FIRST BANCTRUST CORP
Form 10QSB
May 14, 2004

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

FORM 10-QSB

[X] QUARTERLY REPORT UNDER SECTION 13 OR 15 (d)
OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2004
[ ] 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 [X] 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 MAY 12, 2004 THE REGISTRANT HAD OUTSTANDING 1,250,225 SHARES OF COMMON STOCK.

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

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)

	MARCH 31, 2004 (unaudited)	DECEMBER 2003
ASSETS		
Cash and due from banks	$ 5,420	$ 6,5
Interest-bearing demand deposits	7,160	3,7
Cash and cash equivalents	12,580	10,2
Available-for-sale securities	94,384	93,7
Loans held for sale	316	4
Loans, net of allowance for loans losses of $2,212 and $2,124	106,879	106,4
Premises and equipment	2,704	2,7
Federal Home Loan Bank stock	4,071	4,0
Foreclosed assets held for sale, net	147	
Interest receivable	1,849	2,2
Loan servicing rights, net of valuation allowance of $240 and $267	862	9
Cash surrender value of life insurance	4,333	4,3
Deferred income taxes	--	
Other assets	759	8
Total assets	$ 228,884	$ 226,1

LIABILITIES AND STOCKHOLDERS' EQUITY

Noninterest bearing deposits	$ 16,292	$ 15,4
Interest bearing deposits	148,334	147,5
Total deposits	164,626	163,0
Federal Home Loan Bank advances	35,500	35,5
Pass through payments received on loans sold	244	2
Advances from borrowers for taxes and insurance	240	1
Deferred income taxes	336	
Interest payable	150	1
Other	637	7
Total liabilities	201,733	199,8
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 1,250,225 shares outstanding	15	
Additional paid-in capital	14,630	14,5
Retained earnings	17,844	17,7
Unearned employee stock ownership plan shares - 76,058 and 79,859 shares	(879)	(9
Unearned incentive plan shares - 47,702 and 49,415 shares	(787)	(8
Accumulated other comprehensive income	892	3
Treasury stock, at cost - 270,650 shares	(4,564)	(4,5
Total stockholders' equity	27,151	26,3
Total liabilities and stockholders' equity	$ 228,884	$ 226,1

See notes to condensed financial statements.

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

THREE MONTHS ENDED MARCH 31	2004	2003
INTEREST AND DIVIDEND INCOME		
Loans		
Taxable	$ 1,972	$ 2,232
Tax exempt	16	9
Securities		
Taxable	763	714
Tax exempt	93	75
Dividends on Federal Home Loan Bank stock	65	56
Deposits with financial institutions and other	11	17
Total interest and dividend income	2,920	3,103

INTEREST EXPENSE		
Deposits	761	847
Federal Home Loan Bank advances and other debt	363	315
Total interest expense	1,124	1,162
NET INTEREST INCOME	1,796	1,941
Provision for loan losses	150	164
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	1,646	1,777
NONINTEREST INCOME		
Customer service fees	186	165
Other service charges and fees	169	212
Net gains on loan sales	60	166
Net realized gains on sales of available-for-sale securities	37	--
Net loan servicing fees	131	136
Brokerage fees	8	35
Abstract and title fees	83	105
Other	73	71
Total noninterest income	747	890
NONINTEREST EXPENSE		
Salaries and employee benefits	1,169	1,029
Net occupancy expense	74	54
Equipment expense	146	174
Data processing fees	103	101
Professional fees	116	75
Foreclosed assets expense, net	28	25
Marketing expense	46	50
Amortization of loan servicing rights	155	262
Recovery of impairment of loan servicing rights	(27)	(84)
Other expenses	237	234
Total noninterest expense	2,047	1,920

INCOME BEFORE INCOME TAX	$ 346	$ 747
Income tax expense	120	235
NET INCOME	226	512
OTHER COMPREHENSIVE INCOME:		
Unrealized appreciation (depreciation) on available-for-sale securities	560	(394)

Less: Reclassification adjustment for realized gains included in net income	24	--
	536	(394)
COMPREHENSIVE INCOME	$ 762	$ 118
BASIC EARNINGS PER SHARE	$ 0.20	$ 0.43
DILUTED EARNINGS PER SHARE	$ 0.19	$ 0.41

See notes to condensed financial statements.

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

THREE MONTHS ENDED MARCH 31	2004	2003
OPERATING ACTIVITIES		
Net income	$ 226	$ 512
Items not requiring (providing) cash		
Depreciation and amortization	72	70
Provision for loan losses	150	164
Investment securities amortization, net	82	106
Amortization of loan servicing rights	155	262
Recovery of impairment of loan servicing rights	(27)	(84)
Deferred income taxes	--	(6)
Net realized gains on available-for-sale securities	(37)	--
Net loss on sales of foreclosed assets	14	7
Net loss on sale of premises and equipment	6	--
Net gains on loan sales	(60)	(166)
Loans originated for sale	(3,033)	(11,852)
Proceeds from sales of loans originated for sale	3,204	11,251
Federal Home Loan Bank stock dividends	(65)	(47)
Compensation expense related to employee stock ownership plan	96	65
Compensation expense related to incentive plan	27	27
Changes in		
Interest receivable	389	564
Cash surrender value of life insurance	13	(44)
Other assets	68	(149)
Interest payable	23	47
Other liabilities	(140)	(80)
Net cash provided by operating activities	1,163	647

INVESTING ACTIVITIES		
Purchases of available-for-sale securities	(7,197)	(28,228)
Proceeds from maturities of available-for-sale securities	7,284	14,358
Proceeds from sales of available-for-sale securities	135	--
Net change in loans	(740)	1,869
Proceeds from sales of foreclosed assets	56	79
Proceeds from sales of premises and equipment	10	--
Purchases of premises and equipment	(11)	(47)
Net cash used by investing activities	(463)	(11,969)

FINANCING ACTIVITIES		
Net increase (decrease) in demand deposits, money market, NOW and savings deposits	$ 2,652	$ (111)
Net increase (decrease) in certificates of deposit	(1,054)	292
Proceeds from the issuance of Federal Home Loan Bank advances	--	18,000
Repayment of Federal Home Loan Bank advances and other debt	--	(6,001)
Pass through payments received on loans sold	(18)	(115)
Net increases in advances by borrowers for taxes and insurance	131	133
Dividends paid	(125)	(68)
Purchase of treasury stock	--	(1,498)
Net cash provided (used) by financing activities	1,586	10,632
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,286	(690)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	10,294	10,453
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 12,580	$ 9,763
SUPPLEMENTAL CASH FLOWS INFORMATION		
Real estate acquired in settlement of loans	$ 122	$ 172
Interest paid	$ 1,101	$ 1,115
Income tax paid	$ 0	$ 290

See notes to condensed financial statements.

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 accounting principles generally accepted in the United States of America are not included herein. These interim statements should be read in conjunction with the audited consolidated financial statements and notes thereto, 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, 2004. In the opinion of management of the Company, the accompanying unaudited interim condensed 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 months ended March 31, 2004 are not necessarily indicative of the results to be expected for the full year.

The Company has a stock-based employee compensation plan, which is described more fully in the Notes to Financial Statements included in the December 31, 2003 Annual Report to shareholders. The Company accounts for this plan under the recognition and measurement principles of APB Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations. No stock-based employee compensation cost is reflected in net income, as all options granted under the plan had an exercise price equal to the market value of the underlying common stock on the grant date. The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value provisions of Statement of Financial Accounting Standards (SFAS) No. 123, Accounting for Stock-Based Compensation, to stock-based employee compensation.

	Three Months Ended March 31, 2004	Three Months Ended March 31, 2003
Net income, as reported	$ 226	$ 512
Less: Total stock-based employee compensation cost determined under the fair value based method, net of income taxes	(33)	---
Pro forma net income	$ 193	$ 512
EARNINGS PER SHARE:		
Basic - as reported	$ 0.20	$ 0.43
Basic - pro forma	$ 0.17	$ 0.43
Diluted - as reported	$ 0.19	$ 0.41
Diluted - pro forma	$ 0.16	$ 0.41

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 the Bank. 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 ESOP expense was $96,000 and $65,000 for the three-month periods ended March 31, 2004 and 2003, 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 three month periods ended March 31, 2004 and 2003. Diluted earnings per share reflect 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 were computed as follows (dollar amounts in thousands except share data):

	Income	Weighted Average Shares	Per Share Amount
FOR THE THREE MONTHS ENDED MARCH 31, 2004:			
Basic Earnings Per Share:			
Income available to common stockholders	$ 226	1,124,627	$ 0.20
Effect of Dilutive Securities:			
Unearned recognition and retention plan shares		50,546	
Stock Options		26,077	

Diluted Earnings per Share:			
Income available to common stockholders and assumed conversions	$ 226	1,201,250	$ 0.19
FOR THE THREE MONTHS ENDED MARCH 31, 2003:			
Basic Earnings Per Share:			
Income available to common stockholders	$ 512	1,186,356	$ 0.43
Effect of Dilutive Securities:			
Unearned recognition and retention plan shares		56,269	
Diluted Earnings per Share:			
Income available to common stockholders and assumed conversions	$ 512	1,242,625	$ 0.41

Note 5 - Authorized Share Repurchase Program

On March 13, 2003, the Board of Directors authorized the open-market stock repurchases of up to 3.9% or 46,500 shares of the Company's outstanding stock over the next one-year period ending March 13, 2004. Of the 46,500 shares authorized, 41,722 shares were repurchased on the open

market before the repurchase resolution expired. On May 15, 2003, the Board of Directors authorized the open-market stock repurchases of up to 5%, or 62,272 of the Company's outstanding stock over the one-year period ending May 15, 2004, as, in the opinion of management, market conditions warrant. Previously, the Company had completed three other repurchase programs for stock repurchases of 228,928 shares representing 16.1% of the outstanding shares. As of May 12, 2004, the Company had repurchased a cumulative total of 270,650 shares.

Note 6 - Subsequent Event

On April 19, 2004, the Board of Directors of the Company approved a two for one stock split of the Company's common stock payable as a 100% stock dividend on May 21, 2004 to shareholders of record on April 30, 2004. The Company will retroactively apply the impact of this stock split in all financial statements published after May 21, 2004.

Note 7 - Recent Accounting Pronouncements

In March 2004, the SEC issued Staff Accounting Bulletin No. 105 (SAB 105), Application of Accounting Principles to Loan Commitments. Current accounting guidance requires the commitment to originate mortgage loans to be held for sale be recognized on the balance sheet at fair value from inception through expiration or funding. SAB 105 requires that the fair-value measurement include only differences between the guaranteed interest rate in the loan commitment and a market interest rate, excluding any expected future cash flows related to the customer relationship or loan servicing. SAB 105 is effective for commitments to originate mortgage loans to be held for sale that are entered into after March 31, 2004. Its adoption is not expected to have a material impact on the consolidated financial position on results of operations of the Company.

In March 2004, the FASB's Emerging Issues Task Force reached a consensus on EITF Issue No. 03-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments. The guidance prescribes a three-step model for determining whether an investment is other-than-temporarily impaired and requires disclosures about unrealized losses on investments. The accounting guidance is effective for reporting periods beginning after June 15, 2004, while the disclosure requirements are effective for annual reporting periods ending after June 15, 2004. The Company has adopted the requirements of this EITF.

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 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 March 31, 2004 to its financial condition at December 31, 2003 and the results of operations for the three-month period ending March 31, 2004 to the same period in 2003. Application was made and approved in 2003 by regulators to establish a new banking facility in Savoy, Illinois in Champaign County. Operations began in a temporary facility in late September, 2003 with the purchase of $3.2 million in deposits from another area financial institution. Permanent facilities are under construction in a prime commercial area, which should be completed in mid-2004. 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 $2.7 million or 1.2%, to $228.9 million at March 31, 2004 from $226.2 million at December 31, 2003. The increase in assets was primarily due to increases in cash and cash equivalents of $2.3

million, increases in available-for-sale securities of 642,000, and in loans, net of allowance for loan losses, of $468,000, offset by a decrease in loans held for sale of $137,000, a decrease in interest receivable of $389,000, and a $102,000 decrease

in loan servicing rights, net of valuation allowance. The increase in assets was funded primarily by an increase in deposits.

The Company's cash and due from banks decreased by $1.2 million or 17.6% to $5.4 million at March 31, 2004 from $6.6 million at December 31, 2003. This decrease was more than offset by an increase in interest-bearing demand deposits of $3.4 million or 92.8% to $7.2 million at March 31, 2004 compared to $3.7 million at December 31, 2003. The net increase in cash and cash equivalents of $2.3 million was primarily a result of an increase in deposits. Available-for-sale investment securities amounted to $94.4 million at March 31, 2004 compared to $93.7 million at December 31, 2003, a $642,000 increase. The increase resulted from $7.2 million in investment purchases, primarily in mortgage-backed securities and Federal Home Loan Bank ("FHLB") agency bonds, and an increase in market value of $909,000, partially offset by calls and maturities of $7.3 million.

Loans held for sale decreased by $137,000 from $453,000 at December 31, 2003 to $316,000 at March 31, 2004, a decrease of 30.2%. The 1-4 family refinancings have slowed significantly compared to last year, due to slightly rising interest rates compared to last year's historic low interest rates. During the first quarter of 2004, residential loans originated for resale into the secondary market totaled $3.0 million compared to $11.9 million in the first quarter of 2003. Loans held for sale at March 31, 2004 consisted entirely of single-family residential loans.

The Company's net loan portfolio increased by $468,000 to $106.9 million at March 31, 2004 from $106.4 million at December 31, 2003. Gross loans increased by $556,000 while the allowance for loan losses increased by $88,000. Loans secured by 1-4 family residences decreased by $1.2 million, although home equity loans increased by $228,000 and second mortgages secured by 1-4 family residences increased by $12,000. Farmland loans increased by $2.0 million and nonfarm nonresidential real estate loans increased by $300,000, while agricultural production loans decreased by $284,000 and consumer loans decreased $191,000. Other loans decreased by $138,000 and commercial loans decreased by $101,000.

At March 31, 2004 the allowance for loan losses was $2.2 million or 2.03% of the total loan portfolio compared to $2.1 million, or 1.96% at December 31, 2003. During the first quarter of 2004, the Company charged off $100,000 of loan losses, of which $37,000 were consumer loans, $30,000 related to one commercial loan, $20,000 pertained to three 1-4 family residential loans, and $13,000 was a loss from a commercial real estate loan. The chargeoffs of $100,000 were partially offset by $38,000 in recoveries. The Company's nonperforming loans and troubled debt restructurings as a percentage of total loans decreased from 2.35% or $2.5 million at December 31, 2003 compared to 1.99% or $2.2 million at March 31, 2004. This decrease was primarily a result of reduced delinquencies 90 days and over from $1.1 million at December 31, 2003 compared to $457,000 at March 31, 2004. The Company's troubled debt restructurings of $1.7 million at March 31, 2004 consists primarily of restructured commercial and agricultural loans. Included in the $1.7 million of troubled debt restructurings are restructured agricultural loans of $1.1 million which are 90% guaranteed for $947,000 by the Farmers Home Administration, thereby limiting the Company's exposure on those loans. 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.

Net foreclosed assets held for sale, totaling $147,000 at March 31, 2004 increased $52,000, compared to $95,000 at December 31, 2003. As of March 31, 2004 the Company had three real estate properties totaling $106,000 consisting of three single-family residential properties and other repossessed assets of $41,000. Foreclosed assets are carried at lower of cost or net realizable value.

Interest receivable declined by $389,000 or 17.4% from $2.2 million to $1.8 million primarily due to annual payments received on agricultural loans. Federal Home Loan Bank stock increased by $65,000 due to the receipt of dividends in the form of stock.

Loan servicing rights declined by $102,000 from $964,000 at December 31, 2003 to $862,000 at March 31, 2004. Gross loan servicing rights decreased by $129,000 from $1.2 million at December 31, 2003 to $1.1 million at March 31, 2004 due to amortization of loan servicing rights of $155,000 offset by newly capitalized assets of $26,000. The valuation allowance decreased from $267,000 at December 31, 2003 to $240,000 at March 31, 2004, a $27,000 recovery of a previous impairment as a result of current valuations.

The Company's total deposits amounted to $164.6 million at March 31, 2004 compared to $163.0 million at December 31, 2003, an increase of $1.6 million. The 1.0% increase in total deposits was due to a $797,000 increase in non-interest bearing deposits, and a $801,000 increase in interest bearing deposits. The increase in interest bearing deposits was a result of an increase of $1.2 million in interest-bearing checking accounts, a $674,000 increase in savings accounts, partially offset by a $1.1 million decrease in certificates of deposit.

Federal Home Loan Bank advances and other debt remained constant at $26.5 million at December 31, 2003 and March 31, 2004. The total average rate of all advances was 4.04% as of March 31, 2004.

Advances from borrowers for taxes and insurance increased by $131,000 from $109,000 at December 31, 2003 to $240,000 at March 31, 2004. Adjustments to deferred income taxes for the tax effect of the increase in market value of investment securities available for sale resulted in a deferred tax liability of $336,000 at March 31, 2004 compared to a deferred tax asset of $37,000 at December 31, 2003.

Stockholders' equity at March 31, 2004 was $27.2 million compared to $26.4 million at December 31, 2003, an increase of $760,000. Retained earnings increased by the amount of net income or $226,000, partially offset by $125,000 in dividends declared and paid. Accumulated comprehensive income increased by $536,000 due to an increase in the fair value of securities available for sale, net of tax.

RESULTS OF OPERATIONS

COMPARISON OF THREE MONTH PERIODS ENDED MARCH 31, 2004 AND 2003

Net income for the three months ended March 31, 2004 decreased by $286,000 or 55.9% from $512,000 for the three months ended March 31, 2003 to $226,000 for the three months ended March 31, 2004. The decrease in net income is primarily due to decreases in net interest income and noninterest income, and an increase in noninterest expense, partially offset by a slight decrease in the provision for loan losses.

Net interest income decreased $145,000 or 7.5% from $1.94 million for the three months ended March 31, 2003 to $1.80 million for the three months ended March 31, 2004. The primary reason for the decrease in net interest income was a decrease in interest and dividend income of $183,000 partially offset by a decrease of $38,000 in interest expense. The Company's net interest margin was 3.48% and 4.14% during the three months ended March 31, 2004 and 2003, respectively. The net interest margin decreased as a result of a decrease in interest rates on interest-bearing assets, partially offset by a decrease in interest rates on interest-bearing liabilities.

Total interest and dividend income decreased by $183,000 or 5.9% from $3.10 million for the three months ended March 31, 2003 to $2.92 million for the three months ended March 31, 2004. The decrease was primarily due to a decrease in loan interest income partially offset by increased interest income on securities available for sale. The decrease of $253,000 in loan interest income was primarily due to a decrease in the average loan rate of 107 basis points, partially offset by an increase in average loans. Interest and dividend income from available for sale securities increased by $67,000 primarily due to an increase in the average balance of available for sale investments, partially offset by a decrease in average interest rate of 48 basis points.

Interest expense declined by $38,000 or 3.3% from $1.16 million for the three months ended March 31, 2003 to $1.12 million for the three months ended March 31, 2004. This decline was primarily due to a decrease of $86,000 in interest on deposits, partially offset by $48,000 increase in interest on Federal Home Loan Bank advances. The $86,000 decrease in interest expense on deposits was primarily due to a decrease of 53 basis points in the average interest rate on deposits, partially offset by an increase in the average balance of deposits. The $48,000 increase in interest on Federal Home Loan Bank advances was due to an increase in the average balance, partially offset by a 14 basis point reduction in interest rate.

For the three months ended March 31, 2004 and 2003 the provision for losses on loans was $150,000 and $164,000, respectively. The provision for the three months ended March 31, 2004 was based on the Company's analysis of the allowance for loan losses. Management meets on 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 March 31, 2004, its allowance for loan losses was adequate.

Noninterest income decreased $143,000 or 16.1% from $890,000 for the three months ended March 31, 2003 to $747,000 for the three months ended March 31, 2004. The decrease was primarily a result of decreases in net gains on loan sales and other service fees and charges, decreases in brokerage fees and abstracting income, partially offset by an increase in net realized gains on sales of available for sale securities and increased customer service fees. Net gains on loan sales decreased by $106,000 from $166,000 for the three months ended March 31, 2003 to $60,000 for the three months ended March 31, 2004. This decline occurred as loan sales decreased from $11.9 million loans sold in the first quarter 2003 to $3.2 million loans sold in the first quarter 2004. Loan refinancings have slowed significantly compared to last year, due to slightly rising interest rates compared to last year's historic low interest rates. Other service charges and fees decreased by $43,000 from $212,000 for the three months ended March 31, 2003 to $169,000 for the three months ended March 31, 2004 primarily due to a decrease in fees associated with residential loans sold into the secondary market resulting from the reduced loan volume. Abstracting and title fees also declined by $22,000 from $105,000 for the three months ended March 31, 2003 to $83,000 for the three months ended March 31, 2004, due to the high level of refinancing activity in 2003. Net realized gains on sales of available for sale securities of $37,000 for the three months ended March 31, 2004 resulted from the sale of equity securities.

Total noninterest expenses were $2.05 million for the three months ended March 31, 2004 as compared to $1.92 million for the three months ended March 31, 2003. The primary reason for the $127,000 increase was an increase in salaries and employee benefits of $140,000, an increase in professional fees of $41,000, and a reduction in the recovery of a previously identified impairment of loan servicing rights of $57,000, partially offset by a reduction of $107,000 in amortization of loan servicing rights. Salaries and employee benefits increased by $140,000 from $1.03 million for the three months ended March 31, 2003 to $1.17 million for the three months ended March 31, 2004. The salary increase was $94,000 which was primarily due to normal pay increases and the addition of four full-time employees and one part-time employee. The majority of the employee additions are a result of the branch expansion into Savoy. The increase in employee benefits of $45,000 was primarily due to increased health insurance expense and increased Employee Stock Ownership Plan ("ESOP") expense. Health insurance expense was $99,000 for the three months ended March 31, 2004 compared to $80,000 for the three months ended March 31, 2003, a $19,000 increase as a result a higher premiums. ESOP expense increased due to a higher average share price. 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.

Professional fees increased by $41,000 from $75,000 for the three months ended March 31, 2003 to $116,000 for the same period in 2004. The increase was primarily a result of higher legal fees in 2004, primarily related to the expansion into Savoy, and increased consulting fees, primarily from the retention of an investors relations consulting firm. Amortization of loan servicing rights decreased from $262,000 for the three months ended March 31, 2003 to $155,000 for the three months ended March 31, 2004, as a result of a decrease in loan prepayments. The recovery of impairment of loan servicing rights was $84,000 for the three months ended March 31, 2003

compared to $27,000 for the three months ended March 31, 2004. The amount of the recovery or impairment is determined by comparing the book value of the loan servicing rights to an independent valuation based on a discounted cash flow methodology, utilizing current prepayment speeds and discount rates.

Income tax expense was $120,000 for the three months ended March 31, 2004 as compared to $235,000 for the three months ended March 31, 2003. The decrease of $115,000 in income tax expense was due to a decrease in income before taxes of $401,000. The effective tax rates were 34.7% and 31.5%, respectively, for the three months ended March 31, 2004 and 2003.

CRITICAL ACCOUNTING POLICIES

The preparation of financial statements in conformity with accounting standards generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the related disclosure of contingent assets and liabilities. Actual results could differ from those estimates under different assumptions and conditions. 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 real estate.

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 March 31, 2004 and December 31, 2003, mortgage servicing rights had carrying values of $862,000 and $964,000, 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 March 31, 2004, the Company had outstanding commitments to originate $6.8

million in loans. In addition, open-end line of credit loans had $9.1 million available to be drawn upon. As of March 31, 2004, the total amount of certificates scheduled to mature in the following 12 months was $41.8 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 March 31, 2004:

	ACTUAL		REQUIRED FOR ADEQUATE CAPITAL		T C
	Amount	%	Amount	%	Amoun
MARCH 31, 2004			(Dollars in thousands)		
Total capital (to risk-weighted assets)	$25,331	22.10	$9,171	8.0	$11,4
Tier 1 capital (to risk-weighted assets)	23,889	20.84	4,586	4.0	6,8
Tier 1 capital (to average assets)	23,889	10.73	8,909	4.0	11,1

The Company's consolidated capital-to-asset requirements and actual capital as of March 31, 2004 are summarized in the following table:

	ACTUAL		REQUIRED FOR ADEQUATE CAPITAL		T C
	Amount	%	Amount	%	Amoun
MARCH 31, 2004			(Dollars in thousands)		
Total capital (to risk-weighted assets)	$27,603	23.80	$9,278	8.0	---
Tier 1 capital (to risk-weighted assets)	26,144	22.54	4,639	4.0	---
Tier 1 capital (to average assets)	26,144	11.66	8,968	4.0	---

ITEM 3. CONTROLS AND PROCEDURES

The Company carried out an evaluation as of March 31, 2004, 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 during the quarter ended March 31, 2004.

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 AND ISSUER PURCHASES OF EQUITY SECURITITES

(e) The following table provides information about purchases of the Company's common stock by the Company during the quarter ended March 31, 2004.

ISSUER PURCHASES OF EQUITY SECURITIES

PERIOD	(a) TOTAL NUMBER OF SHARES PURCHASED	(b) AVERAGE PRICE PAID PER SHARE	(c) TOTAL NUMBER OF SHARES PURCHASED AS PART OF PUBLICLY ANNOUNCED PLANS OR PROGRAMS	(d) MAXIM NUMBER O SHARES THAT YET BE PURCHASE UNDER THE P OR PROGRA
01/01/04 - 01/31/04	-	-	-	62,272
02/01/04 - 02/29/04	-	-	-	62,272
03/01/04 - 03/31/04	-	-	-	62,272

Total	-	-	-	62,272

(1) We did not repurchase any shares of our common stock pursuant to the repurchase program that we announced on May 15, 2003 (the "Program").

(2) Our board of directors approved the repurchase by us of 5%, or 62,272 shares pursuant to the Program. The expiration date of this Program is May 15, 2004. Unless terminated earlier by resolution of our board of directors, the Program will expire on the earlier of such expiration date or when we have repurchased all shares authorized for repurchase under the Program.

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

31.1 Certification of Terry J. Howard required by Rule 13a-14(a).

31.2 Certification of Ellen M. Litteral required by Rule 13a-14(a).

32.1 Certification of Terry J. Howard, Chief Executive Officer pursuant to Rule 13a-14(b) and Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350).

32.2 Certification of Ellen M. Litteral, Chief Financial Officer pursuant to Rule 13a-14(b) and Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350).

(b) The Company filed a Current Report on Form 8-K on February 17, 2004 related to its news release to report financial results for the year ended December 31, 2003.

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: May 13, 2004 /s/ Terry J. Howard

Terry J. Howard
President and Chief Executive Officer

Date: May 13, 2004

/s/ Ellen M. Litteral

Ellen M. Litteral
Treasurer and Chief Financial Officer