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CLOVER LEAF FINANCIAL CORP
Form 10QSB
May 15, 2002

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-QSB

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

For the quarterly period ended March 31, 2002

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
(State of incorporation)

37-1416016
(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

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, 2002 -----
Common stock \$.10 par value	648,550

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CLOVER LEAF FINANCIAL CORP.
CONSOLIDATED BALANCE SHEETS (Unaudited)
(Dollars in thousands)

ASSETS

Cash and due from banks
Interest bearing due from banks
Investment securities:
 Available-for-sale, at fair value (cost of \$14,257 and
 \$14,037 at March 31, 2002 and December 31, 2001, respectively)
 Federal Home Loan Bank Stock
Loans
 Allowance for loan losses

 Net Loans
Accrued interest receivable

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Bank premises and equipment
Other assets

TOTAL ASSETS

LIABILITIES

Deposits:

Noninterest bearing
Interest bearing

Total Deposits

Securities sold under agreements to repurchase
Federal Home Loan Bank advances
Accrued interest payable
Other liabilities

TOTAL LIABILITIES

STOCKHOLDERS' EQUITY

Preferred stock, \$.10 par value - 250,000 shares authorized;
none issued or outstanding at March 31, 2002 or December 31, 2001
Common stock, \$.10 par value - 2,000,000 shares authorized; 661,250
shares issued at March 31, 2002 and December 31, 2001
Surplus
Retained earnings
Accumulated other comprehensive income
Unearned Employee Stock Ownership Plan shares

TOTAL STOCKHOLDERS' EQUITY

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY

See the accompanying notes to consolidated financial statements.

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

	Three Months Ended March 31	
	2002	2001
Interest and Fee Income:		
Interest and fees on loans	\$1,093	
Interest on U.S. Treasuries and agencies	171	
Interest on other securities	13	
Federal Home Loan Bank dividends	56	
Interest on deposits with banks	11	

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TOTAL INTEREST AND FEE INCOME		-----	-----
Interest Expense:			
NOW, money market and savings deposits		105	
Certificates of deposit		546	
Securities sold under agreements to repurchase		1	
Federal Home Loan Bank advances		21	
TOTAL INTEREST EXPENSE		-----	-----
NET INTEREST INCOME		671	
Provision for loan losses		21	
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES		-----	-----
		650	
Noninterest Income:			
Service charges on deposit accounts		18	
Other service charges and fees		15	
Gain on sale of investment securities, net		4	
Gain on sale of loans		18	
Other		5	
TOTAL NONINTEREST INCOME		-----	-----
		60	
Noninterest Expense:			
Salaries and employee benefits		269	
Occupancy and equipment, net		66	
Data processing		57	
Advertising and marketing		15	
Directors' fees		24	
Audit and accounting fees		18	
Other		96	
TOTAL NONINTEREST EXPENSE		-----	-----
		545	
INCOME BEFORE INCOME TAXES		165	
Income Tax Expense		50	
NET INCOME		-----	-----
		\$115	=====
Average Shares Outstanding:			
Basic and Diluted		649,990	
Basic and Diluted Earnings Per Share		\$.18	====

See the accompanying notes to consolidated financial statements.

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(Dollars in Thousands)

Three Months Ended March 31, 2002

	Common Stock	Surplus	Retained Earnings	Accumul Othe Compreh Income
Balance at December 31, 2001	\$66	\$6,134	\$6,158	\$177
Comprehensive income				
Net income	-	-	115	-
Other comprehensive income, net of tax:				
Change in unrealized gain on securities available-for-sale arising during the period, net of tax of \$(9)	-	-	-	(16)
Reclassification adjustment, net of tax of \$(1)	-	-	-	(3)
Other comprehensive income net of tax of \$(10)				
Comprehensive income				
Loan to ESOP for purchase of unallocated shares	-	-	-	-
Costs related to issuance of common stock	-	(11)	-	-
Balance at March 31, 2002	\$66	\$6,123	\$6,273	\$158

See the accompanying notes to consolidated financial statements.

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

Cash Flows from Operating Activities

Net income
Adjustments to reconcile net income to net cash provided
by operating activities:
 Depreciation
 Provision for loan losses

2002

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Net amortization of premiums 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
Decrease in accrued interest receivable
(Increase) decrease in other assets
Decrease in accrued interest payable
Decrease 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
Purchase of Federal Home Loan Bank stock
Increase in loans, net
Purchases of premises and equipment

Net cash used in investing activities

Cash Flows from Financing Activities

Increase (decrease) in deposits
Repayments of Federal Home Loan Bank advances
Net increase (decrease) in securities sold under agreements to repurchase
Loans to ESOP for purchase of shares
Cost associated with issuance of stock

Net cash used in financing activities

Net 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
Real estate acquired through foreclosure

See the accompanying notes to consolidated financial statements.

CLOVER LEAF FINANCIAL CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

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

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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 savings 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. Prior to that date, Clover Leaf Financial had no assets or liabilities. Accordingly, the accompanying unaudited consolidated financial statements for the three months ended March 31, 2001 represent only the accounts of the Bank and its wholly owned subsidiary, Clover Leaf Financial Services, Inc.

In preparing the consolidated 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.

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Note C--Net Income Per Share

Basic earnings per share are determined by dividing net income by the weighted average number of common shares. Shares acquired by the ESOP are held in trust but were 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.

Three months ended
March 31

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	2002	2001
	(In thousands, except per share data)	
Net income available to common shareholders	\$ 115	\$ 41
Weighted average shares outstanding	661,250	N/A
Weighted average ESOP shares	(11,260)	N/A
Basic average shares outstanding	649,990	N/A
Basic and diluted earnings per share	0.18	N/A

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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, 2002 and 2001, and its financial condition, asset quality, and capital resources as of March 31, 2002. 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

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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.

OVERVIEW

Net income for the first quarter of 2002 was \$115,000 or \$.18 per diluted common share compared to net income of \$41,000 for the first quarter of 2001. Prior to the formation and incorporation of Clover Leaf Financial in December 2001, the existing entity consisted of Clover Leaf Bank, a state-chartered mutual savings association. Return on average assets for the first quarter of 2002 was .53% compared to .20% for the first quarter of 2001. Return on average equity for the first quarter of 2002 was 3.74% compared to 2.69% for the first quarter of 2001.

The increase in net income, for the quarters compared, resulted from increases in net interest income and noninterest income, partially offset by increases in the provision for loan losses and noninterest expense.

Total assets at March 31, 2002 decreased to \$89,312,000 from \$96,101,000 at December 31, 2001. Interest bearing due from bank balances decreased \$6,347,000 during the first quarter of 2002 and net loans outstanding decreased \$1,102,000 for the same period. Investment securities increased \$1,746,000 from \$17,371,000 at December 31, 2001 to \$19,117,000 at March 31, 2002. Loans decreased due to sales of a portion of the 1-4 family residential portfolio, the proceeds were invested in investment securities. Total deposits decreased \$5,959,000 during the first quarter of 2002 to \$74,974,000 from \$80,933,000 at year-end 2001. The overall decrease in deposits and interest bearing deposits with banks was attributable to subscription funds of \$6,411,000 held by the Bank as part of the stock offering that were subsequently returned to subscribers.

RESULTS OF OPERATIONS

Table 1 summarizes Clover Leaf Financial's statement of income and the change in each category for the periods presented.

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TABLE 1 - Comparative Statements of Income
(Dollars in Thousands)

	Three Months Ended March 31	
	2002	2001
Total interest income		
(fully tax-equivalent).....	\$1,350	\$1,498
Total interest expense.....	673	1,020

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Net interest income.....	677	478
Provision for loan losses.....	21	4
Noninterest income:		
Service charges on deposit accounts.....	18	19
Other service charges and fees.....	15	17
Gain on sale of investment securities, net.....	4	6
Gain on sale of loans.....	18	-
Other.....	5	2
Total.....	60	44
Noninterest expense:		
Salaries and employee benefits.....	269	244
Occupancy and equipment, net.....	66	70
Data processing.....	57	54
Other.....	153	86
Total.....	545	454
Income before income taxes.....	171	64
Less: tax-equivalent adjustment.....	6	5
Income tax expense.....	50	18
Net income.....	\$ 115	\$ 41

NM-Not Meaningful

Net Interest Income

Tax-equivalent net interest income increased \$199,000 or 41.6% for the first quarter of 2002 compared to the first quarter of 2001. The increase was attributable to a decrease in interest expense partially offset by a decrease in tax-equivalent interest income.

Total tax-equivalent interest income decreased \$148,000 or 9.9% for the first quarter of 2002 compared to the first quarter of 2001. This decrease was primarily the result of reduced yields on interest earning assets and lower volume of interest-bearing, due-from-bank balances during the first quarter of 2002. Due to a decline in market interest rates, the yield on average interest earning assets decreased from 7.29% for the three months ended March 31, 2001 to 6.38% for the three months ended March 31, 2002.

Total interest expense decreased \$347,000 or 34.0% for the first quarter of 2002 compared to the first quarter of 2001. The decrease in interest expense was primarily attributable to reduced interest rates on interest bearing deposit accounts, particularly certificates of deposit. While the average rate on time deposits decreased from 6.10% to 4.79% the average rate on other deposit accounts decreased from 3.99% to 2.23% for the comparable periods.

The net interest margin was 3.09% for the first quarter of 2002 compared to 2.26% for the first quarter of 2001. During the first quarter of 2002 compared to the first quarter of 2001, the Company's yield on earning assets declined. During the same period, a reduction in the cost of funds rates more than offset the effect of the lower yield on earning assets. Other significant factors in the improved net interest margin for the first quarter of 2002 compared to the first quarter of 2001 were a shift in the volume of deposits from higher costing time deposits to other interest bearing deposits and a higher level of capital, which allowed for an increase in the average

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balance of interest earning assets.

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Provision For Loan Losses

The Company recorded a provision for loan losses of \$21,000 during the first quarter of 2002 compared to \$4,000 recorded during the first quarter of 2001. The Company increased the provision for loan losses because of an increase in the Company's portfolio of both commercial business and commercial real estate loans, which entail greater risk than one- to four-family residential mortgage loans. The provision for loan losses is established with the intent to bring the allowance for loan losses to a level which management believes is appropriate to absorb the best estimate of probable loan losses in the loan portfolio incurred as of the balance sheet date. Activity in the allowance for loan losses and nonperforming loan data is presented under "ASSET QUALITY."

Noninterest Income

Total noninterest income increased from \$44,000 in the first quarter of 2001 to \$60,000 in the first quarter of 2002. The most significant factor in this increase related to gains on the sale of loans which increased \$18,000 for the quarters compared. Service charges on deposit accounts and other service charges and fees remained relatively unchanged for the periods compared. Net gains on the sale of investment securities amounted to \$4,000 for the first quarter of 2002 and \$6,000 for the first quarter of 2001.

Noninterest Expense

Total noninterest expense was \$545,000 for the first quarter of 2002 compared to \$454,000 for the first quarter of 2001. A portion of the increase in noninterest expense was attributable to an increase in employee compensation and benefits, the largest single component of noninterest expense. Employee compensation and other benefit expenses increased \$25,000 for the first quarter of 2002 compared to the first quarter of 2001. The increase in this category of expense for the quarters compared was primarily due to normal merit increases and staff additions. Net occupancy and equipment expenses decreased \$4,000 to \$66,000 for the first quarter of 2002 compared to the first quarter of 2001. Expenses related to data processing increased \$3,000 to \$57,000 for the first quarter of 2002 compared to the first quarter of 2001. Other noninterest expenses increased \$67,000 for the first quarter of 2002 compared to the first quarter of 2001. Included in this category are expenses related to advertising, audit and accounting fees, FDIC insurance premiums, legal and professional fees, loan collection costs, and other operating expenses of the Company. Audit, accounting, and professional fees for the first quarter of 2002 compared to the first quarter of 2001 increased \$13,000 primarily as a result of the filing and accounting regulations related to being a stock owned company as compared to a mutual held bank. Advertising expense increased \$14,000 during the first quarter of 2002 compared to the first quarter of 2001 as the Company engaged an advertising firm to conduct an ongoing advertising campaign. Loan expense increased \$7,000 during the first quarter of 2002 compared to the first quarter of 2001 due to the shift in the portfolio to more commercial loans, which have higher loan origination expenses that were not all reimbursed by the customer, rather than consumer and mortgage loans.

Income Tax Expense

Clover Leaf Financial recorded income tax expense of \$50,000 for the first quarter of 2002 compared to income tax expense of \$18,000 for the first

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quarter of 2001 as a result of the higher level of taxable income in the first quarter of 2002. Clover Leaf Financial's effective income tax rate remained relatively stable at 30.3% for the first quarter of 2002 compared to 30.5% for the first quarter of 2001.

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FINANCIAL CONDITION

General

Certain components of Clover Leaf Financial's consolidated balance sheet at March 31, 2002 compared to December 31, 2001 are presented in summary form in Table 2. Total assets decreased \$6,789,000 to \$89,312,000 at March 31, 2002 compared to \$96,101,000 at December 31, 2001. This decrease resulted from a decrease of \$1,092,000 in gross loans outstanding and a reduction in interest bearing due from bank balances in the amount of \$6,347,000, partially offset by an increase in investment securities of \$1,746,000. Total deposits decreased \$5,959,000 from December 31, 2001 to March 31, 2002.

TABLE 2 - Selected Comparative Balance Sheet Items
(Dollars in Thousands)

	March 31 2002	December 31 2001
	-----	-----
Total assets.....	\$89,312	\$96,101
Loans.....	61,989	63,081
Investment securities.....	19,117	17,371
Deposits.....	74,974	80,933
Securities sold under agreements to repurchase.....	5	354
Federal Home Loan Bank advances.....	1,500	1,500
Stockholders' equity.....	12,454	12,510

Loans

Loans decreased 1.7%, or \$1,092,000, from December 31, 2001 to March 31, 2002. Commercial loans decreased \$1,707,000 during the first quarter of 2002. Commercial real estate loans increased \$1,675,000 during the first quarter of 2002. Total consumer loans decreased \$849,000, comprised of an increase in consumer real estate loans amounting to \$1,292,000 and a decrease in other consumer loan categories amounting to \$2,141,000.

Table 3 presents the composition of the loan portfolio by type of borrower and major loan category and the percentage of each to the total portfolio for the periods presented.

TABLE 3 - Loan Portfolio Composition
(Dollars in Thousands)

	March 31 2002		December 31 2001	
	Amount	Percent	Amount	Percent
-----	-----	-----	-----	-----
Commercial borrowers:				

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Commercial, financial and agricultural.....	\$6,025	9.7%	\$ 7,732	12.3%
Commercial real estate.....	15,646	25.2	13,971	22.1
Real estate construction.....	982	1.6	1,193	1.9
	-----	-----	-----	-----
Total commercial...	22,653	36.5	22,896	36.3
	-----	-----	-----	-----
Consumer borrowers:				
1-4 family residential real estate.....	35,065	56.6	33,773	53.5
Other consumer loans.....	4,271	6.9	6,412	10.2
	-----	-----	-----	-----
Total consumer.....	39,336	63.5	40,185	63.7
	-----	-----	-----	-----
Total loans.....	\$61,989	100.0%	\$63,081	100.0%
	=====	=====	=====	=====

Investments

Total investments increased to \$19,117,000 at March 31, 2002 compared to \$17,371,000 at year-end 2001 as discussed in "Management's discussion and analysis of financial condition and results of operations-overview".

Investments in securities are made based on certain considerations, which include the interest rate, tax considerations, yield, settlement date and maturity date of the securities, Clover Leaf Financial's liquidity position, and anticipated cash needs and sources. The effect that the proposed securities would have on Clover Leaf Financial's credit and interest rate risk and risk-based capital is also considered. Clover Leaf Financial purchases securities to provide necessary liquidity for day-to-day operations, and when investable funds exceed loan demand.

Available-for-sale investment securities are recorded at fair value. Net unrealized gains on available-for-sale investment securities totaled \$239,000 and \$269,000 at March 31, 2002, and December 31, 2001, respectively.

Table 4 presents the composition of investment securities at their carrying values for the periods presented.

TABLE 4 - Investment Securities Portfolio Composition
(Dollars in Thousands)

	March 31 2002	Dece
	-----	-----
Available-for-sale securities:		
Obligations of U. S. government corporations and agencies..	\$7,671	
Mortgage-backed securities.....	5,451	
Obligations of states and political subdivisions.....	849	
Federal Home Loan Bank stock.....	4,621	
Corporate securities.....	525	
	-----	-----

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Total available-for-sale..... \$19,117

Deposits

Clover Leaf Financial's deposit base is its primary source of liquidity and consists of deposits originating within the communities served by its banking locations. Deposits are Clover Leaf Financial's primary and most reliable funding source for interest earning assets.

Total deposits decreased \$5,959,000, or 7.4% to \$74,974,000 at March 31, 2002 from \$80,933,000 at December 31, 2001. The overall decrease in deposits was attributable to subscription funds of \$6,411,000 held by the Bank as part of the stock offering that were subsequently returned to the subscribers. Those funds were on deposit at the Bank at December 31, 2001, but were returned to subscribers prior to March 31, 2002. Time deposits decreased \$3,151,000 from year-end 2001. Savings and money market deposits increased \$3,211,000 from year-end 2001.

Balances in the noninterest bearing demand and interest bearing demand deposits decreased \$5,679,000 and \$340,000, respectively, from year-end 2001. The decrease in noninterest bearing demand deposits was primarily attributable to the subscription funds held by the Bank at December 31, 2001, as discussed above.

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Table 5 sets forth the composition of deposits and the percentage of each category to total deposits for the periods presented.

TABLE 5 - Deposit Liability Composition
(Dollars in Thousands)

	March 31 2002		December 2001
	Amount	Percent	Amount
Noninterest bearing demand deposits...	\$7,382	9.9%	\$13,061
Interest bearing demand deposits.....	2,464	3.3	2,804
Savings and money market deposits.....	21,087	28.1	17,876
Time deposits \$100,000 or more.....	2,565	3.4	7,445
Time deposits less than \$100,000.....	41,476	55.3	39,747
	\$74,974	100.0%	\$80,933
	\$74,974	100.0%	\$80,933

Borrowings

Clover Leaf Bank may obtain advances from the Federal Home Loan Bank of Chicago upon the security of the common stock it owns in that bank and certain of its residential mortgage loans and mortgage-backed securities, provided

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certain standards related to creditworthiness have been met. These advances are made pursuant to several credit programs, each of which has its own interest rate and range of maturities. Federal Home Loan Bank advances are generally available to meet seasonal and other deposit withdrawals and to permit increased lending.

At March 31, 2002 and December 31, 2001, Clover Leaf Bank had \$1,500,000 outstanding in Federal Home Loan Bank advances. This borrowing consisted of two advances, one in the amount of \$1,000,000 due February 2004 at a rate of 5.49% and one in the amount of \$500,000 due February 2009 at a rate of 5.96%.

Repurchase agreements in the amount of \$5,000 and \$354,000 were outstanding as of March 31, 2002 and December 31, 2001, respectively.

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 March 31, 2002, nonperforming assets totaled \$1,600,000 or 1.79% of total assets, compared to nonperforming assets at December 31, 2001 of \$1,554,000 or 1.62% of total assets. Nonperforming assets at March 31, 2002 included \$32,000 relating to foreclosed assets. There were no foreclosed assets in the nonperforming assets at December 31, 2001. Management does not anticipate any significant losses upon disposition of the foreclosed assets held at March 31, 2002.

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Table 6 sets forth a summary of Clover Leaf Financial's loan portfolio mix and nonperforming assets.

TABLE 6 - Loan Portfolio Mix and Nonperforming Assets
(Dollars in Thousands)

	March 31, 2002		
	Loans and Foreclosed Property	Non-performing Assets	Lo For Pr
Commercial borrowers:			
Commercial, financial and agricultural.....	\$6,025	\$465	
Commercial real estate.....	15,646	-	
Real estate construction.....	982	515	

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Total commercial.....	22,653	980
Consumer borrowers:		
1-4 family residential		
real estate.....	35,065	316
Other consumer loans.....	4,271	272
Total consumer.....	39,336	588
Total loans.....	61,989	1,568
Foreclosed assets.....	32	32
Total.....	\$62,021	\$1,600
Nonaccrual loans.....		\$1,515
Accruing loans past due		
90 days or more.....		53
Troubled debt restructurings.....		-
Total nonperforming loans.....		1,568
Foreclosed assets.....		32
Total nonperforming assets.....		\$1,600
Nonperforming loans to total loans.....		2.35%
Nonperforming assets to total loans		
and foreclosed assets.....		2.58%
Nonperforming assets to total assets.....		1.79%

Net charge-offs for the first quarter of 2002 totaled \$11,000 compared to \$7,000 for the first quarter of 2001. Net charge-offs, as a percent of average total loans was .02% during the first quarter of 2002 compared to .01% for the first quarter of 2001.

Clover Leaf Financial's allowance for loan losses at March 31, 2002, increased to \$656,000 from \$646,000 at December 31, 2001. At March 31, 2002, the allowance for loan losses represented 41.00% of nonperforming loans compared to 41.57% and 126.42% at December 31, 2001 and March 31, 2001, respectively. The ratio of the allowance for loan losses to total loans was 1.06% at March 31, 2002 compared to 1.02% and 1.05% at December 31, 2001 and March 31, 2001, respectively. Management believes that the allowance for loan losses at March 31, 2002 was adequate to absorb potential 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.

Table 7 presents information pertaining to the activity in and an analysis of Clover Leaf Financial's allowance for loan losses for the periods presented.

TABLE 7 - Allowance For Loan Losses
(Dollars in Thousands)

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	Three Months Ended March 31	
	2002	2001
Balance at beginning of period.....	\$646	\$625
Loans charged off:		
Commercial, financial and agricultural.....	-	4
Consumer.....	21	17
	-----	-----
Total charge-offs.....	21	21
	-----	-----
Recoveries of loans previously charged off:		
Commercial, financial and agricultural.....	-	-
Consumer.....	10	14
	-----	-----
Total recoveries.....	10	14
	-----	-----
Net charge-offs.....	11	7
Provision for loan losses.....	21	4
	-----	-----
Balance at end of period.....	\$656	\$622
	=====	=====
Net charge-offs as a percent of		
average total loans.....	.02%	.01%
Allowance for loan losses to total loans.....	1.06%	1.05%
Allowance for loan losses to		
nonperforming loans.....	41.00%	126.42%

CAPITAL RESOURCES

Capital Resources

Total stockholders' equity decreased \$56,000 from \$12,510,000 at December 31, 2001 to \$12,454,000 at March 31, 2002. This decrease in stockholders' equity during the first quarter of 2002 was primarily due to the additional purchase of shares by the Employee Stock Ownership Plan. Also contributing to the decline were payments made during the first quarter of 2002 relative to the stock offering completed in December 2001, and a decrease in the net unrealized gains within the available for sale securities portfolio from the level at December 31, 2001. Net income of \$115,000 for the quarter partially offset these items which reduced stockholders' equity during the first quarter of 2002..

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, 2002, Clover Leaf Bank's Tier 1 and Total capital ratios were 17.48% and 18.65%, 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, 2002, was 11.17%. Accordingly, Clover Leaf Bank has satisfied

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these regulatory guidelines.

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PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Clover Leaf Bank is involved, from time to time, as plaintiff or defendant in various legal actions arising in the normal course of its business. At March 31, 2002, Clover Leaf Bank was not involved in any material legal proceedings.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

None

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: See Exhibit Index on page 19 hereof.
- (b) Reports on Form 8-K: No reports on Form 8-K were filed by Clover Leaf Financial during the first quarter of 2002.

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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)

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DATE: May 15, 2002

By:/s/ Dennis M. Terry

Dennis M. Terry
President and Chief
Executive Officer

DATE: May 15, 2002

By:/s/ Darlene F. McDonald

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