EMCLAIRE FINANCIAL CORP
Form 10QSB
May 13, 2003

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-QSB

[x] QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For Quarter Ended: March 31, 2003

[ ] TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT

For the transition period from ______________ to ______________

Commission File Number: 000-18464

EMCLAIRE FINANCIAL CORP.
(Exact name of small business issuer as specified in its charter)

Pennsylvania	25-1606091
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

612 Main Street, Emlenton, PA 16373
(Address of principal executive offices)

(724) 867-2311
(Issuer's telephone number)

(Former name, former address and former fiscal year, if changed since last report)

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PRECEDING FIVE YEARS

Check whether the registrant filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Exchange Act after the distribution of securities under a plan confirmed by the court. Yes ______ No ______

APPLICABLE ONLY TO CORPORATE ISSUERS

Number of shares of issuer's common stock outstanding as of April 30, 2003:

Common Stock, $1.25 par value	1,332,835

(Class) (Outstanding)

Transitional Small Business Disclosure Format (Check one): ____ Yes __X__ No

EMCLAIRE FINANCIAL CORP.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

Emclaire Financial Corp. and Subsidiary
Consolidated Balance Sheets
As of March 31, 2003 and December 31, 2002
(Dollar amounts in thousands, except share data)

	March 31, 2003 (unaudited)	Decemb 20
Assets		
Cash and due from banks	$ 8,101	$ 5
Interest-earning deposits in banks	6,921	2
Federal funds sold	-	
Cash and cash equivalents	15,022	7
Securities available for sale	47,955	48
Securities held to maturity; fair value of $18 and $29	18	
Loans receivable held for sale	402	
Loans receivable, net of allowance for loan losses of $1,620 and $1,587	169,229	169
Federal bank stocks, at cost	1,525	1
Bank-owned life insurance	4,109	4
Accrued interest receivable	1,270	1
Premises and equipment	3,983	3
Goodwill	1,422	1
Core deposit intangibles	133	
Prepaid expenses and other assets	944	
Total assets	$ 246,012	$ 238
Liabilities and Stockholders' Equity		
Liabilities:		
Deposits:		
Noninterest bearing	$ 36,245	$ 32
Interest bearing	175,005	171
Total deposits	211,250	204

Borrowed funds	10,000	10
Accrued interest payable	454	
Accrued expenses and other liabilities	1,284	1
Total liabilities	222,988	215
Stockholders' Equity:		
Preferred stock, $1.00 par value, 3,000,000 shares authorized; none issued	-	
Common stock, $1.25 par value, 12,000,000 shares authorized; 1,395,852 shares issued and 1,332,835 shares outstanding	1,745	1
Additional paid-in capital	10,871	10
Treasury stock, at cost; 63,017 shares	(971)	
Retained earnings	10,238	9
Accumulated other comprehensive income	1,141	1
Total stockholders' equity	23,024	22
Total liabilities and stockholders' equity	$ 246,012	$ 238

See accompanying notes to consolidated financial statements.

Emclaire Financial Corp. and Subsidiary
Consolidated Income Statements
For the three months ended March 31, 2003 and 2002
(Dollar amounts in thousands, except share data)

	Three months ended March 31,	
	2003	2002
Interest and dividend income:		
Loans receivable	$2,981	$3,143
Securities:		
Taxable	342	369
Exempt from federal income tax	193	141
Federal bank stocks	15	15
Deposits with banks and federal funds sold	13	13
Total interest income	3,544	3,681
Interest expense:		
Deposits	1,110	1,228
Borrowed funds	107	60
Total interest expense	1,217	1,288
Net interest income	2,327	2,393
Provision for loan losses	75	111

Net interest income after provision for loan losses	2,252	2,282
Noninterest income:		
Service fees	243	230
Gain on sale of securities held for sale	14	-
Earnings on bank-owned life insurance	58	-
Other	68	67
Total noninterest income	383	297
Noninterest expense:		
Compensation and employee benefits	1,093	1,014
Premises and equipment, net	289	289
Intangible amortization expense	36	49
Other	502	563
Total noninterest expense	1,920	1,915
Net income before provision for income taxes	715	664
Provision for income taxes	175	181
Net income	$540	$483
Net income per share	$0.41	$0.36
Dividends per share	$0.21	$0.19
Weighted average common shares outstanding	1,332,835	1,332,835

See accompanying notes to consolidated financial statements.

Emclaire Financial Corp. and Subsidiary
Consolidated Statement of Changes in Stockholder's Equity
For the three months ended March 31, 2003
(Dollar amounts in thousands)

	Common Stock	Additional Paid-in Capital	Treasury Stock	Retained Earnings	Acc Com Inc
Balance at December 31, 2002	$1,745	$10,871	$(971)	$9,978	

Comprehensive income:				
Net income	-	-	-	540
Change in net unrealized gain on securities available for sale, net of taxes of $45	-	-	-	-
Comprehensive income				
Dividends paid	-	-	-	(280)
Balance at March 31, 2003	$1,745	$10,871	$(971)	$10,238

See accompanying notes to consolidated financial statements.

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Emclaire Financial Corp. and Subsidiary
Consolidated Statements of Cash Flows
For the three months ended March 31, 2003 and 2002
(Dollar amounts in thousands)

Operating activities:		
Net income	$540	$483
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization for premises and equipment	98	119
Provision for loan losses	75	111
Amortization of premiums and accretion of discounts, net	45	18
Gain on sale of securities available for sale	14	-
Earnings on bank-owned life insurance, net	(55)	-
Amortization of intangible assets	36	49
Decrease (increase) in accrued interest receivable	55	(54)
Decrease (increase) in prepaid expenses and other assets	(334)	(5)
Increase (decrease) in accrued interest payable	(13)	(18)
Increase (decrease) in accrued expenses and other liabilities	279	208
Other	(49)	25
Net cash from operating activities	691	936
Lending and Investing Activities:		
Loan originations, net of principal collections	(173)	(3,970)
Purchases of securities available for sale	(13,023)	(3,239)
Purchases of Federal bank stocks	(227)	-
Repayments, maturities and calls of securities available for sale	13,640	3,975
Principal repayments of securities held to maturity	11	-
Proceeds from the sale of securities available for sale	245	-
Purchases of premises and equipment	(403)	(149)

Net cash from lending and investing activities	70	(3,383)
Deposit and Financing Activities:		
Net increase in deposits	6,825	3,474
Dividends paid on common stock	(280)	(253)
Net cash from deposit and financing activities	6,545	3,221
Net increase in cash equivalents	7,306	774
Cash equivalents at beginning of period	7,716	9,157
Cash equivalents at end of period	$15,022	$9,931
Supplemental information:		
Interest paid	$1,230	$1,306
Income taxes paid	48	50

See accompanying notes to consolidated financial statements.

Emclaire Financial Corp. and Subsidiary
Notes to Consolidated Financial Statements

1. Business and Basis of Presentation

Emclaire Financial Corp. (the Corporation) is a Pennsylvania corporation and bank holding company that provides a full range of retail and commercial financial products and services to customers in western Pennsylvania through its wholly owned subsidiary bank, the Farmers National Bank of Emlenton (the Bank), a national banking association. The consolidated financial statements contained herein include the accounts of the Corporation and the Bank, which operate as one operating segment. All inter-company amounts have been eliminated.

The accompanying unaudited consolidated financial statements for the interim periods include all adjustments, consisting of normal recurring accruals, which are necessary, in the opinion of management, to fairly reflect the Corporation's financial position and results of operations. Additionally, these consolidated financial statements for the interim periods have been prepared in accordance with instructions for the Securities and Exchange Commission's Form 10-QSB and therefore do not include all information or footnotes necessary for a complete presentation of financial condition, results of operations and cash flows in conformity with accounting principles generally accepted in the United States of America. For further information, refer to the audited consolidated financial statements and footnotes thereto for the year ended December 31, 2002, as contained in the Corporation's 2002 Annual Report to Stockholders.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses and deferred tax assets. The results of operations for interim quarterly or year to date periods are not necessarily indicative of the results that may be expected for the entire year or any other period. Certain amounts previously reported may have been reclassified to conform to the current year's financial statement presentation.

2. Net Income Per Share

The Corporation maintains a simple capital structure with no common stock equivalents. Earnings per share computations are based on the weighted average number of common shares outstanding for the respective reporting periods.

3. Comprehensive Income

Total comprehensive income was comprised of the following for the three month period ended March 31:

In thousands	Three Months Ended March 31, 2003	2002
Net income	$540	$483
Change in net unrealized gain on securities available for sale, net of taxes	84	(69)
Comprehensive income	$624	$414

4. Securities

The following table summarizes the Corporation's securities as of the respective dates:

(In thousands)	Amortized cost	Unrealized gains	Unrealized losses	Fair value
Available for sale:				
March 31, 2003:				
U.S. Government securities	$13,678	$270	$-	$13,948
Municipal securities	16,017	420	(74)	16,363
Corporate securities	15,199	437	(21)	15,615
Equity securities	1,333	696	-	2,029
	$46,227	$1,823	$(95)	$47,955
December 31, 2002:				

U.S. Government securities	$17,486	$350	$-	$17,836
Municipal securities	16,515	391	(99)	16,807
Corporate securities	12,146	421	(5)	12,562
Equity securities	971	543	-	1,514
	$47,118	$1,705	$(104)	$48,719
Held to maturity:				
March 31, 2003:				
Mortgage-backed securities	$18	$-	$-	$18
	$18	$-	$-	$18
December 31, 2002:				
Mortgage-backed securities	$29	$-	$-	$29
	$29	$-	$-	$29

5. Loans Receivable

The Corporation's loans receivable as of the respective dates are summarized as follows:

(In thousands)	March 31, 2003	December 31, 2002
Mortgage loans:		
Residential first mortgage	$80,766	$82,449
Home equity	20,001	19,136
Commercial real estate	36,291	34,986
	137,058	136,571
Other loans:		
Consumer	12,424	12,660
Commercial business	21,367	21,913
	33,791	34,573
Total gross loans	170,849	171,144
Less allowance for loan losses	1,620	1,587
	$169,229	$169,557

6. Deposits

The Corporation's deposits as of the respective dates are summarized as follows:

(Dollar amounts in thousands)	March 31, 2003			December 31, 2002		
Type of accounts	Weighted average rate	Amount	%	Weighted average rate	Amount	%
Noninterest-bearing deposits	-	$36,245	17.2%	-	$32,762	16
Interest-bearing demand deposits	0.84%	76,014	36.0%	0.88%	72,637	35
Time deposits	3.85%	98,991	46.9%	3.97%	99,026	48
	2.11%	$211,250	100.0%	2.24%	$204,425	100

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

This section discusses the consolidated financial condition and results of operations of Emclaire Financial Corp. (the Corporation) and its wholly owned subsidiary bank, the Farmers National Bank of Emlenton (the Bank), for the three month period ended March 31, 2003 and should be read in conjunction with the accompanying consolidated financial statements and notes presented on pages 1 through 7.

Discussions of certain matters in this Report on Form 10-QSB may constitute forward-looking statements within the meaning of the Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and as such, may involve risks and uncertainties. Forward-looking statements, which are based on certain assumptions and describe future plans, strategies, and expectations, are generally identifiable by the use of words or phrases such as "believe", "plan", "expect", "intend", "anticipate", "estimate", "project", "forecast", "may increase", "may fluctuate", "may improve" and similar expressions of future or conditional verbs such as "will", "should", "would", and "could". These forward-looking statements relate to, among other things, expectations of the business environment in which the Corporation operates, projections of future performance, potential future credit experience, perceived opportunities in the market, and statements regarding the Corporation's mission and vision. The Corporation's actual results, performance, and achievements may differ materially from the results, performance, and achievements expressed or implied in such forward-looking statements due to a wide range of factors. These factors include, but are not limited to, changes in interest rates, general economic conditions, the demand for the Corporation's products and services, accounting principles or guidelines, legislative and regulatory changes, monetary and fiscal policies of the US Government, US Treasury, and Federal Reserve, real estate markets, competition in the financial services industry, attracting and retaining key personnel, performance of new employees, regulatory actions, changes in and utilization of new technologies, and other risks detailed in the Corporation's reports filed with the Securities and Exchange Commission (SEC) from time to time, including the Annual Report on Form 10-KSB for the fiscal year ended December 31, 2002. These factors should be considered in evaluating the forward-looking statements, and undue reliance should not be placed on such statements. The Corporation does not undertake, and specifically disclaims any obligation, to update any forward-looking statements to reflect occurrences or unanticipated events or circumstances after the date of such statements.

CHANGES IN FINANCIAL CONDITION

General. The Corporation's total assets increased $7.4 million or 3.1% to $246.0 million at March 31, 2003 from $238.6 million at December 31, 2002. This net increase was comprised of an increase in cash and cash equivalents of $7.3 million. Loans and securities remained stable at $169.6 million and $48.0 million, respectively. The increase in total assets reflects a corresponding increase in total liabilities and total stockholders' equity of $7.1 million or 3.3% and $344,000 or 1.5%, respectively. The increase in total liabilities was primarily the result of an increase in deposits of $6.8 million. This increase in deposits funded the Corporation's asset growth for the period. The increase in stockholders' equity was primarily the result of increases in retained earnings and accumulated other comprehensive income of $260,000 and $84,000, respectively.

Cash and cash equivalents. Cash and cash equivalents increased $7.3 million or 94.7% to $15.0 million at March 31, 2003 from $7.7 million at December 31, 2002. The net increase between March 31, 2003 and December 31, 2002 was primarily the result of the aforementioned increase in customer deposits. Management intends to deploy these funds in loans and securities during the second quarter of 2003.

Securities. The Corporation's securities portfolio decreased $775,000 or 1.6% to $48.0 million at March 31, 2003 from $48.7 million at December 31, 2002. This net decrease was primarily the result of security maturities and calls of $13.9 million, during the three months ended March 31, 2003. Partially offsetting the decrease in the portfolio resulting from maturities and calls were security purchases of $13.1 million, during the period.

Security purchases were comprised of U.S. government agency, corporate and marketable equity securities of $7.2 million, $5.3 million and $593,000, respectively. Security maturities and calls were comprised of U.S. government agency, tax-free municipal, corporate and marketable equity securities of $11.0 million, $500,000, $2.3 million and $135,000, respectively. Corporate securities that were purchased and that matured during the period included primarily short-term commercial paper utilized to manage interest-earned on funds maintained for liquidity purposes. At March 31, 2003, the Corporation maintained $3.7 million in commercial paper that is scheduled to mature within three months.

Loans receivable. Net loans receivable remained stable at $169.6 million, including $402,000 of loans held for sale, at March 31, 2003. The composition of the Corporation's loan portfolio shifted slightly from residential mortgages to commercial mortgages and home equity loan products as consumers have continued to refinance their first mortgage loans in this low interest rate environment. For the most part, the Bank has been able to stem residential mortgages exiting the institution, but during the first quarter of 2003, amortization and refinancing activity slightly outpaced new production. Also contributing to the reduction in residential mortgages was the identification of certain loans to be sold as discussed below. The commercial real estate loan portfolio has grown during the first three months of 2003 due to the retention of several large commercial customers as efforts continue to expand commercial lending activities in the Bank's existing markets. The increase in home equity loans outstanding is the direct result of specific home equity loan product development and related marketing campaigns put forth through the Bank' s retail branch network.

During the first quarter of 2003, management identified and designated $402,000 of residential mortgage loans for sale in the secondary market. These loans were originated for sale and met certain interest rate and term parameters established by management in connection with managing the Corporation's asset and liability mix and interest rate risk. The loans were originated during the first quarter of 2003 and the sale of these loans is expected occur in April 2003.

Non-performing assets. Non-performing assets include non-accrual loans and real estate acquired through foreclosure. Non-performing assets amounted to $1.3 million or 0.53% and $1.2 million or 0.49% of total assets at March 31, 2003 and December 31, 2002, respectively.

Deposits. Total deposits increased $6.8 million or 3.3% to $211.3 million at March 31, 2003 from $204.4 million at December 31, 2002. This increase was comprised of increases in noninterest bearing and interest bearing deposits of $3.5 million and $3.3 million, respectively. The general increase in deposits during the period can be attributed primarily to: (1) an overall movement of funds in the marketplace by customers from mutual fund and stock investments into FDIC insured bank deposits as a result of recent national economic instability, and (2) the opening of a new branch banking office in Butler County, PA in late January 2003.

Stockholders' equity. Stockholders' equity increased $344,000 or 1.5% to $23.0 million at March 31, 2003 from $22.7 million at December 31, 2002. This increase was principally the result of an increase in retained earnings of $260,000, comprised of net income of $540,000 offset by dividends paid of $280,000, and an increase in accumulated other comprehensive income of $84,000.

RESULTS OF OPERATIONS

Comparison of Results for the Three-Month Periods Ended March 31, 2003 and 2002

General. The Corporation reported net income of $540,000 and $483,000 for the three months ended March 31, 2003 and 2002, respectively. The $57,000 or 11.8% increase in net income for the three months ended March 31, 2003, as compared to the three months ended March 31, 2002, was attributable to an increase in noninterest income of $86,000 and a decrease in the provision for loan losses and the provision for income taxes of $36,000 and $6,000, respectively. Partially offsetting these favorable variances was an increase in noninterest expense of $5,000 and a decrease in net interest income of $66,000.

Average Balance Sheet and Yield/Rate Analysis. The following table sets forth, for periods indicated, information concerning the total dollar amounts of interest income from interest-earning assets and the resultant average yields, the total dollar amounts of interest expense on interest-bearing liabilities and the resulting average costs, net interest income, interest rate spread and the net interest margin earned on average interest-earning assets. For purposes of this table, average loan balances include non-accrual loans and exclude the allowance for loan losses, and interest income includes accretion of net deferred loan costs. Interest and yields on tax-exempt loans and securities (tax-exempt for federal income tax purposes) are shown on a fully tax equivalent basis.

(Dollar amounts in thousands)

	Three months ended March 31, 2003			2002	
	Average Balance	Interest	Yield / Rate	Average Balance	Inter
Interest-earning assets:					
Loans, taxable	$166,929	$2,937	7.14%	$161,124	$3,
Loans, tax exempt	4,137	62	6.08%	2,820	
	171,066	2,999	7.11%	163,944	3,
Securities, taxable	30,356	342	4.57%	27,882	
Securities, tax exempt	16,760	274	6.62%	11,685	
	47,116	616	5.30%	39,567	
Interest-earning cash equivalents	5,076	13	1.04%	3,281	
Federal bank stocks	1,487	15	4.09%	1,261	
	6,563	28	1.73%	4,542	
Total interest-earning assets	224,745	3,643	6.57%	208,053	3,
Cash and due from banks	5,347			4,536	
Other noninterest-earning assets	9,854			5,504	
Total assets	$239,946	$3,643	6.16%	$218,093	$3,
Interest-bearing liabilities:					
Interest-bearing demand deposits	$73,386	$157	0.87%	$70,220	$
Time deposits	99,238	953	3.89%	90,169	1,
	172,624	1,110	2.61%	160,389	1,
Borrowed funds, term	10,000	107	4.34%	5,000	
Borrowed funds, overnight	32	0	1.44%	145	
	10,032	107	4.33%	5,145	
Total interest-bearing liabilities	182,656	1,217	2.70%	165,534	1,
Noninterest-bearing demand deposits	32,940	-	-	29,050	
Funding and cost of funds	215,596	1,217	2.29%	194,584	1,
Other noninterest-bearing liabilities	1,416			2,091	
Total liabilities	217,012			196,675	
Stockholders' equity	22,934			21,418	

Total liabilities and stockholders' equity	$239,946	$1,217	2.29%	$218,093	$1,
Net interest income		$2,426			$2,
Interest rate spread (difference between weighted average rate on interest-earning assets and interest-bearing liabilities)			3.87%		
Net interest margin (net interest income as a percentage of average interest-earning assets)			4.38%		

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Analysis of Changes in Net Interest Income. The following table analyzes the changes in interest income and interest expense in terms of: (1) changes in volume of interest-earning assets and interest-bearing liabilities and (2) changes in yields and rates. The table reflects the extent to which changes in the Corporation's interest income and interest expense are attributable to changes in rate (change in rate multiplied by prior year volume), changes in volume (changes in volume multiplied by prior year rate) and changes attributable to the combined impact of volume/rate (change in rate multiplied by change in volume). The changes attributable to the combined impact of volume/rate are allocated on a consistent basis between the volume and rate variances. Changes in interest income on loans and securities reflect the changes in interest income on a fully tax equivalent basis.

(In thousands)	Three months ended March 31, 2003 versus 2002 Increase (decrease) due to		
	Volume	Rate	Total
Interest income:			
Loans	$133	$(291)	$(158)
Securities	103	(61)	42
Interest-earning cash equivalents	6	(6)	-
Federal bank stocks	2	(2)	-
Total interest-earning assets	244	(360)	(116)
Interest expense:			
Deposits	89	(207)	(118)
Borrowed funds	52	(5)	47
Total interest-bearing liabilities	141	(212)	(71)
Net interest income	$103	$(148)	$(45)

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Net interest income. Net interest income on a tax equivalent basis decreased $45,000 or 1.8% to $2.426 million for the three months ended March 31, 2003, compared to $2.471 million for the same period in the prior year. This net decrease can be attributed to an decrease in interest income of $116,000 partially offset by a decrease in interest expense of $71,000.

Aside from changes in the volume and rates of interest-earning assets and interest-bearing liabilities discussed herein, $93,000 of the decrease in net interest income between the periods can be attributed to the payoff of a previously non-performing commercial real estate loan in March 2002 that had been on non-accrual status. In connection with the loan payoff, the Corporation received all principal and interest due under the contractual terms of the loan agreement and therefore interest collected was appropriately recorded as loan interest income during the quarter ended March 31, 2002.

Interest income. Interest income on a tax equivalent basis decreased $116,000 or 3.1% to $3.6 million for the three months ended March 31, 2003, compared to $3.7 million for the same period in the prior year. This net decrease in interest income can be attributed to a decrease in interest earned on loans of $158,000 partially offset by an increase in interest earned on securities of $42,000.

During the three months ended March 31, 2003, average interest-earning assets increased $16.7 million or 8.0% to $224.7 million, compared to $208.0 million for the same period in the prior year. The increase in average interest-earning assets can be attributed to increases in average loans receivable, securities and interest-earning cash equivalents of $7.1 million, $7.5 million and $2.0 million, respectively. Average loans receivable increased to $171.1 million and average securities increased to $47.1 million during the three months ended March 31, 2003, compared to $163.9 million and $39.6 million, respectively, during the same period in the prior year. Offsetting the increase in interest income due to the increase in volume of interest-earning assets was a decrease in the yield on interest earning assets of 76 basis points to 6.57% for the three months ended March 31, 2003, compared to 7.33% for the same period in the prior year. The yield on average loans, securities and interest-earning deposits decreased to 7.11%, 5.30% and 1.73%, respectively, during the three months ended March 31, 2003, compared to 7.81%, 5.88%, and 2.50%, respectively, for the same period in the prior year.

Interest expense. Interest expense decreased $71,000 or 5.5% to $1.217 million for the three months ended March 31, 2003, compared to $1.288 million for the same period in the prior year. This decrease in interest expense can be attributed to a 39 basis point decline in the interest rate on average interest-bearing liabilities to 2.29% during the three months ended March 31, 2003, compared to 2.68% for the same period in the prior year. The average cost of deposits decreased to 2.61% during the three months ended March 31, 2003, compared to 3.11% for the same period in the prior year.

The decrease in interest expense due to rate was partially offset by an increase in the average balance of interest-bearing liabilities, as average interest-bearing deposits and borrowed funds increased to $172.6 million and $10.0 million, respectively, during the three months ended March 31, 2003, compared to $160.4 million and $5.1 million, respectively, during the same period in the prior year.

Provision for loan losses. The Corporation records provisions for loan losses to bring the total allowance for loan losses to a level deemed adequate to cover probable losses inherent in the loan portfolio. In determining the appropriate level of allowance for loan losses, management considers historical loss experience, the present and prospective financial condition of borrowers, current and prospective economic conditions (particularly as they relate to markets where the Corporation originates loans), the status of non-performing assets, the estimated underlying value of the collateral and other factors related to the collectibility of the loan portfolio. The $36,000 decrease in the Corporation's provision for loans losses between the three-month periods ended March 31, 2003 and 2002 can be attributed to the overall adequacy of the Corporation's allowance for loan losses at March 31, 2003, as well as the lower volume of loan charge-offs during the first quarter 2003 versus the same quarter in 2002.

Noninterest income. Noninterest income increased $86,000 or 29.0% to $383,000 during the three months ended March 31, 2003, compared to $297,000 during the same period in the prior year. This increase can principally be attributed to the increase in service fees, gains on sales of marketable equity securities and earnings on bank-owned life insurance of $13,000, $14,000 and $58,000, respectively.

Noninterest expense. Noninterest expense increased $5,000 to $1.920 million during the three months ended March 31, 2003, compared to $1.915 million during the same period in the prior year. This increase in noninterest expense can be attributed to an increase in compensation and employee benefits expense of $79,000, partially offset by a decrease in intangible amortization expense and other noninterest expenses of $13,000 and $61,000, respectively.

Compensation and employee benefits expense increased $79,000 or 7.8% to $1.093 million during the three months ended March 31, 2003, compared to $1.014 million for the same period in the prior year. This increase can be attributed primarily to normal and expected salary and benefit cost increases and increased management and employee incentive costs between the two periods, partially offset by lower levels of full-time equivalent employees.

Other noninterest expense decreased $61,000 or 10.8% to $502,000 during the three months ended March 31, 2003, compared to $563,000 for the same period in the prior year. This decrease can primarily be attributed to decreased telephone cost expenses, software depreciation, travel and entertainment expenses, and insurance cost expenses between the two periods. Partially offsetting this favorable variance was an increase in printing and office supplies and marketing expenses associated with the introduction of the Bank's internet banking product.

Provision for income taxes. The provision for income taxes decreased $6,000 or 3.3% to $175,000 for the three months ended March 31, 2003, compared to $181,000 for the same period in the prior year. This decrease is a direct result of the decrease in the Corporation's effective tax rate as a result of increased investment in tax-free municipal securities.

LIQUIDITY

The Corporation's primary sources of funds generally have been deposits obtained through the offices of the Bank, borrowings from the FHLB, and amortization and prepayments of outstanding loans and maturing securities. During the three months ended March 31, 2003, the Corporation used its sources of funds primarily to fund loan commitments and, to a lesser extent, purchase securities. As of such date, the Corporation had outstanding loan commitments, including undisbursed loans and amounts available under credit lines, totaling $13.2

million, and standby letters of credit totaling $545,000.

At March 31, 2003, time deposits amounted to $99.0 million or 46.9% of the Corporation's total consolidated deposits, including approximately $31.3 million, which were scheduled to mature within the next year. Management of the Corporation believes that it has adequate resources to fund all of its commitments, that all of its commitments will be funded as required by related maturity dates and that, based upon past experience and current pricing policies, it can adjust the rates of time deposits to retain a substantial portion of maturing liabilities.

Aside from liquidity available from customer deposits or through sales and maturities of securities, the Corporation has alternative sources of funds such as a line of credit and term borrowing capacity from the FHLB and, to a limited and rare extent, the sale of loans. At March 31, 2003, the Corporation's borrowing capacity with the FHLB, net of funds borrowed, was $102.8 million.

Management is not aware of any conditions, including any regulatory recommendations or requirements, which would adversely impact its liquidity or its ability to meet funding needs in the ordinary course of business.

Item 3. Controls and Procedures

(a) The Corporation maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Corporation's Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the Corporation's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure based closely on the definition of "disclosure controls and procedures" in Rule 13a-14(c).

Within 90 days prior to the date of this report, the Corporation carried out an evaluation, under the supervision and with the participation of the Corporation's management, including the Corporation's Chief Executive Officer and the Corporation's Chief Financial Officer, of the effectiveness of the design and operation of the Corporation's disclosure controls and procedures. Based on the foregoing, the Corporation's Chief Executive Officer and Chief Financial Officer concluded that the Corporation's disclosure controls and procedures were effective.

(b) There have been no significant changes in the Corporation's internal controls or in other factors that could significantly affect the internal controls subsequent to the date the Corporation completed its evaluation

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PART II - OTHER INFORMATION

Item 1. Legal Proceedings

The Corporation is involved in various legal proceedings occurring in the ordinary course of business. It is the opinion of management, after consultation with legal counsel, that these matters will not materially effect the Corporation's consolidated financial position or results of operations.

Item 2. Changes in Securities

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Submission of Matters to a Vote of Security Holders

None.

Item 5. Other Information

None.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

Exhibit 99.1	CEO Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
Exhibit 99.2	CFO Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(b) Reports on Form 8-K

None.

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Signatures

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

EMCLAIRE FINANCIAL CORP.

Date: May 13, 2003

By: /s/ David L. Cox

David L. Cox
Chairman of the Board,
President and Chief Executive Officer

Date: May 13, 2003

By: /s/ William C. Marsh

William C. Marsh
Treasurer/Secretary
(Principal Financial and Accounting Officer)

Certification of the Principal Executive Officer
(Section 302 of the Sarbanes-Oxley Act of 2002)

I, David L. Cox, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Emclaire Financial Corp. (the Corporation);

2. Based on my knowledge, this quarterly 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 quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the Corporation as of, and for, the periods presented in this quarterly report;

4. The Corporation'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 Corporation and we have:

   a) designed such disclosure controls and procedures to ensure that material information relating to the Corporation, including its consolidated subsidiary, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

   b) evaluated the effectiveness of the Corporation's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

   c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The Corporation's other certifying officer and I have disclosed, based on our most recent evaluation, to the Corporation's auditors and the audit committee of Corporation's board of directors (or persons performing the equivalent function):

   a) all significant deficiencies in the design or operation of internal controls which could adversely affect the Corporation's ability to record, process, summarize and report financial data and have identified for the Corporation'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 Corporation's internal controls; and

6. The Corporation's other certifying officer and I have indicated in this quarterly report whether or not 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.

Date: May 13, 2003

By: /s/ David L. Cox

David L. Cox
Chairman of the Board,
President and Chief Executive Officer

Certification of the Principal Financial Officer
(Section 302 of the Sarbanes-Oxley Act of 2002)

I, William C. Marsh, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Emclaire Financial Corp. (the Corporation);

2. Based on my knowledge, this quarterly 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 quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the Corporation as of, and for, the periods presented in this quarterly report;

4. The Corporation'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 Corporation and we have:

   a) designed such disclosure controls and procedures to ensure that material information relating to the Corporation, including its consolidated subsidiary, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

   b) evaluated the effectiveness of the Corporation's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

   c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The Corporation's other certifying officer and I have disclosed, based on our most recent evaluation, to the Corporation's auditors and the audit committee of Corporation's board of directors (or persons performing the equivalent function):

   d) all significant deficiencies in the design or operation of internal controls which could adversely affect the Corporation's ability to record, process, summarize and report financial data and have identified for the Corporation's auditors any material weaknesses in internal controls; and

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

6. The Corporation's other certifying officer and I have indicated in this quarterly report whether or not 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.

Date: May 13, 2003

By: /s/ William C. Marsh

William C. Marsh
Treasurer/Secretary
(Principal Financial and Accounting Officer)