KANKAKEE BANCORP INC
Form 10-Q
November 06, 2002

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

[X] Quarterly Report Under Section 13 or 15(d) of the Securities Exchange Act of 1934 For the Quarterly Period Ended September 30, 2002.

or

[_] Transition Report Under Section 13 or 15(d) of the Securities Exchange Act of 1934 For the Transition Period From __________ to __________.

Commission File Number 1-13676

KANKAKEE BANCORP, INC.
(Exact Name of Registrant as Specified in its Charter)

Delaware	36-3846489
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)

310 South Schuyler Avenue, Kankakee, Illinois	60901
(Address of Principal Executive Offices)	(Zip Code)

(815) 937-4440
(Registrant's telephone number, including area code)

Check whether the Issuer (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No ___

As of November 1, 2002, there were 1,165,881 issued and outstanding shares of the Issuer's common stock (exclusive of 584,119 shares of the Issuer's common stock held as treasury stock).

KANKAKEE BANCORP, INC.

INDEX

			Page Number
Part I.	FINANCIAL INFORMATION		
	Item 1.	Consolidated Financial Statements (Unaudited)	
		Statements of Financial Condition, September 30, 2002 and December 31, 2001	3 - 4
		Statements of Income and Comprehensive Income, Three Months Ended September 30, 2002 and 2001	5
		Statements of Income and Comprehensive Income, Nine Months Ended September 30, 2002 and 2001	6
		Statements of Cash Flows, Nine Months Ended September 30, 2002 and 2001	7 - 8
		Notes to Financial Statements	9 - 10
	Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	11 - 25
	Item 3.	Quantitative and Qualitative Disclosure About Market Risk	14 - 15
	Item 4.	Controls and Procedures	22
Part II.	OTHER INFORMATION		
	Item 1.	Legal Proceedings	26
	Item 2.	Changes in Securities	26
	Item 3.	Defaults Upon Senior Securities	26
	Item 4.	Submission of Matters to a Vote of Security Holders	26
	Item 5.	Other Information	26
	Item 6.	Exhibits and Reports on Form 8-K	26
	SIGNATURES AND CERTIFICATIONS		27

CONSOLIDATED STATEMENT OF FINANCIAL CONDITION (UNAUDITED)
KANKAKEE BANCORP, INC. AND SUBSIDIARY

	September 30, 2002	December 31 2001

Assets		
Cash and due from banks	$ 27,455,440	$ 15,432,128
Federal funds sold	8,290,431	7,112,641
Money market funds	12,134,255	4,117,945
Cash and cash equivalents	47,880,126	26,662,714
Certificates of deposit:	50,000	50,000
Securities:		
Investment securities:		
Available-for-sale, at fair value	36,479,664	34,755,192
Held-to-maturity, at cost (fair value: September 30, 2002 $1,470,335; December 31, 2001 - $1,483,946)	1,461,297	1,464,804
Total investment securities	37,940,961	36,219,996
Mortgage-backed securities:		
Available-for-sale, at fair value:	40,887,755	11,635,592
Held-to-maturity, at cost (fair value: September 30, 2002 $27,769; December 31, 2001 - $38,003)	27,769	37,627
Total mortgage-backed securities	40,915,524	11,673,219
Non-marketable equity securities	1,000	1,000
Loans, net of allowance for losses on loans ($6,313,499 at September 30, 2002; $2,582,234 at December 31, 2001)	393,362,629	393,789,828
Loans held for sale	685,489	828,610
Real estate held for sale	106,395	469,165
Federal Home Loan Bank stock, at cost	2,706,400	2,443,300
Office properties and equipment	10,041,228	8,397,173
Accrued interest receivable	2,926,146	2,823,090
Other assets	10,903,325	2,490,672
Intangible assets	4,293,050	4,431,101
Total assets	$551,812,273	$490,279,868

(Continued)

CONSOLIDATED STATEMENT OF FINANCIAL CONDITION (UNAUDITED) (continued)
KANKAKEE BANCORP, INC. AND SUBSIDIARY

	September 30, 2002	December 3 2001
Liabilities and stockholders' equity		
Liabilities:		
Deposits		
Noninterest bearing	$ 28,983,455	$ 25,854,152
Interest bearing	405,112,783	389,612,684
Other borrowings	65,000,000	30,000,000
Trust preferred indentures	10,000,000	-
Advance payments by borrowers for taxes and insurance	648,057	1,905,766

Other liabilities	1,986,478	1,716,366
Total liabilities	511,730,773	449,088,968
Stockholders' equity		
Preferred stock, $.01 par value; authorized, 500,000 shares; none outstanding	-	-
Common stock, $.01 par value; authorized, 3,500,000 shares; issued 1,750,000	17,500	17,500
Additional paid-in capital	15,010,583	15,226,853
Retained income, partially restricted	37,502,511	36,964,331
Treasury stock (584,119 shares at September 30, 2002; 533,642 shares at December 31, 2001), at cost	(14,099,004)	(11,622,862
Accumulated other comprehensive income	1,649,910	605,078
Total stockholders' equity	40,081,500	41,190,900
Total liabilities and stockholders' equity	$ 551,812,273	$ 490,279,868

See notes to consolidated financial statements (unaudited).

CONSOLIDATED STATEMENT OF INCOME AND COMPREHENSIVE INCOME (UNAUDITED)
KANKAKEE BANCORP, INC. AND SUBSIDIARY

	Three Months Ended Septemb	
	2002	2001
Interest income:		
Loans	$ 6,867,477	$ 7,195,
Mortgage-backed securities	600,570	227,
Investment securities and other	650,860	788,
Total interest income	8,118,907	8,212,
Interest expense:		
Deposits	3,235,699	4,358,
Borrowed funds	827,056	307,
Total interest expense	4,062,755	4,666,
Net interest income	4,056,152	3,545,
Provision for losses on loans	3,143,700	139,
Net interest income after provision for losses on loans	912,452	3,406,
Other income:		
Net gain on sale of securities available-for-sale	-	441,
Net gain on sales of foreclosed assets	7,993	14,
Net gain on sales of loans held for sale	300,976	72,

Fee income	526,653	600,
Insurance commissions	29,323	23,
Other	216,300	90,
Total other income	1,081,245	1,242,
Other expenses:		
Compensation and benefits	1,809,498	1,605,
Occupancy	316,363	337,
Furniture and equipment	153,966	150,
Federal deposit insurance premiums	18,039	18,
Advertising	81,943	101,
Provision for losses on foreclosed assets	3,014	45,
Data processing services	95,687	93,
Telephone and postage	124,042	96,
Amortization of intangible assets	46,017	93,
Other general and administrative	590,174	573,
Total other expenses	3,238,743	3,116,
Income (loss) before income taxes (benefit)	(1,245,046)	1,532,
Income taxes (benefit)	(456,250)	512,
Net income (loss)	$ (788,796)	$ 1,020,
Net income (loss)	$ (788,796)	$ 1,020,
Other comprehensive income:		
Unrealized gains on available-for-sale securities, net of related income taxes	679,804	376,
Comprehensive income (loss)	$ (108.992)	$ 1,396,
Basic earnings (loss) per share	($0.67)	$ 0
Diluted earnings (loss) per share	($0.67)	$ 0

See notes to consolidated financial statements (unaudited).

CONSOLIDATED STATEMENT OF INCOME AND COMPREHENSIVE INCOME (UNAUDITED)
KANKAKEE BANCORP, INC. AND SUBSIDIARY

	Nine Months En
	2002
Interest income:	
Loans	$20,922,675
Mortgage-backed securities	1,414,536
Investment securities and other	1,878,024
Total interest income	24,215,235

Interest expense:	
Deposits	10,242,396
Borrowed funds	1,991,845
Total interest expense	12,234,241
Net interest income	11,980,994
Provision for losses on loans	3,755,620
Net interest income after provision for losses on loans	8,225,374
Other income:	
Net gain on sale of securities available-for-sale	-
Net gain on sales of foreclosed assets	42,136
Net gain on sales of loans held for sale	712,920
Fee income	1,787,943
Insurance commissions	55,414
Other	556,252
Total other income	3,154,665
Other expenses:	
Compensation and benefits	5,384,374
Occupancy	905,758
Furniture and equipment	447,740
Federal deposit insurance premiums	54,437
Advertising	235,509
Provision for losses on foreclosed assets	57,315
Data processing services	309,389
Telephone and postage	338,460
Amortization of intangible assets	138,051
Other general and administrative	2,123,741
Total other expenses	9,994,774
Income before income taxes	1,385,265
Income taxes	342,446
Net income	$ 1,042,819
Net income	$ 1,042,819
Other comprehensive income:	
Unrealized gains on available-for-sale securities, net of related income taxes	1,044,832
Comprehensive income	$ 2,087,651
Basic earnings per share	$ 0.87
Diluted earnings per share	$ 0.86

See notes to consolidated financial statements (unaudited).

CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

KANKAKEE BANCORP, INC. AND SUBSIDIARY

	Nine Months Ended September 30, 2002	2001
Cash flows from operating activities:		
Net income	$ 1,042,819	$ 2,384,802
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for losses on loans	3,755,620	194,000
Provisions for losses on foreclosed assets	57,315	80,214
Depreciation and amortization	792,808	967,657
Amortization of investment premiums and discounts, net	35,571	(19,803)
Accretion of loan fees and discounts	(44,650)	5,983
Deferred income tax provision (benefit)	-	23,858
Originations of loans held for sale	(40,469,642)	(10,824,918)
Proceeds from sales of loans	41,325,683	10,411,971
Decrease (increase) in interest receivable	(103,056)	235,730
Decrease in interest payable on deposits	(127,807)	(118,948)
Net gain on sales of loans	(712,920)	(112,628)
Net gain on sales of securities available-for-sale	-	(441,120)
Net gain on sales of foreclosed assets	(42,136)	(25,644)
Federal Home Loan Bank of Chicago, stock dividend	(98,800)	(116,900)
Increase in cash surrender value of Bank Owned Life Insurance	(238,548)	-
Other, net	(383,996)	(279,556)
Net cash from operating activities	4,788,261	2,364,698
Cash flows from investing activities:		
Investment securities		
Available-for-sale:		
Purchases	(5,023,609)	(22,106,834)
Proceeds from sales	-	5,437,350
Proceeds from calls and maturities	4,000,000	35,070,000
Held-to-maturity:		
Purchases	-	(660,404)
Proceeds from maturities and pay downs	3,367	3,166
Mortgage-backed securities:		
Available-for-sale:		
Purchases	(32,532,683)	(300,890)
Proceeds from maturities and pay downs	4,127,259	3,888,898
Held-to-maturity:		
Proceeds from maturities and pay downs	9,858	22,480
Proceeds from sales of real estate	594,585	260,762
Deferred loan fees and costs, net	20,272	209,117
Loans originated	(115,635,178)	(145,272,661)
Loans purchased	(2,025,000)	-
Principal collected on loans	114,032,034	98,988,189
Purchases of office properties and equipment, net	(2,298,812)	(421,079)
Purchase of Bank Owned Life Insurance	(8,000,000)	-
Net cash from investing activities	(42,727,907)	(24,881,906)

See notes to consolidated financial statements (unaudited).

CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED) (continued)
KANKAKEE BANCORP, INC. AND SUBSIDIARY

	Nine Months End
	2002
Cash flows from financing activities:	
Net increase in non-certificate of deposit accounts	$ 3,181,917
Net increase in certificate of deposit accounts	15,575,292
Net decrease in advance payments by borrowers for taxes and insurance	(1,403,100)
Proceeds from short-term borrowings	-
Repayments of short-term borrowings	-
Proceeds from other borrowings	52,600,000
Repayments of other borrowings	(7,600,000)
Proceeds from exercise of stock options	509,722
Dividends paid	(504,640)
Purchase of treasury stock	(3,202,133)
Net cash from financing activities	59,157,058
Increase (decrease) in cash and cash equivalents	21,217,412
Cash and cash equivalents:	
Beginning of period	26,662,714
End of period	$ 47,880.126
Supplemental disclosures of cash flow information	
Cash paid during the period for:	
Interest of deposits	$ 10,370,200
Interest on borrowed funds	$ 1,713,600
Income taxes	$ 1,204,514
Supplemental disclosures of non-cash investing activities:	
Real estate acquired through foreclosure	$ 270,007
Increase in unrealized gains on securities available-for-sale	$ 1,571,176
Increase in deferred taxes attributable to the unrealized gains on securities available-for-sale	($526,344)

See notes to consolidated financial statements (unaudited).

KANKAKEE BANCORP, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

September 30, 2002

Note 1 - Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with instructions to Form 10-Q. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. The statement of condition at December 31, 2001 has been derived from the audited financial statements at that date, but does not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. Operating results for the three-month and nine-month periods ended September 30, 2002 are not necessarily indicative of the results that may be expected for the year ending December 31, 2002. For further information, refer to the consolidated financial statements and footnotes thereto included in the annual report for Kankakee Bancorp, Inc. (the "Company") on Form 10-K for the year ended December 31, 2001.

Note 2 - Earnings Per Share

Basic earnings per share of common stock have been determined by dividing net income for the period by the average number of shares of common stock outstanding. Diluted earnings per share of common stock have been determined by dividing net income for the period by the average number of shares of common stock and common stock equivalents outstanding. Common stock equivalents assume exercise of stock options, and the purchase of treasury stock with the option proceeds at the average market price for the period (when dilutive). The Company has an incentive stock option plan for the benefit of directors, officers and employees. Diluted earnings per share have been determined considering the stock options granted, net of stock options which have been exercised.

	Three months ended September 30,		Nine months ended September 30,	
	2002	2001	2002	2001
Net income (loss)	($788,796)	$ 1,020,215	$ 1,042,819	$ 2,384,802
Average outstanding shares of common stock	1,173,475	1,206,701	1,202,880	1,215,097
Average common stock equivalents	1,020	26,234	5,517	26,205
Total	1,174,495	1,232,935	1,208,397	1,241,302
Basic earnings (loss) per share	($0.67)	$ 0.84	$ 0.87	$ 1,96
Diluted earnings (loss) per share	($0.67)	$ 0.82	$ 0.86	$ 1.92

Note 3 - Accounting for Certain Investments in Debt and Equity Securities

At September 30, 2002, stockholders' equity included a positive $1.6 million, which represents the amount by which the market value of the available-for-sale securities and the available-for-sale mortgage-backed securities exceeded the book value, net of income tax of $850,000. A decrease in market interest rates during the nine months ended September 30, 2002 resulted in a $1.0 million increase in the market value, net of income tax effect, of the available-for-sale securities and the available-for-sale mortgage-backed securities. At the end of 2001, the market value of the available-for-sale securities portfolio exceeded the book value by $605,000, net of income tax benefit.

Note 4 - Accounting Change

Effective January 1, 2002, the Company applied FASB Statement No. 142, Goodwill and Other Intangible Assets. Among its provisions is a requirement to disclose what reported net income would have been in all periods presented exclusive of amortization expense (net of related income tax effects) recognized in those periods related to goodwill, intangible assets no longer being amortized, and changes in amortization periods for intangible assets that will continue to be amortized together with related per share amounts.

	Three months ended September 30,		Nine months end September 30,	
	2002	2001	2002	
Reported net income (loss)	($ 788,796)	$ 1,020,215	$ 1,042,819	$ 2
Add goodwill amortization	-	31,462	-	
Adjusted net income (loss)	($ 788,796)	$ 1,051,677	$ 1,042,819	$ 2
Basic earnings (loss) per share:				
Reported net income (loss)	($ 0.67)	$ 0.84	$ 0.87	$
Goodwill amortization	-	0.03	-	
Adjusted net income (loss)	($ 0.67)	$ 0.87	$ 0.87	$
Diluted earnings (loss) per share:				
Reported net income (loss)	($ 0.67)	$ 0.82	$ 0.86	$
Goodwill amortization	-	0.03	-	
Adjusted net income (loss)	($ 0.67)	$ 0.85	$ 0.86	$

Based on current information, the Company determined during the second quarter that there was no impairment as the result of the application of FASB Statement No. 142. Impairment testing will be done annually as of September 30, in accordance with the requirements of the statement.

KANKAKEE BANCORP, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

GENERAL

The Company is a Delaware company formed in 1992 for the purpose of becoming the savings and loan holding company of Kankakee Federal Savings Bank (the "Bank"), the Company's principal subsidiary. The Bank was originally chartered in 1885 as an Illinois savings and loan association and was converted to a federally chartered thrift institution in 1937.

The Company serves the financial needs of families and local businesses in its primary market areas through its main office at 310 South Schuyler Avenue, Kankakee, Illinois and fourteen branch offices located in the communities of Ashkum, Bourbonnais, Bradley, Braidwood, Champaign, Coal City (2), Diamond, Dwight, Herscher, Hoopeston, Manteno, Momence and Urbana, Illinois. The Company's business involves attracting deposits from the general public and using such deposits to originate residential mortgage loans and, to a lesser extent, commercial real estate, consumer, commercial business, multi-family and construction loans in its market areas. The Company also invests in investment securities, mortgage-backed securities and various types of short term liquid assets.

ECONOMIC CLIMATE

During 2001, the Federal Open Market Committee ("the FOMC") lowered its target short-term interest rates by a total of four and three-quarters percentage points. The federal funds target went from 6.50% to 1.75% and the Federal Reserve discount rate went from 6.00% to 1.25%. The federal funds rate is the rate at which financial institutions borrow from each other, while the discount rate is the rate at which member banks borrow from the Federal Reserve. During 2001, the FOMC cited a slowing economy and a possible recession as the primary reasons for lowering interest rates. Lower short-term interest rates would tend to stimulate economic activity by reducing the financing costs on borrowed funds for both businesses and individuals.

A slowing economy would usually result in some increase in problem assets, and could possibly result in some increase in loan losses. In a slowing economy or recession, cash flows and profits of commercial customers decrease, which could result in an increase in delinquencies. Additionally, individual borrowers experience cash flow problems from job loss, reduction in investment returns or other causes. This could also result in an increase in delinquencies. In that regard, the Company experienced an increase of delinquencies and problem loans during the third quarter which resulted in a substantial increase in its provision for losses on loans.

During the first nine months of 2002, the FOMC held target interest rates at the December 31, 2001 levels while maintaining a cautionary posture on the state of the economy. While some economic indicators are pointing toward a recovery, others are still weak, indicating that the economy remains slow. During 2002, a number of accounting and corporate governance problems at large publicly held companies have come to light, contributing to the volatility in the markets, which could impact the speed at which the economy moves into a full recovery. If the economy does move into a full recovery, then the next FOMC interest rate move would likely be an increase in its target rates.

Rising interest rates, because of the Company's current structure of assets and liabilities, could have a detrimental effect on the Company's interest rate spread and results of operations. The Company had negative cumulative one-year gaps of 5.0% and 3.0%, respectively, at December 31, 2001 and June 30, 2002, the most recent information available. A negative gap indicates that an increase in market interest rates might negatively affect net interest income and the results of operations, due to liabilities maturing, and repricing, from their current rates to higher rates, more quickly than assets will mature and reprice to higher rates. Management believes that the Company's current level of interest rate sensitivity is reasonable, in light of the current market rates and the possibility of increasing market rates. However, significant fluctuations in interest rates may have an adverse effect on the Company's financial condition and results of operations.

BUSINESS DEVELOPMENTS AND CURRENT INITIATIVES

During the late 1990s, the Company experienced significant growth and improvement in its office facilities and a widening of its market areas. This was accomplished through the acquisition of a bank, the opening of several new offices and the replacement of an outdated office building. There were also significant changes and improvements in products and services brought about through the use of technology.

During this same period, the Company began the process of shifting its operating philosophy to a sales orientation and away from traditional approaches to banking services. Management continues to support and encourage this process, recognizing that changes, particularly of this type and magnitude, require employee education and customer communication. These changes in philosophy and culture require not only time but allocation of other Company resources. None of these efforts were without cost, and have been, and, to some degree, will continue to be, reflected in operating expenses and net income.

In the first quarter of 2000, management initiated an aggressive growth strategy which was aimed at increasing deposits and growing the loan portfolio, which resulted in the reduction of the size of the investment portfolio. The strategy, which continued into the first quarter of 2001, was intended to improve earnings in a number of ways which included:

- Improved utilization of facilities and increased productivity of personnel;
- Increased capital leverage; and
- Improved asset yields, due to increased commercial and consumer lending and the replacement of investments with fixed-rate mortgage loans.

It was recognized that such a strategy would:

- Likely increase the cost of funds, due to aggressive deposit pricing and the potential need to borrow money at wholesale market rates; and
- Necessitate the assumption of an increased level of interest rate risk, due to aggressive loan pricing and the need to retain longer term, fixed-rate mortgages for the portfolio.

In response to rapidly falling interest rates during 2001, the Company modified its growth strategy and, once again, began to sell its fixed-rate mortgage originations in the secondary market. This strategy remained in effect through the first nine months of 2002.

During 2002, the Company has initiated a number of strategies to improve profitability and enhance stockholder value. These include:

- The Company's wholly-owned subsidiary, Kankakee Federal Savings Bank, invested $8.0 million in Bank Owned Life Insurance (commonly referred to as "BOLI"). This investment provides non-taxable current income through increases in cash surrender values. Net income of $239,000 from this investment has been recorded through the third quarter.

- The Bank implemented a capital utilization strategy in which $30.0 million of adjustable-rate, mortgage-backed securities were purchased using borrowed funds. This strategy has increased net interest income and pre-tax income by $291,000 through the third quarter.

- The Company issued $10.0 million in variable-rate trust preferred securities, as part of a large pool of such securities. These securities are includable, within specified limits, in regulatory capital, and the funds are available for a number of purposes, including the repurchase of stock, funding an accretive acquisition or purchasing securities as part of a leveraging strategy.

- The Company has conducted an evaluation of the branch network and other service delivery systems, including locations, market areas, physical layouts, accessibility, market potentials and corporate identity. As part of this process, the organizational structure, including lines of authority, job functions and supervisory responsibilities was also reviewed. A number of changes have already resulted from this process. These include:

    - the elimination of three positions at the vice president level;
    - the recently announced change of the name of the Bank to KFS Bank, F.S.B., which will be effective December 1, 2002;
    - the announcement on October 10, 2002 of the pending sale of the Bank's branch office in Hoopeston, Illinois;
    - the announced construction of a new office in Bradley, Illinois, to replace an in-store office, as well as a new office in Bourbonnais, Illinois; and
    - the renovation of the Coal City main office, and the planned renovation of offices in Bourbonnais, Manteno and Momence, all in Illinois.

FINANCIAL CONDITION

Total assets of the Company increased by $62.0 million, or 12.6%, to $551.8 million at September 30, 2002 from $490.3 million at December 31, 2001.

Cash and cash equivalents increased by $21.2 million, or 79.6%, from $26.7 million at December 31, 2001 to $47.9 million at September 30, 2002. The increase was primarily attributable to increases in deposits and borrowed money.

During the nine-month period ended September 30, 2002, net loans receivable decreased by $427,000, or 0.1%, from $393.8 million to $393.4 million. This was primarily the result of loan repayments which totaled $114.0 million and an increase in the allowance for losses on loans of $3.7 million, which were substantially offset by the origination of $74.6 million of real estate loans, the purchase of $2.0 million of real estate loans and the origination of $41.1 million of consumer and commercial business loans.

Loans held for sale decreased by $143,000, or 17.3%, from $828,000 at December 31, 2001 to $685,000 at September 30, 2002. This was the result of the sale of $41.3 million of loans held for sale, at a net gain of $713,000, which was partially offset by the origination of $40.5 million of such loans.

Securities available-for-sale increased by $1.7 million, or 5.0%, to $36.5 million at September 30, 2002 from $34.8 million at December 31, 2001 as the result of the purchase of $5.0 million of securities, which was partially offset by the maturity or the exercise of call options by issuers on $4.0 million of securities, and by the net change in market value adjustment.

Mortgage-backed securities available-for-sale increased by $29.3 million, or 251.4%, to $40.9 million at September 30, 2002 from $11.6 million at December 31, 2001. The increase resulted from the purchase of $32.5 million of securities, which was partially offset by the maturity of $4.1 of securities, and by the net change in market value adjustments.

Deposits increased by $18.6 million, or 4.5%, from $415.5 million at December 31, 2001 to $434.1 million at September 30, 2002. During the nine month period, there was a $3.2 million increase in certificate of deposit accounts, a $15.6 million increase in passbook, checking and money market accounts and a $128,000 decrease in accrued interest on deposits.

Total borrowings increased by $45.0 million, or 150.0%, from $30.0 million at December 31, 2001 to $75.0 million at September 30, 2002. The increase was the result of $52.6 million in new borrowings, which were partially offset by repayments of $7.6 million. Borrowings at September 30, 2002 consisted of $10.0 million of trust preferred debentures, $37.4 million in advances from the Federal Home Loan Bank of Chicago and $27.6 million in funds from securities sold under agreement to repurchase.

ASSET/LIABILITY MANAGEMENT

During the first quarter of 2001, consistent with the growth strategy implemented in 2000, the Company retained virtually all the fixed-rate mortgage loans it originated. As a result of the changing interest rate environment during 2001, the Company, during the second quarter of 2001, resumed selling fixed-rate mortgage loans with terms of 20 years or longer in the secondary market. Late in the third quarter of 2001, the Company also began selling loans with terms of 15 years. Through the first nine months of 2002, the Company continued to sell virtually all fixed-rate mortgage loans it originated with terms of 15 years or longer.

In an attempt to manage its exposure to changes in interest rates, management closely monitors the Company's interest rate risk. The Bank has a funds management committee, consisting of the president, certain vice presidents and the controller of the Bank, which meets weekly and reviews the Bank's interest rate risk position and evaluates its current asset/liability pricing and strategies. This committee adjusts pricing and strategies as needed and makes recommendations to the Bank's board of directors regarding significant changes in strategy. In addition, on a quarterly basis the board reviews the Bank's asset/liability position, including simulations of the effect on the Bank's capital of various interest rate scenarios.

In managing its asset/liability mix, the Company, at times, depending on the relationship between long-term and short-term interest rates, market conditions and consumer preferences, may place somewhat greater emphasis on maximizing its net interest margin than on better matching the interest rate sensitivity of its assets and liabilities in an effort to improve its net income. Management believes that the increased net income resulting from a mismatch in the

maturity of its asset and liability portfolios can, during periods of declining or stable interest rates, provide returns that justify the increased exposure to sudden and unexpected increases in interest rates which can result from such a mismatch.

The Company attempts to manage its interest rate risk to the extent consistent with its interest margin objectives through management of the mix of its assets and liabilities in a number of ways, including the following:

- To the extent requested in its lending areas, the Company has focused its one-to-four family residential lending program on adjustable rate mortgages ("ARMs"). Approximately 18.0% of one-to-four family originations in 2002 have been ARMs.
- The Company has continued its origination of consumer loans having terms to maturity that are significantly shorter than residential loans.
- The Company has increased originations of commercial business and construction loans having adjustable or floating interest rates, relatively short terms to maturity, or a combination thereof.
- The Company regularly reviews its policy on newly originated fixed-rate mortgage loans, as to the question of which loans, if any, should be retained in portfolio versus which should be sold in the secondary market. Trends in the economy, trends in market interest rates, the Company's interest margin and the Company's current asset/liability mix are among the factors considered. Changes resulting from these reviews take effect on a specific calendar date and impact either those loans which are applied for on or after that date, or those loans which are closed on or after that date.

The Company currently does not enter into derivative financial instruments including futures, forwards, interest rate risk swaps, option contracts, or other financial instruments with similar characteristics. However, the Company is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers such as commitments to extend credit and letters of credit.

NON-PERFORMING ASSETS AND ALLOWANCE FOR LOSSES ON LOANS

The Company's non-performing assets increased to $9.7 million, or 1.76%, of total assets at September 30, 2002 from $2.2 million, or 0.45% of total assets at December 31, 2001. This represented an increase of $7.5 million over the nine-month period. Non-performing assets are presented on a gross balance basis and the totals have not been reduced by specific reserves. During the nine month period ended September 30, 2002, non-performing construction and development loans, non-performing commercial real estate loans and non-performing commercial business loans increased by $1.7 million, $4.6 million and $1.3 million, respectively. There were also small increases of $419,000 and $118,000 in non-performing one-to four family real estate loans and non-performing multi-family real estate loans, respectively. There were decreases of $94,000, $369,000 and $72,000 in non-performing consumer loans, foreclosed assets and restructured troubled debts, respectively.

The ratio of the allowance for losses on loans to non-performing loans decreased to 69.5% as of September 30, 2002 compared to 230.3% as of December 31, 2001. The decrease in this ratio, which excludes foreclosed assets and restructured troubled debt, was the result of the increase of $7.5 million in non-performing loans.

The Company classified $5.5 million of its assets as Special Mention, $6.9 million as Substandard and $3.2 million as Loss as of September 30, 2002. No assets were classified as Doubtful at September 30, 2002. This represents an increase of $4.0 million in the Special Mention category and a net increase of $2.8 million in the other categories from the December 31, 2001 totals for classified assets. The ratio of classified assets to total assets (including items classified as Special Mention) was 2.84% at September 30, 2002 as compared to 1.80% at December 31, 2001. The ratio of the allowance for losses on loans to classified assets increased to 40.3% as of September 30, 2002 compared to 29.3% as of December 31, 2001.

DISCUSSION ON PROVISION FOR LOSSES ON LOANS

As with many financial institutions, the lagging economy has challenged many companies, including some of the Bank's customers. The significant provision for losses on loans of $3.1 million during the third quarter of 2002 was the result of the deterioration of two long-time credit relationships. One set of credits is with a group of related borrowers in the real estate development business, an industry that has been negatively affected in the Bank's market area by the general economic downturn. The second credit is with another customer in that same industry.

The first set of credits is with a group of related borrowers, primarily for the acquisition and development of commercial real estate, as well as approximately $350,000 of unsecured loans made to the lead borrower. The slowdown in commercial real estate development resulted in cash flow problems for the borrowers, and the Company was informed by the lead borrower's attorney of the borrower's intention to file bankruptcy. Notice of the intended filing, together with a somewhat depressed market in commercial real estate, prompted an additional review of these loans. The review resulted in recording $1.9 million in specific reserves related to these loans and an additional $275,000 in general reserves on commercial loans. The petition for bankruptcy protection under Chapter 11 was filed on October 18, 2002.

The second credit is for the development of a condominium project. The loan had been previously reported as both non-performing and substandard. The collectability of the loan had become dependent on the borrower providing additional funding to complete the project and extinguish the debt. While the borrower has agreed to continue making payments, current economic conditions have negatively impacted the borrower's cash flows. Consequently, the full collectabilty of the loan became questionable. A reserve of just over $1.0 million was established, which reduced the net balance to the total payments the Company anticipates receiving over the next 15 to 18 months.

While management has been able to identify the Company's current exposure under the credits and has increased the allowance for losses on loans accordingly, it is possible that the Company will have to take future charges in relation to these loans. Management currently believes that the Company's maximum additional exposure under these loans is approximately $2.8 million, however, management has concluded that it is not appropriate at this time to add additional reserves for this amount. Management is continuing to examine the loans with these customers to evaluate the best course of action to realize the maximum recovery from these credits.

RESULTS OF OPERATIONS
THREE MONTHS ENDED SEPTEMBER 30, 2002 AND 2001

The net loss for the quarter ended September 30, 2002 was $789,000 compared to net income of $1.0 million for the same period in 2001. This represented a $1.8 million, or 177.3% decrease. The decrease in net income resulted from an increase in the provision for losses on loans of $3.1 million, an increase in other expenses of $122,000 (3.9%) and a decrease in other income of $161,000 (13.0%). These items were partially offset by an increase in net interest income of $510,000 (14.4%) and a decrease in income tax expense of $969,000 (189.0%). The basic loss per share was $.67 for the quarter ended September 30, 2002 compared to basic earnings per share of $.84 for the 2001 quarter. The diluted loss per share was $.67 for the quarter ended September 30, 2002 compared to diluted earnings per share of $.82 for the comparable 2001 period, representing a decrease of 181.7%.

Net interest income increased $510,000, or 14.4%, during the quarter ended September 30, 2002, compared to the quarter ended September 30, 2001.

The table presented on page 24 ("Table I"), sets forth an analysis of the Company's net interest income for the three-month periods ended September 30, 2002 and 2001.

As Table I indicates, interest income decreased $94,000, or 1.1%, to $8.1 million for the three-month period ended September 30, 2002 compared to the $8.2 million for same period in 2001. The decrease in interest income was the result of a decrease in the yield earned on interest-earning assets to 6.33% during the 2002 period from 7.28% during the 2001 period which was substantially offset by an increase in the average balance of interest-earning assets to $509.2 million during the 2002 period from $447.4 million during the 2001 period. The increase in the average balance of interest-earning assets was due to increases in balances of loans, mortgage-backed securities and other interest-earning assets, which were partially offset by a decrease in balances of investment securities during the quarter. The decrease in the yield earned on interest-earning assets was the result of decreasing market interest rates during the quarter, which resulted in lower yields on short term assets and a lower yield on the reinvestment of principal repayments and prepayments on loans and on newly originated loans. The increase in average loans was primarily the result of growth in both commercial real estate and commercial business loans.

Interest expense decreased $604,000, or 12.9%, to $4.1 million during the third quarter from $4.7 million in the same period in 2001. The decrease in interest expense was the result of a decrease in the average yield on interest-bearing liabilities to 3.20% during the 2002 period from 4.27% during the 2001 period, which was partially offset by an increase in the average outstanding balance of interest-bearing liabilities to $504.2 million during the 2002 period from $434.1 million during the 2001 period. The increase in average interest-bearing liabilities resulted from the implementation of a leveraging strategy, increased use of borrowed funds, and the continuing movement to a sales oriented operation. The decrease in the average yield on interest-bearing liabilities resulted from decreasing market interest rates during the last twenty-one months and an improvement in the deposit mix with a higher ratio of non-certificate deposit accounts.

The provision for losses on loans totaled $3.1 million during the third quarter of 2002, compared to $139,000 during the third quarter of 2001.

Other income for the three-month period ended September 30, 2002 decreased $161,000, or 13.0%, to $1.1 million compared to $1.2 million for the same period in 2001. The decrease was attributable to a decrease of $73,000 (12.2%) in fee income, and to a non-recurring gain on the sale of securities of $441,000 during the 2001 period. These decreases were partially offset by increases of $6,000 (24.6%) in insurance commissions, $228,000 (314.7%) in gain on sales of loans held for sale and $125,000 (138.2%) in other income. The $228,000 increase in gain on the sale of loans held for sale was the result of an increase in the volume of loans sold to $14.5 million during 2002, compared to $5.2 million in the 2001 quarter. The increase in other income was the result of $113,000 in earnings from the investment in BOLI. The decrease in fee income was the result of a negative market value adjustment of $169,000 on the value of originated loan servicing rights during the 2002 period.

Other expenses for the third quarter of 2002 increased $122,000 or 3.9%, to $3.2 million from $3.1 million for the third quarter of 2001. There were increases of $16,000 (2.9%) in other expenses, $204,000 (12.7%) in compensation and benefits, and $28,000 (28.6%) in telephone and postage. These increases were partially offset by decreases of $22,000 (6.4%) in occupancy costs, $19,000 (19.0%) in advertising, $42,000 (93.3%) in provision for losses on foreclosed assets and $48,000 (50.9%) in amortization of intangible assets. A significant contributing factor to the increase in compensation and benefits was the higher cost of health insurance. Postage expenses increased from the 2001 quarter due to an increase in postage rates.

Federal income taxes decreased $969,000 to a benefit of $456,000 for the three-month period ended September 30, 2002, compared to an expense of $513,000 for the same period in 2001. The primary reason for this decrease was the pre-tax loss for the quarter.

RESULTS OF OPERATIONS
NINE MONTHS ENDED SEPTEMBER 30, 2002 AND 2001

Net income for the nine months ended September 30, 2002 was $1.0 million compared to $2.4 million for the same period in 2001. This represented a $1.4 million, or 56.3%, decrease. The decrease in net income resulted from an increase of $3.6 million in provision for losses on loans and an increase of $847,000 in other expenses. These items were partially offset by increases of $1.7 million in net interest income and $525,000 in other income, and by a decrease of $857,000 in income tax expense.

Basic earnings per share were $.87 for the nine months ended September 30, 2002 compared to $1.96 for the 2001 period. Diluted earnings per share were $.86 for the nine months ended September 30, 2002 compared to $1.92 for the comparable 2001 period, representing a decrease of 55.2%.

Net interest income increased $1.7 million, or 16.4%, during the nine months ended September 30, 2002, compared to the nine months ended September 30, 2001.

The table presented on page 25 ("Table II") sets forth an analysis of the Company's net interest income for the nine-month periods ended September 30, 2002 and 2001.

As Table II indicates, interest income decreased $450,000, or 1.8%, to $24.2 million for the nine-month period ended September 30, 2002 from $24.7 million for the same period in 2001. The decrease in interest income was the result of a decrease in the yield earned on interest-earning assets to 6.56% during the 2002 period from 7.50% during the 2001 period, which was

partially offset by an increase in the average balance of interest-earning assets to $493.4 million during the 2002 period from $439.4 million during the 2001 period. The decrease in the yield earned on interest-earning assets was the result of decreasing market interest rates during 2001. Market rates have remained relatively low during the first nine months of 2002, resulting in lower rates on newly originated or purchased assets and on the reinvestment of maturing and prepaying assets. The increase in the average balance of interest-earning assets was primarily due to increases in balances of loans, mortgage-backed securities and other interest-earning assets, which were partially offset by a decrease in balances of investment securities during the period.

Interest expense decreased $2.1 million, or 14.9%, to $12.2 million during the first nine months of 2002 from $14.3 million in the same period in 2001. The decrease in interest expense was the result of a decrease in the average yield on interest-bearing liabilities to 3.38% during the 2002 period from 4.51% during the 2001 period, which was partially offset by an increase in the average outstanding balance of interest-bearing liabilities to $483.8 million during the 2002 period from $425.6 million during the 2001 period. The decrease in the average yield on interest-bearing liabilities resulted from decreasing market rates during 2001 and an improvement in the deposit mix with a higher ratio of non-certificate deposit accounts. The increase in average interest-bearing liabilities resulted from the implementation of a leveraging strategy, increased use of borrowed funds and the continuing movement to a sales oriented operation.

The provision for losses on loans totaled $3.8 million during the first nine months of 2002, compared to $194,000 during the first nine months of 2001.

Other income for the nine-month period ended September 30, 2002 increased $525,000, or 20.0%, to $3.2 million compared to $2.6 million for the same period in 2001. The increase was attributable to increases of $98,000 (5.8%) in fee income, $268,000 (92.6%) in other income, $600,000 (533.0%) in gain on the sale of loans held for sale and $16,000 (64.3%) in net gain on the sale of real estate held for sale. These increases were partially offset by decreases of $16,000 (22.5%) in insurance commissions and $441,000 in net gain on the sale of securities available-for-sale. The increase in fee income was primarily the result of an increase in checking accounts subject to fees. The increase in gain on the sale of loans held for sale was the result of an increase in the volume of loans sold to $40.6 million for the nine month period of 2002 from $10.3 million for the comparable 2001 period. The increase in other income was primarily the result of $239,000 in earnings from the first quarter 2002 investment in BOLI.

Other expenses for the first nine months of 2002 increased $847,000, or 9.3%, to $10.0 million from $9.1 million during the 2001 period. There were increases of $605,000 (12.7%) in compensation and benefits, $20,000 (6.4%) in telephone and postage, $16,000 (5.5%) in data processing services, and $501,000 (30.9%) in other expenses. These increases were partially offset by decreases of $38,000 (4.0%) in occupancy costs, $51,000 (10.3%) in furniture and equipment expense, $39,000 (14.3%) in advertising, $23,000 (28.5%) in provision for losses on foreclosed assets and $143,000 (50.9%) in amortization of intangible assets. The increase in compensation and benefits was due in large part to cost increases in employee benefits, such as health insurance. The increase in other expenses was primarily due to additional costs related to a proxy contest in connection with the 2002 annual meeting.

Federal income taxes decreased $857,000 to $342,000 for the nine-month period ended September 30, 2002, compared to $1.2 million for the same period in 2001. The primary reason for this increase was the decrease in pre-tax income.

LIQUIDITY AND CAPITAL RESOURCES

The Company maintains a certain level of cash and other liquid assets to fund normal volumes of loan commitments, deposit withdrawals and other obligations. The Office of Thrift Supervision (the "OTS") regulations currently require each savings association to maintain sufficient liquidity to ensure its safe and sound operation.

The Company's primary sources of funds are deposits and proceeds from payments of principal and interest on loans and the sale or maturity of investment securities and mortgage-backed securities. Management considers current liquidity and additional sources of funds adequate to meet outstanding liquidity needs.

Federally insured savings banks, such as the Bank, are required by federal law and OTS regulations to maintain minimum levels of regulatory capital. The OTS has established the following minimum capital requirements: a risk-based capital ratio, a core capital ratio and a tangible capital ratio. In addition to these minimum regulatory capital requirements, another provision of federal law grants the OTS broad power to take prompt corrective action to resolve the problems of undercapitalized institutions. The OTS regulations implementing this statutory authority (the "prompt corrective action regulations") establish other capital thresholds which determine whether an institution will be deemed to be "well capitalized", "adequately capitalized", "undercapitalized", "significantly undercapitalized" or "critically undercapitalized". The capital category to which an institution is assigned in turn determines the actions the OTS may take to address the institution's undercapitalization. The capital regulations of the OTS exclude the effect of accumulated other comprehensive income for the purpose of calculating regulatory capital.

The capital regulations currently require tangible capital of at least 1.5% of adjusted total assets (as defined by regulation). Under the prompt corrective action regulations, however, an institution with a ratio of tangible capital to total assets below 2.0% is deemed to be "critically undercapitalized" and, as such, will be subject to a variety of sanctions under the prompt corrective action regulations, including, without limitation, limits on asset growth, restrictions on activities and, ultimately, the appointment of a receiver. Tangible capital generally includes common stockholders' equity and retained income and certain non-cumulative perpetual preferred stock and related income less intangible assets (other than specified amounts of mortgage servicing rights) and certain non-includable investments in subsidiaries.

The capital regulations also currently require core capital equal to at least 3.0% of adjusted total assets (as defined by regulation). Under the prompt corrective action regulations, however, an institution with a ratio of core capital to adjusted total assets of 3.0% will be deemed to be "adequately capitalized" only if the institution also has a composite rating of "1" under the Uniform Financial Institutions Rating System ("UFIRS"). All other institutions must maintain a minimum ratio of core capital to adjusted total assets of 4.0% in order to be deemed to be "adequately capitalized", and an institution, regardless of its UFIRS rating, will be deemed to be "well capitalized" only if it maintains a ratio of core capital to adjusted total assets of at least 5.0%. If an institution fails to remain at least "adequately capitalized", the OTS may impose one or more of a variety of sanctions on the institution to address its undercapitalized condition, including, without limitation, requiring the submission of a capital plan, restricting growth and restricting the payment of capital distributions (such as dividends). Core capital generally consists of tangible capital plus specified amounts of certain

intangible assets.

The OTS risk-based requirement currently requires associations to have total capital of at least 8.0% of risk-weighted assets. In order to be considered "well capitalized" under the prompt corrective action regulations, however, an institution must maintain a ratio of total capital to total risk-weighted assets of at least 10.0% and a ratio of core capital to total risk-weighted assets of at least 6.0%. Total capital consists of core capital plus supplementary capital, which consists of, among other things, maturing capital instruments, such as subordinated debt and mandatorily redeemable preferred stock, and a portion of the Bank's general allowance for losses on loans.

As of September 30, 2002, the Bank exceeded all current minimum regulatory capital standards and was deemed to be "well capitalized" for purposes of the OTS's prompt corrective action regulations. At September 30, 2002, the Bank's tangible capital was $34.3 million, or 6.4%, of adjusted total assets, which exceeded the 1.5% requirement by $26.2 million and exceeded the 2.0% "critically undercapitalized" threshold by $23.6 million. In addition, at September 30, 2002, the Bank had core capital of $34.3 million, or 6.4%, of adjusted total assets, which exceeded the 4.0% requirement by $12.9 million and exceeded the 5.0% "well capitalized" threshold by $7.5 million. The Bank had risk-based capital of $37.4 million at September 30, 2002, or 10.8%, of risk-adjusted assets, which exceeded the minimum risk-based capital requirement by $9.8 million and exceeded the 10.0% "well capitalized" threshold by $2.9 million. Additionally, the Bank's $34.3 million of core capital equaled 10.0% of total risk-weighted assets, which exceeded the 6.0% "well capitalized" threshold by $13.6 million.

STOCK REPURCHASE

During the quarter ended September 30, 2002, the Company repurchased 15,420 shares of common stock at a total cost of $568,000 under its current stock repurchase program. During the first nine months of 2002, the Company repurchased 83,612 shares of common stock at a total cost of $3.2 million. Through September 30, 2002, a total of 753,119 shares of common stock of the Company had been purchased under the current and previous repurchase programs at a total cost of $17.6 million. As of September 30, 2002, the Company held 584,119 shares of its common stock as treasury stock. During the period from September 30, 2002 through November 1, 2002, no additional shares of common stock were repurchased.

STOCK OPTIONS

During the third quarter of 2002, no options on shares of common stock were exercised. Between September 30, 2002 and November 1, 2002, no options on shares of common stock were exercised. Through November 1, 2002, no notice was received from the one remaining holder of options of the intention to exercise options.

DIVIDENDS

On October 8, 2002, a cash dividend of $.15 per share was declared, payable on November 27, 2002 to stockholders of record as of November 12, 2002. The Company has paid a dividend every quarter since the dividend program was instituted in the first quarter of 1995. Future dividends will depend primarily upon earnings, financial condition and need for funds, as well as restrictions imposed by regulatory authorities regarding dividend payments and capital requirements.

CONTROLS AND PROCEDURES

Based upon an evaluation within the 90 days prior to the filing date of this report, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective. There have been no significant changes in the Company's internal controls or in other factors that could significantly affect the Company's internal controls subsequent to the date of the evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

SPECIAL NOTE CONCERNING FORWARD-LOOKING STATEMENTS

This document (including information incorporated by reference) contains, and future oral and written statements of the Company and its management may contain, forward-looking statements, within the meaning of such term in the Private Securities Litigation Reform Act of 1995, with respect to the financial condition, results of operations, plans, objectives, future performance and business of the Company. Forward-looking statements, which may be based upon beliefs, expectations and assumptions of the Company's management and on information currently available to management, are generally identifiable by the use of words such as "believe," "expect," "anticipate," "plan," "intend" "estimate," "may," "will," "would," "could," "should" or other similar expressions. Additionally, all statements in this document, including forward-looking statements, speak only as of the date they are made, and the Company undertakes no obligation to update any statement in light of new information or future events.

The Company's ability to predict results or the actual effect of future plans or strategies is inherently uncertain. Factors which could have a material adverse effect on the operations and future prospects of the Company and its subsidiaries include, but are not limited to, the following:

- The strength of the United States economy in general and the strength of the local economies in which the Company conducts its operations which may be less favorable than expected and may result in, among other things, a deterioration in the credit quality and value of the Company's assets.
- The economic impact of the terrorist attacks that occurred on September 11th, as well as any future threats and attacks, and the response of the United States to any such threats and attacks.
- The effects of, and changes in, federal, state and local laws, regulations and policies affecting banking, securities, insurance and monetary and financial matters.
- The effects of changes in interest rates (including the effects of changes in the rate of prepayments of the Company's assets) and the policies of the Board of Governors of the Federal Reserve System.
- The ability of the Company to compete with other financial institutions as effectively as the Company currently intends due to increases in competitive pressures in the financial services sector.
- The inability of the Company to obtain new customers and to retain existing customers.
- The timely development and acceptance of products and services, including products and services offered through alternative delivery channels such as the Internet.

- Technological changes implemented by the Company and by other parties, including third party vendors, which may be more difficult or more expensive than anticipated or which may have unforeseen consequences to the Company and its customers.
- The ability of the Company to develop and maintain secure and reliable electronic systems.
- The ability of the Company to retain key executives and employees and the difficulty that the Company may experience in replacing key executives and employees in an effective manner.
- Consumer spending and saving habits which may change in a manner that affects the Company's business adversely.
- Business combinations and the integration of acquired businesses which may be more difficult or expensive than expected.
- The costs, effects and outcomes of existing or future litigation.
- Changes in accounting policies and practices, as may be adopted by state and federal regulatory agencies and the Financial Accounting Standards Board.

The ability of the Company to manage the risks associated with the foregoing as well as anticipated. These risks and uncertainties should be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements. Additional information concerning the Company and its business, including other factors that could materially affect the Company's financial results, is included in the Company's filings with the Securities and Exchange Commission.

TABLE I
NET INTEREST INCOME ANALYSIS (UNAUDITED)
KANKAKEE BANCORP, INC. AND SUBSIDIARY
Three Months Ended September 30,

	2002			
	Average Outstanding Balance	Interest Earned/ Paid	Yield/ Rate	Aver Outsta Bala
	(Dollars in Thousands			
Interest-earning assets:				
Loans (1)	$398,835	$ 6,867	6.83%	$378
Mortgage-backed securities (2)	41,758	601	5.71%	13
Investment securities (3)	38,752	530	5.43%	42
Other interest-earning assets	27,187	87	1.17%	10
FHLB stock	2,698	34	5.00%	2
Total interest-earning assets	509,230	8,119	6.33%	447
Other assets	39,901			29

Total assets	$549,131			$476
Interest-bearing liabilities:				
Certificate accounts	$254,665	2,508	3.91%	$252
Savings deposits	73,401	349	1.89%	64
Demand and NOW deposits	100,518	379	1.50%	89
Borrowings	75,650	827	4.34%	27
Total interest-bearing liabilities	504,234	4,063	3.20%	434
Other liabilities	3,803			2
Total liabilities	508,037			436
Stockholders' equity	41,094			39
Total liabilities and stockholders' equity	$549,131			$476
Net interest income		$ 4,056		
Net interest rate spread			3.13%	
Net earning assets	$ 4,996			$ 13
Net yield on average interest-earning assets (net interest margin)			3.16%	
Average interest-earning assets to average interest-bearing liabilities		100.99%		

(1) Calculated including loans held for sale, and net of deferred loan fees, loan discounts, loans in process and the allowance for losses on loans.
(2) Calculated including mortgage-backed securities available-for-sale.
(3) Calculated including investment securities available-for-sale and certificates of deposit.

TABLE II
NET INTEREST INCOME ANALYSIS (UNAUDITED)
KANKAKEE BANCORP, INC. AND SUBSIDIARY

Nine Months Ended September

	2002			
	Average Outstanding Balance	Interest Earned/ Paid	Yield/ Rate	Ave Outst Bal
			(Dollars in Thousands	
Interest-earning assets:				
Loans (1)	$396,899	$20,923	7.05%	$361
Mortgage-backed securities (2)	32,570	1,414	5.80%	14
Investment securities (3)	37,414	1,520	5.43%	45
Other interest-earning assets	23,945	260	1.45%	15
FHLB stock	2,602	98	5.04%	2
Total interest-earning assets	493,430	24,215	6.56%	439
Other assets	36,244			29
Total assets	$529,674			$468
Interest-bearing liabilities:				
Certificate accounts	$252,621	8,013	4.24%	$250
Savings deposits	72,219	1,089	2.02%	61
Demand and NOW deposits	98,998	1,140	1.54%	87
Borrowings	60,010	1,992	4.44%	27
Total interest-bearing liabilities	483,848	12,234	3.38%	425
Other liabilities	4,496			3
Total liabilities	488,344			429
Stockholders' equity	41,330			39
Total liabilities and stockholders' equity	$529,674			$468
Net interest income		$11,981		
Net interest rate spread			3.18%	
Net earning assets	$ 9,582			$ 13
Net yield on average interest-earning assets (net interest margin)			3.25%	
Average interest-earning assets to				

average interest-bearing liabilities	101.98%
	=======

(1) Calculated including loans held for sale, and net of deferred loan fees, loan discounts, loans in process and the allowance for losses on loans.
(2) Calculated including mortgage-backed securities available-for-sale.
(3) Calculated including investment securities available-for-sale and certificates of deposit.

25

KANKAKEE BANCORP, INC.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings - There are no material pending legal proceedings to which the Company or the Bank is a party other than ordinary routine litigation incidental to their respective businesses.

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 - 99.1 - Certification of Chief Executive Officer
99.2 Certification of Chief Financial Officer

b. Reports on Form 8-K

On July 19, 2002, the Company filed a report on Form 8-K stating under Item 5 that the Company had, on July 19, 2002 issued a news release announcing its earnings for the quarter ended June 30, 2002, as well as other recent corporate events.

On August 30, 2002, the Company filed a report on Form 8-K stating under Item 5 that the Company had, on August 30, 2002, issued a news release announcing that it had issued a letter to stockholders in connection with the payment of its second quarter dividend.

On October 4, 2002, the Company filed a report on Form 8-K stating under Item 5 that the Company on October 4, 2002 issued a news release announcing that it took a nonrecurring after-tax charge of approximately $2.17 million, or approximately $1.85 per diluted share, to its third quarter earnings.

On October 10, 2002, the Company filed a report on Form 8-K stating under Item 5 that the Company, on October 10, 2002 issued a news release announcing the signing of a definitive agreement by its wholly-owned subsidiary, Kankakee Federal Savings Bank, to sell its banking office in Hoopeston, Illinois to Capstone Bank, N.A., of Watseka, Illinois.

On October 22, 2002, the Company filed a report on Form 8-K

stating under Item 5 that the Company had, on October 22, 2002 issued a news release announcing its earnings for the quarter ended September 30, 2002, as well as other recent corporate events.

26

KANKAKEE BANCORP, INC.

SIGNATURES

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

KANKAKEE BANCORP, INC.
Registrant

Date: November 6, 2002 /s/ LARRY D. HUFFMAN
President and CEO

Date: November 6, 2002 /s/ RONALD J. WALTERS
Vice President and Treasurer
(Principal Financial
And Accounting Officer)

27

I, Larry D. Huffman, President and Chief Executive Officer of the Company, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Kankakee Bancorp, Inc.;

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 the Report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

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

b. evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this 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 registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

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

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

6. The registrant's other certifying officers 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 date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 6, 2002

/s/ Larry D. Huffman

President and CEO

I, Ronald J. Walters, Vice President and Treasurer and Principal Financial Officer of the Company, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Kankakee Bancorp, Inc.;

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 the Report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a. designed such disclosure controls and procedures to ensure that

material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b. evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this 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 registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

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

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

6. The registrant's other certifying officers 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 date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 6, 2002

/s/ Ronald J. Walters

Vice President and Treasurer
(Principal Financial and Accounting Officer)