EMCLAIRE FINANCIAL CORP
Form 10QSB
November 14, 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: September 30, 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 CORPORATE ISSUERS

Number of shares of issuer's common stock outstanding as of October 31, 2003:

Common Stock, $1.25 par value	1,267,835
(Class)	(Outstanding)

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

EMCLAIRE FINANCIAL CORP.

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PART I - FINANCIAL INFORMATION

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

Emclaire Financial Corp. and Subsidiary
Consolidated Balance Sheets
As of September 30, 2003 (Unaudited) and December 31, 2002
(Dollar amounts in thousands, except share data)

	September 30, 2003	December 3 2002
Assets		
Cash and due from banks	$5,348	$5,
Interest-earning deposits in banks	1,127	2,
Cash and cash equivalents	6,475	7,
Securities available for sale	54,069	48,
Securities held to maturity; fair value of $18 and $29	17	
Loans receivable, net of allowance for loan losses of $1,705 and $1,587	182,720	169,
Federal bank stocks, at cost	1,942	1,
Bank-owned life insurance	4,218	4,
Accrued interest receivable	1,329	1,
Premises and equipment	4,791	3,
Goodwill	1,422	1,
Core deposit intangibles	62	
Prepaid expenses and other assets	891	
Total assets	$257,936	$238,
Liabilities and Stockholders' Equity		
Liabilities:		
Deposits:		
Noninterest bearing	$37,849	$32,
Interest bearing	178,044	171,
Total deposits	215,893	204,
Borrowed funds	17,930	10,
Accrued interest payable	473	
Accrued expenses and other liabilities	1,190	1,
Total liabilities	235,486	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; 1,267,835 and 1,332,835 shares outstanding	1,745	1,
Additional paid-in capital	10,871	10,
Treasury stock, at cost; 128,017 and 63,017 shares	(2,653)	(
Retained earnings	10,966	9,
Accumulated other comprehensive income	1,521	1,
Total stockholders' equity	22,450	22,
Total liabilities and stockholders' equity	$257,936	$238,

See accompanying notes to consolidated financial statements.

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Emclaire Financial Corp. and Subsidiary
Consolidated Income Statements
For the three and nine months ended September 30, 2003 and 2002 (Unaudited)
(Dollar amounts in thousands, except share data)

	Three months ended September 30,	
	2003	2002
Interest and dividend income:		
Loans receivable	$2,965	$3,099
Securities:		
Taxable	373	371
Exempt from federal income tax	181	146
Federal bank stocks	13	13
Deposits with banks and federal funds sold	2	24
Total interest income	3,534	3,653
Interest expense:		
Deposits	1,073	1,243
Borrowed funds	154	59
Total interest expense	1,227	1,302

Net interest income	2,307	2,351
Provision for loan losses	75	90
Net interest income after provision for loan losses	2,232	2,261
Noninterest income:		
Service fees	268	243
Gain on sale of securities available for sale	60	-
Gain on sale of loans held for sale	5	39
Earnings on bank-owned life insurance	58	-
Other	76	75
Total noninterest income	467	357
Noninterest expense:		
Compensation and employee benefits	1,022	986
Premises and equipment, net	245	274
Intangible amortization expense	34	12
Other	540	501
Total noninterest expense	1,841	1,773
Net income before provision for income taxes	858	845
Provision for income taxes	209	264
Net income	$649	$581
Net income per share	$0.51	$0.44
Dividends per share	$0.21	$0.19
Weighted average common shares outstanding	1,280,552	1,332,835

See accompanying notes to consolidated financial statements.

Emclaire Financial Corp. and Subsidiary
Consolidated Statements of Cash Flows
For the nine months ended September 30, 2003
(Unaudited)
(Dollar amounts in thousands)

	For the Nine Months Ended September 30,	
	2003	2002

Operating activities:		
Net income	$1,817	$1,59
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization for premises and equipment	293	35
Provision for loan losses	225	29
Amortization of premiums and accretion of discounts, net	190	17
Gain on sale of securities available for sale	(115)	
Earnings on bank-owned life insurance, net	(164)	
Amortization of intangible assets	107	10
Change in accrued interest receivable	(4)	(4
Change in prepaid expenses and other assets	(281)	(8
Change in accrued interest payable	6	(2
Change in accrued expenses and other liabilities	185	17
Other	11	(41
Net cash from operating activities	2,270	2,13
Lending and Investing Activities:		
Loan originations, net of principal collections	(13,445)	(7,36
Purchases of securities available for sale	(37,062)	(28,96
Purchases of Federal bank stocks	(644)	(7
Purchase of Bank-owned life insurance	-	(4,00
Repayments, maturities and calls of securities available for sale	31,565	20,22
Principal repayments of securities held to maturity	12	3
Proceeds from the sale of securities available for sale	582	
Purchases of premises and equipment	(1,406)	(44
Net cash from lending and investing activities	(20,398)	(20,59
Deposit and Financing Activities:		
Net increase in deposits	11,468	14,24
Increase in overnight borrowed funds	2,930	3,76
Proceeds from long term advances	5,000	
Dividends paid on common stock	(829)	(76
Payments to acquire treasury stock	(1,682)	
Net cash from deposit and financing activities	16,887	17,24
Net (decrease) increase in cash equivalents	(1,241)	(1,21
Cash equivalents at beginning of period	7,716	9,15
Cash equivalents at end of period	$6,475	$7,93
Supplemental information:		
Interest paid	$3,645	$3,90
Income taxes paid	708	54

See accompanying notes to consolidated financial statements.

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Emclaire Financial Corp. and Subsidiary
Consolidated Statement of Changes in
Stockholders' Equity For the nine months ended
September 30, 2003 (Unaudited)
(Dollar amounts in thousands)

	Common Stock	Additional Paid-in Capital	Treasury Stock	Retained Earnings	Ac Com Inc
Balance at December 31, 2002	$1,745	$10,871	$(971)	$9,978	
Comprehensive income:					
Net income	-	-	-	1,817	
Change in net unrealized gain on securities available for sale, net of taxes of $239 and reclassification adjustment for after tax gains of $75	-	-	-	-	
Comprehensive income					
Dividends paid	-	-	-	(829)	
Purchase of treasury stock (65,000 shares)	-	-	(1,682)	-	
Balance at September 30, 2003	$1,745	$10,871	$(2,653)	$10,966	

See accompanying notes to consolidated financial statements.

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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 potentially dilutive instruments. Earnings per share computations are based on the weighted average number of common shares outstanding of 1,280,552 and 1,332,835 shares for the three month periods ending September 30, 2003 and 2002, respectively, and 1,313,131 and 1,332,835 shares for the nine month periods ending September 30, 2003 and 2002, respectively.

3. Comprehensive Income

Comprehensive income was comprised of the following for the periods ended September 30:

	Three months ended September 30,		Nine months ended September 30,	
In thousands	2003	2002	2003	20
Net income	$649	$581	$1,817	$1,5
Change in net unrealized gain on securities available for sale, net of taxes	(345)	355	539	7
Less reclassification adjustment for gains included in net income, net of taxes	(39)	-	(75)	
Other comprehensive income	(384)	355	464	7

Comprehensive income	$265	$936	$2,281	$2,3

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:				
September 30, 2003				
U.S. Government agency securities	$24,862	$158	$(158)	$24,862
Municipal securities	15,134	738	-	15,872
Corporate securities	10,138	394	-	10,532
Equity securities	1,630	1,176	(3)	2,803
	$51,764	$2,466	$(161)	$54,069
December 31, 2002:				
U.S. Government agency 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:				
September 30, 2003				
Mortgage-backed securities	$17	$-	$-	$17
	$17	$-	$-	$17
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)	September 30, 2003	December 31, 2002
Mortgage loans:		
Residential first mortgage	$75,265	$82,449
Home equity	30,691	19,136
Commercial real estate	40,082	34,986
	146,038	136,571
Other loans:		
Consumer	14,679	12,660
Commercial business	23,708	21,913
	38,387	34,573
Total gross loans	184,425	171,144
Less allowance for loan losses	1,705	1,587
	$182,720	$169,557

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6. Deposits

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

Deposit summary:

(Dollar amounts in thousands)	September 30, 2003			December 31, 2002		
Type of accounts	Weighted average rate	Amount	%	Weighted average rate	Amount	
Noninterest-bearing deposits	-	$37,849	17.5%	-	$32,762	16
Interest-bearing demand deposits	0.73%	79,185	36.7%	0.88%	72,637	35
Time deposits	3.76%	98,859	45.8%	3.97%	99,026	48

1.99%	$215,893	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 and nine month periods ended September 30, 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 $19.4 million or 8.1% to $257.9 million at September 30, 2003 from $238.6 million at December 31, 2002. This net increase was comprised principally of increases in securities, loans, and premises and equipment of $5.3 million, $13.2 million and $1.0 million, respectively, partially offset by a decrease in cash and cash equivalents of $1.2 million. The increase in total assets reflects a corresponding increase in total liabilities of $19.6 million or 9.1%, partially offset by a decrease in total stockholders' equity of $230,000 or 1.0%. The increase in total liabilities was primarily the result of increases in deposits and borrowed funds of $11.5 million and $7.9 million, respectively. This increase in deposits and borrowed funds provided the resources for the Corporation's asset growth for the period. The decrease in stockholders' equity was the result of an increase in treasury stock of $1.7 million, offset by increases in retained earnings and accumulated other comprehensive income of $988,000 and $464,000, respectively.

Cash and cash equivalents. Cash and cash equivalents decreased $1.2 million or 16.1% to $6.5 million at September 30, 2003 from $7.7 million at December 31, 2002. The net decrease between September 30, 2003 and December 31, 2002 was primarily the result of investing deployable funds in loans, U.S. agency securities and commercial paper and the acquisition of 65,000 shares of treasury stock.

Securities. The Corporation's securities portfolio increased $5.3 million or 11.0% to $54.1 million at September 30, 2003 from $48.7 million at December 31, 2002. This net increase was primarily the result of security purchases of $37.0 million, partially offset by security maturities and calls of $31.6 million and security sales of $468,000 during the nine months ended September 30, 2003.

Security purchases were comprised of U.S. government agency, corporate and marketable equity securities of $28.3 million, $7.6 million, and $1.1 million, respectively. Security maturities and calls were comprised of U.S. government agency, tax-free municipal and corporate securities of $20.7 million, $1.4 million and $9.5 million, 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 September 30, 2003, the Corporation's security portfolio did not contain any short-term commercial paper.

Loans receivable. Net loans receivable increased $13.2 million or 7.8% to $182.7 million at September 30, 2003 from $169.6 million at December 31, 2002. This increase was the result of increases in the Bank's mortgage, commercial business and non-real estate consumer loan portfolios of $9.5 million, $1.8 million and $2.0 million, respectively. The composition of the Corporation's mortgage loan portfolio shifted from residential first mortgages to home equity loan products and commercial mortgages. The Corporation has continued to experience refinancing of mortgage loan products, particularly residential first mortgage loans. For the most part, the Bank has been able to stem residential mortgages exiting the institution, but during the nine months ended September 30, 2003, amortization and refinancing activity outpaced new production in this portfolio. This $7.2 million or 8.7% reduction in residential first mortgages has been more than offset by commercial real estate and home equity loan growth. The commercial real estate loan portfolio has grown $5.1 million or 14.6% during the first nine 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 $11.6 million or 60.4% increase in home equity loans outstanding is the direct result of specific home equity loan product development and related marketing campaigns through the Bank's retail branch network. This campaign has been directed at retaining consumer mortgage investment in the Bank's market area. The Corporation's commercial business loan portfolio grew $1.8 million or 8.2%, directly as the result of $3.0 million in new funding on a tax-free loan with a municipality in the Bank's market area. The Corporation's non-real estate consumer loan portfolio increased $2.0 million or 16.0% as a direct result of marketing campaigns focusing on the retention of consumer automobile loans in the Bank's market area.

Federal bank stocks. Federal bank stocks increased $644,000 or 49.6% to $1.9 million at September 30, 2003 from $1.3 million at December 31, 2002. This increase is directly related to the $7.9 million increase in Federal Home Loan Bank of Pittsburgh (FHLB) borrowed funds during the period - see comments below under "Borrowed Funds".

Premises and equipment. Premises and equipment increased $1.0 million or 30.3% to $4.8 million at September 30, 2003 from $3.7 million at December 31, 2002. This increase can be attributed to capital investments made for the historical remodeling of the Corporation's headquarters and the Bank's main office to date, for the Bank's new branch office in Butler County, Pennsylvania and for various data processing initiatives undertaken during 2003.

Non-performing assets. Non-performing assets include non-accrual loans and real estate acquired through foreclosure. Non-performing assets amounted to $1.7 million or 0.65% and $1.2 million or 0.49% of total assets at September 30, 2003 and December 31, 2002, respectively. Non-accrual loans at September 30, 2003 consisted primarily of commercial mortgages and residential mortgages of $1.0 million and $371,000, respectively.

Deposits. Total deposits increased $11.5 million or 5.6% to $215.9 million at September 30, 2003 from $204.4 million at December 31, 2002. This increase was comprised of increases in noninterest bearing and interest bearing deposits of $5.1 million and $6.4 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, Pennsylvania in late January 2003.

Borrowed funds. Borrowed funds increased $7.9 million or 79.3% to $17.9 million at September 30, 2003 from $10.0 million at December 31, 2002. This increase was the result of a new $5.0 million long-term borrowing from the FHLB utilized to fund the aforementioned tax-free loan and $2.9 million of FHLB overnight borrowings.

Stockholders' equity. Stockholders' equity decreased $230,000 or 1.0% to $22.5 million at September 30, 2003 from $22.7 million at December 31, 2002. This decrease was the result of an increase in treasury stock of $1.7 million, offset by increases in retained earnings of $988,000, comprised of net income of $1.8 million offset by dividends paid of $829,000, and in accumulated other comprehensive income of $464,000.

During June and September of 2003, the Corporation received two separate unsolicited offers from stockholders to buy back shares of the Corporation's common stock held by these stockholders. These purchases totaled 65,000 shares for an average price per share of $25.87 or a total purchase cost of $1.7 million. Cash on hand was utilized to facilitate these repurchases and take advantage of this opportunity to manage the Corporation's capital levels. Subsequent to this repurchase the Corporation and the Bank remain "well capitalized" for regulatory purposes. These shares will be held in treasury stock.

RESULTS OF OPERATIONS

Comparison of Results for the Three Month Periods Ended September 30, 2003 and 2002

General. The Corporation reported net income of $649,000 and $581,000 for the three months ended September 30, 2003 and 2002, respectively. The $68,000 or 11.7% increase in net income for the three months ended September 30, 2003, as compared to the three months ended September 30, 2002, was attributable to an increase in noninterest income of $110,000 and a decrease in the provision for loan losses and the provision for income taxes of $15,000 and $55,000, respectively. Partially offsetting these favorable variances was an increase in noninterest expense of $68,000 and a decrease in net interest income of $44,000.

Net interest income. Net interest income on a tax equivalent basis decreased $9,000 to $2.4 million for the three months ended September 30, 2003. This net decrease can be attributed to a decrease in interest income of $84,000, offset by a decrease in interest expense of $75,000.

Interest income. Interest income on a tax equivalent basis decreased $84,000 or 2.3% to $3.6 million for the three months ended September 30, 2003, compared to $3.7 million for the same period in the prior year. This decrease in interest income can be attributed to a 77 basis point decline in the interest rate on average interest-earning assets to 6.02% during the three months ended September 30, 2003, compared to 6.79% for the same period in the prior year. The yield on average loans, securities and interest-earning deposits decreased to 6.57%, 4.48% and 1.91%, respectively, during the three months ended September 30, 2003, compared to 7.34%, 5.26%, and 2.41%, respectively, for the same period in the prior year. The decrease in interest income due to rate was offset by an increase in the average balance of interest-earning assets, as average loans receivable and securities increased to $181.2 million and $55.7 million, respectively, during the three months ended September 30, 2003, compared to $168.2 million and $43.6 million, respectively, during the same period in the prior year. Offsetting the increase in average loans receivable and securities was a decrease in the average balance of interest-earning cash and cash equivalents to $3.1 million during the three months ended September 30, 2003, compared to $6.1 million during the same period in the prior year. Increases in average loans and securities between quarterly periods were funded by deposit growth and, to a lesser extent, borrowed funds. See comments in the "Changes in Financial Condition" section above for discussion of security, loan and deposit growth factors.

Interest expense. Interest expense decreased $75,000 or 5.8% to $1.2 million for the three months ended September 30, 2003, compared to $1.3 million for the same period in the prior year. This decrease in interest expense can be attributed to a 47 basis point decline in the interest rate on average interest-bearing liabilities to 2.50% during the three months ended September 30, 2003, compared to 2.97% for the same period in the prior year. The average cost of deposits decreased to 2.40% during the three months ended September 30, 2003, compared to 2.93% 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 $177.1 million and $17.7 million, respectively, during the three months ended September 30, 2003, compared to $168.4 million and $5.4 million, respectively, during the same period in the prior year.

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 resulting 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 September 30,					
	2003			2002		
	Average Balance	Interest	Yield / Rate	Average Balance	Interest	Yi
Interest-earning assets:						
Loans, taxable	$174,040	$2,885	6.58%	$165,663	$3,069	
Loans, tax exempt	7,121	113	6.30%	2,500	43	
	181,161	2,998	6.57%	168,163	3,112	
Securities, taxable	40,206	373	3.68%	31,179	371	
Securities, tax exempt	15,504	256	6.56%	12,396	207	
	55,710	629	4.48%	43,575	578	
Interest-earning cash equivalents	1,234	2	0.64%	4,765	24	
Federal bank stocks	1,886	13	2.73%	1,338	13	
	3,120	15	1.91%	6,103	37	
Total interest-earning assets	239,991	3,642	6.02%	217,841	3,727	
Cash and due from banks	5,762			6,660		
Other noninterest-earning assets	11,184			6,076		
Total assets	$256,937	$3,642	5.62%	$230,577	$3,727	
Interest-bearing liabilities:						
Interest-bearing demand deposits	$78,946	$144	0.72%	$72,545	$209	
Time deposits	98,119	929	3.76%	95,806	1,034	
	177,065	1,073	2.40%	168,351	1,243	
Borrowed funds, term	15,000	147	3.89%	5,000	57	
Borrowed funds, overnight	2,662	7	1.04%	427	2	
	17,662	154	3.46%	5,427	59	

Total interest-bearing liabilities	194,727	1,227	2.50%	173,778	1,302
Noninterest-bearing demand deposits	38,084	-	-	32,884	
Funding and cost of funds	232,811	1,227	2.09%	206,662	1,302
Other noninterest-bearing liabilities	2,023			1,439	
Total liabilities	234,834			208,101	
Stockholders' equity	22,103			22,476	
Total liabilities and stockholders' equity	$256,937	$1,227	2.09%	$230,577	$1,302
Net interest income		$2,415			$2,425
Interest rate spread (difference between weighted average rate on interest-earning assets and interest-bearing liabilities)			3.52%		
Net interest margin (net interest income as a percentage of average interest-earning assets)			3.99%		

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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.

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(In thousands) Three months ended September 30,

	2003 versus 2002 Increase (decrease) due to		
	Volume	Rate	Total
Interest income:			
Loans	$230	$(344)	$(114
Securities	145	(285)	145
Interest-earning cash equivalents	(11)	(11)	(22
Federal bank stocks	4	(4)	-
Total interest-earning assets	368	(453)	(85
Interest expense:			
Deposits	62	(232)	(170
Borrowed funds	109	(14)	95
Total interest-bearing liabilities	171	(246)	(75
Net interest income	$197	$(207)	$(10

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 $15,000 decrease in the Corporation's provision for loans losses between the three-month periods ended September 30, 2003 and 2002 can be attributed to management's assessment of the overall adequacy of the Corporation's allowance for loan losses at September 30, 2003, as well as the lower volume of loan charge-offs during the third quarter 2003 versus the same quarter in 2002.

Noninterest income. Noninterest income increased $110,000 or 30.8% to $467,000 during the three months ended September 30, 2003, compared to $357,000 during the same period in the prior year. This increase can be attributed to the increase in customer service fees earned, gains on sales of marketable equity securities, earnings on bank-owned life insurance and other noninterest income of $25,000, $60,000, $58,000 and $1,000, respectively. Partially offsetting this favorable variance was a decrease in the gains on loans held for sale of $34,000.

Noninterest expense. Noninterest expense increased $68,000 or 3.8% to $1.841 million during the three months ended September 30, 2003, compared to $1.773 million during the same period in the prior year. This increase in noninterest expense can be attributed to increases in compensation and employee benefits expense, intangible amortization expense and other noninterest expense of $36,000, $22,000 and $39,000, respectively. This unfavorable variance was offset by a decrease in premises and equipment expense of $29,000. Increased noninterest expenses as a result of opening the Bank's new branch office in Butler, Pennsylvania in January 2003 were, for the most part, offset by cost savings through the consolidation of two offices into one office in the Clarion, Pennsylvania market in March 2003.

Compensation and employee benefits expense increased $36,000 or 3.7% to $1.0 million during the three months ended September 30, 2003, compared to $986,000 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.

Premises and equipment expense decreased $29,000 or 10.6% to $245,000 during the three months ended September 30, 2003, compared to $274,000 for the same period in the prior year. This decrease can be primarily attributed to lower depreciation expenses of $17,000, which was a result of the cessation of depreciation on certain equipment at the end of 2002. During the month ended September 30, 2003, construction on the main office was substantially complete. The completion of this project will impact future noninterest expense with the increase of depreciation, which will begin in the fourth quarter of 2003.

Intangible amortization expense increased $22,000 to $34,000 during the three months ended September 30, 2003, compared to $12,000 for the same period in the prior year. This variance was a result of the reversal of previously recognized goodwill amortization expense of $33,000 in the third quarter of 2002 related to adopting SFAS No. 147, "Acquisitions of Certain Financial Institutions."

Other noninterest expense increased $39,000 or 7.8% to $540,000 during the three months ended September 30, 2003, compared to $501,000 for the same period in the prior year. This increase can be attributed primarily to increases in travel and entertainment expenses, printing and office supplies, loan expense and marketing expenses associated with the promotion of the aforementioned home equity products. Partially offsetting this unfavorable variance was decreases in telephone cost expenses, software depreciation, and transfer agent fees between the two periods.

Provision for income taxes. The provision for income taxes decreased $55,000 or 20.8% to $209,000 for the three months ended September 30, 2003, compared to $264,000 for the same period in the prior year. This decrease is a direct result of the decrease in the Corporation's effective tax rate resulting from the investment in bank owned life insurance and increased investment in tax-free municipal securities and loans, as well as historic tax credits attributable to the remodeling of the Corporation's headquarters. Partially offsetting this decrease was an increase in the Corporation's pre-tax earnings base between the third quarter 2003 and 2002.

Comparison of Results for the Nine month Periods Ended September 30, 2003 and 2002

General. The Corporation reported net income of $1.8 million and $1.6 million for the nine months ended September 30, 2003 and 2002, respectively. The $223,000 or 14.0% increase in net income for the nine months ended September 30, 2003, as compared to the nine months ended September 30, 2002, was attributable to an increase in noninterest income of $323,000 and decreases in the provision for loan losses and income taxes of $66,000 and $78,000, respectively. Partially offsetting this favorable variance was a decrease in net interest income of $141,000 and an increase in noninterest expense of $103,000.

Average Balance Sheet and Yield/Rate Analysis.

(Dollar amounts in thousands)	Nine months ended September 30, 2003					
	2003			2002		
	Average Balance	Interest	Yield / Rate	Average Balance	Interest	Yi
Interest-earning assets:						
Loans, taxable	$170,433	$8,732	6.85%	$163,913	$9,316	
Loans, tax exempt	5,659	264	6.24%	2,500	37	
	$176,092	$8,996	6.83%	$166,413	$9,353	
Securities, taxable	36,015	1,076	3.99%	29,160	1,122	
Securities, tax exempt	16,254	793	6.52%	11,789	602	
	52,269	1,869	4.78%	40,949	1,724	
Interest-earning cash equivalents	2,414	24	1.33%	4,390	55	
Federal bank stocks	1,642	39	3.18%	1,308	41	
	4,056	63	2.08%	5,698	96	
Total interest-earning assets	232,417	10,928	6.29%	213,060	11,173	
Cash and due from banks	6,021			5,554		
Other noninterest-earning assets	10,449			5,493		
Total assets	$248,887	$10,928	5.87%	$224,107	$11,173	
Interest-bearing liabilities:						
Interest-bearing demand deposits	$76,477	$458	0.80%	$71,636	$613	
Time deposits	99,057	2,828	3.82%	92,628	3,091	
	175,534	3,286	2.50%	164,264	3,704	
Borrowed funds, term	12,000	356	3.97%	5,000	175	
Borrowed funds, overnight	1,108	9	1.09%	115	1	
	13,108	365	3.72%	5,115	176	
Total interest-bearing liabilities	188,642	3,651	2.59%	169,379	3,880	

Noninterest-bearing demand deposits	35,686	-	-	31,390	
Funding and cost of funds	224,328	3,651	2.18%	200,769	3,880
Other noninterest-bearing liabilities	1,758			1,442	
Total liabilities	226,086			202,211	
Stockholders' equity	22,801			21,896	
Total liabilities and stockholders' equity	$248,887	$3,651	2.18%	$224,107	$3,880
Net interest income		$7,277			$7,293
Interest rate spread (difference between weighted average rate on interest-earning assets and interest-bearing liabilities)			3.70%		
Net interest margin (net interest income as a percentage of average interest-earning assets)			4.19%		

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Analysis of Changes in Net Interest Income.

(In thousands)	Nine months ended September 30, 2003 versus 2002 Increase (decrease) due to		
	Volume	Rate	Total
Interest income:			
Loans	$525	$(882)	$(357
Securities	430	(285)	145
Interest-earning cash equivalents	(21)	(10)	(31
Federal bank stocks	9	(11)	(2
Total interest-earning assets	943	(1,188)	(245

Interest expense:			
Deposits	242	(660)	(418
Borrowed funds	228	(39)	189
Total interest-bearing liabilities	470	(699)	(229
Net interest income	$473	$(489)	$(16

Net interest income. Net interest income on a tax equivalent basis decreased $16,000 to $7.3 million for the nine months ended September 30, 2003. This decrease can be attributed to a decrease in interest income of $245,000 partially offset by a decrease in interest expense of $229,000.

Interest income. Interest income on a tax equivalent basis decreased $245,000 or 2.2% to $10.9 million for the nine months ended September 30, 2003, compared to $11.2 million for the same period in the prior year. This net decrease in interest income can be attributed to decreases in interest earned on loans and interest-earning cash equivalents and federal bank stocks of $357,000 and $33,000, respectively, partially offset by an increase in interest earned on securities of $145,000.

Contributing to the decrease in interest income was a decrease in the yield on interest-earning assets of 72 basis points to 6.29% for the nine months ended September 30, 2003, compared to 7.01% for the same period in the prior year. The yield on average loans, securities and interest-earning cash equivalents decreased to 6.83%, 4.78%, and 2.08%, respectively, during the nine months ended September 30, 2003, compared to 7.51%, 5.63%, and 2.25%, respectively, for the same period in the prior year. Partially offsetting the decrease in the yield on interest-earning assets was an increase in average interest-earning assets of $19.4 million or 9.1% to $232.4 million for the nine months ended September 30, 2003, compared to $213.1 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 and securities of $9.7 million and $11.3 million, respectively, offset by a decrease in interest-earning cash equivalents of $1.6 million. Average loans receivable increased to $176.1 million and average securities increased to $52.3 million during the nine months ended September 30, 2003, compared to $166.4 million and $40.9 million, respectively, during the same period in the prior year. See comments in the "Changes in Financial Condition" section above for discussion of security, loan and deposit growth factors.

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 year to date 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 expense. Interest expense decreased $229,000 or 5.9% to $3.7 million for the nine months ended September 30, 2003, compared to $3.9 million for the same period in the prior year. This decrease in interest expense can be attributed to a 47 basis point decline in the interest rate on average interest-bearing liabilities to 2.59% during the nine months ended September 30, 2003, compared to 3.06% for the same period in the prior year. The average cost of deposits and borrowed funds decreased to 2.50% and 3.72%, respectively, during the nine months ended September 30, 2003, compared to 3.01% and 4.60%, respectively, 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 $175.5 million and $13.1 million, respectively, during the nine months ended September 30, 2003, compared to $164.3 million and $5.1 million, respectively, during the same period in the prior year.

Provision for loan losses. The $66,000 or 22.7% decrease in the Corporation's provision for loans losses between the nine month periods ended September 30, 2003 and 2002 was primarily the result of management's assessment of the overall adequacy of the Corporation's allowance for loan losses at September 30, 2003, as well as the lower volume of loan charge-offs during the nine month period ending September 30, 2003 versus the same period in the prior year.

Noninterest income. Noninterest income increased $323,000 or 32.5% to $1.3 million for the nine months ended September 30, 2003 compared to $995,000 for 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 $73,000, $115,000 and $175,000, respectively. Offsetting this increase in noninterest income are decreases in gains on sales of loans held for sale and other noninterest income of $16,000 and $24,000, respectively.

Noninterest expense. Noninterest expense increased $103,000 or 1.9% to $5.7 million during the nine months ended September 30, 2003 compared to $5.6 million for 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 $213,000, offset by decreases in premises and equipment expense, intangible amortization expense and other expenses of $76,000, $2,000 and $32,000, respectively. Increased noninterest expenses as a result of opening the Bank's new branch office in Butler, PA in January 2003 were, for the most part, offset by cost savings through the consolidation of two offices into one office in the Clarion, Pennsylvania market in March 2003.

Compensation and employee benefits expense increased $213,000 or 7.1% to $3.2 million during the nine months ended September 30, 2003, compared to $3.0 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.

Premises and equipment expense decreased $76,000 or 8.8% to $786,000 during the nine months ended September 30, 2003, compared to $862,000 for the same period in the prior year. This decrease can be primarily attributed to lower depreciation expenses of $62,000, which was principally a result of the cessation of depreciation on certain equipment at the end of 2002. During the nine months ended September 30, 2003, construction on the main office was substantially complete. The completion of this project will impact future noninterest expense with the increase of depreciation, which will begin in the fourth quarter of 2003.

Other noninterest expense decreased $32,000 or 2.0% to $1.567 million during the nine months ended September 30, 2003, compared to $1.599 million for the same period in the prior year. This decrease can primarily be attributed to decreased telephone cost expenses, software depreciation, and travel and entertainment expenses between the two periods. Partially offsetting this favorable variance was an increase in printing and office supplies, postage, and marketing expenses associated with the introduction of the Bank's internet banking product and the promotion of home equity products.

Provision for income taxes. The provision for income taxes decreased $78,000 or 11.8% to $585,000 for the nine months ended September 30, 2003, compared to $663,000 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 investments in tax-free instruments and tax credits - see also comments in quarterly analysis section.

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 nine months ended September 30, 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 $14.5 million, and standby letters of credit totaling $566,000.

At September 30, 2003, time deposits amounted to $98.9 million or 45.8% of the Corporation's total consolidated deposits, including approximately $25.8 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 September 30, 2003, the Corporation's borrowing capacity with the FHLB, net of funds borrowed, was $106.3 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 Principal Financial and Accounting 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).

As of the quarter ended September 30, 3003, 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 Principal Financial and Accounting 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 Principal Financial and Accounting 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

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 31.1 Rule 13a-14(a) Certification of Chief Executive Officer
Exhibit 31.2 Rule 13a-14(a) Certification of Principal Financial and Accounting Officer
Exhibit 32.1 CEO Certification Pursuant to 18 U.S.C. Section 1350
Exhibit 32.2 PFO Certification Pursuant to 18 U.S.C. Section 1350

(b) Reports on Form 8-K

The Corporation filed a Form 8-K dated July 17, 2003 to announce second quarter 2003 earnings.

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: November 14, 2003	By:	/s/ David L. Cox David L. Cox Chairman of the Board, President and Chief Executive Officer
Date: November 14, 2003	By:	/s/ Shelly L. Rhoades Assistant Controller (Principal Financial and Accounting Officer)