CLOVER LEAF FINANCIAL CORP
Form 10QSB
August 16, 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 June 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 August 12, 2004
Common stock $.10 par value	622,417

TABLE OF CONTENTS

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

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

Securities available-for-sale	
Federal Home Loan Bank stock	
Loans, net of allowance for loan losses of $714 at June 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 June 30, 2004 or December 31, 2003	
Common stock, $.10 par value - 2,000,000 shares authorized; 661,250 shares issued at June 30, 2004 and December 31, 2003, respectively	
Surplus	
Retained earnings	
Accumulated other comprehensive income (loss)	
Treasury Stock, 38,833 shares and 25,300 shares at cost, at June 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 June 30,	
	2004	2003
Interest Income and dividend income:		
Loans, including fees	$973	$1,090

Securities	199	164
Federal Home Loan Bank dividends	55	56
Interest-bearing deposits in other banks	11	14
TOTAL INTEREST AND FEE INCOME	1,238	1,324
Interest Expense:		
Deposits	418	504
Federal Home Loan Bank advances	36	64
Other borrowings	1	-
TOTAL INTEREST EXPENSE	455	568
NET INTEREST INCOME	783	756
Provision for loan losses	-	22
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	783	734
Noninterest Income:		
Service charges on deposit accounts	29	19
Other service charges and fees	20	17
Loan servicing fees	17	9
Gain on sale of loans	79	189
Gain on sale of investments	-	-
Gain on sale of assets	-	15
Other	1	17
TOTAL NONINTEREST INCOME	146	266
Noninterest Expense:		
Salaries and employee benefits	346	323
Occupancy and equipment, net	72	66
Data processing	57	54
Advertising and marketing	25	24
Directors' fees	27	32
Audit and accounting fees	30	34
Legal & collection expense	26	50
Other	110	94
TOTAL NONINTEREST EXPENSE	693	677
Net income before income taxes	236	323
Income taxes	67	116
NET INCOME	$ 169	$ 207
Average Shares Outstanding:		
Basic and Diluted	611,469	631,655
Basic and Diluted Earnings Per Share	$.28	$.33

See the accompanying notes to unaudited consolidated financial statements.

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

(Dollars in Thousands)

	Six Months Ended June 30, 20				
	Common Stock	Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock
Balance at December 31, 2003	$ 66	$ 6,072	$ 7,044	$ 58	$ (438
Comprehensive income					
Net income	--	--	330	--	--
Other comprehensive income, net of tax:					
Change in unrealized gain (loss) on securities available-for-sale	(176)	--			
arising during the period, net of tax of	--	--	--	--	(176
Reclassification adjustment, Net of tax of ($1)	(2)	(2)			
Comprehensive income	152				
Allocation of ESOP shares	--	1	--	--	--
Purchase of treasury stock	--	--	--	--	(270
Balance at June 30, 2004	$ 66	$ 6,073	$ 7,374	$ (120)	$ (708

See the accompanying notes to unaudited consolidated financial statements.

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

	Si
	2004
Cash Flows from Operating Activities	
Net income	$ 330
Adjustments to reconcile net income to net cash provided	

by operating activities:	
Depreciation	70
Provision for loan losses	--
Net amortization on investments	149
Deferred tax provision	39
Realized gain on sale of investments	(3)
Federal Home Loan Bank stock dividend	(115)
Gain on sale of loans	(114)
Gain on sale of assets	--
Proceeds from sales of loans held for sale	7,715
Origination of loans held for sale	(7,601)
Increase in accrued interest receivable	(15)
Increase in other assets	(64)
Decrease in accrued interest payable	(29)
Increase in other liabilities	96
Net cash provided by operating activities	458
Cash Flows from Investing Activities:	
Purchase of securities available-for-sale	(5,519)
Proceeds of sales and maturities of securities available-for-sale and paydowns	4,660
Proceeds on sale of assets	--
Increase in loans, net	(1,762)
Purchases of premises and equipment	(233)
Net cash used in investing activities	(2,854)
Cash Flows from Financing Activities	
Increase in deposits	1,372
Proceeds from Federal Home Loan Bank advances	1,455
Repayment of Federal Home Loan Bank advances	(1,000)
Net increase in other borrowings	475
Allocation of ESOP shares	3
Purchase of Treasury Stock	(270)
Net cash provided by financing activities	2,035
Net decrease in cash and cash equivalents	(361)
Cash and cash equivalents:	
Beginning	5,253
Ending	$ 4,892
Supplemental Disclosures of Cash Flow Information	
Cash paid for:	
Interest	$ 949
Income taxes	71
Supplemental disclosure of non cash investing activities	
Assets acquired through foreclosure	97

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 June 30,		Six Month June 3
	2004	2003	2004
Net income	$ 169	$ 207	$ 330
Weighted average shares outstanding	622,417	643,343	624,854
Weighted average ESOP shares	(10,948)	(11,688)	(10,987)
Basic average shares outstanding	611,469	631,655	613,867
Basic and diluted earnings per share	$ .28	$ .33	$ .54

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

The following discussion describes Clover Leaf Financial's results of operations during the three-month and six-month periods ended June 30, 2004 and 2003, and its financial condition, asset quality, and capital resources as of June 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 June 30, 2004, total assets were $105.0 million, an increase of $2.3 million, or 2.2%, from $102.7 million at December 31, 2003. Loans receivable at June 30, 2004 were $68.4 million, an increase of $1.6 million or 2.4%, from $66.8 million at December 31, 2003. Commercial real estate loans increased $6.3 million, or 25.9% 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 $148,000 or 2.4% compared to the 2003 year end. These increases were partially offset by a $4.4 million, or 13.8% decline in one-to-four family mortgage loans, and a $524,000, or 47.4% decline in construction and land loans. The decline in one-to-four family mortgage loans was due to the sale of $7.6 million in loans to the Federal Home Loan Bank during the first six 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 $30,000 in the first half of 2004 compared to $17,000 for the first half of 2003. Securities, including Federal Home Loan Bank stock, increased $545,000, or 2.0%, to $28.1 million at June 30, 2004 from $27.5 million at December 31, 2003. Bank premises and equipment increased $164,000, or 7.0% to $2.5 million at June 30, 2004. The increase resulted from expenditures related to the planning and design for the future construction of a new branch office.

Deposits as of June 30, 2004 were $81.8 million, an increase of $1.4 million, or 1.7%, from December 31, 2003. Non-interest bearing deposits increased $943,000 or 11.8% due to an increase in the number of commercial deposit accounts held at the Bank. Interest-bearing deposits increased $429,000 or 0.6%. This increase was primarily in time deposits.

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

Total stockholders' equity as of June 30, 2004 was $12.5 million, a decrease of $115,000 or 0.9% from December 31, 2003. The decrease in equity was the result of the purchase of 13,533 shares of treasury stock totaling $270,000 during the first six months of 2004. Also contributing to the decline in equity was the change in the net unrealized holding losses on investment securities held for sale. This decrease was $178,000 from December 31, 2003 to June

30, 2004. These decreases in equity were partially offset by the recording of $330,000 in net income. At June 30, 2004 there were 622,417 shares of common stock outstanding, at a book value of $20.15 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 June 30, 2004, nonperforming assets totaled $794,000, or .76% of total assets, compared to nonperforming assets at year-end 2003 of $908,000, or ..88% of total assets. The Bank held foreclosed assets at June 30, 2004 of $97,000, 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)	June 30, 2004		December 31, 20	
	Loans and Foreclosed Assets	Non-performing Assets	Foreclosed Assets	Loans Non-pe As
Real Estate				
One- to four-family	$27,355	$ 477	$31,709	$
Commercial	30,653	158	24,335	
Construction and land	581	--	1,105	
Non-real estate				
Consumer	4,276	62	4,208	
Commercial Business	6,281	--	6,133	
Gross loans	69,146	697	67,490	
Foreclosed assets	97	97	--	
Total	$69,243	$ 794	$67,490	$
Nonaccrual loans		$ 689		$
Accruing loans past due 90 days or more		8		
Troubled debt restructurings		--		
Total nonperforming loans		697		
Foreclosed assets		97		
Total nonperforming assets		$ 794		
Nonperforming loans to gross loans .		1.01%		
Nonperforming assets to gross loans and foreclosed assets		1.15%		
Nonperforming assets to total assets		.76%		

The Bank recorded net charge-offs of $7,000 for the second quarter of 2004 compared to net charge-offs of $2,000 for the second quarter of 2003. During the first six months of 2004, net charge-offs totaled $11,000 compared to net recoveries of $2,000 for the first six months of 2003. Net charge-offs as a percentage of average total loans was 0.01% and 0.02%, respectively, for the three and six months ended June 30, 2004 compared to net recoveries as a percentage of average total loans of 0.01% for the three and six months ended June 30, 2003.

Clover Leaf Financial's allowance for loan losses at June 30, 2004, decreased to $714,000 from $725,000 at December 31, 2003. At June 30, 2004, the allowance for loan losses represented 102.44% of non-performing loans compared to 79.85% at December 31, 2003. The ratio of the allowance for loan losses to gross loans was 1.03% at June 30, 2004 compared to 1.07% at December 31, 2003. Management believes that the allowance for loan losses at June 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 June 30, 2004 and December 31, 2003, were $937,000, 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.

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

Allowance For Loan Losses
(Dollars in Thousands)

	Three Months Ended June 30		Six Months En June 30
	2004	2003	2004
Balance at beginning of period	$ 721	$ 717	$ 725
Loans charged off:			
Commerical, financial and agricultural	--	--	10
Consumer	11	11	13
Total charge-offs	11	11	23
Recoveries of loans previously charged off:			
Commercial, financial and agricultural	--	--	--
Consumer	4	9	12
Total recoveries	4	9	12
Net charge-offs (recoveries)	7	2	11
Provision for loan losses	--	22	--
Balance at end of period	$ 714	$ 737	$ 714

	=====	=====	=====
Net charge-offs (recoveries) as a percent of average total loans	.01%	--	.02%
Allowance for loan losses to gross loans ...	1.03%	1.06%	1.03%
Allowance for loan losses to nonperforming loans	102.44%	42.14%	102.44%

Income Information - Quarter

The Company recorded net income for the three months ended June 30, 2004 of $169,000, compared to net income of $207,000 for the three months ended June 30, 2003.

Interest income for the three months ended June 30, 2004 decreased $86,000, or 6.5% to $1.2 million. The average loan yield declined 33 basis points to 5.65% at June 30, 2004 from 5.98% 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 decreased 15 basis points to 3.64% at June 30, 2004 from 3.79% for the same period in the prior year. The security yield was negatively impacted by $3.8 million of investment securities maturing or being called during the first six months of 2004, and replacing those securities with lower yielding instruments due to the lower yielding interest rate environment. Also contributing to the decline in interest income was a decline in average loan balances. Average loan balances declined $3.4 million, or 4.8% to $67.4 million at June 30, 2004 compared to $70.8 million for the period ended June 30, 2003.

Interest expense for the most recent three-month period fell by $113,000 to $455,000, a decrease of 19.9% 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 June 30, 2004 declined by 60 basis points to 2.21% from 2.81% for the same period last year. The largest rate decline was in certificates of deposits where the average interest rate paid fell by 54 basis points to 2.69% for the three months ended June 30, 2004, from 3.23% for the prior-year period.

No provision expense was recorded for the period ended June 30, 2004, compared to $22,000 for the three months ended June 30, 2003. Despite loan growth, the Bank has experienced very little loss, and non-performing loan

balances have declined to $697,000 at June 30, 2004. During 2003, the Bank's non-performing 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 loan receivables, allowing the Bank to record no monthly provision expense during the first six months of 2004. Management reevaluates the allowance for loan losses at least quarterly to maintain the provision is maintained 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 June 30, 2004 was $783,000, compared to $734,000 for the three months ended June 30, 2003 an increase of $49,000, or 6.7%. The increase in net interest income resulted primarily from the increase in net interest margin to 3.22% from 3.11%

for the same period last year, and the decrease in the provision expense as discussed above.

Non-interest income for the three months ended June 30, 2004 was $146,000 compared to $266,000 for the three months ended June 30, 2003, a decrease of $120,000, or 45.1%. The decrease was primarily attributable to a decline in the gain on sale of loans which declined $110,000, or 58.2% compared to the same period last year. This decline is due to a $2.6 million decline in the volume of loans sold during the three months ended June 30, 2004 compared to three months ended June 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 $15,000 as a sale of a portion of the Bank's property to the Illinois Department of Transportation in order to facilitate highway expansion occurred during the quarter ended June 30, 2003. These declines were slightly offset by an increase in service charges on deposit accounts during the quarter ended June 30, 2004.

Non-interest expense for the three months ended June 30, 2004 increased by $16,000, or 2.4% from $677,000 for the three months ended June 30, 2003. The increase was primarily attributable to an increase in compensation, other and occupancy expenses. Compensation increased $23,000 as a result of staff additions and annual merit increases. Other expenses increased $16,000. This increase is made up of increases in several expense categories, the largest of these being supervisory expense of $4,000, and office supplies, postage and insurance at $3,000 each. Occupancy expense increased $6,000 due to expenses related to the planning and design for the future construction of a new branch office. These increases were slightly offset by a decrease in legal expense of $24,000. Legal expense was higher in 2003 because of an ongoing legal suit that was settled in September 2003.

Income taxes for the three months ended June 30, 2004 decreased $49,000, or 42.2%. $24,000 of the decline is due to the lower pretax income recorded for the three months ended June 30, 2004 compared to June 30, 2003. The remaining $25,000 decline is due to a decrease in the effective tax rate which decreased to 28.4% at June 30, 2004 compared to 35.9% at June 30, 2003. This decrease is due to a re-evaluation of the Bank's tax position with the State of Illinois, and a re-evaluation of the Bank's ability to offset current taxable earnings with a net operating loss carry forward from prior years. The adjustment made to the bank's tax provision at June 30, 2004 represented a cumulative year to date adjustment.

Income Information - Six Months

Net income for the six months ended June 30, 2004 was $330,000, or 4.8% higher than net income of $315,000 for the six months ended June 30, 2003.

Interest income for the six months ended June 30, 2004 decreased $123,000, or 4.7% to $2.5 million. The decrease was primarily due to lower average yields on loans and decreased loan balances, partially offset by higher average balances in securities. Average interest-earning assets for the six months ended June 30, 2004 were $99.3 million, an increase of $3.1 million, or 3.2%, over average interest-earning assets for the six months ended June 30, 2003 of $96.2 million. Average security balances increased $6.9 million, while lower yielding interest-bearing deposits in other financial institutions decreased $1.7 million. Also offsetting the increase in security balances was a decline in loan volume of $2.7 million. The average loan yield declined 40 basis points to 5.68% at June 30, 2004 from 6.08% for the same period in the prior year. As stated above in the quarterly income analysis, the Bank's loan rate was negatively impacted by the high volume of mortgage loan refinancing activity and the decline in the prime rate.

Interest expense for the six-month period ended June 30, 2004 decreased to $920,000, a decline of $243,000, or 20.9% 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 six months ended June 30, 2004 declined by 68 basis points to 2.26% from 2.94% for the same period last year. The average interest paid on certificates of deposit fell by 69 basis points to 2.74% fro the six months ended June 30, 2004, from 3.43% for the prior-year period.

Net interest income after provision for loan losses for the six months ended June 30, 2004 increased $165,000 to $1.6 million, compared to $1.4 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 2.26% from 2.94% 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 six months ended June 30, 2004 was $259,000 compared to $377,000 for the six months ended June 30, 2003, a decrease of $118,000, or 31.3%. The decrease was primarily attributable to a decline in the gain on sale of loans, which declined $143,000, or 55.6% compared to the same period last year. This decline is due to a $1.4 million decline in the volume of loans sold during the six months ended June 30, 2004 compared to the six months ended June 30, 2004. Also contributing to the decline in income was the declining rate environment as discussed in the quarterly income analysis. Gain on sale of assets also declined $15,000 as a sale of a portion of the Bank's property to the Illinois Department of Transportation occurred during the six months ended June 30, 2003. These declines were partially offset by increases in services charges on deposit accounts and miscellaneous service charges, as well as an increase in loan servicing fees for the six months ended June 30, 2004.

Non-interest expense for the six months ended June 30, 2004 was $1.4 million, or $58,000 more than expenses for the six months ended June 30, 2003. The increase was primarily attributable to increases in compensation expenses, advertising and marketing, and occupancy expenses. Compensation expense increased $31,000, or 4.8%, as a result of staff additions and annual merit increases. Advertising and marketing expense increased $25,000 or 75.8% due to the Bank hiring a marketing consultant and initiating a more aggressive advertising campaign focused on promoting the Bank and various new products. Occupancy expense increased $8,000 or 6.2% due to expenses incurred related to the planning and design for the future construction of a new branch office. These increases were partially offset by a $29,000 decline in legal and collection expense. Legal expense was higher in 2003 because of an ongoing legal suit that was settled in September 2003.

LIQUIDITY AND CAPITAL RESOURCES

Total stockholders' equity decreased $115,000 from December 31, 2003 and was $12.5 million, at June 30, 2004. This decrease in stockholders' equity during the first six months of 2004 was the result of the purchase of 13,533 shares of treasury stock totaling $270,000, and a decrease of $178,000 in the unrealized gain on investment securities available for sale, partially offset by the recording of $330,000 in net income and amortization of Unearned Employee Stock Ownership Plan shares of $3,000.

Financial institutions are required to maintain ratios of capital to assets in accordance with guidelines promulgated by the federal banking regulators. The guidelines are commonly known as "Risk-Based Guidelines" as they define the capital level requirements of a financial institution based upon the level of credit risk associated with holding various categories of assets. The Risk-Based Guidelines require minimum ratios of Tier 1 and Total Capital to risk-weighted assets of 4% and 8%, respectively. At June 30, 2004, Clover Leaf Bank's Tier 1 and Total Capital ratios were 15.89% and 16.91%, respectively. In addition to the Risk-Based Guidelines, the federal banking agencies have established a minimum leverage ratio guideline for financial institutions (the "Leverage Ratio Guideline"). The Leverage Ratio Guideline provides for a minimum ratio of Tier 1 capital to average assets of 4%. Clover Leaf Bank's leverage ratio at June 30, 2004, was 10.56%. 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 June 30, 2004, Clover Leaf Bank had loan commitments of $5.2 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 first 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 June 30, 2004, approximately $21.9 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	S B th
April 1, 2004 to April 30, 2004............	-	-	-	
May 1, 2004 to May 31, 2004.............	-	-	-	
June 1, 2004 to June 30, 2004.............	-	-	-	
Total....................	-	-	-	

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

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

The Annual Meeting of Stockholders of the Company was held on May 25, 2004. At the meeting, Dennis Terry, Kenneth Highlander, and Joseph Gugger were elected to serve as directors with terms expiring in 2006. Continuing with a term expiring in 2005 was Gary D. Neibur. Continuing with a term expiring in 2004 were Robert W. Schwartz and Dennis E. Ulrich.

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

	Number For
The election of the following directors for a three-year term:	
Dennis Terry	521,900
Kenneth Highlander	521,930

Joseph Gugger	522,000

	FOR	Against
The ratification of McGladrey & Pullen, LLP as independent Auditors for the year ending December 31, 2004.	521,880	150

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: None

SIGNATURES

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

CLOVER LEAF FINANCIAL CORP.
(Registrant)

DATE: August 12, 2004

By:/s/ Dennis M. Terry

Dennis M. Terry
President and Chief

Executive Officer

DATE: August 12, 2004

By:/s/ Darlene F. McDonald

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