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CLOVER LEAF FINANCIAL CORP  
Form 10KSB  
March 31, 2003

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-KSB

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934  
For the Fiscal Year Ended December 31, 2002  
OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934  
For the transaction period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 0-33413

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

Delaware  
-----

(State or Other Jurisdiction of  
Incorporation or Organization)

37-1416016  
-----

(I.R.S. Employer  
Identification Number)

200 East Park Street, Edwardsville, Illinois  
-----

(Address of Principal Executive Office)

62025  
-----

(Zip Code)

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

Securities Registered Pursuant to Section 12(b) of the Act: None

Securities Registered Pursuant to  
Section 12(g) of the Act: Common Stock, par value \$0.10 per share  
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(Title of Class)

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 twelve months (or for such shorter period that the  
Registrant was required to file reports) and (2) has been subject to such  
requirements for the past 90 days.

YES  NO .

Indicate by check mark if disclosure of delinquent filers pursuant to Item  
405 of Regulation S-B is not contained herein, and will not be contained, to the  
best of Registrant's knowledge, in definitive proxy or information statements  
incorporated by reference in Part III of this Form 10-KSB or any amendments to  
this Form 10-KSB.

The registrant's revenues for the fiscal year ended December 31, 2002 were  
\$5.8 million.

As of February 28, 2003, there were issued and outstanding 656,450 shares  
of the Registrant's Common Stock. The aggregate value of the voting stock held  
by non-affiliates of the Registrant, computed by reference to the closing price

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of the Common Stock as of February 28, 2003 was \$6.8 million.

### DOCUMENTS INCORPORATED BY REFERENCE

1. Portions of the 2002 Annual Report to Stockholders (Parts II and IV)
2. Proxy Statement for the 2003 Annual Meeting of Stockholders (Part III)

### PART I

#### ITEM 1. Business

Clover Leaf Financial Corp.

Clover Leaf Financial Corp. was organized at the direction of the Board of Directors of Clover Leaf Bank, SB for the purpose of acting as the stock holding company of Clover Leaf Bank. Clover Leaf Financial's assets consist primarily of the outstanding capital stock of Clover Leaf Bank and cash and investments of \$2.1 million, representing a portion of the net proceeds from Clover Leaf Financial's stock offering completed December 27, 2001. At December 31, 2002, 661,250 shares of Clover Leaf Financial's common stock, par value \$0.10 per share, were held by the public. Clover Leaf Financial's principal business is overseeing and directing the business of Clover Leaf Bank and investing the net stock offering proceeds retained by it. At December 31, 2002, Clover Leaf Financial had total consolidated assets of \$95.5 million, total deposits of \$72.5 million and stockholders' equity of \$12.7 million.

Clover Leaf Financial's office is located at 200 East Park Street, Edwardsville, Illinois 62025. Its telephone number is (618) 656-6122.

Clover Leaf Bank

Founded in 1889, Clover Leaf Bank converted its charter from an Illinois-chartered savings bank to an Illinois-chartered commercial bank in December 2002. Clover Leaf Bank operates from its main office in Edwardsville, Illinois, and one branch office. Clover Leaf Bank's deposits are insured by the Bank Insurance Fund, as administered by the Federal Deposit Insurance Corporation, up to the maximum amount permitted by law.

Clover Leaf Bank's executive office is located at 200 East Park Street, Edwardsville, Illinois 62025. Its telephone number is (618) 656-6122.

Market Area

Clover Leaf Bank's lending and deposit-gathering area is concentrated in the neighborhoods surrounding its two offices in Edwardsville, Illinois, which is located in Madison County. The population of Madison County grew 3.9% from 1990 to 2000, compared to an 8.6% increase in the population of the State of Illinois during the same period. During this same period, however, our local market area, consisting of Edwardsville and surrounding towns, has experienced a significant increase in housing starts. The economy in Clover Leaf Bank's market area is not dependent on any single employer or type of business. While Madison County's economy is primarily industrial, Edwardsville, as the county seat, has a primarily service-oriented economy. The three largest employers in Madison County, all of which are headquartered in Edwardsville, are Southern Illinois University at Edwardsville, the Madison County Government and Edwardsville Community Schools.

Competition

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We face significant competition in both originating loans and attracting deposits. Madison County has a significant number of financial institutions, many of which are significantly larger and have greater financial resources than Clover Leaf Bank, and all of which are our competitors to varying degrees. Our competition for loans comes principally from commercial banks, savings institutions, mortgage banking companies, credit unions and insurance companies. Our most direct competition for deposits historically has come from commercial banks and credit unions. We face additional competition for deposits from non-depository competitors such as mutual funds, securities and brokerage firms and insurance companies. Management believes that the Gramm-Leach-Bliley Act, which permits affiliation among banks, securities firms and insurance companies, will increase competition in our market area.

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### Lending Activities

General. Our loan portfolio consists primarily of one- to four-family residential real estate loans. The vast majority of these loans have fixed rates of interest. In addition to one- to four-family residential real estate loans, our loan portfolio consists of commercial and consumer loans, and, to a lesser extent, construction and overdraft loans.

In an effort to increase our interest income and to reduce the risk to our net income from changes in market interest rates, we have emphasized the origination of commercial real estate and commercial business loans. Compared to our residential mortgage loans, commercial real estate and commercial business loans generally have higher interest rates and are more sensitive to changes in market interest rates because they have adjustable interest rates and shorter terms to maturity. In addition, in order to improve our asset quality and reduce our delinquencies, we have discontinued our indirect automobile lending.

Loan Portfolio Composition. The following table shows the composition of our loan portfolio in dollar amounts and in percentages (before deductions for deferred fees and allowances for losses) as of the dates indicated.

	At December 31,			
	2002		2001	
	Amount	Percent	Amount	Percent
	(Dollars in Thousands)			
<b>Real Estate Loans:</b>				
One- to four-family .....	\$ 34,300	50.26%	\$ 33,773	53.53%
Commercial .....	22,797	33.40	13,971	22.14
Construction and land .....	761	1.12	1,193	1.89
	-----	-----	-----	-----
Total real estate loans	57,858	84.78	48,937	77.56
	-----	-----	-----	-----
<b>Other Loans:</b>				
<b>Consumer:</b>				
Deposit account .....	--	--	80	0.13
Automobile .....	1,425	2.09	3,136	4.97
Home equity .....	1,611	2.36	1,639	2.60
Other .....	1,595	2.34	1,572	2.49
	-----	-----	-----	-----
Total consumer loans ..	4,631	6.79	6,427	10.19
	-----	-----	-----	-----
Commercial business .....	5,759	8.43	7,732	12.25

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Total gross loans ..	68,248	100.00%	63,096	100.00%
Less:				
Deferred fees and discounts	14		15	
Allowance for losses .....	690		646	
Total loans receivable, net	\$ 67,544		\$ 62,435	

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The following table illustrates the interest rate sensitivity of our loan portfolio at December 31, 2002. Mortgages that have adjustable or renegotiable interest rates are shown as maturing in the period during which the full principal amount of the mortgage is due. The schedule does not reflect the effects of possible prepayments or enforcement of due-on-sale clauses.

	Due in one year or less		Due after one year through five years		Due after five years	
	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate
	(Dollars in Thousands)					
Real Estate loans:						
One- to four-family ..	\$ 3,148	6.78%	\$11,306	6.60%	\$19,846	6.40%
Commercial .....	5,874	5.99	16,512	6.30	411	7.96
Construction and land	761	6.87	--	--	--	--
Commercial business loans	2,863	5.50	2,457	6.69	439	5.93
Consumer loans .....	2,923	6.49	1,389	7.80	319	7.15
Gross loans .....	\$15.569	6.20%	\$31,664	6.50%	\$21,015	6.46%

The total amount of loans due after December 31, 2003 which have predetermined interest rates is \$41 million, while the total amount of loans due after such date which have floating or adjustable interest rates is \$11 million.

One- to Four-Family Residential Real Estate Loans. Historically, we have emphasized the origination of one- to four-family loans secured by residential real estate. As of December 31, 2002, these loans totaled \$34.3 million, or 50.3% of our total loan portfolio. Virtually all of our residential real estate loans have fixed rates of interest. Currently, we do not offer adjustable interest rates on our one- to four-family mortgage loans primarily because our customers prefer fixed-rate mortgage loans in the relatively low interest rate environment that currently exists. We generally retain most of the loans that we originate, although in the past we have sold loans on a servicing-retained basis. We intend to sell a greater percentage of our residential real estate loan originations on a servicing-retained basis. At December 31, 2002, we were servicing \$10.3 million in loans for others.

We currently offer one- to four-family residential mortgage loans with terms of 5, 15 and 30 years. Our five-year loans provide for principal and

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interest amortization of up to 30 years with a balloon payment at the end of the five-year term. All of our 15- and 30-year loans amortize over the term of the loan.

For one- to four-family residential real estate loans, we may lend up to 80% of the property's appraised value, or up to 90% of the property's appraised value if the borrower obtains private mortgage insurance. We require title insurance on all of our one- to four-family mortgage loans, and we also require that fire and extended coverage casualty insurance (and, if appropriate, flood insurance) be maintained in an amount equal to at least the lesser of the loan balance or the replacement cost of the improvements on the property. We require a property appraisal for all mortgage loans that are underwritten to comply with secondary market standards. Appraisals are conducted by our on-staff appraisers as well as independent appraisers from a list approved by our board of directors. Our residential real estate loans include "due-on-sale" clauses.

Commercial Real Estate Loans. We have increased our emphasis on commercial real estate lending in recent years. Loans secured by commercial real estate totaled \$22.8 million, or 33.4% of our total loan portfolio as of December 31, 2002. Our commercial real estate loans are secured predominately by office buildings, and to a lesser extent warehouse properties and more specialized properties such as churches. We originate commercial real estate loans with a maximum term of three years. We offer both adjustable and fixed rates of interest on commercial real estate loans, with the interest rate for adjustable rate loans tied to the prime interest rate. Our largest commercial real estate loan at December 31, 2002 had a principal balance of \$1.1 million and was collateralized by a law office building. This loan is performing in accordance with its terms.

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Commercial real estate loans generally have higher interest rates than the interest rates on residential mortgage loans, and are more sensitive to changes in market interest rates because they often have adjustable interest rates and shorter terms. Commercial real estate loans have significant additional risk compared to one- to four-family residential mortgage loans, as they typically involve large loan balances concentrated with single borrowers or groups of related borrowers. In addition, the repayment of commercial real estate loans typically depends on the successful operation of the related real estate project, and thus may be subject to a greater extent than residential mortgage loans to adverse conditions in the real estate market or in the economy generally.

In our underwriting of commercial real estate loans, we may lend up to 80% of the property's appraised value in the case of loans secured by apartments, and up to 75% of the property's appraised value on loans secured by other commercial properties. We require independent appraisals for all commercial real estate loans in excess of \$250,000. For loans that do not exceed this amount, we require that an officer prepare a memorandum of value detailing comparable values based upon tax bills, prior appraisals, and income information on revenue-producing property. Decisions to lend are based on the economic viability of the property and the creditworthiness of the borrower. Creditworthiness is determined by considering the character, experience, management and financial strength of the borrower, and the ability of the property to generate adequate funds to cover both operating expenses and debt service. In evaluating whether to make a commercial real estate loan, we place primary emphasis on the ratio of net cash flow to debt service on the property, and we generally require a ratio of cash flow to debt service of at least 120%, computed after deduction for a vacancy factor and property expenses we deem appropriate.

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We require title insurance on all of our commercial real estate loans, and we also require that fire and extended coverage casualty insurance (and, if appropriate, flood insurance) be maintained. In addition, we generally require that the borrower personally guarantee the repayment of the loan.

Construction and Land Loans. We originate two types of residential construction loans: (i) construction/speculative loans, and (ii) construction/permanent loans. As of December 31, 2002, construction and land loans totaled \$.8 million, or 1.1% of our total loan portfolio.

Construction/speculative loans are made to area homebuilders who do not have, at the time the loan is originated, a signed contract with a homebuyer who has a commitment for permanent financing with either Clover Leaf Bank or another lender. The homebuyer may enter into a purchase contract either during or after the construction period. These loans have the risk that the builder will have to make interest and principal payments on the loan and finance real estate taxes and other holding costs of the completed home for a significant time after the completion of construction. Funds are disbursed in phases as construction is completed. All construction/speculative loans require that the builder-borrower personally guarantee the full repayment of the principal and interest on the loan. These loans are generally originated for a term of twelve months, with interest rates that are tied to the prime lending rate, and with a loan-to-value ratio of no more than 75% of the lower of cost or the estimated value of the completed property. Generally, we limit our construction/speculative loans to one property per borrower at any given time, and the largest number of construction/speculative loans we have originated to a single borrower at any given time was for three properties. At December 31, 2002, the largest outstanding concentration of credit to one builder consisted of one construction/speculative loan with an aggregate balance of \$170,000, which was performing in accordance with its terms.

Construction/permanent loans are made to either a homebuilder or a homeowner who, at the time of construction, has a signed contract together with a commitment for permanent financing from Clover Leaf Bank for the finished home. The construction phase of a loan generally lasts up to six months, and the interest rate charged generally corresponds to the rate of the committed permanent loan, with loan-to-value ratios of up to 80% (or up to 90% if the borrower obtains private mortgage insurance) of the appraised estimated value of the completed property or cost, whichever is less. Following the initial 6-month period, construction/permanent loans convert to permanent loans, regardless of whether the construction phase has been completed. At December 31, 2002 the largest single outstanding construction loan of this type had an outstanding balance of \$155,500 and was performing in accordance with its terms.

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Construction lending generally involves a greater degree of risk than other one- to four-family mortgage lending. The repayment of the construction loan is, to a great degree, dependent upon the successful and timely completion of the home construction. Construction delays or the financial impairment of the builder may further impair the borrower's ability to repay the loan.

Our procedures for underwriting construction/speculative loans include an assessment of the borrower's credit history and the borrower's ability to meet other existing debt obligations, as well as payment of principal and interest on the proposed loan. We use the same underwriting standards and procedures for construction/permanent lending as we do for one- to four-family residential real estate lending.

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We also originate land development loans to area homebuilders that are secured by individual unimproved or improved residential building lots. Land loans are generally offered with variable prime-based interest rates with terms of up to two years. The maximum loan-to-value ratio is 65% of the lower of cost or appraised value of the property.

Consumer Loans. Our consumer loans consist primarily of automobile loans, home equity lines of credit and overdraft loans, loans secured by deposits and securities, and unsecured personal loans. As of December 31, 2002, consumer loans totaled \$4.6 million, or 6.8% of our total loan portfolio.

Automobile loans are generally offered with maturities of up to 60 months for new automobiles, while loans secured by used automobiles will have maximum terms that vary depending on the age of the automobile. We require all borrowers to maintain collision insurance on automobiles securing loans in excess of \$1,000, with Clover Leaf Bank listed as loss payee. In those instances where the borrower fails to maintain adequate insurance coverage, we are further protected against loss by vendors single interest insurance coverage.

Our indirect automobile loans have experienced higher than average delinquency and loss rates, and we discontinued this type of automobile lending in July 2000. Our automobile loan portfolio totaled \$1.4 million, or 2.1% of total loans at December 31, 2002, compared to \$3.1 million, or 5.0% of total loans, at December 31, 2001.

Home equity lines of credit are generally made for owner-occupied homes, and are secured by first or second mortgages on residential properties. We are attempting to increase our originations of home equity loans through targeted marketing. We generally offer home equity lines of credit with a maximum loan to appraised value ratio of 85% (including senior liens on the subject property). We currently offer these loans for terms of up to 10 years, and with adjustable rates that are tied to the prime lending rate.

We offer overdraft loans by providing unsecured lines of credit to qualifying checking accountholders. The line of credit must be pre-approved by Clover Leaf Bank's loan department. Overdraft loans totaled \$.2 million, or .4% of our total loan portfolio as of December 31, 2002.

Consumer loans generally entail greater credit risk than residential mortgage loans, particularly in the case of loans that are unsecured or are secured by assets that tend to depreciate in value, such as automobiles. In these cases, repossessed collateral for a defaulted consumer loan may not provide an adequate source of repayment for the outstanding loan and the remaining value often does not warrant further substantial collection efforts against the borrower. Further, consumer loan collections depend on the borrower's continuing financial stability, and therefore are more likely to be adversely affected by job loss, divorce, illness or personal bankruptcy.

Our procedures for underwriting consumer loans include an assessment of the borrower's credit history and ability to meet other existing debt obligations, as well as payments of principal and interest on the proposed loans. The stability of the borrower's monthly income may be determined by verification of gross monthly income from primary employment, and additionally from any verifiable secondary income. Although the borrower's creditworthiness is a primary consideration, the underwriting process also includes a comparison of the value of the collateral security, if any, to the proposed loan amount. We require independent appraisals for all consumer loans in excess of \$50,000. For loans that do not exceed this amount, we require that an officer prepare a memorandum of value detailing comparable values based upon tax bills or other available information.

Commercial Business Loans. We currently offer commercial business loans to existing customers in our market area, some of which are secured in part by additional real estate collateral. We make various types of secured and unsecured commercial business loans for the purpose of financing equipment acquisition, expansion, working capital and other general business purposes. The terms of these loans are generally for less than three years. Equipment loans usually involve a one-time disbursement of funds, with repayment over the term of the loan, while operating lines of credit involve multiple disbursements and revolving notes that can be renewed annually. The loans are either negotiated on a fixed-rate basis or carry variable interest rates indexed to the prime rate. At December 31, 2002, we had 73 commercial business loans outstanding with an aggregate balance of \$5.8 million, or 8.4%, of the total loan portfolio. As of December 31, 2002, our largest commercial business loan consisted of our participation interest in a \$632,000 loan to a car dealer, which is secured by stock of the car dealership.

In recent years, we have increased our emphasis on commercial business lending. These loans tend to have higher rates of interest than residential mortgage loans, and are more sensitive to changes in market interest rates because they often have adjustable interest rates and shorter terms. In addition, commercial business lending gives us greater access to commercial borrowers that may open transactional checking accounts with Clover Leaf Bank.

Commercial credit decisions are based upon a complete credit review of the borrower. A determination is made as to the borrower's ability to repay in accordance with the proposed terms as well as an overall assessment of the credit risks involved. Personal guarantees of borrowers are generally required. In evaluating a commercial real estate loan, we place primary emphasis on the ratio of net cash flow to debt service for the property, generally requiring a ratio of at least 120%. Credit agency reports of the borrower's credit history as well as bank checks and trade investigations supplement the analysis of the borrower's creditworthiness. Collateral supporting a secured transaction is also analyzed to determine its marketability and liquidity. Commercial business loans generally bear higher interest rates than residential loans, but they also may involve a higher risk of default since their repayment generally depends on the successful operation of the borrower's business.

Loan Originations, Purchases, Sales and Servicing. Although we originate both fixed-rate and adjustable-rate loans, our ability to generate each type of loan depends upon borrower demand, market interest rates, borrower preference for fixed- versus adjustable-rate loans, and the interest rates offered on each type of loan by competing lenders in our market area. This includes banks, savings institutions, credit unions, mortgage banking companies, and life insurance companies. Loan originations are derived from a number of sources, including existing or prior customers and walk-in customers.

Loan originations are adversely affected by rising interest rates, which typically result in decreased loan demand. Accordingly, the volume of our loan originations and the interest rates we can charge on loans vary from period to period. One- to four-family residential mortgage loans are generally underwritten to conform to Fannie Mae and Freddie Mac seller/servicer guidelines, and are currently originated on a fixed interest rate basis only. We generally retain the loans that we originate. When we do sell mortgage loans, we generally retain the servicing rights, which means that we will continue to collect payments on the loans and supervise foreclosure proceedings, if necessary. We retain a portion of the interest paid by the borrower on the loans, generally 25 basis points, as consideration for our services. We currently service \$10.3 million of loans for others, and we intend to sell a portion of our one- to four-family residential mortgage loans in the future in



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an effort to reduce our interest rate risk.

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The following table summarizes our loan origination and repayment activities for the periods indicated. We did not purchase any loans during the periods indicated.

	Years Ended December,	
	2002	2001
(In Thousands)		
Loans receivable, net, at beginning of period .....	\$62,435	\$56,859
Originations by type:		
Real estate		
One- to four-family .....	26,076	13,358
Commercial .....	13,289	11,836
Construction and land .....	--	--
Non-real estate		
Consumer .....	1,614	1,845
Commercial business .....	--	2,952
Total loans originated .....	40,979	29,991
Sales and Repayments		
Sales:		
Real estate		
One- to four-family .....	8,204	3,091
Commercial .....	--	--
Construction and land .....	--	--
Non-real estate		
Consumer .....	--	--
Commercial business		
Total loans sold .....	8,204	3,091
Principal repayments .....	27,709	21,432
Total reductions .....	35,913	24,523
Increase in other items, net .....	43	108
Net increase .....	5,109	5,576
Loans receivable, net, at end of period .....	\$67,544	\$62,435

Loan Approval Procedures and Authority. Our lending activities are subject to written underwriting standards and loan origination procedures adopted by management and the Board of Directors. For single family, owner-occupied real estate loans, the President of Clover Leaf Bank is authorized to approve loans up to \$250,000, while the Senior Vice President is authorized to approve loans up to \$200,000. For secured commercial real estate loans and construction and land loans, the President and Senior Vice President are authorized to approve loans up to \$150,000 and \$75,000, respectively; for secured consumer loans, these officers may approve loans up to \$50,000; and for overdrafts and unsecured credits, these officers may approve loans up to \$25,000 and \$15,000, respectively. When acting together, these officers may approve new loans in

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amounts up to 150% of their combined lending limits, and may approve renewals of commercial business and commercial real estate loans in amounts up to 200% of their combined lending limits where there has been no deterioration in either the payment pattern or financial strength of the borrower. However, the entire Board of Directors must approve all loans in excess of \$625,000. In addition, the Board of Directors generally ratifies all pre-authorized loan approvals.

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### Asset Quality

Delinquent Loans. The following table sets forth Clover Leaf Bank's loan delinquencies by type, amount and percentage at December 31, 2002.

Loans Delinquent For:								
60-89 Days			90 Days and Over			Total Delinquent		
Number	Amount	Percent of Loan Category	Number	Amount	Percent of Loan Category	Number	Amount	
(Dollars in Thousands)								
Real Estate:								
Commercial .....	1	\$ 41	0.2%	1	\$ 151	0.7%	2	\$ 192
One- to four-family	11	557	1.6	1	29	0.1	12	586
Consumer .....	26	128	2.8	1	5	0.1	27	133
Commercial business .	3	272	4.7	1	10	0.2	4	282
Total .....	41	\$ 998	1.5%	4	\$ 195	0.3%	45	\$1,193
	=====	=====	=====	=====	=====	=====	=====	=====

Loan Delinquencies and Collection Procedures. When a borrower fails to make required payments on a loan, we take a number of steps to induce the borrower to correct the delinquency and restore the loan to a current status. We will send a borrower a reminder notice 15 days after an account becomes delinquent, and our employees are authorized to use their discretion whether direct telephone contact is required at that time. If the borrower does not remit the entire payment due by the end of the month, we try to make direct contact with the borrower to arrange a payment plan. If a satisfactory payment plan is not established within 50 days of a delinquency, we will send a demand letter to the borrower. If a satisfactory payment plan has not been arranged within 60 days following a delinquency, we may instruct our attorneys to institute foreclosure proceedings depending on the loan-to-value ratio or our relationship with the borrower. Foreclosed property is held as other real estate owned.

Our policies require that management continuously monitor the status of the loan portfolio and report to the Board of Directors on a monthly basis. These reports include information on delinquent loans and foreclosed real estate and our actions and plans to cure the delinquent status of the loans and to dispose of any real estate acquired through foreclosure.

Non-Performing Loans. All loans are reviewed on a regular basis and are placed on non-accrual status when, in the opinion of management, there is reasonable probability of loss of principal or the collection of additional interest is deemed insufficient to warrant further accrual. Generally, we place

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all loans 90 days or more past due on non-accrual status. In addition, we place any loan on non-accrual status if any part of it is classified as loss or if any part has been charged-off. When a loan is placed on non-accrual status, total interest accrued and unpaid to date is reversed. Subsequent payments are either applied to the outstanding principal balance or recorded as interest income, depending on the assessment of the ultimate collectibility of the loan. Loans are charged-off no later than 120 days following their delinquency, unless the loans are well-collateralized or in the process of collection.

As of December 31, 2002, our total non-accrual loans amounted to \$1.5 million compared to \$1.4 million at December 31, 2001. The largest contributor to the commercial non-accrual is a credit to a cabinet manufacturer that burned in a fire. Clover Leaf Bank received partial settlement from the insurance company in 2002, and the remaining balance of \$283,000 is expected in 2003.

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The table below sets forth the amounts and categories of non-performing assets in our loan portfolio. For all years presented, we had no troubled debt restructurings (which involve forgiving a portion of interest or principal on loans or making loans at materially less than market interest rates), and no foreclosed assets.

	Years Ended December 31,	
	2002	2001
	(Dollars in Thousands)	
Non-accruing loans:		
One- to four-family .....	\$ 809	\$ 390
Construction .....	182	483
Commercial business .....	283	462
Commercial real estate .....	59	--
Consumer .....	196	104
	\$1,529	1,439
Accruing loans delinquent more than 90 days:		
One- to four-family .....	29	16
Commercial business .....	10	28
Commercial real estate .....	151	--
Consumer .....	5	71
	195	115
Total non-performing loans .....	\$1,724	\$1,554
Total non-performing loans as a percentage of total assets.....	1.80%	1.62%
Allowance for loan losses as a percentage of non-performing loans .....	40.02%	41.57%
Allowance for loan losses as a percentage of gross loans receivable .....	1.01%	1.02%

For the years ended December 31, 2002 and 2001, respectively, \$119,000 and \$87,000 of gross interest income would have been recorded had our non-accruing

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loans been current in accordance with their original terms.

**Troubled Debt Restructurings.** A troubled debt restructuring occurs when we, for economic or legal reasons related to a borrower's financial difficulties, grant a concession to the borrower, either as a deferment or reduction of interest or principal on the loan, that we would not otherwise consider. We had no troubled debt restructurings as of December 31, 2002.

**Real Estate Owned.** Real estate owned consists of property acquired through formal foreclosure or by deed in lieu of foreclosure and is recorded at the lower of recorded investment or fair value. Write-downs from recorded investment to fair value which are required at the time of foreclosure are charged to the allowance for loan losses. After transfer, the property is carried at the lower of recorded investment or fair value, less estimated selling expenses. Adjustments to the carrying value of the properties that result from subsequent declines in value are charged to operations in the period in which the declines occur. We held no property that was classified as real estate owned as of December 31, 2002 and December 31, 2001.

**Classification of Assets.** Our policies, consistent with regulatory guidelines, require that we classify loans and other assets, such as securities, that are considered to be of lesser quality, as substandard, doubtful, or loss assets. An asset is considered 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 the savings institution will sustain some loss if the deficiencies are not corrected. Assets classified as doubtful have all of 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 uncollectable and of such little value that their continuance as assets is not warranted. Assets that do not expose us to risk sufficient to warrant classification in one of the aforementioned categories, but which possess some weaknesses, are required to be designated as special mention by management.

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When we classify assets as either substandard or doubtful, we allocate for analytical purposes a portion of our general valuation allowances or loss reserves to these assets as deemed prudent by management. General allowances represent loss allowances that have been established to recognize the probable risk associated with lending activities, but which have not been allocated to particular problem assets. When we classify problem assets as loss, we are required either to establish a specific allowance for losses equal to 100% of the amount of the assets so classified, or to charge-off the amount of the assets. Our determination as to the classification of assets and the amount of valuation allowances is subject to review by regulatory agencies, which can order the establishment of additional loss allowances. Management regularly reviews our asset portfolio to determine whether any assets require classification in accordance with applicable regulatory guidelines and generally accepted accounting principles.

On the basis of management's review of our assets, at December 31, 2002, we had classified a total of \$3.7 million of our loans and other assets as follows:

At or For the Year  
Ended  
-----  
December 31, 2002

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(In Thousands)

Special Mention .....	\$	2,189
Substandard .....		1,309
Doubtful assets .....		186
Loss assets .....		28
		-----
Total .....	\$	3,712
		=====
General loss allowance ...	\$	426
Specific loss allowance ..		264
Charge-offs .....		--

Allowance for Loan Losses. The following table sets forth information regarding our allowance for loan losses and other ratios at or for the dates indicated.

	Years Ended December 31,	
	2002	2001
	-----	-----
	(Dollars in Thousands)	
Balance at beginning of period .....	\$ 646	\$ 625
Charge-offs:		
One- to four-family .....	--	--
Commercial business .....	--	(4)
Consumer .....	(105)	(127)
	-----	-----
	(105)	(131)
Recoveries:		
Commercial business .....	4	--
Consumer .....	52	64
	-----	-----
	56	64
	-----	-----
Net charge-offs .....	(49)	(67)
Additions charged to operations .....	93	88
	-----	-----
Balance at end of period .....	\$ 690	\$ 646
	=====	=====
Ratio of net charge-offs during the period to average loans outstanding during the period .....	.07%	0.11%
	=====	=====
Ratio of net charge-offs during the period to average non-performing assets .....	2.84%	4.31%
	=====	=====

The allowance for loan losses is a valuation account that reflects our evaluation of the credit losses inherent in our loan portfolio. We maintain the allowance through provisions for loan losses that we charge to income. We charge losses on loans against the allowance for loan losses when we believe the collection of loan principal is unlikely.

Our evaluation of risk in maintaining the allowance for loan losses includes the review of all loans on which the collectibility of principal may not be reasonably assured. We consider the following factors as part of this

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evaluation: our historical loan loss experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, peer group information and prevailing economic conditions. There may be other factors that may warrant our consideration in maintaining an allowance at a level sufficient to provide for probable losses. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available or as future events change. Although we believe that we have established and maintained the allowance for loan losses at adequate levels, future additions may be necessary if economic and other conditions in the future differ substantially from the current operating environment.

In addition, the Illinois Office of Banks and Real Estate and the Federal Deposit Insurance Corporation, as an integral part of their examination process, periodically review our loan portfolio and the related allowance for loan losses. The Illinois Office of Banks and Real Estate and the Federal Deposit Insurance Corporation may require us to increase the allowance for loan losses based on their judgments of information available to them at the time of their examination, thereby adversely affecting our results of operations.

Allocation of the Allowance for Loan Losses. The following table presents our allocation of the allowance for loan losses by loan category and the percentage of loans in each category to total loans at the periods indicated.

	Years Ended December 31,					
	2002			2001		
	Amount of Loan Loss Allowance	Loan Amounts By Category	Percent of Loans in Each Category To Total Loans	Amount of Loan Loss Allowance	Loan Amounts By Category	Percent of Loans in Each Category To Total Loans
	-----					
	(Dollars in Thousands)					
Real Estate Loans:						
One- to four-family	\$ 253	\$ 34,300	50.26%	\$ 244	\$ 33,773	53.53%
Commercial .....	279	22,797	33.40	212	13,971	22.14
Construction and land .....	--	761	1.12	--	1,193	1.89
Commercial business ....	44	5,759	8.43	36	7,732	12.25
Consumer .....	114	4,631	6.79	154	6,427	10.19
	-----	-----	-----	-----	-----	-----
Total .....	\$ 690	\$ 68,248	100.00%	\$ 646	\$ 63,096	100.00%
	=====	=====	=====	=====	=====	=====

Management evaluates the total balance of the allowance for loan losses based on several factors that are not loan specific but are reflective of the losses inherent in the loan portfolio, including management's periodic review of loan collectibility in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, prevailing economic conditions such as housing trends, inflation rates and unemployment rates, geographic concentrations of loans within Clover Leaf Bank's immediate market area, and both peer financial institution historic loan loss experience and allowance for loan loss levels.

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### Investment Activities

Clover Leaf Bank is permitted under federal and state law to invest in various types of liquid assets, including U.S. Government obligations, securities of various federal agencies and of state and municipal governments, deposits at the Federal Home Loan Bank of Chicago, certificates of deposit of federally insured institutions, certain bankers' acceptances and federal funds. Within certain regulatory limits, Clover Leaf Bank may

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also invest a portion of its assets in commercial paper and corporate debt securities. We are also required to invest in Federal Home Loan Bank stock. See "Regulation" and "Management's Discussion and Analysis of Financial Condition and Results of Operations--Liquidity and Capital Resources."

SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," requires that securities be categorized as "held to maturity," "trading securities" or "available for sale," based on management's intent as to the ultimate disposition of each security. SFAS No. 115 allows debt securities to be classified as "held to maturity" and reported in financial statements at amortized cost only if the reporting entity has the positive intent and ability to hold those securities to maturity. Securities that might be sold in response to changes in market interest rates, changes in the security's prepayment risk, increases in loan demand, or other similar factors cannot be classified as "held to maturity."

Debt and equity securities held for current resale are classified as "trading securities." These securities are reported at fair value, and unrealized gains and losses on the securities are included in earnings. Clover Leaf Bank does not currently use or maintain a trading account. Debt and equity securities not classified as either "held to maturity" or "trading securities" are classified as "available for sale." These securities are reported at fair value, and unrealized gains and losses on the securities are excluded from earnings and reported, net of deferred taxes, as a separate component of equity. Clover Leaf Bank has classified all of its securities as available for sale.

All of our securities carry market risk insofar as increases in market interest rates may cause a decrease in their market value. Many also carry prepayment risk insofar as they may be called prior to maturity in times of low market interest rates, so that we may have to invest the funds at a lower interest rate. Investments in securities are made based on certain considerations, which include the interest rate, tax considerations, yield, settlement date and maturity of the security, our liquidity position, and anticipated cash needs and sources. The effect that the proposed security would have on our credit and interest rate risk and risk-based capital is also considered. We purchase securities to provide necessary liquidity for day-to-day operations, and when investable funds exceed loan demand.

Generally, the investment policy of Clover Leaf Bank, as established by the Board of Directors, is to invest funds among various categories of investments and maturities based upon our liquidity needs, asset/liability management policies, investment quality, marketability and performance objectives.

Our investment policy does not permit engaging directly in hedging activities or purchasing high-risk mortgage derivative products.

Our debt securities are mainly composed of securities issued by the U.S. Government and government agencies (primarily Federal Home Loan Bank, Fannie Mae and Freddie Mac), although from time to time we make other investments as

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permitted by applicable laws and regulations.

The following table sets forth information relating to the amortized cost and fair value of our securities, all of which are classified as available for sale. For further information, see Notes 1 and 3 of the Notes to Consolidated Financial Statements.

	December 31,			
	2002		2001	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In Thousands)			
Federal agencies .....	\$ 9,352	\$ 9,426	\$ 8,352	\$ 8,532
State and municipal .....	844	852	862	874
Mortgage-backed securities .....	2,601	2,613	4,311	4,365
Corporate .....	509	557	512	535
Total .....	\$13,306	\$13,448	\$14,037	\$14,306
	=====	=====	=====	=====

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The following table sets forth the scheduled maturities, amortized cost and weighted average yields for our securities at December 31, 2002. Due to the current interest rate environment, the Company has experienced significant calls on securities. Therefore, the following schedule reflects maturity by call date if that date is different than the stated maturity date.

	Due in one year or less		Due after one year through five years		Due after five years through ten years		Due aft
	Amortized Cost	Weighted Average Rate	Amortized Cost	Weighted Average Rate	Amortized Cost	Weighted Average Rate	Amortiz Cost
	(Dollars in Thousands)						
U. S. Government agency securities ..	\$ 4,001	4.80%	\$ 3,394	6.00%	\$ 1,956	2.44%	\$
Obligations of states and political subdivisions .....	270	4.53	574	5.14	--	--	
Mortgage-backed securities .....	--	--	--	--	731	7.47	1,8
Corporate .....	--	--	509	6.88	--	--	
Total .....	\$ 4,271	4.78%	\$ 4,477	5.98%	\$ 2,687	3.81%	\$ 1,8
	=====	=====	=====	=====	=====	=====	=====

### Sources of Funds

General. 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. Loan repayments are a relatively



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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.

Deposits. Residents of our primary market area are our main source of deposits. Deposit account terms vary, with the principal differences being the minimum balance required, the time periods the funds must remain on deposit and the interest rate. We do not use brokers to obtain deposits. Our deposit products include demand and NOW, money market, savings, and term certificate accounts. In recent years, and in connection with our emphasis on the origination of commercial business loans, we have promoted money market accounts with adjustable interest rates. Interest rates paid, maturity terms, service fees and withdrawal penalties are established by Clover Leaf Bank on a periodic basis. Management determines the rates and terms based on rates paid by our competitors, our needs for funds or liquidity, growth goals and federal and state regulations.

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Deposit Accounts by Type. The following table sets forth the dollar amount of our deposits in the various types of deposit programs as of the dates indicated.

	Years Ended December 31,			
	2002		2001	
	Amount	Percent	Amount	Percent
	-----			
	(Dollars in Thousands)			
Transactions and savings deposits:				
Demand accounts .....	\$ 7,153	9.87%	\$13,061	16.14%
Savings accounts .....	3,998	5.52	3,983	4.92
NOW accounts .....	2,844	3.92	2,804	3.46
Money market accounts .....	17,329	23.90	13,893	17.17
	-----	-----	-----	-----
Total non-certificates .....	31,324	43.21	33,741	41.69
	-----	-----	-----	-----
Certificates of deposit:				
0.00 - 3.99% .....	18,024	24.86	8,177	10.10
4.00 - 5.99% .....	18,169	25.07	18,570	22.94
6.00 - 7.99% .....	--	--	14,993	18.53
	-----	-----	-----	-----
Total certificates of deposit .....	36,193	49.93	41,740	51.57
	-----	-----	-----	-----
Individual retirement accounts:				
0.00 - 3.99% .....	1,320	1.82	674	0.83
4.00 - 5.99% .....	3,650	5.04	2,297	2.84
6.00 - 7.99% .....	--	--	2,481	3.07
	-----	-----	-----	-----
Total individual retirement accounts	4,970	6.86	5,452	6.74
	-----	-----	-----	-----
Total time deposits .....	\$41,163	56.79	\$47,192	58.31
	=====	=====	=====	=====
Total deposits .....	\$72,487	100.00%	\$80,933	100.00%

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Time Deposit Rates and Maturities. The following table indicates interest rate and maturity information for our time deposits as of December 31, 2002.

Interest Rate	Maturity				Total
	One Year or Less	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 years	
	(In Thousands)				
0.00-3.99% .....	\$11,756	\$ 5,844	\$ 1,744	\$ --	\$19,344
4.00-5.99% .....	14,906	--	570	6,343	21,819
Total time deposits .....	\$26,662	\$ 5,844	\$ 2,314	\$ 6,343	\$41,163

Time Deposit Balances and Maturities. The following table indicates balance and maturity information for our time deposits as of December 31, 2002.

	Maturity				Total
	3 Months or Less	Over 3 to 6 Months	Over 6 to 12 Months	Over 12 Months	
	(In Thousands)				
Time deposits less than \$100,000 ...	\$ 8,203	\$ 6,736	\$ 8,843	\$12,459	\$36,241
Time deposits of \$100,000 or more ..	1,057	713	1,110	2,042	4,922
Total time deposits .....	\$ 9,260	\$ 7,449	\$ 9,953	\$14,501	\$41,163

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 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.

The following table sets forth the maximum month-end balance and average balance of Federal Home Loan Bank advances for the periods indicated. Other than Federal Home Loan Bank advances, we had no other borrowings during the periods indicated.

Years Ended December 31,	
2002	2001

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	-----	-----
	(In Thousands)	
Maximum Balance:		
FHLB advances.....	\$9,000	\$3,000
Average Balance:		
FHLB advances.....	\$5,675	\$1,849

The following table sets forth total borrowings and the weighted average interest rate paid on such borrowings at the dates indicated.

	Years Ended December 31,	
	-----	-----
	2002	2001
	-----	-----
	(Dollars in Thousands)	
FHLB advances.....	\$9,000	\$1,500
Weighted average interest rate of FHLB advances.....	2.83%	5.65%

### REGULATION

The following summarizes certain laws and regulations that are considered material to Clover Leaf Financial and Clover Leaf Bank. However, this summary does not purport to be complete and is qualified in its entirety by reference to applicable laws and regulations. Any change in this regulation, whether by the Federal Deposit Insurance Corporation, the Illinois Office of Banks and Real Estate, the Board of Governors of the Federal Reserve System, the Illinois General Assembly or Congress, could have a material adverse impact on Clover Leaf Financial and Clover Leaf Bank.

#### Clover Leaf Financial

**Holding Company Acquisitions.** Clover Leaf Financial is a bank holding company within the meaning of the Bank Holding Company Act and is registered with and regulated by the Federal Reserve Board. Federal law generally prohibits a company, without prior Federal Reserve approval, from acquiring the ownership or control of any bank. In accordance with Federal Reserve Board policy, Clover Leaf Financial is expected to act as a source of financial strength to Clover Leaf Bank and to commit resources to support Clover Leaf Bank in circumstances where Clover Leaf Financial might not do so absent such policy. Under the Bank Holding Company Act, Clover Leaf Financial is subject to periodic examination by the Federal Reserve Board and will be required to file periodic reports of its operations and such additional information as the Federal Reserve Board may require. Clover Leaf Financial also is subject to regulation by, the Commissioner under the Illinois Bank Holding Company Act.

**Bank Holding Company Act Activities and Other Limitations.** A bank holding company is a legal entity separate and distinct from its subsidiary bank. Normally, the major source of a holding company's revenue is dividends from its subsidiary bank. The right of a bank holding company to participate as a stockholder in any distribution of assets of its subsidiary bank upon its liquidation or reorganization is subject to the prior claims of creditors of the subsidiary bank. The subsidiary bank is subject to claims by creditors for long-term and short-term

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debt obligations, including obligations for federal funds purchased and securities sold under repurchase agreements, as well as deposit liabilities.

The Bank Holding Company Act also prohibits a bank holding company, with certain exceptions, from acquiring more than 5% of the voting shares of any company that is not a bank and from engaging in any business other than banking or managing or controlling banks. Under the Bank Holding Company Act, the Federal Reserve Board is authorized to approve the ownership of shares by a bank holding company in any company, the activities of which the Federal Reserve Board has determined to be so closely related to banking or to managing or controlling banks as to be a proper incident thereto. The Federal Reserve Board has by regulation determined that certain activities are closely related to banking within the meaning of the Bank Holding Company Act. These activities include operating a mortgage company, finance company, credit card company, factoring company, trust company or savings association; performing certain data processing operations; providing limited securities brokerage services; acting as an investment or financial advisor; acting as an insurance agent for certain types of credit-related insurance; leasing personal property on a full-payout, non-operating basis; providing tax planning and preparation services; operating a collection agency; and providing certain courier services. The Federal Reserve Board also has determined that certain other activities, including real estate brokerage and syndication, land development and property management, are not closely related to banking and a proper incident thereto. In making such determinations, the Federal Reserve Board is required to weigh the expected benefit to the public, such as greater convenience, increased competition or gains in efficiency, against the possible adverse effects, such as undue concentration of resources, decreased or unfair competition, conflicts of interest or unsound banking practices.

A bank holding company that is registered as a "financial holding company" is also permitted to engage in activities that are financial in nature or incidental to such financial activities. Activities that are considered financial in nature include: securities underwriting, dealing and market making; insurance underwriting; and merchant banking. Clover Leaf Financial has not elected to qualify as a financial holding company, although it may seek to do so in the future. Bank holding companies may qualify to become a financial holding company if:

- o each of its depository institution subsidiaries is "well capitalized";
- o each of its depository institution subsidiaries is "well managed";
- o each of its depository institution subsidiaries has at least a "satisfactory" Community Reinvestment Act rating at its most recent examination; and
- o the bank holding company has filed a certification with the Federal Reserve Board that it elects to become a financial holding company.

Sarbanes-Oxley Act of 2002. On July 30, 2002, the President signed into law the Sarbanes-Oxley Act of 2002 implementing legislative reforms intended to address corporate and accounting irregularities. In addition to the establishment of a new accounting oversight board which will enforce auditing, quality control and independence standards and will be funded by fees from all publicly traded companies, the Act restricts accounting companies from providing both auditing and consulting services. To ensure auditor independence, any non-audit services being provided to an audit client will require preapproval by the company's audit committee members. In addition, the audit partners must be rotated. The Act requires chief executive officers and chief financial officers, or their equivalent, to certify to the accuracy of periodic reports filed with the SEC, subject to civil and criminal penalties if they knowingly or willfully violate this certification requirement. In addition, under the Act, counsel will

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be required to report evidence of a material violation of the securities laws or a breach of fiduciary duty by a company to its chief executive officer or its chief legal officer, and, if such officer does not appropriately respond, to report such evidence to the audit committee or other similar committee of the board of directors or the board itself.

The legislation accelerates the time frame for disclosures by public companies, as they must immediately disclose any material changes in their financial condition or operations. Directors and executive officers must also provide information for most changes in ownership in a company's securities within two business days of the change. The period during which certain types of law suits can be instituted against a company or its officers has

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been extended, and bonuses issued to top executives prior to restatement of a company's financial statements are now subject to disgorgement if such restatement was due to corporate misconduct. Executives are also prohibited from insider trading during retirement plan "blackout" periods, and loans to company executives are restricted. In addition, civil and criminal penalties have been enhanced.

The Act also increases the oversight of, and codifies certain requirements relating to, audit committees of public companies and how they interact with the company's "registered public accounting firm" (RPAF). Audit Committee members must be independent and are barred from accepting consulting, advisory or other compensatory fees from the issuer. In addition, companies must disclose whether at least one member of the committee is a "financial expert" (as such term will be defined by the SEC) and if not, why not. Under the Act, a RPAF is prohibited from performing statutorily mandated audit services for a company if such company's chief executive officer, chief financial officer, comptroller, chief accounting officer or any person serving in equivalent positions has been employed by such firm and participated in the audit of such company during the one-year period preceding the audit initiation date. The Act also prohibits any officer or director of a company or any other person acting under their direction from taking any action to fraudulently influence, coerce, manipulate or mislead any independent public or certified accountant engaged in the audit of the company's financial statements for the purpose of rendering the financial statement's materially misleading. In accordance with the Act, the SEC proposed rules requiring inclusion of an internal control report and assessment by management in the annual report to shareholders. The Act requires the RPAF that issues the audit report to attest to and report on management's assessment of the company's internal controls. In addition, the Act requires that each financial report required to be prepared in accordance with (or reconciled to) generally accepted accounting principles and filed with the SEC reflect all material correcting adjustments that are identified by a RPAF in accordance with generally accepted accounting principles and the rules and regulations of the SEC.

**Capital Requirements.** The Federal Reserve Board has adopted capital adequacy guidelines for bank holding companies (on a consolidated basis) substantially similar to those of the FDIC for Clover Leaf Bank. Clover Leaf Financial's pro forma Tier 1 and total capital significantly exceed the Federal Reserve Board's capital adequacy requirements.

**Restrictions On Transactions With Affiliates.** Transactions between a bank and its "affiliates" are subject to quantitative and qualitative restrictions under Sections 23A and 23B of the Federal Reserve Act and FDIC regulations. Affiliates of a bank include, among other entities, the bank's holding company and companies that are controlled by or under common control with the bank.

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In general, the extent to which a bank or its subsidiaries may engage in certain "covered transactions" with affiliates is limited to an amount equal to 10% of the institution's capital and surplus, in the case of covered transactions with any one affiliate, and to an amount equal to 20% of such capital and surplus, in the case of covered transactions with all affiliates. In addition, a bank and its subsidiaries may engage in covered transactions and certain other transactions only on terms and under circumstances that are substantially the same, or at least as favorable to the bank or its subsidiary, as those prevailing at the time for comparable transactions with nonaffiliated companies. A "covered transaction" is defined to include a loan or extension of credit to an affiliate; a purchase of investment securities issued by an affiliate; the purchase of assets from an affiliate, with certain exceptions; the acceptance of securities issued by an affiliate as collateral for a loan or extension of credit to any party; or the issuance of a guarantee, acceptance or letter of credit on behalf of an affiliate.

In addition, Sections 22(h) and (g) of the Federal Reserve Act place restrictions on loans to executive officers, directors and principal stockholders. Under Section 22(h), loans to a director, an executive officer and to a greater than 10% stockholder of a bank, and certain affiliated interests of either, may not exceed, together with all other outstanding loans to such person and affiliated interests, the bank's loans to one borrower limit (generally equal to 15% of the institution's unimpaired capital and surplus). Section 22(h) also requires that loans to directors, executive officers and principal stockholders be made on terms substantially the same as offered in comparable transactions to other persons and also requires prior board approval for certain loans. In addition, the aggregate amount of extensions of credit by a bank to all insiders cannot exceed the institution's unimpaired capital and surplus. Furthermore, Section 22(g) places additional restrictions on loans to executive officers.

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Federal Securities Laws. Clover Leaf Financial's common stock is registered with the SEC under Section 12(g) of the Securities Exchange Act of 1934. Clover Leaf Financial is subject to the proxy and tender offer rules, insider trading reporting requirements and restrictions, and certain other requirements under the Exchange Act.

### Clover Leaf Bank

General. Clover Leaf Bank is an Illinois-chartered commercial bank, the deposit accounts of which are insured by the Bank Insurance Fund of the FDIC. As an FDIC insured, Illinois-chartered commercial bank, Clover Leaf Bank is subject to the examination, supervision, reporting and enforcement requirements of the Illinois Office of Banks and Real Estate, as the chartering authority for Illinois banks, and the FDIC, as administrator of the Bank Insurance Fund, and to the statutes and regulations administered by the Illinois Office of Banks and Real Estate and the FDIC governing such matters as capital standards, mergers, establishment of branch offices, subsidiary investments and activities and general investment authority. Clover Leaf Bank is required to file reports with the Illinois Office of Banks and Real Estate and the FDIC concerning its activities and financial condition, and will be required to obtain regulatory approvals prior to entering into certain transactions, including mergers with, or acquisitions of, other financial institutions.

The Illinois Office of Banks and Real Estate and the FDIC have extensive enforcement authority over Illinois-chartered commercial banks, such as Clover Leaf Bank. This enforcement authority includes, among other things, the ability

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to issue cease-and-desist or removal orders, to assess civil money penalties and to initiate injunctive actions. In general, these enforcement actions may be initiated for violations of laws and regulations and unsafe and unsound practices.

**Insurance of Deposit Accounts.** The Federal Deposit Insurance Corporation has adopted a risk-based system for assessing deposit insurance premiums. The Federal Deposit Insurance Corporation assigns an institution to one of three capital categories based on the institution's financial information, as of the reporting period ending seven months before the assessment period, and one of three supervisory subcategories within each capital group. The three capital categories are well capitalized, adequately capitalized and undercapitalized. The supervisory subgroup to which an institution is assigned is based on a supervisory evaluation provided to the Federal Deposit Insurance Corporation by the institution's primary federal regulator and information which the Federal Deposit Insurance Corporation determines to be relevant to the institution's financial condition and the risk posed to the deposit insurance funds. An institution's assessment rate depends on the capital category and supervisory category to which it is assigned. The Federal Deposit Insurance Corporation is authorized to raise the assessment rates. The Federal Deposit Insurance Corporation has exercised this authority several times in the past and may raise insurance premiums in the future. If this type of action is taken by the Federal Deposit Insurance Corporation, it could have an adverse effect on the earnings of Clover Leaf Bank.

**Capital Requirements.** The FDIC has capital adequacy regulations and policies regarding the capital adequacy of state-chartered commercial banks that, like Clover Leaf Bank, are not members of the Federal Reserve System. The FDIC's capital regulations establish a minimum 3.0% Tier 1 leverage capital requirement for the most highly-rated state-chartered, non-member banks, with additional capital of at least 100 to 200 basis points for all other state-chartered, non-member banks, which effectively will increase the minimum Tier 1 leverage ratio for such other banks to 4.0% to 5.0% or more. Under the FDIC's regulation, the highest-rated banks are those that the FDIC determines are not anticipating or experiencing significant growth and have well diversified risk, including no undue interest rate risk exposure, excellent asset quality, high liquidity, good earnings and, in general, are considered strong banking organizations, rated composite 1 under the Uniform Financial Institutions Rating System. Leverage or core capital is defined as the sum of common stock, capital surplus, retained earnings, noncumulative perpetual preferred stock and related surplus, and minority interests in consolidated subsidiaries, minus all intangible assets other than certain qualifying supervisory goodwill, and certain purchased mortgage servicing rights and purchased credit and relationships.

The FDIC also requires that banks meet a risk-based capital standard. Under the risk-based capital standard, total capital, which is defined as Tier 1 capital and supplementary (Tier 2 capital), must equal at least 8%

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of risk-weighted assets. In determining the amount of risk-weighted assets, all assets, plus certain off balance sheet assets, are multiplied by a risk-weight of 0% to 100%, based on the risks the FDIC believes are inherent in the type of asset.

The components of Tier 1 capital are equivalent to those discussed above under the 3% leverage standard. The components of supplementary (Tier 2) capital include certain perpetual preferred stock, certain mandatory convertible securities, certain subordinated debt and intermediate preferred stock and

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general allowances for loan and lease losses. Allowance for loan and lease losses includable in supplementary capital is limited to a maximum of 1.25% of risk-weighted assets. Overall, the amount of capital counted toward supplementary capital cannot exceed 100% of core capital. At December 31, 2002, Clover Leaf Bank met each of its capital requirements.

A bank which has less than the minimum leverage capital requirement must, within 60 days from the date it fails to comply with this requirement, submit to its FDIC regional director for review and approval a reasonable plan describing the means and timing by which the bank will achieve its minimum leverage capital requirement. A bank that fails to file such a plan with the FDIC is deemed to be operating in an unsafe and unsound manner and may be subject to a cease-and-desist order from the FDIC. FDIC regulations also provide that any insured depository institution with a ratio of Tier 1 capital to total assets that is less than 2.0% is deemed to be operating in an unsafe or unsound condition and is subject to potential termination of deposit insurance. However, such an institution will not be subject to an enforcement proceeding solely on account of its capital ratios if it has entered into and is in compliance with a written agreement with the FDIC to increase its Tier 1 leverage capital ratio and to take such other action as may be necessary to operate in a safe and sound manner. The FDIC capital regulation also provides, among other things, for the issuance by the FDIC of a capital directive, which is a final order issued to a bank that fails to maintain minimum capital to restore its capital to the minimum leverage capital requirement within a specified time period. Such directive is enforceable in the same manner as a final cease-and-desist order.

At December 31, 2002, Clover Leaf Bank exceeded all of its regulatory capital requirements, with leverage, Tier 1 risk-based and total risk-based capital ratios of 11.37%, 16.64% and 17.76%, respectively.

Any bank that fails any of the capital requirements is subject to possible enforcement actions by the FDIC. These actions could include a capital directive, a cease and desist order, civil money penalties, the establishment of restrictions on the institution's operations, termination of Federal deposit insurance and the appointment of a conservator or receiver.

At December 31, 2002, Clover Leaf Bank was deemed a well-capitalized institution for purposes of the above regulations and as such is not subject to the above-mentioned restrictions.

Clover Leaf Bank would not be able to pay dividends on its capital stock if its capital were reduced below the remaining balance of the liquidation account established in connection with the conversion.

**Safety and Soundness Guidelines.** The FDIC and the other federal banking agencies have established guidelines for safety and soundness, addressing operational and managerial standards, as well as compensation matters for insured financial institutions. Institutions failing to meet these standards are required to submit compliance plans to their appropriate federal regulators. The FDIC and the other agencies also have established guidelines regarding asset quality and earnings standards for insured institutions. Clover Leaf Bank believes that it is in compliance with these guidelines and standards.

**Community Reinvestment Act and Fair Lending Laws.** Commercial banks, such as Clover Leaf Bank, have a responsibility under the Community Reinvestment Act and related regulations of the FDIC to help meet the credit needs of their communities, including low- and moderate-income neighborhoods. In addition, the Equal Credit Opportunity Act and the Fair Housing Act (together, the "Fair Lending Laws") prohibit lenders from discriminating in their lending practices on the basis of characteristics specified in those statutes. An institution's failure to comply with the provisions of Community Reinvestment Act could, at a minimum, result in regulatory restrictions on its activities. Failure to comply



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with the Fair Lending Laws could result in enforcement actions by the FDIC, as well as the Department of Justice.

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The USA PATRIOT Act. In response to the events of September 11th, the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001, or the USA PATRIOT Act, was signed into law on October 26, 2001. The USA PATRIOT Act gives the federal government new powers to address terrorist threats through enhanced domestic security measures, expanded surveillance powers, increased information sharing, and broadened anti-money laundering requirements. By way of amendments to the Bank Secrecy Act, Title III of the USA PATRIOT Act takes measures intended to encourage information sharing among bank regulatory agencies and law enforcement bodies. Further, certain provisions of Title III impose affirmative obligations on a broad range of financial institutions, including banks, thrifts, brokers, dealers, credit unions, money transfer agents and parties registered under the Commodity Exchange Act.

Among other requirements, Title III of the USA PATRIOT Act imposes the following requirements with respect to financial institutions:

- o Pursuant to Section 352, all financial institutions must establish anti-money laundering programs that include, at minimum: (i) internal policies, procedures, and controls; (ii) specific designation of an anti-money laundering compliance officer; (iii) ongoing employee training programs; and (iv) an independent audit function to test the anti-money laundering program.
- o Section 326 of the Act authorizes the Secretary of the Department of Treasury, in conjunction with other bank regulators, to issue regulations that provide for minimum standards with respect to customer identification at the time new accounts are opened.
- o Section 312 of the Act requires financial institutions that establish, maintain, administer, or manage private banking accounts or correspondence accounts in the United States for non-United States persons or their representatives (including foreign individuals visiting the United States) to establish appropriate, specific, and, where necessary, enhanced due diligence policies, procedures, and controls designed to detect and report money laundering.
- o Effective December 25, 2001, financial institutions are prohibited from establishing, maintaining, administering or managing correspondent accounts for foreign shell banks (foreign banks that do not have a physical presence in any country), and will be subject to certain record keeping obligations with respect to correspondent accounts of foreign banks.
- o Bank regulators are directed to consider a holding company's effectiveness in combating money laundering when ruling on Federal Reserve Act and Bank Merger Act applications.

The federal banking agencies have begun to propose and implement regulations pursuant to the USA PATRIOT Act. These proposed and interim regulations would require financial institutions to adopt the policies and procedures contemplated by the USA PATRIOT Act.

Federal Home Loan Bank System. Clover Leaf Bank is a member of the Federal Home Loan Bank of Chicago, which is one of 12 regional Federal Home Loan Banks

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that administers the home financing credit function of savings institutions. Each Federal Home Loan Bank serves as a reserve or central bank for its members within its assigned region. It is funded primarily from proceeds derived from the sale of consolidated obligations of the Federal Home Loan Bank System. It makes loans to members (i.e., advances) in accordance with policies and procedures established by the Board of Directors of the Federal Home Loan Bank. At December 31, 2002, Clover Leaf Bank had \$9.0 million of Federal Home Loan Bank advances. See the Notes to the Consolidated Financial Statements.

As a member, Clover Leaf Bank is required to purchase and maintain stock in the Federal Home Loan Bank of Chicago in an amount equal to at least 1% of its aggregate unpaid residential mortgage loans or similar obligations at the beginning of each year. At December 31, 2002, Clover Leaf Bank had \$3.4 million in Federal Home Loan Bank stock, which was in compliance with this requirement.

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The Federal Home Loan Banks are required to provide funds for the resolution of troubled savings institutions and to contribute to affordable housing programs through direct loans or interest subsidies on advances targeted for community investment and low- and moderate-income housing projects. These contributions have adversely affected the level of Federal Home Loan Bank dividends paid in the past and could do so in the future. These contributions also could have an adverse effect on the value of Federal Home Loan Bank stock in the future. The average dividend yield on Clover Leaf Bank's Federal Home Loan Bank stock was 5.20% in 2002 and 6.14% in 2001.

Federal Reserve System. The Federal Reserve Board requires all depository institutions to maintain reserves against their transaction accounts (primarily NOW and Super NOW checking accounts) and non-personal time deposits. As of November 3, 1999, no reserves were required to be maintained on the first \$5.0 million of transaction accounts, reserves of 3% were required to be maintained against the next \$44.3 million of net transaction accounts, and a reserve of \$1.3 million plus 10% against net transaction accounts above this amount. The above dollar amounts and percentages are subject to periodic adjustment by the Federal Reserve Board. Because required reserves must be maintained in the form of vault cash or a noninterest-bearing account at a Federal Reserve Bank, the effect of this reserve requirement is to reduce an institution's earning assets and constrain its ability to lend.

### TAXATION

#### Federal Taxation

For federal income tax purposes, Clover Leaf Financial and Clover Leaf Bank file a consolidated federal income tax return on a calendar year basis using the accrual method of accounting.

Deferred income taxes arise from the recognition of items of income and expense for tax purposes in years different from those in which they are recognized in the consolidated financial statements. Clover Leaf Financial accounts for deferred income taxes by the asset and liability method, applying the enacted statutory rates in effect at the balance sheet date to differences between the book basis and the tax basis of assets and liabilities. The resulting deferred tax liabilities and assets are adjusted to reflect changes in the tax laws.

Clover Leaf Financial is not currently subject to the alternative minimum tax. Clover Leaf Financial may be subject to the corporate alternative minimum tax in the future, to the extent it exceeds Clover Leaf Financial's regular

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income tax for the year if its annual gross receipts for a three-year consecutive period exceed \$7 million. The alternative minimum tax will be imposed at the rate of 20% of a specially computed tax base. Included in this base are a number of preference items, including interest on certain tax-exempt bonds issued after August 7, 1986, and an "adjusted current earnings" computation which is similar to a tax earnings and profits computation. In addition, for purposes of the alternative minimum tax, the amount of alternative minimum taxable income that may be offset by net operating losses is limited to 90% of alternative minimum taxable income.

Clover Leaf Bank's income tax returns have not been audited by the Internal Revenue Service for the past five years.

### State Taxation

Illinois State Taxation. Clover Leaf Financial is required to file Illinois income tax returns and pay tax at an effective tax rate of 7.18% of Illinois taxable income. For these purposes, Illinois taxable income generally means federal taxable income subject to certain modifications, the primary one of which is the exclusion of interest income on United States obligations.

Delaware Taxation. As a Delaware holding company not earning income in Delaware, Clover Leaf Financial is exempt from Delaware corporate income tax but is required to file an annual report with and pay an annual franchise tax to the State of Delaware.

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### ITEM 2. Properties

At December 31, 2002, Clover Leaf Financial conducted its business from our main office at 200 East Park Street, Edwardsville, Illinois. The following table sets forth certain information with respect to the offices of Clover Leaf Bank at December 31, 2002.

Location	Leased or Owned	Original Year	Date of Lease Expiration
		Leased or Acquired	
200 East Park Street Edwardsville, Illinois 62025	Owned	1976	N/A
2143 South State Route 157 Edwardsville, Illinois 62025	Owned	1999	N/A

### ITEM 3. 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. Other than litigation previously disclosed, at December 31, 2002, Clover Leaf Financial and Clover Leaf Bank were not involved in any material legal proceedings.

### ITEM 4. Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of stockholders during the fourth quarter of the year under report.

PART II

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### ITEM 5. Market for Company's Common Stock and Related Stockholder Matters

The section entitled "Market for Common Stock" section of Clover Leaf Financial's Annual Report to Stockholders is incorporated herein by reference.

### ITEM 6. Management's Discussion and Analysis of Financial Condition and Results of Operations

The section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" of Clover Leaf Financial's Annual Report to Stockholders is incorporated herein by reference.

### ITEM 7. Financial Statements

The financial statements of Clover Leaf Financial's Annual Report to Stockholders are incorporated herein by reference.

### ITEM 8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

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## PART III

### ITEM 9. Directors, Executive Officers, Promoters and Control Persons; Compliance With Section 16(a) of the Exchange Act

The "Proposal I--Election of Directors" section of the Company's definitive Proxy Statement for the Company's 2003 Annual Meeting of Stockholders (the "2003 Proxy Statement") is incorporated herein by reference.

### ITEM 10. Executive Compensation

The "Proposal I--Election of Directors" section of the Company's 2003 Proxy Statement is incorporated herein by reference.

### ITEM 11. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The "Proposal I--Election of Directors" section of the Company's 2003 Proxy Statement is incorporated herein by reference.

The Company does not have any equity compensation plan that was not approved by stockholders, other than its employee stock ownership plan.

### ITEM 12. Certain Relationships and Related Transactions

The "Transactions with Certain Related Persons" section of the Company's 2003 Proxy Statement is incorporated herein by reference.

## PART IV

### ITEM 13. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

#### (a) (1) Financial Statements

The exhibits and financial statement schedules filed as a part of this Form 10-KSB are as follows:

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- (A) Independent Auditors' Report
- (B) Consolidated Balance Sheets
- (C) Consolidated Statements of Income
- (D) Consolidated Statements of Changes in Stockholders' Equity
- (E) Consolidated Statements of Cash Flows
- (F) Notes to Consolidated Financial Statements

### (a) (2) Financial Statement Schedules

All financial statement schedules have been omitted as the required information is inapplicable or has been included in the Notes to Consolidated Financial Statements.

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### (b) Reports on Form 8-K

None.

### (c) Exhibits

- 3.1 Certificate of Incorporation of Clover Leaf Financial Corp.\*
- 3.2 Bylaws of Clover Leaf Financial Corp.\*
- 4 Form of Common Stock Certificate of Clover Leaf Financial Corp.\*
- 10.1 Form of Employment Agreement for Dennis M. Terry\*
- 10.2 Form of Employee Stock Ownership Plan\*
- 10.3 Form of Severance Agreement\*
- 10.4 Director Emeritus Plan\*
- 10.5 Form of Director's Deferred Compensation Agreement\*
- 10.6 Officer's Deferred Bonus Compensation Agreement\*
- 13 Portions of 2002 Annual Report to Stockholders
- 21 Subsidiaries of the Registrant\*
- 99.1 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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\* Incorporated by reference to the Registration Statement on Form SB-2 of Clover Leaf Financial Corp. (Registration No. 333-69762) initially filed with the Securities and Exchange Commission on September 21, 2001.

### ITEM 14. Controls and Procedures

The Company's Chief Executive Officer and Chief Financial Officer have

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concluded, based on their evaluation within 90 days prior to the filing date of this report, that the Company's disclosure controls and procedures (as defined in Securities Exchange Act Rules 13a-14(c) and 15d-14(c)) are effective to ensure that information required to be disclosed in the reports that the Company files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. There have been no significant changes in the Company's internal controls or in other factors that could significantly affect these controls subsequent to the date of the foregoing evaluation.

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Signatures

Pursuant to the requirements of Section 13 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.

Date: March 28, 2003

By: /s/ Dennis M. Terry

-----  
 Dennis M. Terry  
 President and Chief Executive Officer  
 (Duly Authorized Representative)

Pursuant to the requirements of the Securities Exchange of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signatures	Title	Date
/s/ Dennis M. Terry ----- Dennis M. Terry	President, Chief Executive Officer and Director (Principal Executive Officer)	March 28, 2003
/s/ Darlene F. McDonald ----- Darlene F. McDonald	Senior Vice President and Treasurer (Principal Financial and Accounting Officer)	March 28, 2003
/s/ Joseph J. Gugger ----- Joseph J. Gugger	Director	March 28, 2003
----- Kenneth P. Highlander	Director	_____, 2003
/s/ Gary D. Niebur ----- Gary D. Niebur	Director	March 28, 2003
----- Robert W. Schwartz	Director	_____, 2003
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Dennis Ulrich

/s/ Philip H. Weber                      Director

March 28, 2003

-----  
Philip H. Weber

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### Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Dennis M. Terry, President and Chief Executive Officer, certify that:

1. I have reviewed this annual report on Form 10-KSB of Clover Leaf Financial Corp.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
  - c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

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6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

March 28, 2003

/s/ Dennis M. Terry

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Date

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Dennis M. Terry  
President and Chief Executive Officer

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

I, Darlene F. McDonald, Senior Vice President and Chief Financial Officer, certify that:

1. I have reviewed this annual report on Form 10-KSB of Clover Leaf Financial Corp.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
  - c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have



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identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

March 28, 2003

/s/ Darlene F. McDonald

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Date

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Darlene F. McDonald  
Senior Vice President and Chief Financial Officer

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EXHIBIT 13

PORTIONS OF 2002 ANNUAL REPORT TO STOCKHOLDERS

2002 ANNUAL REPORT TO STOCKHOLDERS

CLOVER LEAF FINANCIAL CORP.

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[LETTERHEAD OF CLOVER LEAF FINANCIAL CORP.]

April 20, 2003

To our Valued Stockholders:

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On behalf of our Board of Directors, Management and Staff, we are pleased to present this 2002 annual report of Clover Leaf Financial Corp., the holding company for Clover Leaf Bank.

During 2002 we undertook and implemented several significant changes, all of which were designed to dramatically enhance customer service.

During the second quarter we unveiled our Internet banking site, [www.cloverleafbank.com](http://www.cloverleafbank.com). This is a state-of-the-art Internet banking site that offers customers the opportunity to conduct their banking from the comfort, and convenience, of their home or office. For the consumer customer it offers "real time" account information and access, money transfer capabilities and the increasingly popular "Bill-Pay" feature. For the commercial customer it offers all of those features plus a complete line of cash management products.

During the third quarter we began negotiations to acquire a 4.5-acre site at the intersection of Goshen Road and Old Troy Road. The negotiations resulted in the purchase of land during January 2003. This will be the home to Clover Leaf's third location in the Edwardsville - Glen Carbon area. We are very excited about this site, given its location in the heart of the residential growth corridor. We anticipate construction to commence sometime in 2004.

Finally, in the fourth quarter we converted our charter to a state-chartered commercial bank. This represents a significant change in the products and services we can offer.

We feel these changes, along with others implemented recently, put Clover Leaf Bank in a strong position to move forward and continue the profitable growth pattern we have enjoyed of late, while continuing to offer a competitive product line that is delivered by a well-trained professional staff that is dedicated to customer service.

Thank you for your continued support.

Sincerely,

Philip H. Weber  
Chairman of the Board

Dennis M. Terry  
President and Chief Executive Officer

### SELECTED CONSOLIDATED FINANCIAL INFORMATION AND OTHER DATA

The following information is derived from the audited consolidated financial statements of Clover Leaf Financial Corp. or, prior to December 27, 2001, Clover Leaf Bank. For additional information about Clover Leaf Financial Corp. and Clover Leaf Bank's conversion to stock form, reference is made to "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Consolidated Financial Statements of Clover Leaf Financial Corp. and related notes included elsewhere in this Annual Report.

	At December 31,	
	2002	2001
(In Thousands)		
Selected Financial Condition Data:		
Total assets .....	\$95,516	\$96,101
Loans, net .....	67,544	62,435
Interest-bearing deposits (asset) .....	5,688	10,279
Securities .....	13,448	14,306

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Deposits .....	72,487	80,933
Borrowed funds .....	9,000	1,500
Stockholders' equity .....	12,718	12,510

For the Years  
Ended December 31,

-----  
2002                  2001  
-----

(In Thousands)

Selected Operations Data:

Total interest income .....	\$ 5,345	\$ 5,785
Total interest expense .....	2,524	3,851
	-----	-----
Net interest income .....	2,821	1,934
Provision for loan losses .....	93	88
	-----	-----
Net interest income after provision for loan losses .....	2,728	1,846
Non-interest income .....	461	240
Non-interest expense .....	2,462	2,042
	-----	-----
Net income before income taxes .....	727	44
Income tax expense (benefit) .....	232	(25)
	-----	-----
Net income .....	\$ 495	\$ 69
	=====	=====

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At or For the Years  
Ended December 31,

-----  
2002                  2001  
-----

Selected Financial Ratios and Other Data (1):

Performance Ratios:

Return on average assets (2) .....	0.55%	0.08%
Return on average equity (3) .....	3.95	1.09
Interest rate spread (4) .....	2.65	1.86
Net interest margin (5) .....	3.28	2.36
Ratio of non-interest expense to average total assets ....	2.72	2.35
Ratio of average interest-earning assets to average interest-bearing liabilities .....	121.42	110.69
Efficiency ratio (6) .....	75.00	93.93
Dividend payout ratio .....	--	N/A

Per Share Data:

Basic and diluted earnings per share .....	0.76	N/A
Book value per share .....	19.23	N/A
Dividends per share .....	--	N/A

Asset Quality Ratios:

Non-performing loans to total gross loans at end of period	2.55	2.49
Non-performing loans to total assets at end of period ....	1.80	1.62
Allowance for loan losses to non-performing loans .....	40.02	41.57
Allowance for loan losses to gross loans receivable .....	1.01	1.02

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### Capital Ratios:

Equity to total assets at end of period .....	13.31	13.02
Average equity to average assets .....	13.89	7.27

### Other Data:

Number of offices .....	2	2
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- (1) Dividend payout ratio and per share data for the year ended December 31, 2001 is not considered meaningful since Clover Leaf Bank completed its conversion to stock form on December 27, 2001.
- (2) Ratio of net income to average total assets. (3) Ratio of net income to average equity.
- (4) The difference between the weighted average yield on interest-earning assets and the weighted average cost of interest-bearing liabilities.
- (5) Net interest income divided by average interest-earning assets.
- (6) Non-interest expense divided by the sum of net interest income and non-interest income.

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### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

#### Forward Looking Statements

This document contains certain "forward-looking statements" which may be identified by the use of words such as "believe," "expect," "anticipate," "should," "planned," "estimated" and "potential." Examples of forward-looking statements include, but are not limited to, estimates with respect to our 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 our operations, pricing products and services.

#### General

The principal business of Clover Leaf Financial Corp. and Clover Leaf Bank consists of attracting deposits from the general public and using these funds to originate mortgage loans secured by one- to four-family residences or commercial properties and to invest in investment securities. To a lesser extent, the Company engages in various forms of consumer and commercial lending. Our net income depends primarily on net interest income. Net interest income is the difference between the interest income we earn on our interest-earning assets, consisting primarily of loans, investment securities and interest-bearing deposits with other financial institutions, and the interest we pay on our interest-bearing liabilities, primarily savings accounts and time deposits. Our profitability is also affected by provisions for loan losses, non-interest income and non-interest expense. Non-interest income consists primarily of service charges on deposit accounts, loan servicing fees, other service charges and fees and net gains on sales of assets. Non-interest expense consists

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primarily of salaries and employee benefits, occupancy, equipment, data processing and professional fees. Our results of operations also may be affected significantly by general and local economic and competitive conditions, particularly those that affect market interest rates, governmental policies and actions of regulatory authorities.

### Management of Market Risk

As with other financial institutions, our most significant form of market risk is interest rate risk. We have interest rate risk because our interest-bearing liabilities mature or reprice more quickly than the average maturity or repricing of our interest-earning assets. As explained below, in a period of rising interest rates we would not be in a favorable position to reinvest our assets into higher-yielding assets. We analyze our interest rate sensitivity by monitoring our interest rate sensitivity "gap." Our interest rate sensitivity gap is the difference between the amount of our interest-earning assets maturing or repricing within a specific time period and the amount of our interest bearing-liabilities maturing or repricing within that same time period. A gap is considered positive when the amount of interest rate sensitive assets maturing or repricing during a period exceeds the amount of interest rate sensitive liabilities maturing or repricing during the same period. At December 31, 2002, our cumulative one-year interest rate gap, the difference between the amount of interest-earning assets and interest-bearing liabilities maturing or repricing within one year, expressed as a percentage of total assets, was positive 1.75%.

The following table sets forth our interest-earning assets and our interest-bearing liabilities at December 31, 2002, which are anticipated to reprice or mature in each of the future time periods shown based upon the following assumptions. Except as stated below, the amount of assets and liabilities shown which reprice or mature during a particular period were determined in accordance with the earlier of term to repricing or the contractual maturity of the asset or liability. The table sets forth an approximation of the projected repricing of assets and liabilities at December 31, 2002, on the basis of contractual maturities, anticipated prepayments and scheduled rate adjustments within a three-month period and subsequent selected time intervals. The loan amounts in the table reflect principal balances expected to be redeployed and/or repriced as a result of contractual amortization and as a result of contractual rate adjustments on adjustable-rate loans.