CLOVER LEAF FINANCIAL CORP
Form 10QSB
November 15, 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 September 30, 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)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes [X] No [ ]

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

Class	Outstanding At November 12, 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)

	SEPTEM 20
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 $737 at September 30, 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 at September 30, 2004 or December 31, 2003	
Common stock, $.10 par value - 2,000,000 shares authorized; 661,250 shares issued at September 30, 2004 and December 31, 2003, respectively	
Surplus	
Retained earnings	
Accumulated other comprehensive income	
Treasury Stock, 38,833 shares and 25,300 shares at cost, at September 30, 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.

CLOVER LEAF FINANCIAL CORP.
CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)
(Dollars in Thousands, except per share data)

	THREE MONTHS ENDED SEPTEMBER 30,	
	2004	2003
Interest Income and dividend income:		
Loans, including fees	$ 1,044	$ 1,058
Securities	204	157

Federal Home Loan Bank dividends	56	58
Interest-bearing deposits in other banks	21	12
TOTAL INTEREST AND FEE INCOME	1,325	1,285
Interest Expense:		
Deposits	438	467
Federal Home Loan Bank advances	59	48
Other borrowings	3	1
TOTAL INTEREST EXPENSE	500	516
NET INTEREST INCOME	825	769
Provision for loan losses	-	19
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	825	750
Noninterest Income:		
Service charges on deposit accounts	29	17
Other service charges and fees	21	17
Loan servicing fees	17	16
Gain on sale of loans	17	16
Gain on sale of investments	-	-
Gain on sale of assets	-	58
Other	1	26
TOTAL NONINTEREST INCOME	85	150
Noninterest Expense:		
Salaries and employee benefits	368	333
Occupancy and equipment, net	72	70
Data processing	56	58
Advertising and marketing	34	19
Directors' fees	26	31
Audit and accounting fees	13	15
Legal & collection expense	7	365
Other	99	94
TOTAL NONINTEREST EXPENSE	675	985
Net income (loss) before income taxes (credits)	235	(85)
Income taxes (credits)	74	(38)
NET INCOME (LOSS)	$ 161	$ (47)
Average Shares Outstanding:		
Basic and Diluted	611,549	629,317
Basic and Diluted Earnings (loss) Per Share	$.26	$(.08)

See the accompanying notes to unaudited consolidated financial statements.

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

	Nine Months Ended September 30, 2				
	Common Stock	Surplus	Retained Earnings	Accumulated Other Comprehensive Income	Treas Sto
Balance at December 31, 2003	$ 66	$ 6,072	$ 7,044	$ 58	$
Comprehensive income					
Net income	--	--	491	--	
Other comprehensive income, net of tax:	--	--	--	--	
Change in unrealized gain on securities available-for-sale arising during the period, net of tax of $6	--	--	--	9	
Reclassification adjustment, Net of tax of ($1)				(2)	
Comprehensive income					
Allocation of ESOP shares	--	2	--	--	
Purchase of treasury stock	--	--	--	--	
Balance at September 30, 2004	$ 66	$ 6,074	$ 7,535	$ 65	$

See the accompanying notes to unaudited consolidated financial s

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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 on investments	
Deferred tax provision	
Realized gain on sale of investments	
Federal Home Loan Bank stock dividend	
Gain on sale of loans	
Gain on sale of assets	
Proceeds from sales of loans held for sale	
Origination of loans held for sale	
Allocation of ESOP shares	
Increase in accrued interest receivable	
Increase in other assets	
Increase (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	
Proceeds on sale of assets	
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	
Repayment of Federal Home Loan Bank advances	
Net increase in other borrowings	
Purchase of Treasury Stock	
NET CASH PROVIDED BY FINANCING ACTIVITIES	
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	
Cash and cash equivalents:	
Beginning	
Ending	$
Supplemental Disclosures of Cash Flow Information	
Cash paid for:	
Interest	$
Income taxes	
Supplemental disclosure of non cash investing activities	
Assets acquired through foreclosure	

See the accompanying notes to unaudited consolidated financial statements.

CLOVER LEAF FINANCIAL CORP.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE A--PRINCIPLES OF ACCOUNTING

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

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

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

NOTE B--BUSINESS SEGMENTS

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

NOTE C--NET INCOME 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, and 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 SEPTEMBER 30,		
	2004	2003	
Net income (loss)	$ 161	$ (47)	$
Weighted average shares outstanding	622,416	640,921	
Weighted average ESOP shares	(10,867)	(11,604)	
Basic average shares outstanding	611,549	629,317	
Basic and diluted earnings (loss) per share	$ .26	$ (.08)	$

NOTE D-INVESTMENT SECURITIES LOSSES

Declines in the fair value of available-for-sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for an anticipated recovery in fair value. The following table shows the gross unrealized losses over and under twelve months at September 30, 2004:

	Continuous unrealized losses existing for less than 12 months		Continuous unrealized losses existing greater than 12 month	
Description of Security	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
US Government Agencies	$6,193,672	$13,293	$1,997,124	$10,2
State & Municipals	-	-	-	
Corporate Securities	-	-	-	

Mortgage Backed Securities	3,154,136	22,239	614,505	9,9
Total temporarily impaired securities	$9,347,808	$35,532	$2,611,629	$20,2

For the above investment securities, the unrealized losses are generally due to changes in interest rates and, as such, are considered to be temporary by the Company.

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

The following discussion describes Clover Leaf Financial's results of operations during the three-month and nine-month periods ended September 30, 2004 and 2003, and its financial condition, asset quality, and capital resources as of September 30, 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 September 30, 2004, total assets were $113.4 million, an increase of $10.7 million, or 10.5%, from $102.7 million at December 31, 2003. Loans receivable at September 30, 2004 were $73.3 million, an increase of $6.5 million or 9.7%, from $66.8 million at December 31, 2003. Commercial real estate loans increased $11.3 million, or 46.3% 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. Commercial business loans increased $404,000 or 6.6% compared to the 2003 year end. Consumer loans increased $611,000 or 14.5% compared to 2003 year end. These increases were partially offset by a $5.6 million, or 17.5% decline in one-to-four family mortgage loans, and a $227,000, or 20.5% decline in construction and land loans. The decline in one-to-four family mortgage loans was due to the sale of $9.6 million in loans to the Federal Home Loan Bank during the first nine months of the year, 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 $47,000 in the first nine months of 2004 compared to $30,000 for the first nine months of 2003. Interest earning cash deposits increased $2.5 million, or 47.8% compared to 2003 year end. This large increase was due to a significant increase in deposits. Cash was held at a higher level due to a strong loan pipeline, and the need to fund several large loan closings in October 2004. Securities, including Federal Home Loan Bank stock, increased $1.1 million, or 3.7%, to $28.6 million at September 30, 2004 from $27.5 million at December 31, 2003. Bank premises and equipment increased $507,000, or 21.6% to $2.9 million at September 30, 2004. The increase resulted from expenditures related to the planning, design, and current construction for the future new branch office. Other assets increased $183,000, or 58.1% to $498,000 at September 30, 2004 from $315,000 at December 31, 2003. The primary reason for the increase was a $106,000 increase in foreclosed assets.

Deposits as of September 30, 2004 were $89.7 million, an increase of $9.2 million, or 11.4%, from December 31, 2003. Non-interest bearing deposits increased $570,000 or 7.1% due to an increase in the number of commercial deposit accounts held at the Bank. Interest-bearing deposits increased $8.6 million or 11.9%. This increase was in time deposits as a large deposit was received from a local public entity.

Federal Home Loan Bank advances as of September 30, 2004 were $8.5 million, an increase of $455,000, or 5.7% from December 31, 2003. Lower borrowing rates and the volatility of the deposit portfolio have made Federal Home Loan Bank advances an attractive alternative for funding increased loan volumes.

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Total stockholders' equity as of September 30, 2004 was $12.9 million, an increase of $233,000 or 1.8% from December 31, 2003. The increase in equity from December 31, 2003 to September 30, 2004 was the result of the recording of $491,000 in net income and $7,000 in the unrealized gain on investment securities available for sale. These increases were partially offset by the purchase of 13,533 shares of treasury stock totaling $270,000 by Clover Leaf Financial during the first nine months of 2004. At September 30, 2004 there were 622,417 shares of common stock outstanding, at a book value of $20.71 per share.

ASSET QUALITY

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

At September 30, 2004, nonperforming assets totaled $827,000, or 0.73% of total assets, compared to nonperforming assets at year-end 2003 of $908,000, or 0.88% of total assets. The Bank held foreclosed assets at September 30, 2004 of $106,000, compared to no foreclosed assets at December 31, 2003.

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

(Dollars in Thousands)	September 30, 2004		Decemb
	Loans and Foreclosed Assets	Non-performing Assets	Loans and Foreclosed Assets
Real Estate			
One- to four-family................	$26,146	$519	$31,709
Commercial.........................	35,601	158	24,335
Construction and land..............	878	-	1,105
Non-real estate			
Consumer...........................	4,819	44	4,208
Commercial business................	6,537	-	6,133
Gross loans..........................	73,981	721	67,490
Foreclosed assets....................	106	106	-
Total......................	$74,087	$827	$67,490
Nonaccrual loans.....................		$721	
Accruing loans past due 90 days or more.................		-	
Troubled debt restructurings.........		-	
Total nonperforming loans........		721	
Foreclosed assets....................		106	
Total nonperforming assets.......		$827	
Nonperforming loans to gross loans....		.97 %	
Nonperforming assets to gross loans and foreclosed assets............		1.12 %	
Nonperforming assets to total assets..		.73 %	

The Bank recorded net recoveries of $23,000 for the third quarter of 2004 compared to net charge-offs of $5,000 for the third quarter of 2003. During the first nine months of 2004, net recoveries totaled $12,000 compared to net recoveries of $7,000 for the first nine months of 2003. Net recoveries as a percentage of average total loans were 0.03% and 0.02%, respectively, for the three and nine months ended September 30, 2004 compared to net recoveries as a percentage of average total loans of 0.01% for the three and nine months ended

September 30, 2003.

Clover Leaf Financial's allowance for loan losses at September 30, 2004, increased to $737,000 from $725,000 at December 31, 2003. At September 30, 2004, the allowance for loan losses represented 102.22% of non-performing loans compared to 79.85% at December 31, 2003. The ratio of the allowance for loan losses to gross loans was 1.00% at September 30, 2004 compared to 1.07% at December 31, 2003. Management believes that the allowance for loan losses at September 30, 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 September 30, 2004 and December 31, 2003, were $836,000, and $1.3 million, respectively.

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

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

Allowance For Loan Losses
(Dollars in Thousands)

	Three Months Ended September 30		Ni
	2004	2003	2004
Balance at beginning of period...............	$714	$737	
Loans charged off:			
Commerical, financial and agricultural...	-	-	
Consumer................................	4	1	
Total charge-offs.............	4	1	
Recoveries of loans previously charged off:			
Commercial, financial and agricultural...	19	-	
Consumer................................	8	6	
Total recoveries..............	27	6	
Net charge-offs (recoveries).................	(23)	(5)	
Provision for loan losses....................	-	19	
Balance at end of period.....................	$737	$761	
Net charge-offs (recoveries) as a percent of average total loans.....................	(.03)%	(.01)%	
Allowance for loan losses to gross loans......	1.00%	1.08%	
Allowance for loan losses to			

nonperforming loans.....................	102.22%	35.59%	10

INCOME INFORMATION - QUARTER

The Company recorded net income for the three months ended September 30, 2004 of $161,000, compared to a net loss of $47,000 for the three months ended September 30, 2003.

Interest income for the three months ended September 30, 2004 increased $40,000, or 3.1% to $1.3 million. The average loan yield remained relatively unchanged, increasing only 3 basis points to 5.73% at September 30, 2004 from 5.70% for the same period in the prior year. The average security yield decreased 13 basis points to 3.72% at September 30, 2004 from 3.85% for the same period in the prior year. The security yield was negatively impacted by $8.8 million of investment securities maturing or being called during the first nine months of 2004, and replacing those securities with lower yielding instruments due to the lower yielding interest rate environment. Offsetting this decline in the average yield on securities was an increase in average security volume. Average security balances increased $5.6 million, or 24.9% to $28.0 million at September 30, 2004 compared to $22.4 million for the three months ended September 30, 2003.

Interest expense for the most recent three-month period fell by $16,000 to $500,000, a decrease of 3.1% 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 September 30, 2004 declined by 25 basis points to 2.28% from 2.53% for the same period last year. The largest rate decline was in certificates of deposits where the average interest rate paid fell by 46 basis points to 2.61% for the three months ended September 30, 2004, from 3.07% for the prior-year period.

No provision expense was recorded for the period ended September 30, 2004, compared to $19,000 for the three months ended September 30, 2003. Despite loan growth, the Bank has experienced very little loss, and non-performing loan balances have declined to $721,000 at September 30, 2004. During 2003, the Bank's non-performing

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loan balances had reached a high of $2.1million. Since the Bank's non-performing assets have declined so significantly with very little loss recorded, the Bank believes the allowance is adequate to support the current non-performing loan volume and total outstanding gross loans receivable, allowing the Bank to record no monthly provision expense during the first nine months of 2004. Management reevaluates the allowance for loan losses at least quarterly to maintain the provision at a level that represents management's best estimate of probable loan losses in the loan portfolio. There can be no guarantee that provisions will not be required in future periods.

Net interest income after provision for loan losses for the three months ended September 30, 2004 was $825,000, compared to $750,000 for the three months ended September 30, 2003 an increase of $75,000, or 10.0%. The increase in net interest income resulted from the increase in net interest margin to 3.23% from 3.18% for the same period last year, an increase in earning assets of $5.9 million for the three month period ended September 30, 2004 compared to the same period in the prior year, and the decrease in the provision expense as discussed above.

Non-interest income for the three months ended September 30, 2004 was $85,000 compared to $150,000 for the three months ended September 30, 2003, a decrease of $65,000, or 43.3%. The decrease was primarily attributable to a decline in the gain on sale of Assets which declined $58,000, or 100.0% compared to the same period last year. Due to highway expansion, the Bank was required to sell a portion of its property to the Illinois Department of Transportation. The $58,000 gain recorded in the third quarter of 2003 represents the value received for the property over the bank's recorded value. Also contributing to the decline in non-interest income was a $25,000 decline in miscellaneous other income. In the third quarter of 2003 $17,000 in income was recorded from the Illinois Department of Transportation to compensate the Bank for use of the Bank's land during the highway expansion project. These declines were slightly offset by an increase in service charges on deposit accounts, and miscellaneous service charges during the quarter ended September 30, 2004.

Non-interest expense for the three months ended September 30, 2004 decreased $310,000, or 31.5% from $985,000 for the three months ended September 30, 2003. The decrease was primarily attributable to a decrease in legal expenses of $358,000. This decrease in legal expense is due to the expenses incurred during 2003 associated with and the resolution of a lawsuit brought against the Bank by the Bank's former President, as disclosed in the Company's Quarterly Report on Form 10-QSB for the quarter ended June 30, 2003. Offsetting this decrease in expense was an increase in compensation and advertising and marketing expenses. Compensation expenses increased $35,000, or 10.5% as a result of staff additions and annual merit increases. Marketing and advertising expenses increased $15,000, or 78.9% due to the Bank hiring a marketing consultant and initiating a more aggressive advertising campaign focused on promoting the Bank and various new products. Other expenses increased $5,000, or 5.3% over the prior year period This increase is primarily made up of an increase in foreclosed property expense which increased $11,000 for the period ended September 30, 2004.

Income taxes for the three months ended September 30, 2004 increased $112,000, or 294.7%. This is due to the increase in the Bank's earnings for the three months ended September 30, 2004 compared to the net loss recorded in the same period in the prior year.

INCOME INFORMATION - NINE MONTHS

Net income for the nine months ended September 30, 2004 was $491,000, or $223,000 (83.2%) higher than net income of $268,000 for the nine months ended September 30, 2003.

Interest income for the nine months ended September 30, 2004 decreased $83,000, or 2.1% to $3.8 million. The decrease was primarily due to lower average yields on loans and securities, as well as decreased loan balances, partially offset by higher average balances in securities. Average interest-earning assets for the nine months ended September 30, 2004 were $100.9 million, an increase of $3.5 million, or 3.6%, over average interest-earning assets for the nine months ended September 30, 2003 of $97.4 million. Average security balances increased $6.5 million, while lower yielding interest-bearing deposits in other financial institutions decreased $1.0 million. Also offsetting the increase in security balances was a decline in loan volume of $1.9 million. The average loan yield declined 25 basis points to 5.70% at September 30, 2004 from 5.95% for the same period in the prior year. The average security yield declined five basis points to 3.75% at September 30, 2004 from 3.80% for the same period in the prior year.

As stated above in the quarterly analysis, the Bank's security yield was negatively impacted by the $8.8 million in securities maturing or being called in the first nine months of 2004.

Interest expense for the nine-month period ended September 30, 2004 decreased to

$1.4 million, a decline of $259,000, or 15.4% compared to the same period last year. The decrease was due to lower rates paid on interest-bearing deposits and borrowings. The average rate paid on interest-bearing liabilities for the nine months ended September 30, 2004 declined by 53 basis points to 2.27% from 2.80% for the same period last year. The average interest paid on certificates of deposit fell by 62 basis points to 2.69% for the nine months ended September 30, 2004, from 3.31% for the prior-year period.

Net interest income after provision for loan losses for the nine months ended September 30, 2004 increased $240,000 to $2.4 million, compared to $2.2 million for the same period in the prior year. The increase in the Bank's net interest income resulted from the growth in earning assets, the decline in the rate paid on interest bearing liabilities to 2.27% from 2.80% for the same period last year, and the decrease in the provision for loan losses as discussed in the quarterly income analysis.

Non-interest income for the nine months ended September 30, 2004 was $344,000 compared to $527,000 for the nine months ended September 30, 2003, a decrease of $183,000, or 34.7%. The decrease was primarily attributable to a decline in the gain on sale of loans, which declined $142,000, or 52.0% compared to the same period last year. This decline is due to a $2.0 million decline in the volume of loans sold during the nine months ended September 30, 2004 compared to the nine months ended September 30, 2003. Also contributing to the decline in income was the declining rate environment and spreads narrowing on sold loans. Gain on sale of assets also declined $73,000 as a sale of a portion of the Bank's property to the Illinois Department of Transportation occurred during the nine months ended September 30, 2003. This sale of property to the Illinois Department of Transportation was completed in order to facilitate highway expansion, as discussed above in the quarterly income analysis. Other miscellaneous income declined $24,000 from the prior year period as the Bank received $17,000 in the third quarter of 2003 from the Illinois Department of Transportation to compensate the Bank for use of the Bank's land during the highway expansion project. These declines were partially offset by increases in service charges on deposit accounts and miscellaneous service charges, as well as an increase in loan servicing fees for the nine months ended September 30, 2004.

Non-interest expense for the nine months ended September 30, 2004 was $2.0 million, or $252,000 less than expenses for the nine months ended September 30, 2003. The decrease was attributable to a decrease in legal expense of $387,000. The decrease in legal expense is due to the expenses incurred during 2003 associated with the resolution of a lawsuit brought against the Bank by the Bank's former President, as discussed above. Offsetting this decline in expense was an increase in compensation and advertising and marketing expenses. Compensation expense increased $66,000, or 6.7%, as a result of staff additions and annual merit increases. Advertising and marketing expense increased $40,000 or 76.9% due to the Bank hiring a marketing consultant and initiating a more aggressive advertising campaign focused on promoting the Bank and various new products.

LIQUIDITY AND CAPITAL RESOURCES

Total stockholders' equity increased $233,000 from December 31, 2003 and was $12.9 million, at September 30, 2004. This increase in stockholders' equity during the first nine months of 2004 was the result of the recording of $491,000 in net income and $7,000 in the unrealized gain on investment securities available for sale. These increases were partially offset by the purchase of 13,533 shares of treasury stock totaling $270,000 by Clover Leaf Financial during the first nine months 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 September 30, 2004, Clover Leaf Bank's Tier 1 and Total Capital ratios were 14.84% and 15.81%, respectively. In addition to the Risk-Based Guidelines, the federal banking agencies have established a minimum leverage ratio guideline for financial institutions (the "Leverage Ratio

Guideline"). The Leverage Ratio Guideline provides for a minimum ratio of Tier 1 capital to average assets of 4%. Clover Leaf Bank's leverage ratio at September 30, 2004, was 10.31%. Accordingly, Clover Leaf Bank has satisfied these regulatory guidelines.

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

At September 30, 2004, Clover Leaf Bank had loan commitments of $6.7 million and unused lines of credit of $6.0 million. Clover Leaf Bank believes it has adequate resources to fund loan commitments as they arise. The Bank has begun construction of a new facility in Edwardsville. Cost of the project is estimated at $2.2 million with completion expected in the second quarter of 2005. If Clover Leaf Bank requires funds beyond its internal funding capabilities, advances from the Federal Home Loan Bank of Chicago are available. At September 30, 2004, approximately $33.8 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 as of the end of the period covered by this quarterly report, that the Company's disclosure controls and procedures (as defined in Securities Exchange Act Rules 13a-15(e) and 15d-15(e)) are effective to ensure that information required to be disclosed in the reports that the Company files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. There has been no change in the Company's internal control over financial reporting during the most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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	MAX SHAR BE P THE P
July 1, 2004 to July 31, 2004............	-	-	-	
August 1, 2004 to August 31, 2004..........	-	-	-	
September 1, 2004 to September 30, 2004........	-	-	-	
Total....................	-	-	-	

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

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.

SIGNATURES

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

CLOVER LEAF FINANCIAL CORP.
(Registrant)

DATE: November 12, 2004	By: /s/ Dennis M. Terry Dennis M. Terry President and Chief Executive Officer
DATE: November 12, 2004	By: /s/ Darlene F. McDonald Darlene F. McDonald Senior Vice President and Treasurer (Principal Financial And Accounting Officer)