002. On July 30, 2002, the President signed into law the Sarbanes-Oxley Act of 2002 implementing legislative reforms intended to address corporate and accounting irregularities. In addition to the establishment of a new accounting oversight board which will enforce auditing, quality control and independence standards and will be funded by fees from all publicly traded companies, the Act restricts accounting companies from providing both auditing and consulting services. To ensure auditor independence, any non-audit services being provided to an audit client will require preapproval by the company's audit committee members. In addition, the audit partners must be rotated. The Act requires chief executive officers and chief financial officers, or their equivalent, to certify to the accuracy of periodic reports filed with the SEC, subject to civil and criminal penalties if they knowingly or willfully violate this certification requirement. In addition, under the Act, counsel will

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be required to report evidence of a material violation of the securities laws or a breach of fiduciary duty by a company to its chief executive officer or its chief legal officer, and, if such officer does not appropriately respond, to report such evidence to the audit committee or other similar committee of the board of directors or the board itself.

The legislation accelerates the time frame for disclosures by public companies, as they must immediately disclose any material changes in their financial condition or operations. Directors and executive officers must also provide information for most changes in ownership in a company's securities within two business days of the change. The period during which certain types of law suits can be instituted against a company or its officers has

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been extended, and bonuses issued to top executives prior to restatement of a company's financial statements are now subject to disgorgement if such restatement was due to corporate misconduct. Executives are also prohibited from insider trading during retirement plan "blackout" periods, and loans to company executives are restricted. In addition, civil and criminal penalties have been enhanced.

The Act also increases the oversight of, and codifies certain requirements relating to, audit committees of public companies and how they interact with the company's "registered public accounting firm" (RPAF). Audit Committee members must be independent and are barred from accepting consulting, advisory or other compensatory fees from the issuer. In addition, companies must disclose whether at least one member of the committee is a "financial expert" (as such term will be defined by the SEC) and if not, why not. Under the Act, a RPAF is prohibited from performing statutorily mandated audit services for a company if such company's chief executive officer, chief financial officer, comptroller, chief accounting officer or any person serving in equivalent positions has been employed by such firm and participated in the audit of such company during the one-year period preceding the audit initiation date. The Act also prohibits any officer or director of a company or any other person acting under their direction from taking any action to fraudulently influence, coerce, manipulate or mislead any independent public or certified accountant engaged in the audit of the company's financial statements for the purpose of rendering the financial statement's materially misleading. In accordance with the Act, the SEC proposed rules requiring inclusion of an internal control report and assessment by management in the annual report to shareholders. The Act requires the RPAF that issues the audit report to attest to and report on management's assessment of the company's internal controls. In addition, the Act requires that each financial report required to be prepared in accordance with (or reconciled to) generally accepted accounting principles and filed with the SEC reflect all material correcting adjustments that are identified by a RPAF in accordance with generally accepted accounting principles and the rules and regulations of the SEC.

Capital Requirements. The Federal Reserve Board has adopted capital adequacy guidelines for bank holding companies (on a consolidated basis) substantially similar to those of the FDIC for Clover Leaf Bank. Clover Leaf Financial's pro forma Tier 1 and total capital significantly exceed the Federal Reserve Board's capital adequacy requirements.

Restrictions On Transactions With Affiliates. Transactions between a bank and its "affiliates" are subject to quantitative and qualitative restrictions under Sections 23A and 23B of the Federal Reserve Act and FDIC regulations. Affiliates of a bank include, among other entities, the bank's holding company and companies that are controlled by or under common control with the bank.

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In general, the extent to which a bank or its subsidiaries may engage in certain "covered transactions" with affiliates is limited to an amount equal to 10% of the institution's capital and surplus, in the case of covered transactions with any one affiliate, and to an amount equal to 20% of such capital and surplus, in the case of covered transactions with all affiliates. In addition, a bank and its subsidiaries may engage in covered transactions and certain other transactions only on terms and under circumstances that are substantially the same, or at least as favorable to the bank or its subsidiary, as those prevailing at the time for comparable transactions with nonaffiliated companies. A "covered transaction" is defined to include a loan or extension of credit to an affiliate; a purchase of investment securities issued by an affiliate; the purchase of assets from an affiliate, with certain exceptions; the acceptance of securities issued by an affiliate as collateral for a loan or extension of credit to any party; or the issuance of a guarantee, acceptance or letter of credit on behalf of an affiliate.

In addition, Sections 22(h) and (g) of the Federal Reserve Act place restrictions on loans to executive officers, directors and principal stockholders. Under Section 22(h), loans to a director, an executive officer and to a greater than 10% stockholder of a bank, and certain affiliated interests of either, may not exceed, together with all other outstanding loans to such person and affiliated interests, the bank's loans to one borrower limit (generally equal to 15% of the institution's unimpaired capital and surplus). Section 22(h) also requires that loans to directors, executive officers and principal stockholders be made on terms substantially the same as offered in comparable transactions to other persons and also requires prior board approval for certain loans. In addition, the aggregate amount of extensions of credit by a bank to all insiders cannot exceed the institution's unimpaired capital and surplus. Furthermore, Section 22(g) places additional restrictions on loans to executive officers.

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Federal Securities Laws. Clover Leaf Financial's common stock is registered with the SEC under Section 12(g) of the Securities Exchange Act of 1934. Clover Leaf Financial is subject to the proxy and tender offer rules, insider trading reporting requirements and restrictions, and certain other requirements under the Exchange Act.

Clover Leaf Bank

General. Clover Leaf Bank is an Illinois-chartered commercial bank, the deposit accounts of which are insured by the Bank Insurance Fund of the FDIC. As an FDIC insured, Illinois-chartered commercial bank, Clover Leaf Bank is subject to the examination, supervision, reporting and enforcement requirements of the Illinois Office of Banks and Real Estate, as the chartering authority for Illinois banks, and the FDIC, as administrator of the Bank Insurance Fund, and to the statutes and regulations administered by the Illinois Office of Banks and Real Estate and the FDIC governing such matters as capital standards, mergers, establishment of branch offices, subsidiary investments and activities and general investment authority. Clover Leaf Bank is required to file reports with the Illinois Office of Banks and Real Estate and the FDIC concerning its activities and financial condition, and will be required to obtain regulatory approvals prior to entering into certain transactions, including mergers with, or acquisitions of, other financial institutions.

The Illinois Office of Banks and Real Estate and the FDIC have extensive enforcement authority over Illinois-chartered commercial banks, such as Clover Leaf Bank. This enforcement authority includes, among other things, the ability

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to issue cease-and-desist or removal orders, to assess civil money penalties and to initiate injunctive actions. In general, these enforcement actions may be initiated for violations of laws and regulations and unsafe and unsound practices.

Insurance of Deposit Accounts. The Federal Deposit Insurance Corporation has adopted a risk-based system for assessing deposit insurance premiums. The Federal Deposit Insurance Corporation assigns an institution to one of three capital categories based on the institution's financial information, as of the reporting period ending seven months before the assessment period, and one of three supervisory subcategories within each capital group. The three capital categories are well capitalized, adequately capitalized and undercapitalized. The supervisory subgroup to which an institution is assigned is based on a supervisory evaluation provided to the Federal Deposit Insurance Corporation by the institution's primary federal regulator and information which the Federal Deposit Insurance Corporation determines to be relevant to the institution's financial condition and the risk posed to the deposit insurance funds. An institution's assessment rate depends on the capital category and supervisory category to which it is assigned. The Federal Deposit Insurance Corporation is authorized to raise the assessment rates. The Federal Deposit Insurance Corporation has exercised this authority several times in the past and may raise insurance premiums in the future. If this type of action is taken by the Federal Deposit Insurance Corporation, it could have an adverse effect on the earnings of Clover Leaf Bank.

Capital Requirements. The FDIC has capital adequacy regulations and policies regarding the capital adequacy of state-chartered commercial banks that, like Clover Leaf Bank, are not members of the Federal Reserve System. The FDIC's capital regulations establish a minimum 3.0% Tier 1 leverage capital requirement for the most highly-rated state-chartered, non-member banks, with additional capital of at least 100 to 200 basis points for all other state-chartered, non-member banks, which effectively will increase the minimum Tier 1 leverage ratio for such other banks to 4.0% to 5.0% or more. Under the FDIC's regulation, the highest-rated banks are those that the FDIC determines are not anticipating or experiencing significant growth and have well diversified risk, including no undue interest rate risk exposure, excellent asset quality, high liquidity, good earnings and, in general, are considered strong banking organizations, rated composite 1 under the Uniform Financial Institutions Rating System. Leverage or core capital is defined as the sum of common stock, capital surplus, retained earnings, noncumulative perpetual preferred stock and related surplus, and minority interests in consolidated subsidiaries, minus all intangible assets other than certain qualifying supervisory goodwill, and certain purchased mortgage servicing rights and purchased credit and relationships.

The FDIC also requires that banks meet a risk-based capital standard. Under the risk-based capital standard, total capital, which is defined as Tier 1 capital and supplementary (Tier 2 capital), must equal at least 8%

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of risk-weighted assets. In determining the amount of risk-weighted assets, all assets, plus certain off balance sheet assets, are multiplied by a risk-weight of 0% to 100%, based on the risks the FDIC believes are inherent in the type of asset.

The components of Tier 1 capital are equivalent to those discussed above under the 3% leverage standard. The components of supplementary (Tier 2) capital include certain perpetual preferred stock, certain mandatory convertible securities, certain subordinated debt and intermediate preferred stock and

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general allowances for loan and lease losses. Allowance for loan and lease losses includable in supplementary capital is limited to a maximum of 1.25% of risk-weighted assets. Overall, the amount of capital counted toward supplementary capital cannot exceed 100% of core capital. At December 31, 2002, Clover Leaf Bank met each of its capital requirements.

A bank which has less than the minimum leverage capital requirement must, within 60 days from the date it fails to comply with this requirement, submit to its FDIC regional director for review and approval a reasonable plan describing the means and timing by which the bank will achieve its minimum leverage capital requirement. A bank that fails to file such a plan with the FDIC is deemed to be operating in an unsafe and unsound manner and may be subject to a cease-and-desist order from the FDIC. FDIC regulations also provide that any insured depository institution with a ratio of Tier 1 capital to total assets that is less than 2.0% is deemed to be operating in an unsafe or unsound condition and is subject to potential termination of deposit insurance. However, such an institution will not be subject to an enforcement proceeding solely on account of its capital ratios if it has entered into and is in compliance with a written agreement with the FDIC to increase its Tier 1 leverage capital ratio and to take such other action as may be necessary to operate in a safe and sound manner. The FDIC capital regulation also provides, among other things, for the issuance by the FDIC of a capital directive, which is a final order issued to a bank that fails to maintain minimum capital to restore its capital to the minimum leverage capital requirement within a specified time period. Such directive is enforceable in the same manner as a final cease-and-desist order.

At December 31, 2002, Clover Leaf Bank exceeded all of its regulatory capital requirements, with leverage, Tier 1 risk-based and total risk-based capital ratios of 11.37%, 16.64% and 17.76%, respectively.

Any bank that fails any of the capital requirements is subject to possible enforcement actions by the FDIC. These actions could include a capital directive, a cease and desist order, civil money penalties, the establishment of restrictions on the institution's operations, termination of Federal deposit insurance and the appointment of a conservator or receiver.

At December 31, 2002, Clover Leaf Bank was deemed a well-capitalized institution for purposes of the above regulations and as such is not subject to the above-mentioned restrictions.

Clover Leaf Bank would not be able to pay dividends on its capital stock if its capital were reduced below the remaining balance of the liquidation account established in connection with the conversion.

Safety and Soundness Guidelines. The FDIC and the other federal banking agencies have established guidelines for safety and soundness, addressing operational and managerial standards, as well as compensation matters for insured financial institutions. Institutions failing to meet these standards are required to submit compliance plans to their appropriate federal regulators. The FDIC and the other agencies also have established guidelines regarding asset quality and earnings standards for insured institutions. Clover Leaf Bank believes that it is in compliance with these guidelines and standards.

Community Reinvestment Act and Fair Lending Laws. Commercial banks, such as Clover Leaf Bank, have a responsibility under the Community Reinvestment Act and related regulations of the FDIC to help meet the credit needs of their communities, including low- and moderate-income neighborhoods. In addition, the Equal Credit Opportunity Act and the Fair Housing Act (together, the "Fair Lending Laws") prohibit lenders from discriminating in their lending practices on the basis of characteristics specified in those statutes. An institution's failure to comply with the provisions of Community Reinvestment Act could, at a minimum, result in regulatory restrictions on its activities. Failure to comply

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with the Fair Lending Laws could result in enforcement actions by the FDIC, as well as the Department of Justice.

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The USA PATRIOT Act. In response to the events of September 11th, the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001, or the USA PATRIOT Act, was signed into law on October 26, 2001. The USA PATRIOT Act gives the federal government new powers to address terrorist threats through enhanced domestic security measures, expanded surveillance powers, increased information sharing, and broadened anti-money laundering requirements. By way of amendments to the Bank Secrecy Act, Title III of the USA PATRIOT Act takes measures intended to encourage information sharing among bank regulatory agencies and law enforcement bodies. Further, certain provisions of Title III impose affirmative obligations on a broad range of financial institutions, including banks, thrifts, brokers, dealers, credit unions, money transfer agents and parties registered under the Commodity Exchange Act.

Among other requirements, Title III of the USA PATRIOT Act imposes the following requirements with respect to financial institutions:

- o Pursuant to Section 352, all financial institutions must establish anti-money laundering programs that include, at minimum: (i) internal policies, procedures, and controls; (ii) specific designation of an anti-money laundering compliance officer; (iii) ongoing employee training programs; and (iv) an independent audit function to test the anti-money laundering program.
- o Section 326 of the Act authorizes the Secretary of the Department of Treasury, in conjunction with other bank regulators, to issue regulations that provide for minimum standards with respect to customer identification at the time new accounts are opened.
- o Section 312 of the Act requires financial institutions that establish, maintain, administer, or manage private banking accounts or correspondence accounts in the United States for non-United States persons or their representatives (including foreign individuals visiting the United States) to establish appropriate, specific, and, where necessary, enhanced due diligence policies, procedures, and controls designed to detect and report money laundering.
- o Effective December 25, 2001, financial institutions are prohibited from establishing, maintaining, administering or managing correspondent accounts for foreign shell banks (foreign banks that do not have a physical presence in any country), and will be subject to certain record keeping obligations with respect to correspondent accounts of foreign banks.
- o Bank regulators are directed to consider a holding company's effectiveness in combating money laundering when ruling on Federal Reserve Act and Bank Merger Act applications.

The federal banking agencies have begun to propose and implement regulations pursuant to the USA PATRIOT Act. These proposed and interim regulations would require financial institutions to adopt the policies and procedures contemplated by the USA PATRIOT Act.

Federal Home Loan Bank System. Clover Leaf Bank is a member of the Federal Home Loan Bank of Chicago, which is one of 12 regional Federal Home Loan Banks

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that administers the home financing credit function of savings institutions. Each Federal Home Loan Bank serves as a reserve or central bank for its members within its assigned region. It is funded primarily from proceeds derived from the sale of consolidated obligations of the Federal Home Loan Bank System. It makes loans to members (i.e., advances) in accordance with policies and procedures established by the Board of Directors of the Federal Home Loan Bank. At December 31, 2002, Clover Leaf Bank had \$9.0 million of Federal Home Loan Bank advances. See the Notes to the Consolidated Financial Statements.

As a member, Clover Leaf Bank is required to purchase and maintain stock in the Federal Home Loan Bank of Chicago in an amount equal to at least 1% of its aggregate unpaid residential mortgage loans or similar obligations at the beginning of each year. At December 31, 2002, Clover Leaf Bank had \$3.4 million in Federal Home Loan Bank stock, which was in compliance with this requirement.

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The Federal Home Loan Banks are required to provide funds for the resolution of troubled savings institutions and to contribute to affordable housing programs through direct loans or interest subsidies on advances targeted for community investment and low- and moderate-income housing projects. These contributions have adversely affected the level of Federal Home Loan Bank dividends paid in the past and could do so in the future. These contributions also could have an adverse effect on the value of Federal Home Loan Bank stock in the future. The average dividend yield on Clover Leaf Bank's Federal Home Loan Bank stock was 5.20% in 2002 and 6.14% in 2001.

Federal Reserve System. The Federal Reserve Board requires all depository institutions to maintain reserves against their transaction accounts (primarily NOW and Super NOW checking accounts) and non-personal time deposits. As of November 3, 1999, no reserves were required to be maintained on the first \$5.0 million of transaction accounts, reserves of 3% were required to be maintained against the next \$44.3 million of net transaction accounts, and a reserve of \$1.3 million plus 10% against net transaction accounts above this amount. The above dollar amounts and percentages are subject to periodic adjustment by the Federal Reserve Board. Because required reserves must be maintained in the form of vault cash or a noninterest-bearing account at a Federal Reserve Bank, the effect of this reserve requirement is to reduce an institution's earning assets and constrain its ability to lend.

TAXATION

Federal Taxation

For federal income tax purposes, Clover Leaf Financial and Clover Leaf Bank file a consolidated federal income tax return on a calendar year basis using the accrual method of accounting.

Deferred income taxes arise from the recognition of items of income and expense for tax purposes in years different from those in which they are recognized in the consolidated financial statements. Clover Leaf Financial accounts for deferred income taxes by the asset and liability method, applying the enacted statutory rates in effect at the balance sheet date to differences between the book basis and the tax basis of assets and liabilities. The resulting deferred tax liabilities and assets are adjusted to reflect changes in the tax laws.

Clover Leaf Financial is not currently subject to the alternative minimum tax. Clover Leaf Financial may be subject to the corporate alternative minimum tax in the future, to the extent it exceeds Clover Leaf Financial's regular

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income tax for the year if its annual gross receipts for a three-year consecutive period exceed \$7 million. The alternative minimum tax will be imposed at the rate of 20% of a specially computed tax base. Included in this base are a number of preference items, including interest on certain tax-exempt bonds issued after August 7, 1986, and an "adjusted current earnings" computation which is similar to a tax earnings and profits computation. In addition, for purposes of the alternative minimum tax, the amount of alternative minimum taxable income that may be offset by net operating losses is limited to 90% of alternative minimum taxable income.

Clover Leaf Bank's income tax returns have not been audited by the Internal Revenue Service for the past five years.

State Taxation

Illinois State Taxation. Clover Leaf Financial is required to file Illinois income tax returns and pay tax at an effective tax rate of 7.18% of Illinois taxable income. For these purposes, Illinois taxable income generally means federal taxable income subject to certain modifications, the primary one of which is the exclusion of interest income on United States obligations.

Delaware Taxation. As a Delaware holding company not earning income in Delaware, Clover Leaf Financial is exempt from Delaware corporate income tax but is required to file an annual report with and pay an annual franchise tax to the State of Delaware.

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ITEM 2. Properties

At December 31, 2002, Clover Leaf Financial conducted its business from our main office at 200 East Park Street, Edwardsville, Illinois. The following table sets forth certain information with respect to the offices of Clover Leaf Bank at December 31, 2002.

Location	Leased or Owned	Original Year	Date of Lease Expiration
		Leased or Acquired	
200 East Park Street Edwardsville, Illinois 62025	Owned	1976	N/A
2143 South State Route 157 Edwardsville, Illinois 62025	Owned	1999	N/A

ITEM 3. 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. Other than litigation previously disclosed, at December 31, 2002, Clover Leaf Financial and Clover Leaf Bank were not involved in any material legal proceedings.

ITEM 4. Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of stockholders during the fourth quarter of the year under report.

PART II

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ITEM 5. Market for Company's Common Stock and Related Stockholder Matters

The section entitled "Market for Common Stock" section of Clover Leaf Financial's Annual Report to Stockholders is incorporated herein by reference.

ITEM 6. Management's Discussion and Analysis of Financial Condition and Results of Operations

The section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" of Clover Leaf Financial's Annual Report to Stockholders is incorporated herein by reference.

ITEM 7. Financial Statements

The financial statements of Clover Leaf Financial's Annual Report to Stockholders are incorporated herein by reference.

ITEM 8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

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PART III

ITEM 9. Directors, Executive Officers, Promoters and Control Persons; Compliance With Section 16(a) of the Exchange Act

The "Proposal I--Election of Directors" section of the Company's definitive Proxy Statement for the Company's 2003 Annual Meeting of Stockholders (the "2003 Proxy Statement") is incorporated herein by reference.

ITEM 10. Executive Compensation

The "Proposal I--Election of Directors" section of the Company's 2003 Proxy Statement is incorporated herein by reference.

ITEM 11. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The "Proposal I--Election of Directors" section of the Company's 2003 Proxy Statement is incorporated herein by reference.

The Company does not have any equity compensation plan that was not approved by stockholders, other than its employee stock ownership plan.

ITEM 12. Certain Relationships and Related Transactions

The "Transactions with Certain Related Persons" section of the Company's 2003 Proxy Statement is incorporated herein by reference.

PART IV

ITEM 13. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

(a) (1) Financial Statements

The exhibits and financial statement schedules filed as a part of this Form 10-KSB are as follows:

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- (A) Independent Auditors' Report
- (B) Consolidated Balance Sheets
- (C) Consolidated Statements of Income
- (D) Consolidated Statements of Changes in Stockholders' Equity
- (E) Consolidated Statements of Cash Flows
- (F) Notes to Consolidated Financial Statements

(a) (2) Financial Statement Schedules

All financial statement schedules have been omitted as the required information is inapplicable or has been included in the Notes to Consolidated Financial Statements.

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(b) Reports on Form 8-K

None.

(c) Exhibits

- 3.1 Certificate of Incorporation of Clover Leaf Financial Corp.*
- 3.2 Bylaws of Clover Leaf Financial Corp.*
- 4 Form of Common Stock Certificate of Clover Leaf Financial Corp.*
- 10.1 Form of Employment Agreement for Dennis M. Terry*
- 10.2 Form of Employee Stock Ownership Plan*
- 10.3 Form of Severance Agreement*
- 10.4 Director Emeritus Plan*
- 10.5 Form of Director's Deferred Compensation Agreement*
- 10.6 Officer's Deferred Bonus Compensation Agreement*
- 13 Portions of 2002 Annual Report to Stockholders
- 21 Subsidiaries of the Registrant*
- 99.1 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

* Incorporated by reference to the Registration Statement on Form SB-2 of Clover Leaf Financial Corp. (Registration No. 333-69762) initially filed with the Securities and Exchange Commission on September 21, 2001.

ITEM 14. Controls and Procedures

The Company's Chief Executive Officer and Chief Financial Officer have

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concluded, based on their evaluation within 90 days prior to the filing date of this report, that the Company's disclosure controls and procedures (as defined in Securities Exchange Act Rules 13a-14(c) and 15d-14(c)) 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 have been no significant changes in the Company's internal controls or in other factors that could significantly affect these controls subsequent to the date of the foregoing evaluation.

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Signatures

Pursuant to the requirements of Section 13 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.

Date: March 28, 2003

By: /s/ Dennis M. Terry

Dennis M. Terry
President and Chief Executive Officer
(Duly Authorized Representative)

Pursuant to the requirements of the Securities Exchange of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signatures	Title	Date
/s/ Dennis M. Terry ----- Dennis M. Terry	President, Chief Executive Officer and Director (Principal Executive Officer)	March 28, 2003
/s/ Darlene F. McDonald ----- Darlene F. McDonald	Senior Vice President and Treasurer (Principal Financial and Accounting Officer)	March 28, 2003
/s/ Joseph J. Gugger ----- Joseph J. Gugger	Director	March 28, 2003
----- Kenneth P. Highlander	Director	_____, 2003
/s/ Gary D. Niebur ----- Gary D. Niebur	Director	March 28, 2003
----- Robert W. Schwartz	Director	_____, 2003
-----	Director	_____, 2003

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Dennis Ulrich

/s/ Philip H. Weber

Director

March 28, 2003

Philip H. Weber

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Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Dennis M. Terry, President and Chief Executive Officer, certify that:

1. I have reviewed this annual report on Form 10-KSB of Clover Leaf Financial Corp.;
2. Based on my knowledge, this annual 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 annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual 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-14 and 15d-14) for the registrant and have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
 - c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

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6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

March 28, 2003

/s/ Dennis M. Terry

Date

Dennis M. Terry
President and Chief Executive Officer

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

I, Darlene F. McDonald, Senior Vice President and Chief Financial Officer, certify that:

1. I have reviewed this annual report on Form 10-KSB of Clover Leaf Financial Corp.;
2. Based on my knowledge, this annual 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 annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual 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-14 and 15d-14) for the registrant and have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
 - c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have

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identified for the registrant's auditors any material weaknesses in internal controls; and

- b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officer and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

March 28, 2003

/s/ Darlene F. McDonald

Date

Darlene F. McDonald
Senior Vice President and Chief Financial Officer

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EXHIBIT 13

PORTIONS OF 2002 ANNUAL REPORT TO STOCKHOLDERS

2002 ANNUAL REPORT TO STOCKHOLDERS

CLOVER LEAF FINANCIAL CORP.

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[LETTERHEAD OF CLOVER LEAF FINANCIAL CORP.]

April 20, 2003

To our Valued Stockholders:

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On behalf of our Board of Directors, Management and Staff, we are pleased to present this 2002 annual report of Clover Leaf Financial Corp., the holding company for Clover Leaf Bank.

During 2002 we undertook and implemented several significant changes, all of which were designed to dramatically enhance customer service.

During the second quarter we unveiled our Internet banking site, www.cloverleafbank.com. This is a state-of-the-art Internet banking site that offers customers the opportunity to conduct their banking from the comfort, and convenience, of their home or office. For the consumer customer it offers "real time" account information and access, money transfer capabilities and the increasingly popular "Bill-Pay" feature. For the commercial customer it offers all of those features plus a complete line of cash management products.

During the third quarter we began negotiations to acquire a 4.5-acre site at the intersection of Goshen Road and Old Troy Road. The negotiations resulted in the purchase of land during January 2003. This will be the home to Clover Leaf's third location in the Edwardsville - Glen Carbon area. We are very excited about this site, given its location in the heart of the residential growth corridor. We anticipate construction to commence sometime in 2004.

Finally, in the fourth quarter we converted our charter to a state-chartered commercial bank. This represents a significant change in the products and services we can offer.

We feel these changes, along with others implemented recently, put Clover Leaf Bank in a strong position to move forward and continue the profitable growth pattern we have enjoyed of late, while continuing to offer a competitive product line that is delivered by a well-trained professional staff that is dedicated to customer service.

Thank you for your continued support.

Sincerely,

Philip H. Weber
Chairman of the Board

Dennis M. Terry
President and Chief Executive Officer

SELECTED CONSOLIDATED FINANCIAL INFORMATION AND OTHER DATA

The following information is derived from the audited consolidated financial statements of Clover Leaf Financial Corp. or, prior to December 27, 2001, Clover Leaf Bank. For additional information about Clover Leaf Financial Corp. and Clover Leaf Bank's conversion to stock form, reference is made to "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Consolidated Financial Statements of Clover Leaf Financial Corp. and related notes included elsewhere in this Annual Report.

	At December 31,	
	2002	2001
	(In Thousands)	
Selected Financial Condition Data:		
Total assets	\$95,516	\$96,101
Loans, net	67,544	62,435
Interest-bearing deposits (asset)	5,688	10,279
Securities	13,448	14,306

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Deposits	72,487	80,933
Borrowed funds	9,000	1,500
Stockholders' equity	12,718	12,510

For the Years
Ended December 31,

2002 2001

(In Thousands)

Selected Operations Data:

Total interest income	\$ 5,345	\$ 5,785
Total interest expense	2,524	3,851
	-----	-----
Net interest income	2,821	1,934
Provision for loan losses	93	88
	-----	-----
Net interest income after provision for loan losses	2,728	1,846
Non-interest income	461	240
Non-interest expense	2,462	2,042
	-----	-----
Net income before income taxes	727	44
Income tax expense (benefit)	232	(25)
	-----	-----
Net income	\$ 495	\$ 69
	=====	=====

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At or For the Years
Ended December 31,

2002 2001

Selected Financial Ratios and Other Data (1):

Performance Ratios:

Return on average assets (2)	0.55%	0.08%
Return on average equity (3)	3.95	1.09
Interest rate spread (4)	2.65	1.86
Net interest margin (5)	3.28	2.36
Ratio of non-interest expense to average total assets	2.72	2.35
Ratio of average interest-earning assets to average interest-bearing liabilities	121.42	110.69
Efficiency ratio (6)	75.00	93.93
Dividend payout ratio	--	N/A

Per Share Data:

Basic and diluted earnings per share	0.76	N/A
Book value per share	19.23	N/A
Dividends per share	--	N/A

Asset Quality Ratios:

Non-performing loans to total gross loans at end of period	2.55	2.49
Non-performing loans to total assets at end of period	1.80	1.62
Allowance for loan losses to non-performing loans	40.02	41.57
Allowance for loan losses to gross loans receivable	1.01	1.02

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Capital Ratios:

Equity to total assets at end of period	13.31	13.02
Average equity to average assets	13.89	7.27

Other Data:

Number of offices	2	2
-------------------------	---	---

- (1) Dividend payout ratio and per share data for the year ended December 31, 2001 is not considered meaningful since Clover Leaf Bank completed its conversion to stock form on December 27, 2001.
- (2) Ratio of net income to average total assets. (3) Ratio of net income to average equity.
- (4) The difference between the weighted average yield on interest-earning assets and the weighted average cost of interest-bearing liabilities.
- (5) Net interest income divided by average interest-earning assets.
- (6) Non-interest expense divided by the sum of net interest income and non-interest income.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward Looking Statements

This document contains certain "forward-looking statements" which may be identified by the use of words such as "believe," "expect," "anticipate," "should," "planned," "estimated" and "potential." Examples of forward-looking statements include, but are not limited to, estimates with respect to our 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 our operations, pricing products and services.

General

The principal business of Clover Leaf Financial Corp. and Clover Leaf Bank consists of attracting deposits from the general public and using these funds to originate mortgage loans secured by one- to four-family residences or commercial properties and to invest in investment securities. To a lesser extent, the Company engages in various forms of consumer and commercial lending. Our net income depends primarily on net interest income. Net interest income is the difference between the interest income we earn on our interest-earning assets, consisting primarily of loans, investment securities and interest-bearing deposits with other financial institutions, and the interest we pay on our interest-bearing liabilities, primarily savings accounts and time deposits. Our profitability is also affected by provisions for loan losses, non-interest income and non-interest expense. Non-interest income consists primarily of service charges on deposit accounts, loan servicing fees, other service charges and fees and net gains on sales of assets. Non-interest expense consists

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primarily of salaries and employee benefits, occupancy, equipment, data processing and professional fees. Our results of operations also may be affected significantly by general and local economic and competitive conditions, particularly those that affect market interest rates, governmental policies and actions of regulatory authorities.

Management of Market Risk

As with other financial institutions, our most significant form of market risk is interest rate risk. We have interest rate risk because our interest-bearing liabilities mature or reprice more quickly than the average maturity or repricing of our interest-earning assets. As explained below, in a period of rising interest rates we would not be in a favorable position to reinvest our assets into higher-yielding assets. We analyze our interest rate sensitivity by monitoring our interest rate sensitivity "gap." Our interest rate sensitivity gap is the difference between the amount of our interest-earning assets maturing or repricing within a specific time period and the amount of our interest bearing-liabilities maturing or repricing within that same time period. A gap is considered positive when the amount of interest rate sensitive assets maturing or repricing during a period exceeds the amount of interest rate sensitive liabilities maturing or repricing during the same period. At December 31, 2002, our cumulative one-year interest rate gap, the difference between the amount of interest-earning assets and interest-bearing liabilities maturing or repricing within one year, expressed as a percentage of total assets, was positive 1.75%.

The following table sets forth our interest-earning assets and our interest-bearing liabilities at December 31, 2002, which are anticipated to reprice or mature in each of the future time periods shown based upon the following assumptions. Except as stated below, the amount of assets and liabilities shown which reprice or mature during a particular period were determined in accordance with the earlier of term to repricing or the contractual maturity of the asset or liability. The table sets forth an approximation of the projected repricing of assets and liabilities at December 31, 2002, on the basis of contractual maturities, anticipated prepayments and scheduled rate adjustments within a three-month period and subsequent selected time intervals. The loan amounts in the table reflect principal balances expected to be redeployed and/or repriced as a result of contractual amortization and as a result of contractual rate adjustments on adjustable-rate loans.

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Amounts Maturing on Repricing at December 31, 2002				
	Floating	Less than 3 Months	3-12 Months	1-3 Years
	-----	-----	-----	-----
	(Dollars in Thousands)			
Interest-earning assets (1):				
Cash and due from other financial institutions	\$ --	\$ --	\$ 5,688	\$ --
Investment securities	--	4,866	892	--
Mortgage backed securities	--	1,352	127	141
Total loans (2)	13,300	5,950	11,998	13,461
	-----	-----	-----	-----
Total interest-earning assets	\$ 13,300	\$ 12,168	\$ 18,705	\$ 13,602

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	-----	-----	-----	-----
Interest-bearing liabilities:				
Checking	879	--	--	1,836
Money market deposits and savings (3) .	7,047	--	--	14,309
Time deposits	--	9,260	17,530	8,130
Borrowed funds	--	--	7,500	1,000
Federal funds purchased and repurchase agreements	--	--	284	--
		-----	-----	-----
Total interest-bearing liabilities	\$ 7,926	\$ 9,260	\$ 25,314	\$ 25,275
	-----	-----	-----	-----
Interest sensitivity gap (4)	\$ 5,374	\$ 2,908	\$ (6,609)	\$ (11,673)
	=====	=====	=====	=====
Cumulative interest sensitivity gap	\$ 5,374	\$ 8,282	\$ 1,673	\$ (10,000)
	=====	=====	=====	=====
Cumulative interest sensitivity gap as a percentage of total assets	5.63%	8.67%	1.75%	(10.47)%

Amounts Maturing on Repricing at December 31, 2002

	3-5 Years	5-15 Years	Over 15 Years	Total
	-----	-----	-----	-----
	(Dollars in Thousands)			
Interest-earning assets (1):				
Cash and due from other financial institutions	\$ --	\$ --	\$ --	\$ 5,688
Investment securities	881	4,038	158	10,835
Mortgage backed securities	160	642	191	2,613
Total loans (2)	5,650	13,183	4,706	68,248
	-----	-----	-----	-----
Total interest-earning assets	\$ 6,691	\$ 17,863	\$ 5,041	\$ 87,370
	-----	-----	-----	-----
Interest-bearing liabilities:				
Checking	--	--	--	2,715
Money market deposits and savings (3) .	--	--	--	21,356
Time deposits	6,343	--	--	41,263
Borrowed funds	500	--	--	9,000
Federal funds purchased and repurchase agreements	--	--	--	284
	-----	-----	-----	-----
Total interest-bearing liabilities	\$ 6,843	\$ --	\$ --	\$ 74,618
	-----	-----	-----	-----
Interest sensitivity gap (4)	\$ (152)	\$ 17,863	\$ 5,055	\$ 12,766
	=====	=====	=====	=====
Cumulative interest sensitivity gap	\$ (10,152)	\$ 7,711	\$ 12,766	\$ 25,532
	=====	=====	=====	=====
Cumulative interest sensitivity gap as a percentage of total assets	(10.63)%	8.07%	13.37%	26.73%

-
- (1) Interest-earning assets are included in the period in which the balances are expected to be redeployed and/or repriced as a result of scheduled rate adjustments and contractual maturities.
 - (2) For the purposes of the gap analysis, the allowance for losses and deferred loan fees and discounts have been excluded.
 - (3) Includes borrowers' escrow payments.

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- (4) Interest sensitivity gap represents the difference between interest-earning assets and interest-bearing liabilities.

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Certain shortcomings are inherent in the method of analysis presented in the gap table. For example, although certain assets and liabilities may have similar maturities or periods to repricing, they may react in different degrees to changes in market interest rates. Also, the interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while interest rates on other types may lag behind changes in market rates. Additionally, certain assets, such as adjustable-rate loans, have features that restrict changes in interest rates both on a short-term basis and over the life of the asset. Further, in the event of changes in interest rates, prepayment and early withdrawal levels would likely deviate significantly from those assumed in calculating the table. Finally, the ability of many borrowers to service their adjustable-rate loans may decrease in the event of an interest rate increase.

Average Balance Sheets

The following table presents for the periods indicated the total dollar amount of interest income from average interest-earning assets and the resultant yields, as well as the interest expense, on average interest-bearing liabilities, expressed both in dollars and rates. No tax equivalent adjustments were made. Non-accruing loans have been included in the table as loans carrying a zero yield.

	Years Ended December			
	2002			
	Average Outstanding Balance	Interest Earned/Paid	Yield/Rate	Average Outstanding Balance
	(Dollars in Thousand)			
Interest-earning assets:				
Loans, gross.....	\$ 65,356	\$ 4,449	6.81%	\$ 60,5
Interest bearing balances from depository institutions.....	2,555	40	1.57	4,1
Securities.....	9,088	454	5.00	13,0
FHLB stock.....	3,751	195	5.20	1,7
Mortgage-backed securities.....	5,203	207	3.98	2,6
	-----	-----		-----
Total interest-earning assets.....	85,953	5,345	6.22	82,0

Other assets.....	4,318			4,7
	-----			-----
Total assets.....	\$ 90,271			\$ 86,7
	=====			=====
Interest-bearing liabilities:				
Savings deposits.....	\$ 22,831	446	1.95	\$ 18,3
Time deposits.....	41,936	1,890	4.51	53,6
Federal funds purchased and				

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securities sold				
under agreement to repurchase.....	345	5	1.45	1
Borrowed funds.....	5,675	183	3.22	1,8
	-----	-----		-----
Total interest-bearing liabilities.....	70,787	2,524	3.57	74,0
	-----			-----
Other liabilities.....	6,947			6,3
	-----			-----
Total liabilities.....	77,734			80,4
Equity.....	12,537			6,3
	-----			-----
Total liabilities and equity.....	\$ 90,271			\$ 86,7
	=====			=====
Net interest income.....		\$ 2,821		
		=====		
Net interest rate spread.....			2.65%	
			=====	
Net interest margin.....			3.28%	
			=====	
Average interest-earning assets to average interest-bearing liabilities.....		1.21x		1
		=====		=====

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Rate/Volume Analysis

The following table presents the dollar amount of changes in interest income and interest expense for major components of interest-earning assets and interest-bearing liabilities. It distinguishes between the changes related to outstanding balances and those due to the changes in interest rates. For each category of interest-earning assets and interest-bearing liabilities, information is provided on changes attributable to (i) changes in volume (i.e., changes in volume multiplied by old rate), (ii) changes in rate (i.e., changes in rate multiplied by old volume) and (iii) changes attributable to both rate and volume, which cannot be segregated.

	Years Ended December 31, 2002 vs. 2001			
	Increase/(Decrease) Due to			Total
	Volume	Rate	Rate/ Volume	Increase (Decrease)
	-----	-----	-----	-----
	(In Thousands)			
Interest-earning assets:				
Loans	\$ 365	\$ (488)	\$ (29)	\$ (152)
Interest bearing balances from				
depository institutions	(64)	(102)	39	(127)
Securities	(239)	(138)	42	(335)
FHLB stock	124	(16)	(19)	89
Mortgage-backed securities	122	(18)	(19)	85
	-----	-----	-----	-----
Total interest-earning assets ..	308	(762)	14	(440)
	-----	-----	-----	-----
Interest-bearing liabilities:				

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Savings deposits	141	(216)	(56)	(131)
Time deposits	(692)	(742)	162	(1,272)
Federal funds purchased and securities sold under agreement to repurchase	2	--	--	2
Borrowed funds	224	(49)	(101)	74
	-----	-----	-----	-----
Total interest-bearing liabilities	(325)	(1,007)	5	(1,327)
	-----	-----	-----	-----
Net interest income	\$ 633	\$ 245	\$ 9	\$ 887
	=====	=====	=====	=====

Comparison of Financial Condition at December 31, 2002 and December 31, 2001

Total assets as of December 31, 2002 were \$95.3 million, a decrease of \$800,000, or 0.8%, from assets of \$96.1 million at December 31, 2001. The decrease in assets resulted primarily from stock offering subscription funds held by Clover Leaf Bank at December 31, 2001 that had been returned to but not yet cashed by subscribers. This decrease was primarily offset by an increase in net loans. Net loans as of December 31, 2002 were \$67.5 million, an increase of \$5.1 million, or 8.2%, from net loan balances of \$62.4 million at December 31, 2001. The commercial real estate loan portfolio increased \$8.8 million, or 62.9%, compared to 2001 fiscal year-end, while automobile loans decreased \$1.7 million, or 54.6% and commercial business loans decreased \$2.0 million, or 25.5%. During the past year, Clover Leaf Bank has increased its focus on commercial lending, and has begun to sell residential loans on the secondary market, while retaining servicing rights for the sold loans. In addition, we reduced our indirect automobile loan portfolio and some commercial loans which carried an above average credit risk. Securities, including Federal Home Loan Bank stock, decreased \$470,000, or 2.7% to \$16.9 million at December 31, 2002 from \$17.3 million at December 31, 2001. Cash and cash equivalents decreased \$4.7 million, or 36.6% to \$8.1 million at December 31, 2002 from \$12.8 million at December 31, 2001. This decrease in cash resulted primarily from the subscription funds held by Clover Leaf Bank at December 31, 2001, as part of the stock offering as discussed above, offset by cash used in or provided by operating, financing and investing activities

Non-performing loans increased \$170,000 to \$1.7 million at December 31, 2002 from \$1.6 million at December 31, 2001. The non-performing loans to total loans ratio at December 31, 2002 was 2.55% compared to 2.49% at December 31, 2001.

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Deposits as of December 31, 2002 were \$72.5 million, a decrease of \$8.4 million, or 10.4%, from December 31, 2001. The decline in deposits resulted primarily from stock offering subscription funds of approximately \$6.6 million held by Clover Leaf Bank at December 31, 2001 that had been returned to but not yet cashed by subscribers. The remaining decline in deposits is attributable to decreased activity in time deposits during a period of declining interest rates.

Borrowings as of December 31, 2002 were \$9.0 million, an increase of \$7.5 million, or 500.0% from December 31, 2001. Federal Home Loan Bank ("FHLB") advances were used partially to fund loan growth during a time of deposit run-off.

Total stockholders' equity as of December 31, 2002 was \$12.7 million, an increase of \$207,000 or 1.7% from \$12.5 million at December 31, 2001. The increase in equity from December 31, 2001 to December 31, 2002 was primarily the

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result of the addition of earnings of \$495,000, offset by the purchase of 10,700 shares of stock to fund Clover Leaf Bank's employee stock ownership plan and a decrease in the unrealized gain on investment securities available for sale. At December 31, 2002 there were 661,250 shares of common stock outstanding, at a book value per share of \$19.23.

Comparison of Operating Results for the Years Ended December 31, 2002 and 2001

Net interest income after provision for loan losses for the year ended December 31, 2002 was \$2.7 million, compared to \$1.8 million for the year ended December 31, 2001, an increase of \$883,000, or 47.8%. The net interest margin for the year was 3.28%, compared to a net interest margin of 2.36% for the year ended December 31, 2001.

Interest income declined \$440,000, or 7.6%, compared to the prior year. The decrease was primarily due to lower average yields on interest earning assets, partially offset by higher average balances in loans, FHLB stock and mortgage-backed securities. Average interest-earning assets for the year ended December 31, 2002 were \$86.0 million, an increase of \$4.0 million, or 4.8%, over average interest-earning assets of \$82.0 million for the year ended December 31, 2001. Average loan balances increased \$4.8 million, or 8.0% to \$65.3 million for the period ended December 31, 2002 compared to \$60.5 million for the same period in the prior year. Average security balances increased \$682,000, or 3.9% to \$18.0 million for the period ended December 31, 2002 compared to \$17.4 million for the same period in the prior year. The average loan yield declined 80 basis points to 6.81% at December 31, 2002 from 7.60% in the prior year. The shift in the mix of the loan portfolio to a higher concentration of commercial loans is beneficial to our overall yield, however many of those loans adjust with the prime rate, and therefore experienced a decline in yield. The average security yield declined 112 basis points to 4.74% at December 31, 2002 from 5.86% in the prior year.

Interest expense for the year ended December 31, 2002 decreased to \$2.5 million, a decline of \$1.3 million or 34.5%, compared to the same period last year. The decrease was primarily due to lower rates paid on interest-bearing liabilities, as well as to lower balances of time deposits offset by an increase in savings deposits and borrowed funds. The average interest paid on certificates of deposit fell by 138 basis points to 4.51% for the year ended December 31, 2002, from 5.89% for the prior-year period.

The increase in net interest income is due, in large part, to the relative changes in the yield and cost of our assets and liabilities as a result of decreasing market interest rates in calendar 2001 and 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 year ended December 31, 2002 was \$461,000 compared to \$240,000 for the year ended December 31, 2001, an increase of \$221,000, or 92.1%. This increase was primarily attributable to the gain on sale of assets of \$110,000, and the gain on sale of loans of \$63,000. During the fourth quarter of 2002, we sold a tract of land that was adjacent to a current branch building. This land was being held for possible expansion of the branch building. Our future expansion plans no longer required this property. Clover Leaf Financial also recorded a gain on the sale of NYCE Stock, which was classified as another asset for balance sheet purposes, of \$42,000 for the current year compared to no such gains for the prior year.

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Non-interest expense for the year ended December 31, 2002 was \$2.5 million, or \$420,000 more than expenses for the year ended December 31, 2001. The increase was primarily attributable to increases in compensation expenses, occupancy, and legal and collection expenses. Salary expense increased \$213,000, or 20.7%, as a result of staff additions and annual merit and bonus increases. Occupancy and equipment expense increased \$56,000, or 20.3%, due to increases in real estate property taxes and a change in the accrual method for such taxes. Professional fees increased \$53,000, or 64.6%, as a result of the filing and accounting regulations related to being a public company, as well as expenses incurred with the current pending litigation, discussed above. Other expenses increased \$101,000, or 29.7%, due in part to expenses incurred related to collection efforts on our non-performing consumer loan portfolio. The remaining increase is a result of slight increases in several expense categories, of which none are due to significant events.

Liquidity and Capital Resources

At December 31, 2002, Clover Leaf Bank had loan commitments and unused lines of credit of \$8.2 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 FHLB of Chicago are available. At December 31, 2002, approximately \$27.6 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.

Clover Leaf Financial does not engage in any significant business activity other than owning all of the common stock of Clover Leaf Bank. Clover Leaf Financial's primary source of funds is income from its investments and principal and interest payments received on the employee stock ownership plan loan. Future dividends from Clover Leaf Bank will also be a source of funds for Clover Leaf Financial; however, as a stock-chartered savings bank, Clover Leaf Bank is subject to regulatory limitations on its ability to pay cash dividends.

Recent Accounting Pronouncements

In June 2001, Statement on Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations," was issued to address financial reporting and obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. This Statement applies to all entities and to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development or normal operations of a long-lived asset, except for certain obligations of lessees. Statement No. 143 is effective for financial statements issued for fiscal years beginning after June 15, 2002. Clover Leaf Financial does not believe the adoption of this Statement will have a material effect on the consolidated financial statements.

Impact of Inflation and Changing Prices

The consolidated financial statements and related notes of Clover Leaf Financial have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). GAAP generally requires the measurement of financial position and operating results in terms of historical dollars without considering changes in the value of money over time due to inflation. The impact of inflation is reflected in the increased cost of our operations. Unlike industrial companies, our assets and liabilities are primarily monetary in nature. As a result, changes in market interest rates have a greater impact on performance than the effects of inflation.

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COMMON STOCK AND RELATED MATTERS

Clover Leaf Financial's common stock is quoted on the Over-the-Counter Bulletin Board under the symbol "CLOV." As of February 28, 2003, Clover Leaf Financial had one registered market maker, 175 stockholders of record (excluding the number of persons or entities holding stock in street name through various brokerage firms), and 641,250 shares outstanding.

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The following table sets forth market price and dividend information for the common stock since the completion of Clover Leaf Bank's mutual-to-stock conversion on December 27, 2001.

Fiscal Year Ended December 31, 2002	High	Low	Cash Dividends Declared
Fourth quarter	\$ 17.50	\$ 14.50	\$ -
Third quarter	14.90	14.49	-
Second quarter	15.10	13.50	-
First quarter	14.60	12.85	-
Fiscal Year Ended December 31, 2001	High	Low	Cash Dividends Declared
Fourth quarter	\$ 14.60	\$ 11.00	\$ -

Payment of dividends on Clover Leaf Financial's common stock is subject to determination and declaration by the Board of Directors and will depend upon a number of factors, including capital requirements, regulatory limitations on the payment of dividends, Clover Leaf Financial's results of operations and financial condition, tax considerations and general economic conditions. No assurance can be given that dividends will be declared or, if declared, what the amount of dividends will be, or whether such dividends, once declared, will continue.

Under the Illinois Banking Act, a state-chartered commercial bank may pay dividends from net profits so long as at least 10% of net profits since the date of the declaration of the last preceding dividend are carried to surplus.

At December 31, 2002, Clover Leaf Bank was deemed a well-capitalized institution for purposes of the above regulations and as such is not subject to the above-mentioned restrictions.

In addition to the foregoing, earnings of Clover Leaf Bank appropriated to bad debt reserves and deducted for federal income tax purposes are not available for payment of cash dividends or other distributions to stockholders without payment of taxes at the then-current tax rate by Clover Leaf Bank on the amount of earnings removed from the reserves for such distributions. Clover Leaf Financial intends to make full use of this favorable tax treatment and does not contemplate any distribution by Clover Leaf Bank in a manner that would create federal tax liability.

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CLOVER LEAF FINANCIAL CORP.
AND SUBSIDIARY

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[McGladrey & Pullen LOGO]
Certified Public Accountants

Independent Auditor's Report

Board of Directors
Clover Leaf Financial Corp.
Edwardsville, Illinois

We have audited the accompanying consolidated balance sheets of Clover Leaf Financial Corp. and Subsidiary, as of December 31, 2002 and 2001, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Clover Leaf Financial Corp. as of December 31, 2002 and 2001, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

/s/ McGladrey & Pullen, LLP

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Champaign, Illinois
February 21, 2003

McGladrey & Pullen, LLP is an independent member firm of
RSM International, an affiliation of independent accounting
and consulting firms.

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CLOVER LEAF FINANCIAL CORP.

CONSOLIDATED BALANCE SHEETS
December 31, 2002 and 2001

	2002	2001

ASSETS		
Cash and due from other financial institutions	\$ 2,428,958	\$ 2,513,396
Interest-bearing deposits in other financial institutions	5,688,163	10,279,271
Total cash and cash equivalents	8,117,121	12,792,667
	-----	-----
Securities available-for-sale	13,448,482	14,306,020
Federal Home Loan Bank (FHLB) stock	3,409,000	3,021,400
Loans, net of allowance for loan losses		
of \$689,592 in 2002 and \$646,010 in 2001	67,543,753	62,435,499
Premises and equipment, net	1,906,252	2,600,523
Accrued interest receivable	540,502	532,041
Other assets	551,133	413,038
	-----	-----
Total assets	\$ 95,516,243	\$ 96,101,188
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Deposits:		
Noninterest bearing	\$ 7,152,821	\$ 13,060,619
Interest bearing	65,334,485	67,871,755
	-----	-----
Total deposits	72,487,306	80,932,374
	-----	-----
Federal Home Loan Bank advances	9,000,000	1,500,000
Other borrowings	284,000	354,000
Accrued interest payable	217,603	314,605
Other liabilities	809,120	490,144
	-----	-----
Total liabilities	82,798,029	83,591,123
	-----	-----
Stockholders' Equity		
Preferred Stock, \$.10 par value, 250,000 shares authorized, none issued	--	--
Common Stock, \$.10 par value, 2,000,000 shares authorized, 661,250 shares issued and outstanding	66,125	66,125
Surplus	6,066,259	6,133,760
Retained earnings - substantially restricted	6,653,011	6,157,791
Accumulated other comprehensive income	93,905	177,589
Unearned Employee Stock Ownership Plan shares	(161,086)	(25,200)

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Total stockholders' equity	12,718,214	12,510,065
Total liabilities and stockholders' equity	\$ 95,516,243	\$ 96,101,188

See Notes to Consolidated Financial Statements.

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CLOVER LEAF FINANCIAL CORP.

CONSOLIDATED STATEMENTS OF INCOME
Years Ended December 31, 2002 and 2001

	2002	2001
Interest income:		
Loans and fees on loans	\$ 4,449,037	\$ 4,600,466
Taxable securities	615,764	867,644
Non-taxable securities	45,090	43,944
FHLB dividends	195,587	106,466
Interest-bearing deposits in other financial institutions and other	39,756	166,733
Total interest income	5,345,234	5,785,253
Interest expense:		
Deposits	2,337,101	3,739,499
Federal Home Loan Bank advances	182,791	108,966
Other borrowings	4,608	3,377
Total interest expense	2,524,500	3,851,842
Net interest income	2,820,734	1,933,411
Provision for loan losses	93,000	88,144
Net interest income after provision for loan losses	2,727,734	1,845,267
Other income:		
Service charges on deposits accounts	85,786	73,388
Other service charges and fees	61,932	68,699
Loan servicing fees	20,853	11,021
Gain on loans held for sale	125,753	62,933
Gain on sale of premises and equipment	110,735	-
Gain on sale of securities	6,682	10,555
Other	49,713	12,999
	461,454	239,595
Other expense:		
Salaries and employee benefits	1,240,589	1,028,111
Occupancy	229,629	153,755
Data processing	211,484	216,166
Equipment	102,589	122,177
Directors fees	100,515	99,599

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Professional fees	135,213	82,47
Other	441,713	338,90
	2,461,732	2,041,17
Net income before income taxes (benefit)	727,456	43,68
Income taxes (benefit)	232,236	(25,46
Net income	\$ 495,220	\$ 69,15
Basic and diluted earnings per share	\$ 0.76	\$ 0.1

See Notes to Consolidated Financial Statements.

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CLOVER LEAF FINANCIAL CORP.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY Years Ended December 31, 2002 and 2001

	Common Stock	Surplus
Balance at December 31, 2000	\$ --	\$ --
Comprehensive income		
Net income	--	--
Other comprehensive income, net of tax:		
Change in unrealized gain (loss) on securities available-for-sale arising during the year, net of tax of \$ 90,579	--	--
Reclassification adjustment, net of taxes of \$ (4,084)	--	--
Other comprehensive income, net of taxes of \$ 86,495	--	--
Comprehensive income		
Issuance of common stock	66,125	6,133,760
Loan to ESOP for purchase of shares	--	--
Balance at December 31, 2001	66,125	6,133,760
Comprehensive income		
Net income	--	--
Other comprehensive income, net of tax:		
Change in unrealized gain (loss) on securities available-for-sale arising during the year, net of tax of \$(40,523)	--	--
Reclassification adjustment, net of taxes of \$ (2,586)	--	--
Other comprehensive (loss), net of taxes of \$(43,109)	--	--
Comprehensive income		
Costs related to issuance of common stock	--	(67,968)
Loan to ESOP for purchase of shares	--	--
Allocation of ESOP shares	--	467

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Balance at December 31, 2002	\$ 66,125	\$6,066,259
	=====	
	Unearned Employee Stock Ownership Plan Shares	Total Stockholder Equity
	-----	-----
Balance at December 31, 2000	\$ --	\$ 6,098,3
Comprehensive income		
Net income	--	69,1
Other comprehensive income, net of tax:		
Change in unrealized gain (loss) on securities available-for-sale arising during the year, net of tax of \$ 90,579	--	174,3
Reclassification adjustment, net of taxes of \$ (4,084)	--	(6,4

Other comprehensive income, net of taxes of \$ 86,495	--	167,9

Comprehensive income		237,0

Issuance of common stock	--	6,199,8
Loan to ESOP for purchase of shares	(25,200)	(25,2
	-----	-----
Balance at December 31, 2001	(25,200)	12,510,0
Comprehensive income		
Net income	--	495,2
Other comprehensive income, net of tax:		
Change in unrealized gain (loss) on securities available-for-sale arising during the year, net of tax of \$(40,523)	--	(79,5
Reclassification adjustment, net of taxes of \$ (2,586)	--	(4,0

Other comprehensive (loss), net of taxes of \$(43,109)	--	(83,6

Comprehensive income		411,5

Costs related to issuance of common stock	--	(67,9
Loan to ESOP for purchase of shares	(140,775)	(140,7
Allocation of ESOP shares	4,889	5,3
	-----	-----
Balance at December 31, 2002	\$ (161,086)	\$12,718,2
	=====	=====

See Notes to Consolidated Financial Statements.

CLOVER LEAF FINANCIAL CORP.

CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2002 and 2001

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2002

Cash Flows from Operating Activities

Net income	\$ 495,220
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation	136,011
Provision for loan losses	93,000
Net amortization/accretion on securities	63,764
Deferred tax provision	36,211
Allocation of ESOP shares	5,356
Gain on sale of securities	(6,682)
Federal Home Loan Bank stock dividend	(187,600)
Gain on sale of premises and equipment	(110,735)
Gain on loans held for sale	(125,753)
Proceeds from sales of loans held for sale	8,203,944
Originations of loans held for sale	(8,078,191)
(Increase) decrease in accrued interest receivable	(8,461)
(Increase) decrease in other assets	(131,197)
(Decrease) increase in accrued interest payable	(97,002)
Increase (decrease) in other liabilities	318,976

Net cash provided by operating activities	606,861
---	---------

Cash Flows from Investing Activities

Purchase of securities available-for-sale	(8,345,424)
Proceeds of calls, maturities and paydowns of securities available-for-sale	9,019,087
Purchase of Federal Home Loan Bank stock	(1,500,000)
Sale of Federal Home Loan Bank stock	1,300,000
Proceeds from sale of premises and equipment	735,735
Increase in loans, net	(5,201,254)
Purchase of premises and equipment	(66,740)

Net cash used in investing activities	(4,058,596)
---------------------------------------	-------------

Cash Flows from Financing Activities

Increase (decrease) in deposits	(8,445,068)
Proceeds from Federal Home Loan Bank advances	7,500,000
Repayments of Federal Home Loan Bank advances	--
Increase (decrease) in other borrowings	(70,000)
Proceeds from stock conversion	--
Loans to ESOP for purchase of shares	(140,775)
Costs associated with issuance of stock	(67,968)

Net cash provided by (used in) financing activities	(1,223,811)
---	-------------

Net increase (decrease) in cash and cash equivalents	(4,675,546)
--	-------------

Cash and cash equivalents:

Beginning	12,792,667
-----------	------------

Ending	\$ 8,117,121
--------	--------------

Supplemental Disclosures of Cash Flow Information

Cash paid during the year for:

Interest	\$ 2,621,502
Income taxes, net of (refunds)	66,501

See Notes to Consolidated Financial Statements.

CLOVER LEAF FINANCIAL CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Significant Accounting Policies

Principles of consolidation:

The accompanying consolidated financial statements include the accounts of Clover Leaf Financial Corp. (the Company) and its wholly-owned subsidiary, Clover Leaf Bank (the Bank). These entities are collectively referred to herein as the Company. All significant intercompany accounts and transactions have been eliminated in consolidation. Based on the Company's approach to decision making, it has decided that its business is comprised of a single business segment.

Clover Leaf Financial Corp. was formed on December 27, 2001 and purchased all of the outstanding shares of Clover Leaf Bank, SB with the proceeds of a stock offering completed on December 27, 2001. Simultaneous to the stock offering, the Bank converted from a state-chartered mutual savings association to a state-chartered capital stock savings bank. Effective December 27, 2002, the Bank converted from a savings bank to a commercial bank.

The Company issued 661,250 shares of common stock following the stock offering. Net proceeds to the Company were \$6,612,500 of which \$3,719,931 was paid to the Bank in exchange for all of the common stock of the Bank. Expenses related to the offering totaled \$480,583. The Company has loaned \$165,975 to the Bank to purchase 12,700 shares of stock on the open market in order to establish an Employee Stock Ownership Plan. The Company trades on the OTC Bulletin Board under the symbol "CLOV."

Clover Leaf Bank provides residential, commercial and installment loans, deposits and other customer services to individuals and corporate customers primarily in Madison County, Illinois. Clover Leaf Financial Services, Inc., (a wholly owned subsidiary of the Bank) provides life and disability insurance to loan customers of the Bank.

Basis of presentation:

In preparing the accompanying consolidated financial statements, management is required to make estimates and assumptions that affect the amounts reported in the financial statements. Significant estimates which are particularly susceptible to change in a short period of time include the determination of the market value of investment securities and the allowance for loan losses. Actual results could differ significantly from those estimates.

Comprehensive income:

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on securities available for sale, are reported as a separate component of the equity section of the balance sheet, such items, along with net income, are components of comprehensive income.

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CLOVER LEAF FINANCIAL CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Securities available-for-sale:

Securities classified as available for sale are those debt securities that the Company intends to hold for an indefinite period of time, but not necessarily to maturity. Any decision to sell a security classified as available for sale would be based on various factors, including significant movements in interest rates, changes in the maturity mix of the Company's assets and liabilities, liquidity needs, regulatory capital considerations and other similar factors. Securities available for sale are carried at fair value. The difference between fair value and amortized cost (cost adjusted for amortization of premiums and accretion of discounts, computed by the interest method of accrual over their contractual lives) results in an unrealized gain or loss. Unrealized gains or losses are reported as accumulated other comprehensive income (loss) in equity, net of the related deferred tax effect. Realized gains or losses, determined using the specific identification method, are included in earnings.

Federal Home Loan Bank stock:

The Company, as a member of the Federal Home Loan Bank of Chicago (the "FHLB"), is required to maintain an investment in common stock of the FHLB in an amount equal to 1% of its outstanding home loans. No ready market exists for the FHLB stock, and it has no quoted market value. For disclosure purposes, such stock is assumed to have a market value which is equal to cost. Dividends received on such stock are reflected as interest income in the consolidated statements of income.

Loans:

Loans are stated at unpaid principal balances, less the allowance for loan losses, deferred fees and costs. Interest income is credited to income as earned using the simple interest method applied to the daily principal balance outstanding and includes the amortization of net deferred loan fees and costs over the loan term.

The accrual of interest on any loan is discontinued when, in the opinion of management, there is reasonable doubt as to the collectibility of interest or principal. When the accrual of interest is discontinued, all unpaid accrued interest is reversed against income. Interest income on these loans is subsequently recognized to the extent interest payments are received and principal is considered to be fully collectible.

A loan is impaired when it is probable the Company will be unable to collect all contractual principal and interest payments in accordance with the terms of the loan. All installment and real estate loans are considered to be small balance homogenous loan pools for the purpose of evaluating impairment. Commercial loans are specifically evaluated for impairment. For collateralized impaired loans, loan balances in excess of net realizable value are deemed impaired. The amount of impairment, if any, and any subsequent changes are included in the allowance for loan losses.

CLOVER LEAF FINANCIAL CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Allowance for loan losses:

The allowance for loan losses is established through a provision for loan losses charged to expense. Loans are charged against the allowance for loan losses when management believes that the collectibility of the principal is unlikely. The allowance is an amount that management believes will be adequate to absorb losses on existing loans that may become uncollectible, based on an evaluation of the collectibility of loans and prior loan loss experience. This evaluation takes into consideration such factors as changes in the nature and volume of the loan portfolio, overall portfolio quality, review of specific problem loans and current economic conditions that may affect the borrowers' ability to pay. While management uses the best information available to make its evaluation, future adjustments to the allowance may be necessary if there are significant changes in economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for loan losses, and may require the Company to make additions to the allowance based on their judgment about information available to them at the time of their examination.

Premises and equipment:

Land is carried at cost. Other premises and equipment are recorded at cost and are depreciated on the straight-line method. Depreciation and amortization are provided over the estimated useful lives of the respective assets.

Income taxes:

Deferred income tax assets and liabilities are computed annually for differences between the financial statement and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future. The deferred tax assets and liabilities are computed based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to an amount expected to be realized. Income tax expense is the tax payable or refundable for the period plus or minus the change during the period in deferred tax assets and liabilities.

Cash and cash flows:

For the purpose of reporting cash flows, cash and cash equivalents include cash on hand and due from other financial institutions (including cash items in process of clearing) and interest bearing deposits in other financial institutions. Cash flows from loans, deposits and other borrowings are reported net.

Earnings per share:

Basic earnings per share represents income available to common stockholders divided by the weighted-average number of common shares outstanding during the period. Shares acquired by the Employee Stock Ownership Plan (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 CONSOLIDATED FINANCIAL STATEMENTS

The following reflects earnings per share calculations for basic and diluted methods:

	December 31,	
	2002	2001
Net income available to common shareholders	\$ 495,220	\$ 69,156
Basic potential common shares:		
Weighted average shares outstanding	661,250	661,250
Weighted average unallocated ESOP shares	(12,345)	(2,000)
Basic average shares outstanding	648,905	659,250
Diluted potential common shares	--	--
Diluted average shares outstanding	648,905	659,250
Basic earnings per share	\$ 0.76	\$ 0.10
Diluted earnings per share	\$ 0.76	\$ 0.10

Reclassifications:

Certain amounts in 2001 have been reclassified to conform with the 2002 presentation with no effect on stockholders' equity or net income.

Emerging accounting standards:

In June 2001, Statement on Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations," was issued to address financial reporting and obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. This Statement applies to all entities and to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development or normal operations of a long-lived asset, except for certain obligations of lessees. Statement No. 143 is effective for financial statements issued for fiscal years beginning after June 15, 2002. The Company does not believe the adoption of this Statement will have a material effect on the consolidated financial statements.

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CLOVER LEAF FINANCIAL CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2. Cash and Due from Banks

The Company is required to maintain reserve balances in cash or on deposit with the Federal Reserve Bank. The total of those reserve balances were approximately \$241,000 and \$132,000, respectively, at December 31, 2002 and 2001.

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The nature of the Company's business requires that it maintain amounts due from banks which, at times, may exceed federally insured limits. The Company does not anticipate experiencing any losses in such accounts.

Note 3. Securities

Amortized costs and fair values of securities available-for-sale are summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
2002				
U.S. Agencies	\$ 9,351,527	\$ 90,687	\$ 16,130	\$ 9,426,084
State and municipal securities	844,115	8,047	--	852,162
Corporate securities	509,425	47,575	--	557,000
Mortgage backed securities	2,601,134	28,329	16,227	2,613,236
	\$13,306,201	\$ 174,638	\$ 32,357	\$13,448,482
2001				
U.S. Agencies	\$ 8,351,945	\$ 181,563	\$ 1,233	\$ 8,532,275
State and municipal securities	862,514	11,300	100	873,714
Corporate securities	511,917	23,500	--	535,417
Mortgage backed securities	4,310,570	54,044	--	4,364,614
	\$14,036,946	\$ 270,407	\$ 1,333	\$14,306,020

Unexpected calls of securities during 2002 and 2001 resulted in gross gains of \$6,682 and \$10,552, respectively. The tax expense applicable to these gross realized gains amounted to \$2,586 and \$4,084, respectively.

CLOVER LEAF FINANCIAL CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following is a summary of maturities of securities available-for-sale as of December 31, 2002. Maturities may differ from contractual maturities in mortgage-backed securities because the mortgages underlying the securities may be called or repaid without any penalties. Therefore, these securities are not included in the maturity categories in the following maturity summary:

	Amortized Cost	Fair Value
Amounts maturing in:		
One year or less	\$ 270,000	\$ 270,290
After one year through five years	3,059,423	3,138,525
After five years through ten years	7,375,644	7,426,431

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Mortgage backed securities	2,601,134	2,613,236
	-----	-----
	\$13,306,201	\$13,448,482
	=====	=====

Securities with a carrying amount of approximately \$3,360,000 and \$4,617,000 were pledged to secure deposits as required or permitted by law at December 31, 2002 and 2001, respectively.

Note 4. Loans

Major classifications of loans follow:

	December 31,	
	2002	2001
	-----	-----
Real estate loans:		
One- to four-family	\$34,300,392	\$33,772,558
Commercial	22,797,123	13,971,060
Construction and land	760,520	1,193,347
	-----	-----
Total real estate loans	57,858,035	48,936,965
	-----	-----
Other loans:		
Consumer:		
Deposit account	--	79,978
Automobile	1,424,641	3,136,050
Home equity	1,611,011	1,639,095
Other	1,595,454	1,571,845
	-----	-----
Total consumer loans	4,631,106	6,426,968
	-----	-----
Commercial business	5,758,958	7,732,378
	-----	-----
Total gross loans	68,248,099	63,096,311
	-----	-----
Less:		
Deferred fees and discounts	14,754	14,802
Allowance for losses	689,592	646,010
	-----	-----
Total loans receivable, net	\$67,543,753	\$62,435,499
	=====	=====

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CLOVER LEAF FINANCIAL CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

An analysis of the activity in the allowance for loan losses is as follows:

	Year Ended December 31,	
	2002	2001
	-----	-----
Balance, beginning of year	\$ 646,010	\$ 625,513
Provision for loan losses	93,000	88,148

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Loans charged off	(104,500)	(131,776)
Recoveries	55,082	64,125
	-----	-----
Balance, end of year	\$ 689,592	\$ 646,010
	=====	=====

The amount of loans serviced by the Company for the benefit of others is not included in the accompanying consolidated balance sheets. The unpaid principal balance of these loans was approximately \$10,299,000 and \$5,893,000 at December 31, 2002 and 2001, respectively.

Related parties include executive officers, directors, and their affiliates. Loans to related parties at December 31, 2002 and 2001 were approximately \$2,164,000 and \$2,463,000, respectively. During the year ended December 31, 2002, total principal additions were approximately \$414,000 and total principal payments were approximately \$713,000.

The loan portfolio includes a concentration of loans in commercial real estate amounting to \$22,797,123 and \$13,971,060 as of December 31, 2002 and 2001, respectively. The loans are expected to be repaid from cash flows or from proceeds from the sale of selected assets of the borrowers. Credit losses arising from lending transactions with commercial real estate compare favorably with the Company's credit loss experience on its loan portfolio as a whole. The concentration of credit with commercial real estate is taken into consideration by management in determining the allowance for loan losses. The Company's opinion as to the ultimate collectibility of these loans is subject to estimates regarding future cash flows from operations and the value of the property, real and personal, pledged as collateral. These estimates are affected by changing economic conditions and the economic prospects of borrowers.

The Company utilizes their data processing system to identify loan payments not made by their contractual due date and calculate the number of days each loan exceeds the contractual due dates. The accrual of interest on any loan is discontinued when, in the opinion of management, there is reasonable doubt as to the collectibility of interest or principal.

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CLOVER LEAF FINANCIAL CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table presents data on impaired and non-accrual loans:

	December 31,	
	2002	2001
Impaired loans for which there is a related allowance for loan losses	\$ 219,617	\$ 233,101
Impaired loans for which there is no related allowance for loan losses	346,895	761,899
	-----	-----
Total impaired loans	\$ 566,512	\$ 995,000
	=====	=====
Allowance for loan losses for impaired loans included in		

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the allowance for loan losses	\$ 25,000	\$ 44,000
	=====	
Average recorded investment in impaired loans	\$ 683,143	\$ 995,000
	=====	
Cash basis income recognized from impaired loans	\$ 20,797	\$ 39,927
	=====	
Loans contractually past due 90 days or more and still accruing interest	\$ 194,969	\$ 114,818
	=====	
Loans no longer accruing interest, including impaired loans	\$1,529,038	\$1,438,383
	=====	
Interest forgone on non-accrual loans in current year	\$ 118,573	\$ 80,306
	=====	

Note 5. Premises and Equipment

Premises and equipment consist of:

	December 31,	
	2002	2001
Land and land improvements	\$ 459,470	\$ 1,084,470
Buildings and improvements	2,024,449	1,977,005
Furniture and fixtures	785,289	765,992
	-----	-----
	3,269,208	3,827,467
Accumulated depreciation	(1,362,956)	(1,226,944)
	-----	-----
	\$ 1,906,252	\$ 2,600,523
	=====	=====

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CLOVER LEAF FINANCIAL CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6. Deposits

The aggregate amount of certificates of deposit with a minimum denomination of \$100,000 was approximately \$4,922,000 and \$7,445,000 at December 31, 2002 and 2001, respectively.

Scheduled maturities of time deposits at December 31, 2002 are as follows:

2003	\$26,661,889
2004	5,842,954
2005	2,314,797
2006	1,212,207
2007	5,129,207
Thereafter	2,000

	\$41,163,054
	=====

Note 7. Federal Home Loan Bank Advances

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FHLB advances at year-end were:

	2002	2001
2.35% advance, due July 2003, fixed rate	\$6,500,000	\$ --
1.76% advance, due October 2003, fixed rate	1,000,000	--
5.49% advance, due February 2004, fixed rate	1,000,000	1,000,000
5.96% advance, due February 2009, fixed rate	500,000	500,000
	<u>\$9,000,000</u>	<u>\$1,500,000</u>
	=====	=====

At December 31, 2002 and 2001, in addition to FHLB stock, the Company had a blanket lien on eligible residential real estate loans which were pledged to the FHLB to secure advances outstanding.

Note 8. Other Borrowings

Other borrowings consist of securities sold under agreements to repurchase of \$284,000 and \$354,000 at December 31, 2002 and 2001, respectively.

Securities sold under agreements to repurchase, which are classified as secured borrowings, generally mature within one to four days from the transaction date. Securities sold under agreements to repurchase are reflected at the amount of cash received in connection with the transaction. The Bank may be required to provide additional collateral based on the fair value of the underlying securities.

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CLOVER LEAF FINANCIAL CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9. Income Taxes (Benefit)

Income taxes (benefit) consisted of:

	Year Ended December 31,	
	2002	2001
Federal:		
Current	\$ 196,025	\$ (5,613)
Deferred	36,211	(19,854)
	<u>\$ 232,236</u>	<u>\$ (25,467)</u>
	=====	=====

The provision for federal income taxes differs from that computed by applying the maximum federal statutory rate of 35% as follows:

	Year Ended December 31,	
	2002	2001
Tax expense (benefit) at statutory rate	\$ 254,610	\$ 15,291

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Tax exempt interest	(18,627)	(17,244)
Nondeductible expenses	3,558	2,857
Other	(7,305)	(26,371)
	-----	-----
	\$ 232,236	\$ (25,467)
	=====	=====

The net deferred tax assets in the accompanying balance sheets include the following components:

	December 31,	
	2002	2001
	-----	-----
Assets:		
Allowance for loan losses	\$258,353	\$232,969
Deferred compensation	132,247	152,276
Premises and equipment	32,989	17,063
Illinois net operating loss	82,178	100,163
Other	32,736	18,539
	-----	-----
Total deferred tax assets	538,503	521,010
Valuation allowance	109,340	128,238
	-----	-----
Net deferred tax assets	429,163	392,772
	-----	-----
Liabilities:		
Unrealized gain on securities available for sale	48,376	91,485
FHLB stock dividend	145,755	73,153
	-----	-----
Total deferred tax liabilities	194,131	164,638
	-----	-----
	\$235,032	\$228,134
	=====	=====

As of December 31, 2002, the Company had net operating loss carryovers for state tax purposes totaling approximately \$1,748,000 that are eligible to be used through 2015.

CLOVER LEAF FINANCIAL CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 10. Capital Requirements

The Company and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory--and possibly additional discretionary--actions by regulators that, if undertaken, could have a direct material effect on a Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, a Company must meet specific capital guidelines that involve quantitative measures of assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. A Company's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

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Quantitative measures established by regulation to ensure capital adequacy require a Company to maintain minimum amounts and ratios of total risk-based capital and Tier I capital to risk-weighted assets (as defined in the regulations), Tier I capital to adjusted total assets (as defined). Management believes, as of December 31, 2002, that the Company and the Bank meet all capital adequacy requirements to which it is subject.

As of December 31, 2002, the most recent notification from the Federal regulatory agencies categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, a Bank must maintain minimum Total risk-based, Tier I risk-based, and Tier I leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the Bank's category.

	Actual		For Capital Adequacy Purposes:		To Be Capitalized Prompt Corrective Action
	Amount	Ratio	Amount	Ratio	Amount
As of December 31, 2002:					
Total Capital (to Risk Weighted Assets)					
Clover Leaf Financial Corp.	\$13,308,545	21.58%	\$4,932,640	8.0%	N/A
Clover Leaf Bank	\$10,950,958	17.76%	\$4,932,640	8.0%	\$6,165,800
Tier I Capital (to Risk Weighted Assets)					
Clover Leaf Financial Corp.	\$12,618,953	20.47%	\$2,466,320	4.0%	N/A
Clover Leaf Bank	\$10,261,366	16.64%	\$2,466,320	4.0%	\$3,699,480
Tier I Capital (to Average Assets)					
Clover Leaf Financial Corp.	\$12,618,953	13.98%	\$3,610,841	4.0%	N/A
Clover Leaf Bank	\$10,261,366	11.37%	\$3,610,841	4.0%	\$4,513,552

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CLOVER LEAF FINANCIAL CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	Actual		For Capital Adequacy Purposes:		To Be Capitalized Prompt Corrective Action
	Amount	Ratio	Amount	Ratio	Amount

As of December 31, 2001:

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Total Capital (to Risk Weighted Assets)

Clover Leaf Financial Corp.	\$12,978,486	22.91%	\$4,532,800		N/A
Clover Leaf Bank	\$10,498,533	18.53%	\$4,533,000	8.0%	\$5,666,000

Tier I Capital (to Risk Weighted Assets)

Clover Leaf Financial Corp.	\$12,332,476	21.77%	\$2,266,400		N/A
Clover Leaf Bank	\$ 9,852,523	17.39%	\$2,266,000	4.0%	\$3,400,000

Tier I Capital (to Average Assets)

Clover Leaf Financial Corp.	\$12,332,476	13.77%	\$3,582,320		N/A
Clover Leaf Bank	\$ 9,852,523	11.00%	\$3,582,000	4.0%	\$4,478,000

Note 11. Commitments, Contingency and Credit Risk

The Company and the Bank are a party to legal actions which are in the normal course of business activities. In the opinion of management, the ultimate resolution of these matters is not expected to have a material effect on the financial position or the results of operations of the Company. The Bank is the defendant in a lawsuit filed by the Bank's former president. The suit alleges that his termination violates Federal "whistle blower" status. The case is in discovery. Management believes the outcome of the case will not have a material effect on the consolidated financial statements.

The Company 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. These instruments involve, to varying degrees, elements of credit and interest rate risk in addition to the amounts recognized in the statements of financial condition.

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

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CLOVER LEAF FINANCIAL CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A summary of the notional or contractual amounts of financial instruments, primarily variable rate, with off-balance-sheet risk follows:

	Year Ended December 31,	
	2002	2001
Commitments to extend credit	\$8,160,000	\$6,295,000
Standby letters of credit	27,000	531,000

Commitments to extend credit are agreements to lend to a customer as long as

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there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount and type of collateral obtained, if deemed necessary by the Company upon extension of credit, varies and is based on management's credit evaluation of the counterparty.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Standby letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities of customers. The Company's policy for obtaining collateral, and the nature of such collateral, is essentially the same as that involved in making commitments to extend credit. Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements and, generally, have terms of one year or less. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers. The Bank holds collateral, which may include accounts receivables, inventory, property and equipment, income producing properties, supporting those commitments if deemed necessary. In the event, the customer does not perform in accordance with the terms of the agreement with the third party, the Bank would be required to fund the commitment. The maximum potential amount of future payments the Bank could be required to make is represented by the contractual amount shown in the summary above. If the commitment is funded, the Bank would be entitled to seek recovery from the customer. At December 31, 2002 and 2001, no amounts have been recorded as liabilities for the Bank's potential obligations under these guarantees.

The Company does not engage in the use of interest rate swaps, futures, forwards, or option contracts.

Note 12. Retirement Plan

The Bank participates in a multiemployer, defined benefit retirement plan which covers substantially all employees. Since this is a multiemployer plan, the plan's administrators are unable to determine the actuarial present value of benefits attributable to the Bank's participants in the plan.

Total pension expense for the years ended December 31, 2002 and 2001 was \$70,006 and \$54,000, respectively.

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CLOVER LEAF FINANCIAL CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 13. Liquidation Account

At the time of conversion to a stock corporation, the Bank established a liquidation account for the benefit of eligible savings account holders who continue to maintain their savings accounts with the Bank after conversion. In the event of a complete liquidation of the Bank (and only in such event), eligible savings account holders who continue to maintain their accounts with the Bank shall be entitled to receive a distribution from the liquidation

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account after payment to all creditors but before any liquidation distribution with respect to common stock. The initial liquidation account was established at approximately \$6.2 million. This account is proportionately reduced for any subsequent reduction in the eligible holders' deposit accounts. The creation and maintenance of the liquidation account will not restrict the use or application of any of the capital accounts of the Bank, except that the Bank may not declare or pay a cash dividend on, or purchase any of, its capital stock, if the effect of such dividends or repurchase would be to cause the Bank's net worth to be reduced below the aggregate amount then required for the liquidation account, or the amount required by federal or state law. Due to various natural events, such as death, relocation and general attrition of accounts, the balance in the liquidation account has been reduced to \$2.8 at December 31, 2002.

Note 14. Employee Stock Ownership Plan

The Company has an employee stock ownership plan which covers substantially all employees who have attained the age of 21 and completed one year of service. In connection with the conversion to a stock corporation, the Company loaned funds to the ESOP for the purchase of shares of the Company's common stock on the open market of \$12.60 per share using funds loaned by the Company. During 2002, the Company purchased 10,700 shares at an average price of \$13.15. The Company loan is being repaid with level principal payments over 20 years beginning March 7, 2003. All shares are held in a suspense account for allocation among the participants as the loan is repaid. Shares released from the suspense account are allocated among the participants based upon their pro rata annual compensation. The purchases of the shares by the ESOP were recorded by the Company as unearned ESOP shares in a contra equity account. As ESOP shares are committed to be released to compensate employees, the contra equity account is reduced and the Company recognizes compensation expense equal to the fair market value of the shares committed to be released. Compensation expense of \$5,356 was incurred in 2002. No compensation expense related to the ESOP was incurred in 2001. The following table reflects the shares held by the plan at December 31, 2002 and 2001:

	December 31,	
	2002	2001
Unallocated shares (fair value at December 31, 2002 and 2001 of \$193,889 and \$25,200, respectively)	12,326	2,000
Allocated shares	374	--
Committed to be released	12,700	2,000

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CLOVER LEAF FINANCIAL CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 15. Fair Value of Financial Instruments

The estimated fair value of financial instruments has been determined by the Company using available market information and appropriate valuation methodologies. However, considerable judgment is necessarily required to interpret market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Company could realize in a current market exchange. The use of different market

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assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

Approximate carrying values and estimated fair values at December 31, 2002 and 2001 is summarized as follows:

	2001		2002	
	Approximate Carrying Value	Estimated Fair Value	Approximate Carrying Value	Estimated Fair Value
Assets:				
Cash and due from other financial institutions	\$ 2,428,958	\$ 2,428,958	\$ 2,513,396	\$ 2,513,396
Interest-bearing deposits in other financial institutions	5,688,163	5,688,163	10,279,271	10,279,271
Securities available for sale	13,448,482	13,448,482	14,306,020	14,306,020
FHLB stock	3,409,000	3,409,000	3,021,400	3,021,400
Loans	67,543,753	66,855,092	62,435,499	61,447,647
Accrued interest receivable	540,502	540,502	532,041	532,041
Liabilities:				
Noninterest bearing deposits	7,152,821	7,152,821	13,060,619	13,060,619
Interest bearing deposits	65,334,485	65,647,488	67,871,755	68,741,399
FHLB advances	9,000,000	9,084,816	1,500,000	1,520,490
Other borrowings	284,000	284,000	354,000	354,000
Accrued interest payable	217,603	217,603	314,605	314,605

The carrying value of cash and cash equivalents, transaction accounts, savings, other borrowings and accrued interest receivable and payable are considered reasonable estimates of those instruments fair values.

The fair value of investment securities and mortgage-backed securities is based on quoted market prices and prices obtained from independent pricing services. FHLB stock and other investments, included in investment securities, for which current market values are not readily available are believed to have carrying values which approximate market values. The fair value of loans, FHLB advances and certificates of deposit, are estimated based on present values using published rates currently available that are applicable to each category of such financial instrument.

No adjustment was made to the interest rates for changes in credit of performing loans for there are no known credit concerns. Management segregates loans in appropriate risk categories. Management believes that the risk factor embedded in the interest rates along with the general reserves applicable to the performing loan portfolio results in a fair valuation of such loans.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Bank does not have unrecognized financial instruments, other than those

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discussed in Note 11, which are subject to fair value disclosure. The difference between the fair value and the face value for the instruments disclosed in Note 11 was not considered material.

The fair value estimates presented herein are based on pertinent information available to management as of December 31, 2002 and 2001. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued for purposes of these financial statements since that date and, therefore, current estimates of fair value may differ significantly from the amounts presented herein.

Note 16. Condensed Parent Company Only Financial Statements

	December 31,	
	2002	2001
Balance Sheets		
Assets:		
Cash and cash equivalents	\$ 2,056,088	\$ 2,479,954
Equity in net assets of Clover Leaf Bank	10,360,626	10,030,111
Other assets	301,500	25,200
	\$ 12,718,214	\$ 12,535,265
Liabilities and stockholders' equity:		
Other liabilities	\$ --	\$ 25,200
Common stock	66,125	66,125
Surplus	6,066,259	6,133,760
Retained earnings	6,653,011	6,157,791
Accumulated comprehensive income	93,905	177,589
Unearned ESOP shares	(161,086)	(25,200)
	\$ 12,718,214	\$ 12,535,265
	Years Ended December 31,	
	2002	2001
Statements of income		
Dividends from subsidiary	\$ --	\$ --
Interest income	7,454	--
Operating income	7,454	--
Equity in undistributed earnings of Clover Leaf Bank	549,618	69,156
Other noninterest income	--	--
Total other income	549,618	69,156
Other expenses	89,877	--
Income before income tax benefit	467,195	69,156
Income tax benefit	28,025	--
Net income	\$ 495,220	\$ 69,156

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	Years Ended December 31,	
	2002	2001
Statements of cash flows		
Operating activities:		
Net income	\$ 495,220	\$ 69,156
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity in undistributed earnings of Clover Leaf Bank	(549,618)	(69,156)
(Decrease) increase in other liabilities	(25,200)	25,200
Increase in other assets	(135,525)	--
Net cash provided by operating activities	(215,123)	25,200
Financing activities:		
Loans to ESOP for purchase of shares	(140,775)	(25,200)
Costs associated with issuance of stock	(67,968)	(412,615)
Proceeds from stock conversion	--	6,612,500
Purchase Bank stock in conversion	--	(3,719,931)
Net cash used in financing activities	(208,743)	2,454,754
Increase (decrease) in cash and cash equivalents	(423,866)	2,479,954
Cash and cash equivalents:		
Beginning of period	2,479,954	--
End of period	\$ 2,056,088	\$ 2,479,954

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STOCKHOLDER INFORMATION

Annual Meeting

The Annual Meeting of Stockholders will be held at 1:00 p.m. on May 27, 2003 at Clover Leaf Bank, 2143 S. Route 157, Edwardsville, Illinois.

Stock Listing

The Company's Common Stock trades over-the-counter on the OTC Bulletin Board under the symbol "CLOV.OB"

Special Counsel

Luse Gorman Pomerenk & Schick, P.C.
5335 Wisconsin Avenue, N.W., Suite 400
Washington, D.C. 20015

Transfer Agent

Registrar and Transfer Company 10
Commerce Drive Cranford, New Jersey
07016

If you have any questions concerning your stockholder account, please call our transfer agent, noted above, at (800) 368-5948. This is the number to call if you require a change of address, records or information about lost certificates.

Annual Report on Form 10-KSB

A copy of the Company's Form 10-KSB for the fiscal year ended December 31, 2002, will be furnished without charge

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Independent Auditors

McGladrey & Pullen, LLP
1806 Fox Drive
Champaign, Illinois 61820

to stockholders as of April 15, 2003,
upon written request to the Secretary,
Clover Leaf Financial Corp., 200 East
Park Street, Edwardsville, Illinois
62025.

DIRECTORS AND OFFICERS

Directors

Philip H. Weber
Chairman of the Board

Robert W. Schwartz
Vice Chairman of the Board

Joseph J. Gugger

Kenneth P. Highlander

Gary D. Niebur

Dennis M. Terry

Dennis Ulrich

Officers

Dennis M. Terry
President and
Chief Executive Officer

Lisa R. Fowler
Senior Vice President

Darlene F. McDonald
Senior Vice President,
Treasurer and Secretary

EXHIBIT 99.1

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Certification pursuant to
18 U.S.C. Section 1350,
as adopted pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002

Dennis M. Terry, President and Chief Executive Officer, and Darlene F. McDonald, Senior Vice President and Chief Financial Officer of Clover Leaf Financial Corp. (the "Company"), each certify in his or her capacity as an officer of the Company that he or she has reviewed the Annual Report of the Company on Form 10-KSB for the year ended December 31, 2002 and that to the best of his or her knowledge:

1. the report fully complies with the requirements of Sections 13(a) 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.

The purpose of this statement is solely to comply with Title 18, Chapter 63, Section 1350 of the United States Code, as amended by Section 906 of the Sarbanes-Oxley Act of 2002.

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March 28, 2003

Date

/s/ Dennis M. Terry

Dennis M. Terry

President and Chief Executive Officer

March 28, 2003

Date

/s/ Darlene F. McDonald

Darlene F. McDonald

Senior Vice President and Chief Financial Officer