EMCLAIRE FINANCIAL CORP
Form 10QSB
August 08, 2003

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

FORM 10-QSB

[x] QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For Quarter Ended: June 30, 2003

[ ] TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT

For the transition period from ______________ to ______________

Commission File Number: 000-18464

EMCLAIRE FINANCIAL CORP.

(Exact name of small business issuer as specified in its charter)

Pennsylvania	25-1606091
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

612 Main Street, Emlenton, PA 16373

(Address of principal executive offices)

(724) 867-2311

(Issuer's telephone number)

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

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY
PROCEEDINGS DURING THE PRECEDING FIVE YEARS

Check whether the registrant filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Exchange Act after the distribution of securities under a plan confirmed by the court. _____ Yes X No

APPLICABLE ONLY TO CORPORATE ISSUERS

Number of shares of issuer's common stock outstanding as of July 31, 2003:

Common Stock, $1.25 par value	1,282,835
(Class)	(Outstanding)

Transitional Small Business Disclosure Format (Check one): Yes X No

EMCLAIRE FINANCIAL CORP.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

Emclaire Financial Corp. and Subsidiary
Consolidated Balance Sheets
As of June 30, 2003 (Unaudited) and December 31, 2002
(Dollar amounts in thousands, except share data)

	June 30, 2003	December 31, 2002
Assets		
Cash and due from banks	$6,508	$5,495
Interest-earning deposits in banks	541	2,221
Cash and cash equivalents	7,049	7,716
Securities available for sale	56,299	48,719
Securities held to maturity; fair value of $17 and $29	17	29
Loans receivable, net of allowance for loan losses of $1,698 and $1,587	176,843	169,557
Federal bank stocks, at cost	1,729	1,298
Bank-owned life insurance	4,163	4,054
Accrued interest receivable	1,241	1,325
Premises and equipment	4,683	3,678
Goodwill	1,422	1,422
Core deposit intangibles	96	169
Prepaid expenses and other assets	664	610
Total assets	$254,206	$238,577
Liabilities and Stockholders' Equity		
Liabilities:		
Deposits:		
Noninterest bearing	$36,433	$32,762
Interest bearing	177,794	171,663
Total deposits	214,227	204,425
Borrowed funds	15,225	10,000
Accrued interest payable	468	467
Accrued expenses and other liabilities	1,451	1,005
Total liabilities	231,371	215,897
Stockholders' Equity:		
Preferred stock, $1.00 par value, 3,000,000 shares authorized; none issued	-	-
Common stock, $1.25 par value, 12,000,000 shares authorized; 1,395,852 shares issued; 1,282,835 and 1,332,835 shares outstanding	1,745	1,745

Additional paid-in capital	10,871	10,871
Treasury stock, at cost; 113,017 and 63,017 shares	(2,272)	(971)
Retained earnings	10,587	9,978
Accumulated other comprehensive income	1,904	1,057
Total stockholders' equity	22,835	22,680
Total liabilities and stockholders' equity	$254,206	$238,577

See accompanying notes to consolidated financial statements.

Emclaire Financial Corp. and Subsidiary
Consolidated Income Statements
For the three and six months ended June 30, 2003 and 2002 (Unaudited)
(Dollar amounts in thousands, except share data)

	Three months ended June 30,	
	2003	2002
Interest and dividend income:		
Loans receivable	$2,973	$3,104
Securities:		
Taxable	361	382
Exempt from federal income tax	186	138
Federal bank stocks	11	13
Deposits with banks and federal funds sold	8	18
Total interest income	3,539	3,655
Interest expense:		
Deposits	1,103	1,233
Borrowed funds	104	57
Total interest expense	1,207	1,290
Net interest income	2,332	2,365
Provision for loan losses	75	90
Net interest income after provision for loan losses	2,257	2,275

Noninterest income:		
Service fees	267	232
Gain on sale of securities available for sale	42	-
Gain on sale of loans held for sale	18	-
Earnings on bank-owned life insurance	58	-
Other	84	110
Total noninterest income	469	342
Noninterest expense:		
Compensation and employee benefits	1,084	985
Premises and equipment, net	254	299
Intangible amortization expense	36	49
Other	524	535
Total noninterest expense	1,898	1,868
Net income before provision for income taxes	828	749
Provision for income taxes	203	219
Net income	$625	$530
Net income per share	$0.47	$0.40
Dividends per share	$0.21	$0.19
Weighted average common shares outstanding	1,326,581	1,332,835

See accompanying notes to consolidated financial statements.

Emclaire Financial Corp. and Subsidiary
Consolidated Statements of Cash Flows
For the six months ended June 30, 2003 (Unaudited)
(Dollar amounts in thousands)

	For the Six Months Ended June 30,	
	2003	2002
Operating activities:		
Net income	$1,168	$1,013
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization for premises and equipment	196	241
Provision for loan losses	150	201
Amortization of premiums and accretion of discounts, net	112	119
Net change in loans held for sale	-	(1,284

Gain on sale of securities available for sale	(55)	-
Earnings on bank-owned life insurance, net	(109)	-
Amortization of intangible assets	73	98
Change in accrued interest receivable	84	(70
Change in prepaid expenses and other assets	(54)	(69
Change in accrued interest payable	1	(3
Change in accrued expenses and other liabilities	446	178
Other	(230)	(219
Net cash from operating activities	1,782	205
Lending and Investing Activities:		
Loan originations, net of principal collections	(7,471)	(5,473
Purchases of securities available for sale	(30,725)	(12,706
Purchases of Federal bank stocks	(431)	(77
Repayments, maturities and calls of securities available for sale	23,870	12,680
Principal repayments of securities held to maturity	12	10
Proceeds from the sale of securities available for sale	330	-
Purchases of premises and equipment	(1,201)	(226
Net cash from lending and investing activities	(15,616)	(5,792
Deposit and Financing Activities:		
Net increase in deposits	9,802	9,729
Increase in overnight borrowed funds	225	-
Proceeds from long term advances	5,000	-
Dividends paid on common stock	(559)	(505
Payments to acquire treasury stock	(1,301)	-
Net cash from deposit and financing activities	13,167	9,224
Net (decrease) increase in cash equivalents	(667)	3,637
Cash equivalents at beginning of period	7,716	9,157
Cash equivalents at end of period	$7,049	$12,794
Supplemental information:		
Interest paid	$2,423	$2,581
Income taxes paid	441	245

See accompanying notes to consolidated financial statements.

Emclaire Financial Corp. and Subsidiary
Consolidated Statement of Changes in Stockholders' Equity
For the six months ended June 30, 2003 and 2002 (Unaudited)
(Dollar amounts in thousands)

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	Common Stock	Additional Paid-in Capital	Treasury Stock	Retained Earnings	Oth Compre Income
Balance at December 31, 2002	$1,745	$10,871	$(971)	$9,978	$
Comprehensive income:					
Net income	-	-	-	1,168	
Change in net unrealized gain on securities available for sale, net of taxes of $464 and reclassification adjustment for after tax gains of $42	-	-	-	-	
Comprehensive income					
Dividends paid	-	-	-	(559)	
Purchase of treasury stock (50,000 shares)	-	-	(1,301)	-	
Balance at June 30, 2003	$1,745	$10,871	$(2,272)	$10,587	$

See accompanying notes to consolidated financial statements.

Emclaire Financial Corp. and Subsidiary
Notes to Consolidated Financial Statements

1. Business and Basis of Presentation

Emclaire Financial Corp. (the Corporation) is a Pennsylvania corporation and bank holding company that provides a full range of retail and commercial financial products and services to customers in western Pennsylvania through its wholly owned subsidiary bank, the Farmers National Bank of Emlenton (the Bank), a national banking association. The consolidated financial statements contained herein include the accounts of the Corporation and the Bank, which operate as one operating segment. All inter-company amounts have been eliminated.

The accompanying unaudited consolidated financial statements for the interim periods include all adjustments, consisting of normal recurring accruals, which are necessary, in the opinion of management, to fairly reflect the Corporation's financial position and results of operations. Additionally, these consolidated financial statements for the interim periods have been prepared in accordance with instructions for the Securities and Exchange Commission's Form 10-QSB and therefore do not include all information or footnotes necessary for a complete presentation of financial condition, results of operations and cash flows in conformity with accounting principles generally accepted in the United States of America. For further information, refer to the audited consolidated financial statements and footnotes thereto for the year ended December 31, 2002, as contained in the Corporation's 2002 Annual Report to Stockholders.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses and deferred tax assets. The results of operations for interim quarterly or year to date periods are not necessarily indicative of the results that may be expected for the entire year or any other period. Certain amounts previously reported may have been reclassified to conform to the current year's financial statement presentation.

2. Net Income Per Share

The Corporation maintains a simple capital structure with no common stock equivalents. Earnings per share computations are based on the weighted average number of common shares outstanding for the respective reporting periods.

3. Comprehensive Income

Comprehensive income was comprised of the following for the periods ended June 30:

	Three months ended June 30,		Six months ende
In thousands	2003	2002	2003
Net income	$625	$530	$1,168
Change in net unrealized gain on securities available for sale, net of taxes	797	513	889
Less reclassification adjustment for gains included in net income, net of taxes	(34)	-	(42)
Other comprehensive income	763	513	847
Comprehensive income	$1,388	$1,043	$2,015

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4. Securities

The following table summarizes the Corporation's securities as of the respective dates:

(In thousands)	Amortized cost	Unrealized gains	Unrealized losses	Fair value

Available for sale:				
June 30, 2003:				
U.S. Government securities	$23,608	$285	$(16)	$23,877
Municipal securities	15,383	939	-	16,322
Corporate securities	12,919	468	-	13,387
Equity securities	1,504	1,228	(19)	2,713
	$53,414	$2,920	$(35)	$56,299
December 31, 2002:				
U.S. Government securities	$17,486	$350	$-	$17,836
Municipal securities	16,515	391	(99)	16,807
Corporate securities	12,146	421	(5)	12,562
Equity securities	971	543	-	1,514
	$47,118	$1,705	$(104)	$48,719
Held to maturity:				
June 30, 2003:				
Mortgage-backed securities	$17	$-	$-	$17
	$17	$-	$-	$17
December 31, 2002:				
Mortgage-backed securities	$29	$-	$-	$29
	$29	$-	$-	$29

5. Loans Receivable

The Corporation's loans receivable as of the respective dates are summarized as follows:

(In thousands)	June 30, 2003	December 31, 2002
Mortgage loans:		
Residential first mortgage	$75,818	$82,449
Home equity	27,914	19,136
Commercial real estate	38,032	34,986
	141,764	136,571
Other loans:		
Consumer	12,224	12,660
Commercial business	24,553	21,913
	36,777	34,573
Total gross loans	178,541	171,144

Less allowance for loan losses	1,698	1,587
	$176,843	$169,557

6. Deposits

The Corporation's deposits as of the respective dates are summarized as follows:

(Dollar amounts in thousands)	June 30, 2003			December 31, 2002	
Type of accounts	Weighted average rate	Amount	%	Weighted average rate	Amount
Noninterest-bearing deposits	-	$36,433	17.0%	-	$32,762
Interest-bearing demand deposits	0.82%	77,829	36.3%	0.88%	72,637
Time deposits	3.78%	99,965	46.7%	3.97%	99,026
	2.06%	$214,227	100.0%	2.24%	$204,425

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

This section discusses the consolidated financial condition and results of operations of Emclaire Financial Corp. (the Corporation) and its wholly owned subsidiary bank, the Farmers National Bank of Emlenton (the Bank), for the three and six month periods ended June 30, 2003 and should be read in conjunction with the accompanying consolidated financial statements and notes presented on pages 1 through 7.

Discussions of certain matters in this Report on Form 10-QSB may constitute forward-looking statements within the meaning of the Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and as such, may involve risks and uncertainties. Forward-looking statements, which are based on certain assumptions and describe future plans, strategies, and expectations, are generally identifiable by the use of words or phrases such as "believe", "plan", "expect", "intend", "anticipate", "estimate", "project", "forecast", "may increase", "may fluctuate", "may improve" and similar expressions of future or conditional verbs such as "will", "should", "would", and "could". These forward-looking statements relate to, among other things, expectations of the business environment in which the Corporation operates, projections of future performance, potential future credit experience, perceived opportunities in the market, and statements regarding the Corporation's mission and vision. The Corporation's actual results, performance, and achievements may differ materially from the results, performance, and achievements expressed or implied in such forward-looking statements due to a wide range of factors. These factors include, but are not limited to, changes in interest rates, general economic conditions, the demand for the Corporation's products and services, accounting principles or guidelines, legislative and regulatory changes, monetary and fiscal policies of the US Government, US Treasury, and Federal Reserve, real estate markets, competition in the financial services industry, attracting and retaining key personnel, performance of new employees, regulatory actions, changes in and utilization of new technologies, and other risks detailed in the Corporation's reports filed with the Securities and Exchange Commission (SEC) from time to time, including the Annual Report on Form 10-KSB for the fiscal year ended December 31, 2002. These factors should be considered in evaluating the forward-looking statements, and undue reliance should not be placed on such statements. The Corporation does not undertake, and specifically disclaims any obligation, to update any forward-looking statements to reflect occurrences or unanticipated events or circumstances after the date of such statements.

CHANGES IN FINANCIAL CONDITION

General. The Corporation's total assets increased $15.6 million or 6.6% to $254.2 million at June 30, 2003 from $238.6 million at December 31, 2002. This net increase was comprised principally of increases in securities, loans, and premises and equipment of $7.6 million, $7.3 million and $1.0 million, respectively, partially offset by a decrease in cash and cash equivalents of $667,000. The increase in total assets reflects a corresponding increase in total liabilities and total stockholders' equity of $15.5 million or 7.2% and $155,000 or 0.7%, respectively. The increase in total liabilities was primarily the result of increases in deposits and borrowed funds of $9.8 million and $5.2 million, respectively. This increase in deposits and borrowed funds provided the resources for the Corporation's asset growth for the period. The increase in stockholders' equity was the result of increases in retained earnings and accumulated other comprehensive income of $609,000 and $847,000, respectively, offset by an increase in treasury stock of $1.3 million.

Cash and cash equivalents. Cash and cash equivalents decreased $667,000 or 8.6% to $7.0 million at June 30, 2003 from $7.7 million at December 31, 2002. The net decrease between June 30, 2003 and December 31, 2002 was primarily the result of investing deployable funds in loans, U.S. agency securities and commercial paper.

Securities. The Corporation's securities portfolio increased $7.6 million or 15.5% to $56.3 million at June 30, 2003 from $48.7 million at December 31, 2002. This net increase was primarily the result of security purchases of $30.7 million, partially offset by security maturities and calls of $23.9 million and security sales of $330,000, during the six months ended June 30, 2003.

Security purchases were comprised of U.S. government agency, corporate and marketable equity securities of $22.3 million, $7.6 million, and $807,000, respectively. Security maturities and calls were comprised of U.S. government agency, tax-free municipal and corporate securities of $16.1 million, $1.1 million and $6.7 million, respectively. Corporate securities that were purchased and that matured during the period included primarily short-term commercial paper utilized to manage interest-earned on funds maintained for liquidity purposes. At June 30, 2003, the Corporation maintained $2.2 million in commercial paper that is scheduled to mature within three months.

Loans receivable. Net loans receivable increased $7.3 million or 4.3% to $176.8 million at June 30, 2003 from $169.6 million at December 31, 2002. This increase was the result of increases in the Bank's mortgage portfolios and commercial business portfolios of $5.2 million and $2.6 million, respectively, partially offset by a decrease in non-real estate consumer loans of $436,000. The composition of the Corporation's mortgage loan portfolio shifted from residential first mortgages to home equity loan products and commercial mortgages. The Corporation has continued to experience refinancing of mortgage loan products, particularly residential first mortgage loans. For the most part, the Bank has been able to stem residential mortgages exiting the institution, but during the six months ended June 30, 2003, amortization and refinancing activity outpaced new production in this portfolio. This $6.6 million or 8.0% reduction in residential first mortgages has been more than offset by commercial real estate and home equity loan growth. The commercial real estate loan portfolio has grown $3.0 million or 8.7% during the first six months of 2003 due to the retention of several large commercial customers as efforts continue to expand commercial lending activities in the Bank's existing markets. The $8.9 million or 45.9% increase in home equity loans outstanding is the direct result of specific home equity loan product development and related marketing campaigns put forth through the Bank's retail branch network. This campaign has been directed at retaining consumer mortgage investment in the Bank's market area. The Corporation's commercial business loan portfolio grew $2.6 million or 12.0%, directly as the result of $3.0 million in new funding on a tax-free loan with a municipality in the Bank's market area.

Federal bank stocks. Federal bank stocks increased $431,000 or 33.2% to $1.7 million at June 30, 2003 from $1.3 million at December 31, 2002. This increase is directly related to the $5.2 million increase in Federal Home Loan Bank of Pittsburgh (FHLB) borrowed funds during the period - see comments below under "Borrowed Funds".

Premises and equipment. Premises and equipment increased $1.0 million or 27.3% to $4.7 million at June 30, 2003 from $3.7 million at December 31, 2002. This increase can be attributed to capital investments made for the historical remodeling of the Corporation's headquarters and the Bank's main office to date, for the Bank's new branch office in Butler County, PA and for various data processing initiatives undertaken during 2003.

Non-performing assets. Non-performing assets include non-accrual loans and real estate acquired through foreclosure. Non-performing assets amounted to $1.6 million or 0.63% and $1.2 million or 0.49% of total assets at June 30, 2003 and December 31, 2002, respectively.

Deposits. Total deposits increased $9.8 million or 4.8% to $214.2 million at June 30, 2003 from $204.4 million at December 31, 2002. This increase was comprised of increases in noninterest bearing and interest bearing deposits of $3.7 million and $6.1 million, respectively. The general increase in deposits during the period can be attributed primarily to: (1) an overall movement of funds in the marketplace by customers from mutual fund and stock investments into FDIC insured bank deposits as a result of recent national economic instability, and (2) the opening of a new branch banking office in Butler County, PA in late January 2003.

Borrowed funds. Borrowed funds increased $5.2 million or 52.3% to $15.2 million at June 30, 2003 from $10.0 million at December 31, 2002. This increase was primarily the result of a new $5.0 million term borrowing from the FHLB utilized to fund the aforementioned tax-free loan retained with a municipality in the Bank's market.

Stockholders' equity. Stockholders' equity increased $155,000 or 0.7% to $22.8 million at June 30, 2003 from $22.7 million at December 31, 2002. This increase was the result of an increase in retained earnings of $609,000, comprised of net income of $1.2 million offset by dividends paid of $559,000, and an increase in accumulated other comprehensive income of $847,000. Partially offsetting these net increases in stockholders' equity was an increase in treasury stock of $1.3 million.

During June 2003, the Corporation received two separate unsolicited offers from stockholders to buy back shares of the Corporation's common stock held by these stockholders. These purchases totaled 50,000 shares for a price per share of $26.02 or a total purchase cost of $1.3 million. Cash on hand was utilized to facilitate these repurchases and take advantage of this opportunity to manage the Corporation's capital levels. Pursuant to this repurchase the Corporation and the Bank remain "well capitalized" for regulatory purposes. These shares will be held in treasury stock.

RESULTS OF OPERATIONS

Comparison of Results for the Three Month Periods Ended June 30, 2003 and 2002

General. The Corporation reported net income of $625,000 and $530,000 for the three months ended June 30, 2003 and 2002, respectively. The $95,000 or 17.9% increase in net income for the three months ended June 30, 2003, as compared to the three months ended June 30, 2002, was attributable to an increase in noninterest income of $127,000 and a decrease in the provision for loan losses and the provision for income taxes of $15,000 and $16,000, respectively. Partially offsetting these favorable variances was an increase in noninterest expense of $30,000 and a decrease in net interest income of $33,000.

Net interest income. Net interest income on a tax equivalent basis increased $8,000 to $2.4 million for the three months ended June 30, 2003. This net increase can be attributed to a decrease in interest expense of $83,000, offset by a decrease in interest income of $75,000.

Interest income. Interest income on a tax equivalent basis decreased $75,000 or 2.0% to $3.6 million for the three months ended June 30, 2003, compared to $3.7 million for the same period in the prior year. This decrease in interest income can be attributed to a 76 basis point decline in the interest rate on average interest-earning assets to 6.26% during the three months ended June 30, 2003, compared to 7.02% for the same period in the prior year. The yield on average loans, securities and interest-earning deposits decreased to 6.86%, 4.61% and 2.19%, respectively, during the three months ended June 30, 2003, compared to 7.46%, 5.78%, and 2.45%, respectively, for the same period in the prior year. The decrease in interest income due to rate was offset by an increase in the average balance of interest-earning assets, as average loans receivable and securities increased to $175.5 million and $54.3 million, respectively, during the three months ended June 30, 2003, compared to $167.1 million and $40.1 million, respectively, during the same period in the prior year. Offsetting the increase in average loans receivable and securities was a decrease in the average balance of interest-earning cash and cash equivalents to $3.5 million during the three months ended June 30, 2003, compared to $5.1 million during the same period in the prior year. Increases in average loans and securities between quarterly periods were funded by deposit growth and, to a lesser extent, borrowed funds. See comments in the "Changes in Financial Condition" section above for discussion of security, loan and deposit growth factors.

Interest expense. Interest expense decreased $83,000 or 6.4% to $1.2 million for the three months ended June 30, 2003, compared to $1.3 million for the same period in the prior year. This decrease in interest expense can be attributed to a 49 basis point decline in the interest rate on average interest-bearing liabilities to 2.57% during the three months ended June 30, 2003, compared to 3.06% for the same period in the prior year. The average cost of deposits decreased to 2.15% during the three months ended June 30, 2003, compared to 2.57% for the same period in the prior year. The decrease in interest expense due to rate was partially offset by an increase in the average balance of interest-bearing liabilities, as average interest-bearing deposits and borrowed funds increased to $177.1 million and $11.4 million, respectively, during the three months ended June 30, 2003, compared to $164.1 million and $5.0 million, respectively, during the same period in the prior year.

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Average Balance Sheet and Yield/Rate Analysis. The following table sets forth, for periods indicated, information concerning the total dollar amounts of interest income from interest-earning assets and the resulting average yields, the total dollar amounts of interest expense on interest-bearing liabilities and the resulting average costs, net interest income, interest rate spread and the net interest margin earned on average interest-earning assets. For purposes of this table, average loan balances include non-accrual loans and exclude the allowance for loan losses, and interest income includes accretion of net deferred loan costs. Interest and yields on tax-exempt loans and securities (tax-exempt for federal income tax purposes) are shown on a fully tax equivalent basis.

(Dollar amounts in thousands)	Three months ended June 30,				
	2003			20	
	Average Balance	Interest	Yield / Rate	Average Balance	In
Interest-earning assets:					
Loans, taxable	$170,019	$2,910	6.87%	$164,315	
Loans, tax exempt	5,467	89	6.55%	2,820	
	175,486	2,999	6.86%	167,135	
Securities, taxable	37,793	361	3.83%	28,422	
Securities, tax exempt	16,469	263	6.41%	11,685	
	54,262	624	4.61%	40,107	
Interest-earning cash equivalents	1,913	8	1.68%	3,747	
Federal bank stocks	1,559	11	2.83%	1,325	
	3,472	19	2.19%	5,072	
Total interest-earning assets	233,220	3,642	6.26%	212,314	
Cash and due from banks	6,421			6,842	
Other noninterest-earning assets	10,348			5,662	

Total assets	$249,989	$3,642	5.84%	$224,818	
Interest-bearing liabilities:					
Interest-bearing demand deposits	$77,287	$158	0.82%	$72,144	
Time deposits	99,853	945	3.80%	91,910	
	177,140	1,103	2.50%	164,054	
Borrowed funds, term	10,833	102	3.78%	5,000	
Borrowed funds, overnight	544	2	1.47%	-	
	11,377	104	3.67%	5,000	
Total interest-bearing liabilities	188,517	1,207	2.57%	169,054	
Noninterest-bearing demand deposits	36,159	-	-	32,235	
Funding and cost of funds	224,676	1,207	2.15%	201,289	
Other noninterest-bearing liabilities	1,868			1,335	
Total liabilities	226,544			202,624	
Stockholders' equity	23,445			21,794	
Total liabilities and stockholders' equity	$249,989	$1,207	2.15%	$224,418	
Net interest income		$2,435			
Interest rate spread (difference between weighted average rate on interest-earning assets and interest-bearing liabilities)			3.70%		
Net interest margin (net interest income as a percentage of average interest-earning assets)			4.19%		

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Analysis of Changes in Net Interest Income. The following table analyzes the changes in interest income and interest expense in terms of: (1) changes in volume of interest-earning assets and interest-bearing liabilities and (2) changes in yields and rates. The table reflects the extent to which changes in the Corporation's interest income and interest expense are attributable to changes in rate (change in rate multiplied by prior year volume), changes in volume (changes in volume multiplied by prior year rate) and changes attributable to the combined impact of volume/rate (change in rate multiplied by change in volume). The changes attributable to the combined impact of volume/rate are allocated on a consistent basis between the volume and rate variances. Changes in interest income on loans and securities reflect the changes in interest income on a fully tax equivalent basis.

(in thousands)	Three months ended June 30, 2003 versus 2002 Increase (decrease) due to		
	Volume	Rate	Total
Interest income:			
Loans	$ 151	$ (260)	$ (109)
Securities	178	(132)	46
Interest-earning cash equivalents	(8)	(2)	(10)
Federal bank stocks	2	(4)	(2)
Total interest-earning assets	323	(398)	(75)
Interest expense:			
Deposits	93	(223)	(130)
Borrowed funds	60	(13)	47
Total interest-bearing liabilities	$ 170	$ (162)	$ 8
Net interest income	$ 282	$ (313)	$ (31)

Provision for loan losses. The Corporation records provisions for loan losses to bring the total allowance for loan losses to a level deemed adequate to cover probable losses inherent in the loan portfolio. In determining the appropriate level of allowance for loan losses, management considers historical loss experience, the present and prospective financial condition of borrowers, current and prospective economic conditions (particularly as they relate to markets where the Corporation originates loans), the status of non-performing assets, the estimated underlying value of the collateral and other factors related to the collectibility of the loan portfolio. The $15,000 decrease in the Corporation's provision for loans losses between the three-month periods ended June 30, 2003 and 2002 can be attributed to management's assessment of the overall adequacy of the Corporation's allowance for loan losses at June 30, 2003, as well as the lower volume of loan charge-offs during the second quarter 2003 versus the same quarter in 2002.

Noninterest income. Noninterest income increased $127,000 or 37.1% to $469,000 during the three months ended June 30, 2003, compared to $342,000 during the same period in the prior year. This increase can be attributed to the increase in customer service fees earned, gains on sales of marketable equity securities and loans held for sale and earnings on bank-owned life insurance of $35,000, $42,000, $18,000, and $58,000, respectively,

Noninterest expense. Noninterest expense increased $30,000 to $1.9 million during the three months ended June 30, 2003. This increase in noninterest expense can be attributed to an increase in compensation and employee benefits expense of $99,000, offset by decreases in premises and equipment expense, intangible amortization expense and other noninterest expenses of $45,000, $13,000, and $11,000, respectively. Increased noninterest expenses as a result of opening the Bank's new branch office in Butler, PA in January 2003 were, for the most part, offset by cost savings through the consolidation of two offices into one office in the Clarion, PA market in March 2003.

Compensation and employee benefits expense increased $99,000 or 10.1% to $1.1 million during the three months ended June 30, 2003, compared to $985,000 for the same period in the prior year. This increase can be attributed primarily to normal and expected salary and benefit cost increases and increased management and employee incentive costs between the two periods.

Premises and equipment expense decreased $45,000 or 15.1% to $254,000 during the three months ended June 30, 2003, compared to $299,000 for the same period in the prior year. This decrease can be primarily attributed to lower depreciation expenses of $25,000, which was a result of the cessation of depreciation on certain equipment at the end of 2002.

Other noninterest expense decreased $11,000 or 2.1% to $524,000 during the three months ended June 30, 2003, compared to $535,000 for the same period in the prior year. This decrease can primarily be attributed to decreased telephone cost expenses, software depreciation, and travel and entertainment expenses between the two periods. Partially offsetting this favorable variance was an increase in printing and office supplies and marketing expenses associated with the promotion of the aforementioned home equity products.

Provision for income taxes. The provision for income taxes decreased $16,000 or 7.3% to $203,000 for the three months ended June 30, 2003, compared to $219,000 for the same period in the prior year. This decrease is a direct result of the decrease in the Corporation's effective tax rate as a result of the investment in bank owned life insurance, and increased investment in tax-free municipal securities and loans, as well as historic tax credits attributable to the remodeling of the Corporation's headquarters. Partially offsetting this decrease was an increase in the Corporation's pre-tax earnings base between the second quarter 2003 and 2002.

Comparison of Results for the Six month Periods Ended June 30, 2003 and 2002

General. The Corporation reported net income of $1.2 million and $1.0 million for the six months ended June 30, 2003 and 2002, respectively. The $155,000 or 15.3% increase in net income for the six months ended June 30, 2003, as compared to the six months ended June 30, 2002, was attributable to an increase in noninterest income of $213,000 and decreases in the provision for loan losses and income taxes of $51,000 and $23,000, respectively. Partially offsetting this favorable variance was a decrease in net interest income of $98,000 and an increase in noninterest expense of $34,000.

Average Balance Sheet and Yield/Rate Analysis.

(Dollar amounts in thousands)	Six months ended June 30,				
	2003				
	Average Balance	Interest	Yield / Rate	Average Balance	I

Interest-earning assets:				
Loans, taxable	$168,474	$5,847	7.00%	$162,718
Loans, tax exempt	4,802	151	6.35%	2,820
	$173,276	$5,998	6.98%	$165,538
Securities, taxable	34,075	703	4.16%	28,152
Securities, tax exempt	16,615	537	6.52%	11,486
	50,690	1,240	4.93%	39,638
Interest-earning cash equivalents	3,128	22	1.42%	2,656
Federal bank stocks	1,523	26	3.44%	1,923
	4,651	48	2.08%	4,579
Total interest-earning assets	228,617	7,286	6.43%	209,755
Cash and due from banks	6,250			6,547
Other noninterest-earning assets	10,100			4,953
Total assets	$244,967	$7,286	6.00%	$221,255
Interest-bearing liabilities:				
Interest-bearing demand deposits	$75,336	$315	0.84%	$71,182
Time deposits	99,546	1,898	3.84%	91,039
	174,882	2,213	2.55%	162,221
Borrowed funds, term	10,417	209	4.05%	5,000
Borrowed funds, overnight	272	2	1.48%	342
	10,689	211	3.98%	5,342
Total interest-bearing liabilities	185,571	2,424	2.63%	167,563
Noninterest-bearing demand deposits	34,549	-	-	30,643
Funding and cost of funds	220,120	2,424	2.22%	198,206
Other noninterest-bearing liabilities	1,658			1,443
Total liabilities	221,778			199,649
Stockholders' equity	23,189			21,606
Total liabilities and stockholders' equity	$244,967	$2,424	2.22%	$221,255
Net interest income		$4,862		
Interest rate spread (difference between			3.79%	

weighted average rate on interest-earning assets and interest-bearing liabilities)	
Net interest margin (net interest income as a percentage of average interest-earning assets)	4.29%

Analysis of Changes in Net Interest Income.

(in thousands)	Six months ended June 30, 2003 versus 2002 Increase (decrease) due to		
	Volume	Rate	Total
Interest income:			
Loans	$ 284	$ (550)	$ (266)
Securities	288	(196)	92
Interest-earning cash equivalents	5	(14)	(9)
Federal bank stocks	(6)	4	(2)
Total interest-earning assets	571	(756)	(185)
Interest expense:			
Deposits	182	(430)	(248)
Borrowed funds	107	(13)	94
Total interest-bearing liabilities	$ 289	$ (443)	$ (154)
Net interest income	$ 282	$ (313)	$ (31)

Net interest income. Net interest income on a tax equivalent basis decreased $31,000 or 0.6% to $4.9 million for the six months ended June 30, 2003. This decrease can be attributed to a decrease in interest income of $185,000 partially offset by a decrease in interest expense of $154,000.

Interest income. Interest income on a tax equivalent basis decreased $185,000 or 2.5% to $7.3 million for the six months ended June 30, 2003, compared to $7.5 million for the same period in the prior year. This net decrease in interest income can be attributed to decreases in interest earned on loans and interest-earning cash equivalents and federal bank stocks of $266,000 and $11,000, respectively, partially offset by an increase in interest earned on securities of $92,000.

Contributing to the decrease in interest income was a decrease in the yield on interest-earning assets of 75 basis points to 6.43% for the six months ended June 30, 2003, compared to 7.18% for the same period in the prior year. The yield on average loans, securities and interest-earning cash equivalents decreased to 6.98%, 4.93%, and 2.08%, respectively, during the six months ended June 30, 2003, compared to 7.63%, 5.84%, and 2.60%, respectively, for the same period in the prior year. Partially offsetting the decrease in the yield on interest-earning assets was an increase in average interest-earning assets of $18.9 million or 9.0% to $228.6 million for the six months ended June 30, 2003, compared to $209.8 million for the same period in the prior year. The increase in average interest-earning assets can be attributed to increases in average loans receivable, securities and interest-earning cash equivalents of $7.7 million, $11.1 million, and $72,000, respectively. Average loans receivable increased to $173.3 million and average securities increased to $50.7 million during the six months ended June 30, 2003, compared to $165.5 million and $39.6 million, respectively, during the same period in the prior year. See comments in the "Changes in Financial Condition" section above for discussion of security, loan and deposit growth factors.

Aside from changes in the volume and rates of interest-earning assets and interest-bearing liabilities discussed herein, $93,000 of the decrease in net interest income between the year to date periods can be attributed to the payoff of a previously non-performing commercial real estate loan in March 2002 that had been on non-accrual status. In connection with the loan payoff, the Corporation received all principal and interest due under the contractual terms of the loan agreement and therefore interest collected was appropriately recorded as loan interest income during the quarter ended March 31, 2002.

Interest expense. Interest expense decreased $154,000 or 6.0% to $2.424 million for the six months ended June 30, 2003, compared to $2.578 million for the same period in the prior year. This decrease in interest expense can be attributed to a 47 basis point decline in the interest rate on average interest-bearing liabilities to 2.63% during the six months ended June 30, 2003, compared to 3.10% for the same period in the prior year. The average cost of deposits and borrowed funds decreased to 2.55% and 3.98%, respectively, during the six months ended June 30, 2003, compared to 3.06% and 4.42%, respectively, for the same period in the prior year. The decrease in interest expense due to rate was partially offset by an increase in the average balance of interest-bearing liabilities as average interest-bearing deposits and borrowed funds increased to $174.9 million and $10.7 million, respectively, during the six months ended June 30, 2003, compared to $162.2 million and $5.3 million, respectively, during the same period in the prior year.

Provision for loan losses. The $51,000 decrease in the Corporation's provision for loans losses between the six month periods ended June 30, 2003 and 2002 was primarily the result management's assessment of the overall adequacy of the Corporation's allowance for loan losses at June 30, 2003, as well as the lower volume of loan charge-offs during the six month period ending June 30, 2003 versus the same period in the prior year.

Noninterest income. Noninterest income increased $213,000 or 33.3% to $852,000 for the six months ended June 30, 2003 compared to $639,000 for the same period in the prior year. This increase can principally be attributed to the increase in service fees, gains on sales of marketable equity securities and loans held for sale and earnings on bank-owned life insurance of $48,000, $55,000, $18,000 and $117,000, respectively.

Noninterest expense. Noninterest expense increased $34,000 or 1.0% to $3.8 million during the six months ended June 30, 2003. This increase in noninterest expense can be attributed to an increase in compensation and employee benefits expense of $177,000, partially offset by decreases in premises and equipment expense, intangible amortization expense and other expenses of $46,000, $25,000 and $72,000, respectively. Increased noninterest expenses as a result of opening the Bank's new branch office in Butler, PA in January 2003 were, for the most part, offset by cost savings through the consolidation of two offices into one office in the Clarion, PA market in March 2003.

Compensation and employee benefits expense increased $177,000 or 8.9% to $2.2 million during the six months ended June 30, 2003, compared to $2.0 million for the same period in the prior year. This increase can be attributed primarily to normal and expected salary and benefit cost increases and increased management and employee incentive costs between the two periods.

Premises and equipment expense decreased $46,000 or 7.8% to $542,000 during the six months ended June 30, 2003, compared to $588,000 for the same period in the prior year. This decrease can be primarily attributed to lower depreciation expenses of $45,000, which was principally a result of the cessation of depreciation on certain equipment at the end of 2002.

Other noninterest expense decreased $72,000 or 6.6% to $1.0 million during the six months ended June 30, 2003, compared to $1.1 million for the same period in the prior year. This decrease can primarily be attributed to decreased telephone cost expenses, software depreciation, and travel and entertainment expenses between the two periods. Partially offsetting this favorable variance was an increase in printing and office supplies, postage, and marketing expenses associated with the introduction of the Bank's internet banking product and the promotion of home equity products.

Provision for income taxes. The provision for income taxes decreased $23,000 or 5.8% to $377,000 for the six months ended June 30, 2003, compared to $400,000 for the same period in the prior year. This decrease is a direct result of the decrease in the Corporation's effective tax rate as a result of increased investments in tax-free instruments and tax credits - see also comments in quarterly analysis section.

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LIQUIDITY

The Corporation's primary sources of funds generally have been deposits obtained through the offices of the Bank, borrowings from the FHLB, and amortization and prepayments of outstanding loans and maturing securities. During the six months ended June 30, 2003, the Corporation used its sources of funds primarily to fund loan commitments and, to a lesser extent, purchase securities. As of such date, the Corporation had outstanding loan commitments, including undisbursed loans and amounts available under credit lines, totaling $12.2 million, and standby letters of credit totaling $561,000.

At June 30, 2003, time deposits amounted to $100.0 million or 46.7% of the Corporation's total consolidated deposits, including approximately $31.2 million, which were scheduled to mature within the next year. Management of the Corporation believes that it has adequate resources to fund all of its commitments, that all of its commitments will be funded as required by related maturity dates and that, based upon past experience and current pricing policies, it can adjust the rates of time deposits to retain a substantial portion of maturing liabilities.

Aside from liquidity available from customer deposits or through sales and maturities of securities, the Corporation has alternative sources of funds such as a line of credit and term borrowing capacity from the FHLB and, to a limited and rare extent, the sale of loans. At June 30, 2003, the Corporation's borrowing capacity with the FHLB, net of funds borrowed, was $101.7 million.

Management is not aware of any conditions, including any regulatory recommendations or requirements, which would adversely impact its liquidity or its ability to meet funding needs in the ordinary course of business.

Item 3. Controls and Procedures

(a) The Corporation maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Corporation's Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the Corporation's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure based closely on the definition of "disclosure controls and procedures" in Rule 13a-14(c).

As of the quarter ended June 30, 3003, the Corporation carried out an evaluation, under the supervision and with the participation of the Corporation's management, including the Corporation's Chief Executive Officer and the Corporation's Chief Financial Officer, of the effectiveness of the design and operation of the Corporation's disclosure controls and procedures. Based on the foregoing, the Corporation's Chief Executive Officer and Chief Financial Officer concluded that the Corporation's disclosure controls and procedures were effective.

(b) There have been no significant changes in the Corporation's internal controls or in other factors that could significantly affect the internal controls subsequent to the date the Corporation completed its evaluation

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

The Corporation is involved in various legal proceedings occurring in the ordinary course of business. It is the opinion of management, after consultation with legal counsel, that these matters will not materially effect the Corporation's consolidated financial position or results of operations.

Item 2. Changes in Securities

None.

Item 3. Defaults Upon Senior Securities

None.

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

(a) The annual meeting of stockholders of the Corporation was held April 29, 2003. Of 1,332,835 common shares eligible to vote, 1,065,477 or 79.9% were voted in person or by proxy.

(b) The following Class C directors were elected for a three year term expiring in 2006:

Name	Shares For	Shares Withheld

Ronald L. Ashbaugh	1,059,284	6,192
George W. Freeman	1,063,552	1,925
Brian C. McCarrier	1,037,141	28,336

In addition to the above listed individuals, the following persons continue to serve as directors: David L. Cox, Bernadette H. Crooks, Rodney C. Heeter, Robert L. Hunter, J. Michael King and John B. Mason.

(c) The recommendation of the Board of Directors to ratify the appointment of Crowe Chizek and Company LLC as the Corporation's independent auditors, as described in the proxy statement for the annual meeting, was approved with 1,062,659 shares in favor, 556 shares against, and 2,262 shares abstained.

Item 5. Other Information

None.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

Exhibit 31.1 Rule 13a-14(a) Certification of Chief Executive Officer
Exhibit 31.2 Rule 13a-14(a) Certification of Chief Financial Officer
Exhibit 32.1 CEO Certification Pursuant to 18 U.S.C. Section 1350
Exhibit 32.2 CFO Certification Pursuant to 18 U.S.C. Section 1350

(b) Reports on Form 8-K

The Corporation filed a Form 8-K dated April 17, 2003 to announce first quarter 2003 earnings.

Signatures

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

EMCLAIRE FINANCIAL CORP.

Date: August 8, 2003   By: /s/ David L. Cox
David L. Cox
Chairman of the Board,
President and Chief Executive Officer

Date: August 8, 2003   By: /s/ William C. Marsh
William C. Marsh
Treasurer/Secretary

(Principal Financial and Accounting Officer)