CLOVER LEAF FINANCIAL CORP
Form 10QSB
May 17, 2004

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-QSB

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

For the quarterly period ended March 31, 2004

OR

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

For the transition period ---------------- to ----------------

Commission File No. 0-33413

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

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

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

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

Check whether the registrant (1) filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes [X] No [ ]

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

Class	Outstanding at May 13, 2004
Common stock $.10 par value	622,417

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	Ma
ASSETS	
Cash and due from banks	
Interest bearing deposits in other financial institutions	
Total cash and cash equivalents	
Securities available-for-sale	
Federal Home Loan Bank stock	
Loans, net of allowance for loan losses of	

$721 at March 31, 2004 and $725 at December 31, 2003
Bank premises and equipment
Accrued interest receivable
Other assets

TOTAL ASSETS

LIABILITIES
Deposits:
Noninterest bearing
Interest bearing

Total deposits

Federal Home Loan Bank advances
Other borrowings
Accrued interest payable
Other liabilities

TOTAL LIABILITIES

STOCKHOLDERS' EQUITY
Preferred stock, $.10 par value - 250,000 shares authorized; none issued or outstanding
Common stock, $.10 par value - 2,000,000 shares authorized; 661,250 shares issued
Surplus
Retained earnings
Accumulated other comprehensive income
Treasury Stock, 38,833 shares and 25,300 shares at cost, at March 31, 2004 and December 31, 2003, respectively.
Unearned Employee Stock Ownership Plan shares

TOTAL STOCKHOLDERS' EQUITY

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY

See the accompanying notes to unaudited consolidated financial statements.

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CLOVER LEAF FINANCIAL CORP.
Consolidated Statements of Income (unaudited)
(Dollars in Thousands, except per share data)

	Three Months Ended March 31, 2004	Three Months Ended March 31, 2003
Interest Income and dividend income:		
Loans, including fees	$ 985	$ 1,108
Securities	206	127
Federal Home Loan Bank dividends	60	43
Interest-bearing deposits in other banks	8	18

TOTAL INTEREST AND FEE INCOME	1,259	1,296
Interest Expense:		
Deposits	425	528
Federal Home Loan Bank advances	39	64
Other borrowings	1	3
TOTAL INTEREST EXPENSE	465	595
NET INTEREST INCOME	794	701
Provision for loan losses	-	23
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	794	678
Noninterest Income:		
Service charges on deposit accounts	27	20
Other service charges and fees	17	14
Loan servicing fees	13	8
Gain on sale of loans	35	68
Gain on sale of investments	3	-
Other	18	1
TOTAL NONINTEREST INCOME	113	111
Noninterest Expense:		
Salaries and employee benefits	337	329
Occupancy and equipment, net	66	64
Data processing	58	60
Advertising and marketing	33	9
Directors' fees	39	30
Audit and accounting fees	25	18
Legal & collection expense	15	20
Other	88	89
TOTAL NONINTEREST EXPENSE	661	619
Net income before income taxes	246	170
Income taxes	85	62
NET INCOME	$ 161	$ 108
Average Shares Outstanding:		
Basic and Diluted	616,265	641,549
Basic and Diluted Earnings Per Share	$.26	$.17
Dividends Per Share	-	-

See accompanying notes to unaudited consolidated financial statements

CLOVER LEAF FINANCIAL CORP.

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME (Unaudited)
(Dollars in Thousands)

	Three Months Ended March 31, 2				
	Common Stock	Surplus	Retained Earnings	Accumulated Other Comprehensive Income	Treasur Stock
Balance at December 31, 2003	$ 66	$ 6,072	$ 7,044	$ 58	(43
Comprehensive income					
Net income	--	--	161	--	-
Other comprehensive income, net of tax:					
Change in unrealized gain on securities available-for-sale arising during the period, net of tax of $50	--	--	--	63	-
Reclassification adjustment, net of tax of $(1)				(2)	
Comprehensive income					
Allocation of ESOP shares	--	--	--	--	-
Purchase of treasury stock	--	--	--	--	(27
Balance at March 31, 2004	$ 66	$ 6,072	$ 7,205	$ 119	$ (70

See the accompanying notes to unaudited consolidated financial statements.

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

	2004
Cash Flows from Operating Activities	
Net income	
Adjustments to reconcile net income to net cash provided	

by operating activities:
Depreciation
Provision for loan losses
Net amortization (accretion) on investments
Deferred tax provision
Realized gain on sale of investments
Federal Home Loan Bank stock dividend
Gain on sale of loans
Proceeds from sales of loans held for sale
Origination of loans held for sale
(Increase) in accrued interest receivable
(Increase) in other assets
Decrease in accrued interest payable
Increase in other liabilities

Net cash provided by operating activities

Cash Flows from Investing Activities:
Purchase of securities available-for-sale
Proceeds of sales and maturities of securities available-for-sale and paydowns
Increase in loans, net
Purchases of premises and equipment

Net cash (used in) investing activities

Cash Flows from Financing Activities
Increase in deposits
Proceeds from Federal Home Loan Bank advances
Repayments of Federal Home Loan Bank advances
Increase in other borrowings
Allocation of ESOP shares
Purchase of Treasury Stock

Net cash provided by financing activities

Net increase in cash and cash equivalents

Cash and cash equivalents:
Beginning

Ending

Supplemental Disclosures of Cash Flow Information
Cash paid for:
Interest
Income taxes

See the accompanying notes to unaudited consolidated financial statements.

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CLOVER LEAF FINANCIAL CORP.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note A--Principles of Accounting

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

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

In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the consolidated balance sheet and revenues and expenses for the period. Actual results could differ significantly from those estimates.

Note B--Business Segments

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

Note C--Net Income Per Share

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

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

CLOVER LEAF FINANCIAL CORP.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in Thousands, Except Per Share Data)	Three Months Ended March 31, 2004	2003
Net income available to common shareholders	$161	$108
Weighted average shares outstanding	627,292	653,855
Weighted average ESOP shares	(11,027)	(12,306)
Basic average shares outstanding	616,265	641,549
Basic and diluted earnings per share	$.26	$.17

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

The following discussion describes Clover Leaf Financial's results of operations during the three-month periods ended March 31, 2004 and 2003, and its financial condition, asset quality, and capital resources as of March 31, 2004. This discussion should be read in conjunction with Clover Leaf Financial's unaudited consolidated financial statements and notes thereto. The results of operations for the interim periods presented herein are not necessarily indicative of the results to be expected for the full year.

FORWARD-LOOKING STATEMENTS

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

FINANCIAL CONDITION

At March 31, 2004, total assets were $105.6 million, an increase of $2.9 million, or 2.8%, from $102.7 million at December 31, 2003. Loans receivable at March 31, 2004 were $69.6 million, an increase of $2.8 million or 4.2%, from

$66.8 million at December 31, 2003. Commercial real estate loans increased $5.1 million, or 21.0% compared to the 2003 year end. This increase was due to a continued focus by the Bank on commercial lending and a favorable interest rate environment. Consumer loans increased $296,000 or 7.0% compared to the 2003 year end. These increases were partially offset by a $2.3 million, or 7.3% decline in one-to-four family mortgage, and a $332,000, or 30.0% decline in construction and land loans. The decline in one-to-four family mortgage loans was due to the sale of $3.5 million in loans to the Federal Home Loan Bank during the first quarter, as part of the Mortgage Partnership Finance program, where the Bank sells the loans and retains servicing rights. Servicing income on loans sold generated income of $13,000 in the first quarter of 2004 compared to $8,000 for the first quarter of 2003. Securities, including Federal Home Loan Bank stock, decreased $207,000, or 0.8%, to $27.3 million at March 31, 2004 from $27.5 million at December 31, 2003. Bank premises and equipment increased $115,000, or 4.9% to $2.5 million at March 31, 2004. The increase resulted from expenses related to the planning and design for the future construction of a new branch office.

Deposits as of March 31, 2004 were $82.6 million, an increase of $2.1 million, or 2.7%, from December 31, 2003. Non-interest bearing deposits increased $882,000 or 11.0% due to an increase in the number of commercial deposit accounts held at the Bank. Interest-bearing deposits increased $1.3 million or 1.7%. This increase was primarily in time deposits. Short-term time deposits have continued to be a popular product due to the volatile stock market and lack of high yielding investment options for consumers.

Federal Home Loan Bank advances as of March 31, 2004 were $8.5 million, an increase of $455,000, or 5.7% from December 31, 2003. Declining borrowing rates have made Federal Home Loan Bank advances an attractive alternative for funding increased loan volumes.

Total stockholders' equity as of March 31, 2004 was $12.6 million, a decrease of $47,000 or 0.4% from December 31, 2003. The decrease in equity from December 31, 2003 to March 31, 2004 was the result of the purchase of 13,533 shares of treasury stock totaling $271,000 by Clover Leaf Financial during the first quarter of 2004. This

decrease in equity was partially offset by the recording of $161,000 in net income and an increase of $61,000 in the unrealized gain on investment securities held for sale. At March 31, 2004 there were 622,417 shares of common stock outstanding, at a book value of $20.26 per share.

ASSET QUALITY

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

At March 31, 2004 nonperforming assets totaled $836,000, or .79% of total assets, compared to nonperforming assets at year-end 2003 of $908,000, or

..88% of total assets. The Bank held no foreclosed assets at March 31, 2004 or December 31, 2003.

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

(Dollars in Thousands)	March 31, 2004	
	Loans and Foreclosed Assets	Non-performing Assets
Real Estate		
One- to four-family......................	$29,458	$589
Commercial...............................	29,436	-
Construction and land....................	773	-
Non-real estate		
Consumer.................................	4,504	89
Commercial Business......................	6,125	158
Gross loans..............................	70,296	836
Foreclosed assets........................	-	-
Total...........................	$70,296	836
Nonaccrual loans.........................		$836
Accruing loans past due 90 days or more.....................		-
Troubled debt restructurings.............		-
Total nonperforming loans...........		836
Foreclosed assets........................		-
Total nonperforming assets..........		$836
Nonperforming loans to gross loans........		1.19%
Nonperforming assets to gross loans and foreclosed assets................		1.19%
Nonperforming assets to total assets......		.79%

The Bank recorded net charge-offs of $4,000 for the first quarter of 2004 compared to net recoveries of $4,000 for the first quarter of 2003. Net charge-offs as a percentage of average total loans was .01% for the first quarter of 2004 compared to net recoveries as a percentage of average total loans of (.01)% for the first quarter of 2003.

Clover Leaf Financial's allowance for loan losses at March 31, 2004 decreased to $721,000 from $725,000 at December 31, 2003. At March 31, 2004, the allowance for loan losses represented 86.24% of non-performing loans compared to 79.85% at December 31, 2003. The ratio of the allowance for loan losses to total loans was 1.03% at March 31, 2004 compared to 1.07% at December 31, 2003.

Management believes that the allowance for loan losses at March 31, 2004 was adequate to absorb probable losses inherent in the loan portfolio. However, past loan loss experience as it relates to current portfolio mix, evaluation of potential losses in the portfolio, subsequent changes in economic conditions and other factors may require changes in the levels of the allowance for loan losses.

Potential Problem Loans. We utilize an internal asset classification system as a means of reporting problem and potential problem assets. At each scheduled meeting of the board of directors of our subsidiary bank, a watch list is presented, showing all loans listed as "Special Mention," "Substandard," "Doubtful" and "Loss." An asset is classified Substandard if it is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Substandard assets include those characterized by the distinct possibility that we will sustain some loss if the deficiencies are not corrected. Assets classified as Doubtful have all the weaknesses inherent in those classified Substandard with the added characteristic that the weaknesses present make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable

and improbable. Assets classified as Loss are those considered uncollectible and viewed as non-bankable assets, worthy of charge-off. Assets that do not currently expose us to sufficient risk to warrant classification in one of the aforementioned categories, but possess weaknesses that may or may not be within the control of the customer are deemed to be Special Mention.

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

Potential problem loans are loans included on the watchlist presented to the Board of Directors that do not meet the definition of a non-performing loan, but where known information about possible credit problems of borrowers causes management to have serious doubts as to the ability of such borrowers to comply with present loan repayment terms. The aggregate principal amounts of potential problem loans as of March 31, 2004 and December 31, 2003, were $1.1 million, and $1.3 million, respectively.

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

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

(Dollars in Thousands)

	Three Months Ended March 31	
	2004	2003
Balance at beginning of period	$725	$690
Loans charged off:		
Commercial, financial and agricultural	10	-
Consumer	2	3
Total charge-offs	12	3
Recoveries of loans previously charged off:		
Commercial, financial and agricultural	-	1
Consumer	8	6
Total recoveries	8	7
Net charge-offs (recoveries)	4	(4)
Provision for loan losses	-	23
Balance at end of period	$721	$717
Net charge-offs (recoveries) as a percent of average total loans	.01%	(.01)%
Allowance for loans losses to gross loans	1.03%	1.00%
Allowance for loan losses to nonperforming loans	86.24%	44.87%

Income Information

The Company recorded net income for the three months ended March 31, 2004 of $161,000, compared to net income of $108,000 for the three months ended March 31, 2003.

Interest income for the three months ended March 31, 2004 decreased $37,000, or 2.9% to $1.3 million. The average loan yield declined 48 basis points to 5.70% at March 31, 2004 from 6.18% for the same period in the prior year. The Bank's loan rate was negatively impacted by the high volume of mortgage loan refinancing activity as well as the decline in the prime rate, which impacted those commercial loans that re-price with the prime rate. The average security yield increased 10 basis points to 3.88% at March 31, 2004 from 3.78% for the same period in the prior year. The security yield was positively impacted by the dividends received on Federal Home Loan Bank stock. Dividends recorded for the period ended March 31, 2004 were 6.59% compared to 5.03% for the same period in the prior year. In addition to an increase in the security yield, interest income was positively impacted by the increased balance of securities held by the Bank. Average security balances, including Federal Home Loan Bank stock, increased $9.3 million, or 51.1% to $27.5 million at March 31, 2004 compared to $18.2 million for the period ended March 31, 2003.

Interest expense for the most recent three-month period fell by $130,000 to $465,000, a decrease of 21.8% compared to the same period last year. The decrease was due to lower rates paid on interest-bearing deposits and borrowings. The average rate paid on interest-bearing liabilities for the three months ended December 31, 2003 declined by 76 basis points to 2.31% from 3.07% for the same period last year. The largest rate decline was in certificates of deposits, where the average interest rate paid fell by 85 basis points to 2.78% for the three months ended March 31, 2004, from 3.63% for the prior-year period.

No provision expense was recorded for the period ended March 31, 2004, compared to $23,000 for the three months ended March 31, 2003. Despite loan growth, the Bank has experienced very little loss, and non-performing loan balances have declined to $836,000 at March 31, 2004. During the year 2003, the Bank's non-performing loan

balances had reached a high of $2.1 million. Since the Bank's non-performing assets have declined so significantly with very little loss recorded, the Bank's provision level is adequate to support the current non-performing loan volume and total outstanding gross loan receivables, allowing the Bank to record no monthly provision expense during the first quarter of 2004. Management reevaluates the allowance for loan losses at least quarterly to ensure the provision is maintained at a level that represents management's best estimate of probable loan losses in the loan portfolio.

Net interest income after provision for loan losses for the three months ended March 31, 2004 was $794,000, compared to $678,000 for the three months ended March 31, 2003 an increase of $116,000, or 17.1%. The increase in net interest income resulted primarily from the increase in net interest margin to 3.32% from 3.07% for the same period last year.

Non-interest income for the three months ended March 31, 2004 was $113,000 compared to $111,000 for the three months ended March 31, 2003, an increase of $2,000, or 1.8%. The only income category showing a decline for the current period was gain on sale of loans which declined $33,000, or 48.5% compared to the same period last year. This decline is due to the declining rate environment and spreads narrowing on sold loans. All other income categories increased for the current three month period ending March 31, 2004 compared to the prior period ended March 31, 2003. The largest income increase was in other income where a $17,000 reimbursement check for accumulated service fees was received from Freddie Mac.

Non-interest expense for the three months ended March 31, 2004 increased by

$42,000, or 6.8% from $619,000 for the three months ended March 31, 2003. The increase was primarily attributable to increases in advertising expense, director's fees, and compensation expense. Advertising expense increased $24,000, or 266.7% due to the Bank hiring a marketing consultant and initiating a more aggressive advertising campaign focused on promoting the Bank and various new products. Directors fees increased $9,000, or 30% due to a one-time payment to an emeritus director instead of paying that director over the course of the year. Compensation expense increased $8,000, or 2.4% due to annual merit increases.

LIQUIDITY AND CAPITAL RESOURCES

Total stockholders' equity decreased $47,000 from $12.7 million, at December 31, 2003 to $12.6 million, at March 31, 2004. This decrease in stockholders' equity during the first three months of 2004 was primarily the result of the purchase of 13,533 shares of treasury stock totaling $271,000 during the first quarter of 2004. This decrease was partially offset by the recording of $161,000 in net income, and a $61,000 change in unrealized gains on available-for-sale securities during the first quarter of 2004.

Financial institutions are required to maintain ratios of capital to assets in accordance with guidelines promulgated by the federal banking regulators. The guidelines are commonly known as "Risk-Based Guidelines" as they define the capital level requirements of a financial institution based upon the level of credit risk associated with holding various categories of assets. The Risk-Based Guidelines require minimum ratios of Tier 1 and Total Capital to risk-weighted assets of 4% and 8%, respectively. At March 31, 2004, Clover Leaf Bank's Tier 1 and Total capital ratios were 15.69% and 16.73% respectively. In addition to the Risk-Based Guidelines, the federal banking agencies have established a minimum leverage ratio guideline for financial institutions (the "Leverage Ratio Guideline"). The Leverage Ratio Guideline provides for a minimum ratio of Tier 1 capital to average assets of 4%. Clover Leaf Bank's leverage ratio at March 31, 2004, was 10.67%. Accordingly, at March 31, 2004 Clover Leaf Bank satisfied these regulatory guidelines.

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

At March 31, 2004, Clover Leaf Bank had loan commitments of $5.2 million and unused lines of credit of $5.5 million. Clover Leaf Bank believes it has adequate resources to fund loan commitments as they arise. If Clover Leaf Bank requires funds beyond its internal funding capabilities, advances from the Federal Home Loan Bank of Chicago are available. At March 31, 2004, approximately $23.4 million of time deposits were scheduled to mature

within one year. We expect that substantially all of these time deposits either will be renewed upon maturity or will be placed in money market accounts at Clover Leaf Bank. Clover Leaf Bank intends to sell a greater percentage of its residential real estate loan originations, which will provide additional liquidity.

Sources of Funds

Deposits have been our primary source of funds for lending and other investment purposes. In addition to deposits, we derive funds primarily from principal and interest payments on loans. These loan repayments are a relatively stable source of funds, while deposit inflows and outflows are significantly influenced by market interest rates. Borrowings may be used on a short-term basis to compensate for reductions in the availability of funds from other sources, and may be used on a longer-term basis for general business purposes.

ITEM 3. CONTROLS AND PROCEDURES

The Company's Chief Executive Officer and Chief Financial Officer have concluded, based on their evaluation 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.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None

ITEM 2. CHANGES IN SECURITIES AND SMALL BUSINESS ISSUER PURCHASES OF EQUITY SECURITIES

	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	S B th
January 1, 2004 to January 31, 2004	2,000	$ 19.50	2,000	
February 1, 2004 to February 29, 2004	4,000	20.06	4,000	
March 1, 2004 to March 31, 2004	7,533	20.06	7,533	
Total	13,533	$ 19.98	13,533	

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

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

None

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

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

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

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

(b) Reports on Form 8-K: On February 3, 2004, the Company filed a current report on Form 8-K pursuant to Item 12. Results of Operations and Financial Condition, in which it announced its December 31, 2003 financial results.

SIGNATURES

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

CLOVER LEAF FINANCIAL CORP.
(Registrant)

DATE: May 14, 2004

By:/s/ Dennis M. Terry

Dennis M. Terry
President and Chief
Executive Officer

DATE: May 14, 2004

By:/s/ Darlene F. McDonald

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