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FIRST BANCTRUST CORP
Form 10QSB
November 14, 2002

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

FORM 10-QSB

QUARTERLY REPORT UNDER SECTION 13 OR 15 (d)
OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2002
 TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT
FOR THE TRANSITION PERIOD FROM _____ TO _____
COMMISSION FILE NUMBER 0-32535

FIRST BANCTRUST CORPORATION
(EXACT NAME OF SMALL BUSINESS ISSUER AS SPECIFIED IN ITS CHARTER)

DELAWARE
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)

37-1406661
(IRS EMPLOYER IDENTIFICATION NO.)

206 SOUTH CENTRAL AVENUE
PARIS, ILLINOIS
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)

61944
(ZIP CODE)

217-465-6381
(ISSUER'S TELEPHONE NUMBER, INCLUDING AREA CODE)

CHECK WHETHER THE ISSUER: (1) 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 NO

STATE THE NUMBER OF SHARES OUTSTANDING OF EACH OF THE ISSUER'S CLASSES OF
COMMON EQUITY AS OF THE LATEST PRACTICABLE DATE.

AS OF NOVEMBER 12, 2002 THE REGISTRANT HAD OUTSTANDING 1,397,710 SHARES OF
COMMON STOCK.

TRANSITIONAL SMALL BUSINESS DISCLOSURE FORMAT (CHECK ONE): YES NO

First BancTrust Corporation
Form 10-QSB Quarterly Report

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FIRST BANCTRUST CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands of dollars except share data)

SEPTEMBER 30,
2002
(unaudited)

ASSETS

| | | |
|--|----|---------|
| Cash and due from banks | \$ | 4,383 |
| Interest-bearing demand deposits | | 3,774 |
| | | ----- |
| Cash and cash equivalents | | 8,157 |
| Available-for-sale securities | | 77,302 |
| Loans held for sale | | 1,329 |
| Loans, net of allowance for loan losses of \$2,027 and \$1,657 | | 107,864 |
| Premises and equipment | | 2,654 |
| Foreclosed assets held for sale, net | | 410 |

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| | |
|---|------------|
| Interest receivable | 2,373 |
| Loan servicing rights, net of valuation allowance of \$802 and \$0 | 1,208 |
| Cash surrender value of life insurance | 3,607 |
| Federal Home Loan Bank stock | 3,666 |
| Other assets | 541 |
| | ----- |
| Total assets | \$ 209,111 |
| | ===== |
| LIABILITIES AND STOCKHOLDERS' EQUITY | |
| Deposits | |
| Noninterest bearing | \$ 12,451 |
| Interest bearing | 138,650 |
| | ----- |
| Total deposits | 151,101 |
| Federal Home Loan Bank advances and other debt | 29,505 |
| Pass through payments received on loans sold | 154 |
| Advances from borrowers for taxes and insurance | 25 |
| Deferred income taxes | 648 |
| Interest payable | 149 |
| Other liabilities | 257 |
| | ----- |
| Total liabilities | 181,839 |
| | ----- |
| COMMITMENTS AND CONTINGENT LIABILITIES | |
| STOCKHOLDERS' EQUITY | |
| Preferred stock, \$.01 par value, 1,000,000 shares authorized and unissued | |
| Common stock, \$.01 par value, 5,000,000 shares authorized; 1,520,875 shares issued and outstanding | 15 |
| Additional paid-in capital | 14,428 |
| Retained earnings | 15,777 |
| Accumulated other comprehensive income | 989 |
| | ----- |
| | 31,209 |
| Unallocated employee stock ownership plan shares - 98,864 and 110,267 shares | (1,143) |
| Unearned recognition and retention plan shares - 57,980 and 0 shares | (957) |
| Treasury stock, at cost - 123,165 and 62,600 shares | (1,837) |
| | ----- |
| Total stockholders' equity | 27,272 |
| | ----- |
| Total liabilities and stockholders' equity | \$ 209,111 |
| | ===== |

See notes to condensed consolidated financial statements.

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(in thousands of dollars except share data)
(unaudited)

NINE MONTHS ENDED SEPTEMBER 30

2002

INTEREST INCOME

| | | |
|--------------------------------------|----|-------|
| Loans | | |
| Taxable | \$ | 6,660 |
| Tax exempt | | 34 |
| Investment securities | | |
| Taxable | | 2,694 |
| Tax exempt | | 219 |
| Deposits with financial institutions | | 81 |
| FHLB stock dividends | | 107 |
| Total interest income | | 9,795 |

INTEREST EXPENSE

| | | |
|--|--|-------|
| Deposits | | 3,373 |
| Federal Home Loan Bank advances and other debt | | 884 |
| Total interest expense | | 4,257 |

NET INTEREST INCOME

| | | |
|---------------------------|--|-------|
| Provision for loan losses | | 5,538 |
| | | 663 |

NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES

4,875

NONINTEREST INCOME

| | | |
|--|--|-------|
| Service charges on deposit accounts | | 370 |
| Loan servicing fees (costs), net | | (403) |
| Impairment of loan servicing rights | | (802) |
| Other customer fees | | 697 |
| Net realized gains on sales of available-for-sale securities | | 120 |
| Net gains on loan sales | | 760 |
| Brokerage fees | | 141 |
| Abstract and title fees | | 282 |
| Other income | | 159 |
| Total noninterest income | | 1,324 |

NONINTEREST EXPENSE

| | | |
|--------------------------------|--|-------|
| Salaries and employee benefits | | 2,949 |
| Net occupancy expenses | | 142 |
| Equipment expenses | | 452 |
| Data processing fees | | 349 |
| Advertising and promotion | | 144 |
| Professional fees | | 245 |
| Other expenses | | 679 |
| Total noninterest expense | | 4,960 |

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| | | |
|--|----|-------|
| INCOME BEFORE INCOME TAX | | 1,239 |
| Income tax expense | | 462 |
| | | ----- |
| NET INCOME | | 777 |
| OTHER COMPREHENSIVE INCOME | | |
| Unrealized appreciation on available-for-sale securities | | 742 |
| | | ----- |
| COMPREHENSIVE INCOME | \$ | 1,519 |
| | | ===== |
| EARNINGS PER SHARE | | |
| Basic | \$ | 0.59 |
| | | ===== |
| Diluted | \$ | 0.59 |
| | | ===== |

See notes to condensed consolidated financial statements.

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FIRST BANCTRUST CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(in thousands of dollars except share data)
(unaudited)

| | | |
|--|----|-------|
| THREE MONTHS ENDED SEPTEMBER 30 | | 2002 |
| ----- | | |
| INTEREST INCOME | | |
| Loans | | |
| Taxable | \$ | 2,238 |
| Tax exempt | | 12 |
| Investment securities | | |
| Taxable | | 939 |
| Tax exempt | | 74 |
| Deposits with financial institutions | | 12 |
| FHLB stock dividends | | 46 |
| | | ----- |
| Total interest income | | 3,321 |
| | | ----- |
| INTEREST EXPENSE | | |
| Deposits | | 1,094 |
| Federal Home Loan Bank advances and other debt | | 302 |
| | | ----- |
| Total interest expense | | 1,396 |
| | | ----- |

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| | |
|--|---------|
| NET INTEREST INCOME | 1,925 |
| Provision for loan losses | 167 |
| | ----- |
| NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES | 1,758 |
| | ----- |
| NONINTEREST INCOME | |
| Service charges on deposit accounts | 148 |
| Loan servicing fees (costs), net | (39) |
| Impairment of loan servicing rights | (802) |
| Other customer fees | 263 |
| Net realized gains on sales of available-for-sale securities | 120 |
| Net gains on loan sales | 164 |
| Brokerage fees | 51 |
| Abstract and title fees | 98 |
| Other income | 40 |
| | ----- |
| Total noninterest income | 43 |
| | ----- |
| NONINTEREST EXPENSE | |
| Salaries and employee benefits | 988 |
| Net occupancy expenses | 51 |
| Equipment expenses | 160 |
| Data processing fees | 121 |
| Advertising and promotion | 61 |
| Professional fees | 65 |
| Other expenses | 241 |
| | ----- |
| Total noninterest expense | 1,687 |
| | ----- |
| INCOME BEFORE INCOME TAX | 114 |
| Income tax expense | 55 |
| | ----- |
| NET INCOME | 59 |
| OTHER COMPREHENSIVE INCOME | |
| Unrealized appreciation on available-for-sale securities | 225 |
| | ----- |
| COMPREHENSIVE INCOME | \$ 284 |
| | ===== |
| EARNINGS PER SHARE | |
| Basic | \$ 0.05 |
| | ===== |
| Diluted | \$ 0.05 |
| | ===== |

See notes to condensed consolidated financial statements.

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FIRST BANCTRUST CORPORATION
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 (in thousands of dollars)
 (unaudited)

NINE MONTHS ENDED SEPTEMBER 30

2002

OPERATING ACTIVITIES

| | |
|--|------|
| Net income | \$ |
| Items not requiring (providing) cash | |
| Depreciation and amortization | |
| Provision for loan losses | |
| Investment securities amortization (accretion), net | |
| Amortization of loan servicing rights | |
| Impairment of loan servicing rights | |
| Deferred income taxes | |
| Net losses on sales of foreclosed assets | |
| Net losses on sales of premises and equipment | |
| Net gains on loan sales | |
| Loans originated for sale | (25) |
| Proceeds from sales of loans originated for resale | 25 |
| Investment securities gains | |
| Federal Home Loan Bank stock dividends | |
| Compensation expense related to employee stock ownership plan | |
| Compensation expense related to recognition and retention plan | |
| Changes in | |
| Interest receivable | |
| Cash surrender value | |
| Other assets | |
| Interest payable | |
| Other liabilities | |

Net cash provided by operating activities

INVESTING ACTIVITIES

| | |
|---|------|
| Net change in interest-bearing time deposits | |
| Purchases of available-for-sale securities | (32) |
| Proceeds from maturities of available-for-sale securities | 20 |
| Proceeds from sales of available-for-sale securities | |
| Purchase of Federal Home Loan Bank stock | (2) |
| Net collections (originations) in loans | (8) |
| Proceeds from sales of foreclosed assets | |
| Purchases of premises and equipment | |
| Proceeds from sale of premises and equipment | |

Net cash used in investing activities

FINANCING ACTIVITIES

| | |
|---|--|
| Net increase (decrease) in demand deposits, money market, | |
|---|--|

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| | |
|--|-------|
| NOW and savings deposits | (1) |
| Net increase in certificates of deposit | 11 |
| Net decrease in short-term borrowings | |
| Proceeds from the issuance of Federal Home Loan Bank advances | 8 |
| Repayment of Federal Home Loan Bank advances and other debt | (4) |
| Pass through payments received on loans sold | |
| Net decreases in advances by borrowers for taxes and insurance | |
| Proceeds from stock issuance | |
| Dividends paid | |
| Purchase of employee stock ownership plan shares | |
| Purchase of treasury stock | |
| Purchase of stock for recognition and retention plan | (1) |
| | ----- |
| Net cash provided by financing activities | 11 |
| | ----- |
| INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (8) |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | 16 |
| | ----- |
| CASH AND CASH EQUIVALENTS, END OF PERIOD | \$ 8 |
| | ===== |
| SUPPLEMENTAL CASH FLOWS INFORMATION | |
| Real estate and other assets acquired in settlement of loans | \$ |
| Interest paid | 4 |
| Income tax paid | |

See notes to condensed consolidated financial statements.

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FIRST BANCTRUST CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

Note 1 - Basis of Presentation

The accompanying unaudited interim condensed consolidated financial statements have been prepared pursuant to the rules and regulations for reporting on Form 10-QSB. Accordingly, certain disclosures required by generally accepted accounting principles are not included herein. These interim statements should be read in conjunction with the audited consolidated financial statements and notes thereto, dated February 1, 2002, included in the Company's Form 10-KSB filed with the Securities and Exchange Commission.

Interim statements are subject to possible adjustments in connection with the annual audit of the Company for the year ended December 31, 2002. In the opinion of management of the Company, the accompanying unaudited interim condensed

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consolidated financial statements reflect all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of the consolidated financial position and consolidated results of operations for the periods presented. The results of operations for the three and nine months ended September 30, 2002 and 2001 are not necessarily indicative of the results to be expected for the full year.

Note 2 - Conversion to Stock Form of Ownership

On October 16, 2000 the Board of Directors of First Bank & Trust, sb (the "Bank") adopted a Plan of Conversion to convert from an Illinois mutual savings bank to an Illinois stock savings bank with the concurrent formation of a holding company. First BancTrust Corporation (the "Company") was incorporated in November 2000. A subscription offering of the shares of common stock, \$0.01 par value per share ("Common Stock"), of the Company was offered initially to eligible deposit account holders of First Bank & Trust, sb. The Bank's conversion from an Illinois mutual savings bank to an Illinois stock savings bank was completed on April 18, 2001 (the "Conversion").

In connection with the Conversion, the Company issued 1,520,875 shares of Common Stock to the public for gross proceeds of \$15.2 million, \$14.4 million net of conversion costs. The Bank issued all of its outstanding capital stock to the Company in exchange for one-half of the net proceeds of the offering, which amounted to \$7.2 million. The Company accounted for the purchase in a manner similar to a pooling of interests, whereby assets and liabilities of the Bank maintain their historical cost basis in the consolidated company.

Note 3 - Employee Stock Ownership Plan

In connection with the Conversion, the Bank established an Employee Stock Ownership Plan ("ESOP") for the benefit of its employees. In the initial stock offering, deposit account owners purchased all available shares. The ESOP purchased required shares in the open market subsequent to the conversion date for \$1.4 million with funds borrowed from the Company. The

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ESOP expense was \$61,000 and \$179,000 for the three-month and nine-month periods ended September 30, 2002, respectively.

Shares purchased by the ESOP with the loan proceeds are held in a suspense account and are allocated to ESOP participants based on a pro rata basis as debt service payments are made to the Company. The loan is secured by the shares purchased with the proceeds and will be repaid by the ESOP with funds from the Company's discretionary contributions to the ESOP and earnings on ESOP assets. Principal payments are scheduled to occur over an eight-year period.

Note 4 - Earnings per Share

Basic earnings per share have been computed based upon the weighted average common shares outstanding for the nine and three months ended September 30, 2002 and for the three months ended September 30, 2001. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the Company. Earnings per share is calculated beginning with the date of the conversion of April 18, 2001 and, therefore, no earnings per share is reported for the nine-month period ended September 30, 2001.

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Earnings per share were computed as follows (dollar amounts in thousands except share data):

| | Income | Weighted Average Shares | Per Share Amount |
|--|--------|-------------------------------|---------------------|
| ----- | | | |
| FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2002: | | | |
| ----- | | | |
| Basic Earnings Per Share: | | | |
| Income available to common stockholders | \$ 777 | 1,298,028 | \$ 0.59 |
| Effect of Dilutive Securities: | | | |
| Unearned recognition and retention plan shares | | 21,371 | |
| ----- | | | |
| Diluted Earnings per Share: | | | |
| Income available to common stockholders and assumed conversions | \$ 777 | 1,319,399 | \$ 0.59 |
| ===== | | | |
| FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2002: | | | |
| ----- | | | |
| Basic Earnings Per Share: | | | |
| Income available to common stockholders | \$ 59 | 1,243,028 | \$ 0.05 |
| Effect of Dilutive Securities: | | | |
| Unearned recognition and retention plan shares | | 58,662 | |
| ----- | | | |
| Diluted Earnings per Share: | | | |
| Income available to common stockholders and assumed conversions | \$ 59 | 1,301,690 | \$ 0.05 |
| ===== | | | |
| FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2001: | | | |
| ----- | | | |
| Basic Earnings Per Share: | | | |
| Income available to common stockholders | \$ 510 | 1,405,540 | \$ 0.36 |
| ===== | | | |

Note 5 - Current Accounting Issues

In July 2001, SFAS No. 143, "Accounting for Asset Retirement Obligations" was issued. SFAS No. 143 establishes standards for accounting and reporting of obligations associated with the retirement of tangible long-lived assets and associated asset retirement costs. SFAS No. 143 is effective for years beginning

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after June 15, 2002. Management does not expect the adoption of this standard to have a material impact on the Company.

In October 2001, SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" was issued. Under SFAS No. 144, long-lived assets to be sold within one year must be separately identified and carried at the lower of carrying value or fair value less costs to sell.

Long-lived assets expected to be held longer than one year are subject to depreciation and must be written down to fair value upon impairment. Long-lived assets no longer expected to be sold

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within one year, such as some foreclosed real estate, must be written down to the lower of current fair value or fair value at the date of foreclosure adjusted to reflect depreciation since acquisition. SFAS No. 144 had to be implemented by January 1, 2002. The adoption of this statement had no impact on the Company.

Note 6 - Authorized Share Repurchase Program

On October 3, 2001 the Company announced that the Board of Directors authorized the open-market stock repurchases of up to 5%, or 76,044 shares of the Company's outstanding stock over the one-year period ending September 27, 2002. On April 18, 2002 the Company announced that the Board of Directors has authorized the additional open-market stock repurchases of up to 5%, or 67,407 shares of the Company's outstanding stock over the next one-year period ending March 14, 2003, as in the opinion of management, market conditions warrant. As of November 12, 2002, the Company had repurchased 123,165 shares.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

SAFE HARBOR STATEMENT UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

This report contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. The Company intends such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995 as amended, and is including this statement for purposes of these safe harbor provisions. Forward-looking statements, which are based on certain assumptions and describe future plans, strategies and expectations of the

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Company, are generally identifiable by use of the words "believe," "expect," "intend," "anticipate," "estimate," "project," or similar expressions. 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 affect on the operations and future prospects of the Company and its wholly-owned subsidiaries include, but are not limited to, changes in: interest rates; general economic conditions; legislative/regulatory provisions; monetary and fiscal policies of the U.S. Government, including policies of the U.S. Treasury and the Federal Reserve Board; the quality of composition of the loan or investment portfolios; demand for loan products; deposit flows; competition; demand for financial services in the Company's market area; and accounting principles, policies, and guidelines. These risks and uncertainties should be considered in evaluating forward-looking statements and undue reliance should not be placed on such statement. Further information concerning the Company and its business, including additional factors that could materially affect the Company's financial results, is included in the Company's filings with the Securities and Exchange Commission.

The following discussion compares the financial condition of First BancTrust Corporation (Company), First Bank & Trust, s.b. (Bank), First Charter Service Corporation, ECS Service Corporation, and the Bank's wholly owned subsidiary, Community Finance Center, Inc. at September 30, 2002 to its financial condition at December 31, 2001 and the results of operations for the three-month and nine-month periods ending September 30, 2002 to the same periods in 2001. In February 2002, the Company filed a declaration to become a financial holding company which became effective March 16, 2002. Ownership of First Charter Service Corporation and ECS Service Corporation has been transferred from the Bank to the Company. This discussion should be read in conjunction with the interim financial statements and notes included herein.

FINANCIAL CONDITION

Total assets of the Company increased by \$13.1 million or 6.67%, to \$209.1 million at September 30, 2002 from \$196.0 million at December 31, 2001. The increase was funded by increased deposits and Federal Home Loan Bank borrowings. Available-for-sale securities increased by \$12.1 million, loans net of allowance for loan losses increased by \$7.2 million, Federal Home Loan Bank stock increased by \$2.1 million, loans held for sale increased by \$732,000, interest

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receivable increased by \$257,000, premises and equipment increased by \$219,000, and other assets increased by \$224,000. These increases were partially offset by a \$8.6 million decrease in cash and cash equivalents, a decrease in loan servicing rights of \$887,000 and a \$397,000 decrease in foreclosed assets held for sale.

The Company's cash and due from banks decreased by \$2.9 million or 40.02% to \$4.4 million at September 30, 2002 from \$7.3 million at December 31, 2001. Interest-bearing demand deposits decreased \$5.7 million or 60.01% to \$3.8 million at September 30, 2002 compared to \$9.4 million at December 31, 2001. The decrease in cash and cash equivalents was primarily used to fund investment purchases and loans. Investment securities available for sale amounted to \$77.3

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million at September 30, 2002 compared to \$65.2 million at December 31, 2001, a \$12.1 million or 18.55% increase. The increase resulted from \$32.1 million in investment purchases, primarily in mortgage-backed securities and Federal Home Loan Bank ("FHLB") agency bonds and an increase of \$1.3 million in market value, partially offset by calls, maturities, and principal repayments of \$20.7 million and sales of \$590,000.

Loans held for sale increased by \$732,000 to \$1.3 million at September 30, 2002 from \$597,000 at December 31, 2001. Loans held for sale at September 30, 2002 consisted entirely of one-to-four family loans committed for sale in the secondary market to the Federal Home Loan Mortgage Corporation.

The Company's net loan portfolio increased by \$7.2 million or 7.16% to \$107.9 million at September 30, 2002 from \$100.7 million at December 31, 2001. Gross loans increased by \$7.6 million while the allowance for loan losses increased by \$370,000. Non-farm non-residential real estate loans increased by \$2.1 million, agricultural production loans increased by \$4.2 million, consumer loans increased by \$1.3 million, farmland loans increased by \$937,000, and one-to-four family open-end lines of credit increased by \$165,000. Construction loans declined by \$363,000 as they were converted to permanent financing, one-to-four family junior liens decreased by \$302,000, and commercial loans decreased by \$479,000.

At September 30, 2002 the allowance for loan losses was \$2.0 million or 1.85% of the total loan portfolio compared to \$1.7 million, or 1.62% at December 31, 2001. The increase in the allowance for loan losses is primarily due to an increase in classified assets and an additional amount set aside for one agricultural credit. The Company classifies assets into watch, substandard, doubtful, and loss categories, as defined by federal regulation. Classified assets at September 30, 2002 were \$6.6 million compared to \$5.10 million at December 31, 2001. The Company's nonperforming loans and troubled debt restructurings, which are included in the classification asset total, as a percentage of total loans increased from 2.17% or \$2.2 million at December 31, 2001 to 2.87% or \$3.2 million at September 30, 2002. The Company's nonperforming loans and troubled debt restructurings of \$3.2 million at September 30, 2002 consist of \$2.6 million in nonperforming loans primarily agricultural production loans, commercial real estate loans and 1-4 family residence loans. Restructured loans of \$553,000 were commercial and agricultural loans. Included in the \$3.2 million of nonperforming loans and troubled debt restructurings are agricultural loans of \$632,000 which are 90% guaranteed for \$569,000 by the Farmers Home Administration, thereby limiting the Company's exposure. During the second quarter of 2002 the Company identified an additional exposure for loss of

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\$270,000 relating to one agricultural borrower on loans secured by farm equipment. The Company charged off \$387,000, primarily consumer and commercial loans, for the nine-months ended September 30, 2002, which was partially offset by recoveries of \$94,000 for the same time period. Management reviews the adequacy of the allowance for loan losses quarterly, and believes that its allowance is adequate; however, the Company cannot assure that future chargeoffs and/or provisions will not be necessary.

Foreclosed assets held for sale, net decreased \$397,000 to \$410,000 at September 30, 2002, compared to \$807,000 at December 31, 2001. As of September 30, 2002 the Company had three real estate properties totaling \$226,000 consisting of one

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single-family dwelling, one commercial building, and one multi-family dwelling, and other repossessed assets of \$184,000. Foreclosed assets are carried at lower of cost or net realizable value.

Loan servicing rights declined by \$887,000 from \$2.1 million at December 31, 2001 to \$1.2 million at September 30, 2002. The decline was due to \$782,000 of accelerated amortization of loan servicing rights, and an identified impairment of \$802,000, partially offset by newly capitalized assets of \$698,000. Both the accelerated amortization and impairment were a result of increased prepayments due to decreases in interest rates. The decline in long-term interest rates resulted in an increase in the projected rate at which loans serviced for others are expected to prepay, thereby shortening their expected average lives. When the loan servicing rights were valued in the current environment with shorter lives, the assets had less value, and an impairment was identified. The impairment of \$802,000 was charged against current earnings. At September 30, 2002 loans serviced for others included \$59.1 million in one-to-four family residential home mortgages and \$18.1 million in agricultural loans secured by farmland and equipment.

Interest receivable increased by \$257,000 or 12.15% from \$2.1 million at December 31, 2001 to \$2.4 million at September 30, 2002 primarily due to the accrual of interest on annual payment agricultural loans due at year-end. Federal Home Loan Bank stock increased by \$2.1 million to \$3.7 million at September 30, 2002 from \$1.6 million at December 31, 2001. The increase was due to an additional \$2.0 million investment in the stock, and dividends of \$83,000 paid in the form of additional stock.

The Company's total deposits amounted to \$151.1 million at September 30, 2002 compared to \$141.3 million at December 31, 2001, an increase of \$9.8 million. The increase in total deposits was due to a \$11.3 million increase in interest bearing deposits, partially offset by a decrease of \$1.5 million in non-interest bearing deposits. The increase in interest bearing deposits was a result of an increase of \$11.1 million in interest bearing checking accounts, and a \$987,000 increase in savings accounts, partially offset by a \$758,000 reduction in certificates of deposit. Of the \$11.1 million increase in interest bearing checking accounts, \$10.0 million is from growth in business money market accounts, and \$1.4 million is from growth in the Investor Checking product, which has a comparable rate to a money market account without the transaction limitations. Of the \$10.0 million increase in business money market accounts, approximately \$6.5 million is from a single account from one corporate depositor. The Company believes it has adequate resources to fund the withdrawal of this deposit, either through internal funding or Federal Home Loan Bank advances. This growth was partially offset by a reduction in other

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interest bearing checking accounts of \$365,000. Noninterest bearing deposits decreased by \$1.5 million from \$14.0 million at December 31, 2001 to \$12.5 million at September 30, 2002.

Federal Home Loan Bank advances and other debt increased by \$4.0 million from \$25.5 million at December 31, 2001 to \$29.5 million at September 30, 2002. The \$4.0 million net increase was a result of use of the Company's open end line of credit at the Federal Home Loan Bank to fund investment purchases. The open end line of credit has a variable daily interest rate which was 2.22% at September 30, 2002. The line of credit will be repaid as other investments are called,

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prepay, or mature.

Pass through payments received on loans sold declined by \$116,000 from \$270,000 at December 31, 2001 to \$154,000 at September 30, 2002. Many agricultural loans sold to investors in the secondary market have annual payments due at the end of the year. As a result, the balance at December 31, 2001 related to payments received by the Company which were in the process of being remitted to the investors. Advances by borrowers for taxes and insurance decreased by \$115,000 from \$140,000 at December 31, 2001 to \$25,000 at September 30, 2002. The decrease was primarily due to an increase in escrow accounts on investor loans which are required to be held in a custodial deposit account. Adjustments to deferred income taxes for the tax effect of the change in market value of investment securities available for sale resulted in an increase of \$521,000 to \$648,000 at September 30, 2002 compared to \$127,000 at December 31, 2001. Other liabilities declined by \$569,000 from \$826,000 at December 31, 2001 to \$257,000 at September 30, 2002, primarily due to payment of income taxes and reduction in income tax accruals.

Stockholders' equity at September 30, 2002 was \$27.3 million compared to \$27.7 million at December 31, 2001, a decrease of \$446,000. Accumulated comprehensive income increased by \$742,000, due to an increase in the fair value of securities available for sale. Retained earnings increased by \$563,000 from net income of \$777,000, partially offset by \$213,000 in dividends declared and paid. Treasury stock increased from \$865,000 at December 31, 2001 to \$1.8 million at September 30, 2002 due to open-market stock repurchases amounting to \$972,000. The recognition and retention plan trust purchased \$1.0 million of Company stock with \$46,000 allocated to participants.

RESULTS OF OPERATIONS

COMPARISON OF NINE MONTH PERIODS ENDED SEPTEMBER 30, 2002 AND 2001

Net income for the nine months ended September 30, 2002 decreased by \$528,000 or 40.46% from \$1.3 million for the nine months ended September 30, 2001 to \$777,000 for the nine months ended September 30, 2002. The decrease in net income was primarily due to a decrease in noninterest income, and increases in non-interest expense and provision for loan losses, partially offset by an increase in net interest income and a decrease in income tax expense.

Net interest income increased \$882,000 or 18.94% from \$4.7 million for the nine months ended September 30, 2001 to \$5.5 million for the nine months ended September 30, 2002. The primary

reason for the increase in net interest income was a decrease in interest expense of \$1.2 million partially offset by a decrease of \$282,000 in interest income. The Company's net interest margin was 3.95% and 3.71% during the nine months ended September 30, 2002 and 2001, respectively. The net interest margin increased as a result of an increase in the interest spread from 3.12% for the nine months ended September 30, 2001 to 3.48% for the nine months ended September 30, 2002. The increase in interest spread resulted from a decrease in rate on interest-bearing liabilities partially offset by a decrease in rate on interest-earning assets.

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Loan interest income for the nine months ended September 30, 2002 declined by \$782,000 to \$6.7 million from \$7.5 million for the nine months ended September 30, 2001 due to both a decrease in yield of 69 basis points and a decrease in the average portfolio size of \$3.4 million. Investment income increased by \$694,000 to \$2.9 million for the nine months ended September 30, 2002 from \$2.2 million for the nine months ended September 30, 2001 due to an increase of \$24.6 million in the average investment portfolio, which was partially offset by a decrease in average yield of 85 basis points. Interest income earned on deposits with financial institutions decreased by \$226,000 due to a 285 basis point decrease in the average rate and by a \$3.0 million decrease in the average balance.

Interest expense declined by \$1.1 million from \$5.4 million for the nine months ended September 30, 2001 to \$4.3 million for the nine months ended September 30, 2002. Interest expense on deposits declined from \$4.4 million for the nine months ended September 30, 2001 to \$3.4 million for the nine months ended September 30, 2002 due to lower rates paid on deposits which was partially offset by a higher volume in interest-bearing checking accounts and savings accounts. Interest expense on Federal Home Loan Bank advances and other borrowed money has declined by \$144,000 due to a lower average balance in borrowings as well as lower interest rates.

For the nine months ended September 30, 2002 and 2001 the provision for losses on loans was \$663,000 and \$438,000, respectively, an increase of \$225,000. The provision for the nine months ended September 30, 2002 was based on the Company's analysis of the classification of assets and allowance for loan losses. Nonperforming loans and troubled debt restructurings are included in the classification of assets, as well as other loans identified with an inherent weakness or potential for loss. Management meets on at least a quarterly basis to review the adequacy of the allowance for loan losses by classifying loans in compliance with regulatory classifications. Classified loans are individually reviewed to arrive at specific reserve levels for those loans. Once the specific portion for each loan is calculated, management calculates a historical portion for each category based on a combination of loss history, current economic conditions, and trends in the portfolio. While the Company cannot assure that future chargeoffs and/or provisions will not be necessary, the Company's management believes that, as of September 30, 2002, its allowance for loan losses was adequate.

Noninterest income decreased \$835,000 or 38.68% from \$2.2 million for the nine months ended September 30, 2001 to \$1.3 million for the nine months ended September 30, 2002. The decrease was primarily a result of a reduction in loan servicing fees of \$537,000 and an identified impairment on loan servicing assets of \$802,000, partially offset by increased net

gains on loan sales of \$164,000, increased brokerage fees of \$122,000, and net realized gains on sales of available-for-sale securities of \$120,000.

Loan servicing fees declined from \$134,000 for the nine months ended September 30, 2001 to a negative \$403,000 for the nine months ended September 30, 2002. This decline was primarily due to the accelerated amortization of servicing assets resulting from refinanced loans due to a decrease in loan interest rates. Loans sold for the nine months ended September 30, 2002 were \$25.2 million, the majority being loans secured by residential real estate and farmland. Many loans

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which were refinanced had existing servicing assets which were written off as the original loan was paid off. When the refinanced loans were sold into the secondary market, servicing assets relating to these loans are included in the gain on the sale of loans as required by accounting principles generally accepted in the United States of America. Amortization of servicing assets increased from \$219,000 for the nine months ended September 30, 2001 to \$782,000 for the nine months ended September 30, 2002. The decline in interest rates has resulted in increased prepayments, which shortens the expected average life of the servicing assets. When the servicing rights were valued with the estimated shorter lives due to the lower interest rate environment, the calculated value was substantially less than the book value of the servicing assets, identifying an impairment of \$802,000 which was charged against current earnings. At September 30, 2002, loans serviced for others totaled \$77.2 million, and the net value of the loan servicing rights totaled \$1.2 million, net of a valuation allowance of \$802,000.

Net gains on loan sales increased by \$164,000 from \$596,000 for the nine months ended September 30, 2001 to \$760,000 for the nine months ended September 30, 2002, primarily due to gains related to capitalized servicing assets. Gains on loan sales from capitalized servicing assets were \$698,000 for the nine months ended September 30, 2002 compared to \$529,000 for the nine months ended September 30, 2001. Brokerage fees from First Charter Service Corporation, a wholly owned subsidiary of the Company, increased \$122,000 from \$19,000 for the nine months ended September 30, 2001 to \$141,000 for the nine months ended September 30, 2002. The increase was a result of a newly established representative for Primevest Financial Services and a new referral program to generate annuity sales. Net realized gains on sales of available-for-sale securities increased \$120,000 due to the sale of equity securities.

Total noninterest expenses were \$5.0 million for the nine months ended September 30, 2002 as compared to \$4.3 million for the nine months ended September 30, 2001, an increase of \$626,000 or 14.44%. The primary reason for the increase was an increase in salaries and employee benefits of \$434,000 and an increase in other expenses of \$178,000. Salaries and employee benefits increased by \$434,000 from \$2.52 million for the nine months ended September 30, 2001 to \$2.95 million for the nine months ended September 30, 2002 due to increased salaries expense, director fees, Employee Stock Ownership Plan ("ESOP") expense, recognition and retention plan expense, and training expense. Salaries expense increased by \$240,000 due primarily to normal pay increases, the addition of three full-time employees and one part-time employee, increased overtime, and increased commissions paid to brokerage employees due to a higher sales volume. ESOP expense increased by \$93,000 due to nine months of expense for 2002 compared to six months of expense for 2001, as the ESOP was adopted in April, 2001. The monthly expense for the ESOP is determined by the average share price in the open market for the month, and as the monthly average share price increases, the

ESOP expense increases accordingly. The Recognition and Retention Plan received shareholder approval in April 2002, and the expense for the nine months ended September 30, 2002 was \$46,000.

Other expenses increased by \$178,000 from \$501,000 for the nine months ended September 30, 2001 to \$679,000 for the nine months ended September 30, 2002. The increase in other expense was primarily due to increased expenses related to disposition of foreclosed assets, increases in printing and office supplies expense, increases in holding company expenses, and increases in other expenses. Expenses for disposition of foreclosed assets increased by \$86,000 for the nine months ended September 30, 2002 as foreclosed assets were liquidated. Printing

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and office supplies expenses increased by \$28,000 primarily a result of updating brochures and disclosures. Holding company expenses increased by \$24,000 due to increased corporate franchise tax and filing fees, costs associated with the printing and distribution of the annual reports and proxies, and other shareholder services. Other expenses increased due to increases in check losses, trust department expenses, insurance expense, and correspondent bank fees.

Income tax expense was \$462,000 for the nine months ended September 30, 2002 as compared to \$738,000 for the nine months ended September 30, 2001. The reduction of \$276,000 was due to a decrease in income before income tax of \$804,000, primarily due to the recognition of the \$802,000 impairment of the loan servicing rights. The effective tax rates were 37.3% and 36.1%, respectively, for the nine months ended September 30, 2002 and 2001.

COMPARISON OF THREE MONTH PERIODS ENDED SEPTEMBER 30, 2002 AND 2001

Net income for the three months ended September 30, 2002 decreased by \$451,000 or 88.43% from \$510,000 for the three months ended September 30, 2001 to \$59,000 for the three months ended September 30, 2002. The decrease in net income is primarily due to a decrease in noninterest income and an increase in noninterest expense, partially offset by an increase in net interest income and a decrease in income tax expense.

Net interest income increased \$321,000 or 20.01% from \$1.60 million for the three months ended September 30, 2001 to \$1.93 million for the three months ended September 30, 2002. The primary reason for the increase in net interest income was a decrease in interest expense of \$290,000. The Company's net interest margin was 3.89% and 3.54% during the three months ended September 30, 2002 and 2001, respectively. The net interest margin increased as a result of an increase in the interest spread from 3.00% for the three months ended September 30, 2001 to 3.31% for the three months ended September 30, 2002. The increase in interest spread resulted from a decrease in interest expense which resulted from a decrease in rate on interest-bearing liabilities, partially offset by an increase in average volume of interest-bearing liabilities.

Loan interest income decreased by \$131,000 from \$2.4 million for the three months ended September 30, 2001 to \$2.2 million for the three months ended September 30, 2002. The decrease is primarily due to a 57 basis point decrease in yield partially offset by an increase of \$1.2 million in average loan portfolio size. Income from investment securities for the three months ended September 30, 2002 increased by \$229,000 due to a \$30.0 million increase in the

average investment portfolio, partially offset by a 116 basis point decrease in average yield. Interest income on deposits held with financial institutions decreased by \$89,000 for the three months ended September 30, 2002 compared to the same period in 2001 due primarily to both a decrease in average balance and a rate decline of 263 basis points.

Interest expense declined by \$290,000 for the three months ended September 30, 2002 compared to the three months ended September 30, 2001 due to a decrease in rates paid on deposits of 1.49%, partially offset by an increase in average deposits of \$11.3 million. Interest expense on deposits for the three months ended September 30, 2002 was \$1.1 million compared to \$1.4 million for the three

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months ended September 30, 2001. Interest on Federal Home Loan Bank advances and other borrowed money remained level due to reduced rates on borrowings offset by additional borrowings.

For the three months ended September 30, 2002 and 2001 the provision for losses on loans was level at \$167,000 and \$166,000, respectively. The provision for the three months ended September 30, 2002 was based on the Company's analysis of the allowance for loan losses. Management meets on at least a quarterly basis to review the adequacy of the allowance for loan losses by classifying loans in compliance with regulatory classifications. Classified loans are individually reviewed to arrive at specific reserve levels for those loans. Once the specific portion for each loan is calculated, management calculates a historical portion for each category based on a combination of loss history, current economic conditions, and trends in the portfolio. While the Company cannot assure that future chargeoffs and/or provisions will not be necessary, the Company's management believes that, as of September 30, 2002, its allowance for loan losses was adequate.

Noninterest income decreased \$736,000 from \$779,000 for the three months ended September 30, 2001 to \$43,000 for the three months ended September 30, 2002. The decrease was primarily a result of 117,000 reduction in loan servicing fees, an identified impairment of loan servicing rights of \$802,000, and a decrease in net gains on loans sales of \$48,000, partially offset by an increase of \$120,000 in net realized gains on sales of available-for-sale securities, increased brokerage fees of \$44,000 and increased other customer fees of \$44,000.

Loan servicing fees declined from \$78,000 for the three months ended September 30, 2001 to a negative \$39,000 for the three months ended September 30, 2002. This decline was primarily due to the accelerated amortization of servicing assets resulting from increased principal reductions on the related loans. Loans sold for the three months ended September 30, 2002 were \$10.0 million, the majority being loans secured by residential real estate and farmland. Many loans which were refinanced had existing servicing assets which were written off as the original loans paid off. When the refinanced loans were sold into the secondary market, servicing assets relating to these loans are calculated and included in the gain on the sale of loans as required by generally accepted accounting principles. Amortization of servicing assets increased from \$49,000 for the three months ended September 30, 2001 to \$167,000 for the three months ended September 30, 2002. An \$802,000 impairment was identified on September 30, 2002 due to a reduction in the fair market value of servicing assets. Servicing assets are revalued periodically, and if the valuation is lower than the book value on servicing assets, an impairment exists, and is required to be charged against current earnings. Due to the current low interest rate environment,

prepayments on loans have accelerated, resulting in shorter estimated lives for the loan servicing assets. When these loan servicing assets were valued on September 30, 2002 using the shorter estimated lives, the fair value was substantially less than the book value of the loan servicing assets, which required an impairment allowance to be recorded. The impairment of \$802,000 was charged against loan servicing fee income to establish a valuation allowance.

Net gains on loan sales decreased from \$212,000 for the three months ended September 30, 2001 to \$164,000 for the three months ended September 30, 2002, a

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decrease of \$48,000. This decrease was primarily a result of gains recognized on creation of servicing assets of \$184,000 for the three months ended September 30, 2001 compared to \$120,000 for the three months ended September 30, 2002. Net realized gains on sales of available-for-sale securities increased by \$120,000 for the three months ended September 30, 2002 compared to no net realized gain for the three months ended September 30, 2001 due to the sale of equity securities. Brokerage fees from First Charter Service Corporation, a wholly owned subsidiary of the Company, increased from \$7,000 for the three months ended September 30, 2001 to \$51,000 for the three months ended September 30, 2002. The increase was a result of a newly established representative for Primevest Financial Services and a new referral program to generate annuity sales. Other customer fees increased from \$219,000 for the three months ended September 30, 2001 to \$263,000 for the three months ended September 30, 2002, primarily due to loan fees assessed on a higher volume of loans sold in the secondary market.

Total noninterest expenses were \$1.7 million for the three months ended September 30, 2002 as compared to \$1.4 million for the three months ended September 30, 2001, an increase of \$257,000. The primary reason for the increase was an increase in salaries and employee benefits of \$159,000 and increases in professional fees of \$22,000 and other expenses of \$58,000. Salaries and employee benefits increased by \$159,000 from \$829,000 for the three months ended September 30, 2001 to \$988,000 for the three months ended September 30, 2002. Salaries increased by \$83,000 due to normal pay increases, the addition of three full-time employees and one part-time employee, increased overtime, and increased commissions paid to brokerage employees due to higher sales volume. The Recognition and Retention Plan received shareholder approval in April 2002, and the expense for the three months ended September 30, 2002 was \$29,000. ESOP expense increased by \$16,000 due to a higher average stock price, directors' fees increased by \$8,000, and training expenses increased by \$8,000. Other expenses increased by \$58,000 from \$183,000 for the three months ended September 30, 2001 to \$241,000 for the three months ended September 30, 2002. The increase was primarily a result of \$47,000 increased expenses related to the disposition of foreclosed assets as foreclosed assets were liquidated.

Income tax expense was \$55,000 for the three months ended September 30, 2002 as compared to \$277,000 for the three months ended September 30, 2001. The decrease in income tax expense was due to a reduction of income before income taxes of \$673,000. The effective tax rates were 48.2% and 35.2%, respectively, for the three months ended September 30, 2002 and 2001.

CRITICAL ACCOUNTING POLICIES

The notes to the consolidated financial statements, on pages 28 through 32 of the Annual Report to Shareholders for the year ended December 31, 2001 contain a summary of the Company's

significant accounting policies, including significant estimates. Certain of these policies are important to the portrayal of the Company's financial condition, since they require management to make difficult, complex or subjective judgements, some of which may relate to matters that are inherently uncertain. Management believes that its critical accounting policies and significant estimates include determining the allowance for loan losses, the valuation of loan servicing rights, and the valuation of foreclosed assets held

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for sale.

Allowance for loan losses

The allowance for loan losses is a significant estimate that can and does change based on management's assumptions about specific borrowers and current general economic and business conditions, among other factors. Management reviews the adequacy of the allowance for loan losses on at least a quarterly basis. The evaluation by management includes consideration of past loss experience, changes in the composition of the loan portfolio, the current condition and amount of loans outstanding, identified problem loans and the probability of collecting all amounts due.

The determination of the adequacy of the allowance for loan losses is based on estimates that are particularly susceptible to significant changes in the economic environment and market conditions. A worsening or protracted economic decline would increase the likelihood of additional losses due to credit and market risk and could create the need for additional loss reserves.

Loan Servicing Rights

The Company recognizes the rights to service loans as separate assets in the consolidated balance sheet. The total cost of loans when sold is allocated between loans and loan servicing rights based on the relative fair values of each. Loan servicing rights are subsequently carried at the lower of the initial carrying value, adjusted for amortization, or fair value. Loan servicing rights are evaluated for impairment based on the fair value of those rights. Factors included in the calculation of fair value of the loan servicing rights include estimating the present value of future net cash flows, market loan prepayment speeds for similar loans, discount rates, servicing costs, and other economic factors. Servicing rights are amortized over the estimated period of net servicing revenue. It is likely that these economic factors will change over the life of the loan servicing rights, resulting in different valuations of the loan servicing rights. The differing valuations will affect the carrying value of the loan servicing rights on the consolidated balance sheet as well as the income recorded from loan servicing in the income statement. As of September 30, 2002 and December 31, 2001, mortgage servicing rights had carrying values of \$1,208,000 and \$2,095,000, respectively.

Foreclosed Assets Held for Sale

Foreclosed assets held for sale are carried at the lower of cost or fair value less estimated selling costs. Management estimates the fair value of the properties based on current appraisal information. Fair value estimates are particularly susceptible to significant changes in the economic environment, market conditions, and the real estate market. A worsening or protracted economic decline would increase the likelihood of a decline in property values and could create the need to write down the properties through current operations.

LIQUIDITY

At September 30, 2002, the Company had outstanding commitments to originate \$1.7 million in loans. In addition, open-end line of credit loans had \$3.6 million available to be drawn upon, and there were two outstanding letters of credit for

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a combined total of \$29,000. As of September 30, 2002, the total amount of certificates scheduled to mature in the following 12 months was \$43.9 million. The Company believes that it has adequate resources to fund all of its commitments and that it can adjust the rate on certificates of deposit to retain deposits in changed interest environments. If the Company requires funds beyond its internal funding capabilities, advances from the Federal Home Loan Bank of Chicago are available as an additional source of funds.

CAPITAL RESOURCES

The Bank is subject to capital-to-asset requirements in accordance with Federal bank regulations. The following table summarizes the Bank's regulatory capital requirements, versus actual capital as of September 30, 2002:

| SEPTEMBER 30, 2002 | ACTUAL | | REQUIRED FOR ADEQUATE CAPITAL | | Am |
|--|----------|-------|----------------------------------|-----|------|
| | Amount | % | Amount | % | |
| | | | (Dollars in thousands) | | |
| Total capital (to risk-weighted assets) | \$22,381 | 19.16 | \$9,346 | 8.0 | \$11 |
| Tier 1 capital (to risk-weighted assets) | 20,914 | 17.90 | 4,673 | 4.0 | 7 |
| Tier 1 capital (to average assets) | 20,914 | 10.33 | 8,100 | 4.0 | 10 |

The Company's consolidated capital-to-asset requirements and actual capital as of September 30, 2002 are summarized in the following table:

| SEPTEMBER 30, 2002 | ACTUAL | | REQUIRED FOR ADEQUATE CAPITAL | | Am |
|--|----------|-------|----------------------------------|-----|----|
| | Amount | % | Amount | % | |
| | | | (Dollars in thousands) | | |
| Total capital (to risk-weighted assets) | \$27,446 | 23.25 | \$9,443 | 8.0 | |
| Tier 1 capital (to risk-weighted assets) | 25,964 | 22.00 | 4,721 | 4.0 | |
| Tier 1 capital (to average assets) | 25,964 | 12.60 | 8,241 | 4.0 | |

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ITEM 3. CONTROLS AND PROCEDURES

Within 90 days prior to the date of this quarterly report, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective. There were no significant changes in the Company's internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation.

Disclosure controls and procedures are the controls and other procedures of the Company that are designed to ensure that the information required to be disclosed by the Company in its reports filed or submitted under the Securities Exchange Act of 1934, as amended (Exchange Act) is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by the Company in its reports filed under the Exchange Act is accumulated and communicated to the Company's management, including the principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

PART II -- OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

The Company and subsidiary are also subject to claims and lawsuits which arise primarily in the ordinary course of business, such as claims to enforce liens and claims involving the making and servicing of real property loans and other issues. It is the opinion of management that the disposition or ultimate determination of such possible claims or lawsuits will not have a material adverse effect on the consolidated financial position of the Company.

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

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ITEM 5. OTHER INFORMATION.

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None

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

(a) Exhibits

- 99.1 Certification of Terry J. Howard, Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350).
- 99.2 Certification of Ellen M. Litteral, Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350).

(b) No Form 8-K reports were filed during the quarter.

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SIGNATURES

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

FIRST BANCTRUST CORPORATION

Date: November 12, 2002

/s/ Terry J. Howard

Terry J. Howard
Chief Executive Officer and President

Date: November 12, 2002

/s/ Ellen M. Litteral

Ellen M. Litteral
Chief Financial Officer and Treasurer

CERTIFICATIONS

SECTION 302 CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER

I, Terry J. Howard, certify that:

- 1. I have reviewed this quarterly report on Form 10-QSB of FIRST BANCTRUST CORPORATION (the "Registrant");
- 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

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the period covered by this quarterly report;

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

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- 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 functions):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the Registrant's ability to record, process, summarize and report financial data and have identified for the Registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal controls; and
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 the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 12, 2002

/s/ Terry J. Howard

TERRY J. HOWARD
Chief Executive Officer and President

SECTION 302 CERTIFICATION OF CHIEF FINANCIAL OFFICER

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I, Ellen M. Litteral, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of FIRST BANCTRUST CORPORATION (the "Registrant");
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;

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3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this annual 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 functions):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the Registrant's ability to record, process, summarize and report financial data and have identified for the Registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal controls; and
6. The Registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in

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internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 12, 2002

/s/ Ellen M. Litteral

ELLEN M. LITTERAL
Chief Financial Officer and Treasurer