FIRST BANCTRUST CORP
Form 10QSB
August 14, 2002

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 JUNE 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 [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 AUGUST 12, 2002 THE REGISTRANT HAD OUTSTANDING 1,403,710 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)

	JUNE 30, 2002 (unaudited)	DECEMBER 31, 2001
ASSETS		
Cash and due from banks	$ 5,475	$ 7,308
Interest-bearing demand deposits	4,554	9,438
Cash and cash equivalents	10,029	16,746
Available-for-sale securities	85,292	65,207
Loans held for sale	597	597
Loans, net of allowance for loans losses of $2,032 and $1,657	104,541	100,656
Premises and equipment	2,390	2,435
Foreclosed assets held for sale, net	616	807
Interest receivable	2,010	2,116
Loan servicing rights	2,059	2,095
Cash surrender value of life insurance	3,564	3,479
Federal Home Loan Bank stock	3,625	1,582
Other assets	313	317
Total assets	$ 215,036	$ 196,037

LIABILITIES AND STOCKHOLDERS' EQUITY

Deposits		
Noninterest bearing	$ 14,087	$ 13,963
Interest bearing	146,215	127,353
Total deposits	160,302	141,316
Federal Home Loan Bank advances and other debt	25,508	25,516
Pass through payments received on loans sold	25	270
Advances from borrowers for taxes and insurance	75	140
Deferred income taxes	492	127
Interest payable	160	124
Other liabilities	600	826
Total liabilities	187,162	168,319
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	15
Additional paid-in capital	14,410	14,382
Retained earnings	15,789	15,214
Accumulated other comprehensive income	764	247
	30,978	29,858
Unallocated employee stock ownership plan shares - 102,665 and 110,267 shares	(1,187)	(1,275)
Unearned recognition and retention plan shares - 16,858 and 0 shares	(278)	
Treasury stock, at cost - 111,000 and 62,600 shares	(1,639)	(865)
Total stockholders' equity	27,874	27,718
Total liabilities and stockholders' equity	$ 215,036	$ 196,037

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)

SIX MONTHS ENDED JUNE 30	2002	2001
INTEREST INCOME		
Loans		

Taxable	$ 4,422	$ 5,068
Tax exempt	22	27
Investment securities		
Taxable	1,755	1,315
Tax exempt	145	120
Deposits with financial institutions	69	206
FHLB stock dividends	61	51
Total interest income	6,474	6,787
INTEREST EXPENSE		
Deposits	2,279	3,009
Federal Home Loan Bank advances and other debt	582	726
Total interest expense	2,861	3,735
NET INTEREST INCOME	3,613	3,052
Provision for loan losses	496	272
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	3,117	2,780
NONINTEREST INCOME		
Service charges on deposit accounts	222	257
Loan servicing fees	(364)	56
Other customer fees	434	415
Net gains on loan sales	596	384
Brokerage fees	90	12
Abstract and title fees	184	183
Other income	119	73
Total noninterest income	1,281	1,380
NONINTEREST EXPENSE		
Salaries and employee benefits	1,961	1,686
Net occupancy expenses	91	95
Equipment expenses	292	318
Data processing fees	228	249
Advertising and promotion	83	78
Professional fees	180	160
Other expenses	438	318
Total noninterest expense	3,273	2,904
INCOME BEFORE INCOME TAX	1,125	1,256
Income tax expense	407	461
NET INCOME	718	795
OTHER COMPREHENSIVE INCOME		
Unrealized appreciation on available-for-sale securities	517	284
COMPREHENSIVE INCOME	$ 1,235	$ 1,079

EARNINGS PER SHARE		
Basic	$ 0.54	$ N/A
Diluted	$ 0.54	$ N/A

See notes to condensed consolidated financial statements.

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

THREE MONTHS ENDED JUNE 30	2002	2001
INTEREST INCOME		
Loans		
Taxable	$ 2,219	$ 2,515
Tax exempt	11	14
Investment securities		
Taxable	891	690
Tax exempt	73	61
Deposits with financial institutions	34	139
FHLB stock dividends	41	25
Total interest income	3,269	3,444
INTEREST EXPENSE		
Deposits	1,119	1,493
Federal Home Loan Bank advances and other debt	293	328
Total interest expense	1,412	1,821
NET INTEREST INCOME	1,857	1,623
Provision for loan losses	297	125
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	1,560	1,498
NONINTEREST INCOME		
Service charges on deposit accounts	127	127
Loan servicing fees	(220)	34
Other customer fees	211	239
Net gains on loan sales	432	215
Brokerage fees	88	7

Abstract and title fees	80	99
Other income	67	37
Total noninterest income	785	758
NONINTEREST EXPENSE		
Salaries and employee benefits	1,044	871
Net occupancy expenses	46	47
Equipment expenses	137	154
Data processing fees	115	124
Advertising and promotion	43	39
Professional fees	88	72
Other expenses	217	179
Total noninterest expense	1,690	1,486
INCOME BEFORE INCOME TAX	655	770
Income tax expense	215	288
NET INCOME	440	482
OTHER COMPREHENSIVE INCOME (LOSS)		
Unrealized appreciation (depreciation) on available-for-sale securities	888	(149)
COMPREHENSIVE INCOME	$ 1,328	$ 333
EARNINGS PER SHARE		
Basic	$ 0.34	$ N/A
Diluted	$ 0.34	$ N/A

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)

SIX MONTHS ENDED JUNE 30	2002	20
OPERATING ACTIVITIES		
Net income	$ 718	$

Items not requiring (providing) cash		
Depreciation and amortization	129	
Provision for loan losses	496	
Investment securities amortization (accretion), net	--	
Amortization of loan servicing rights	615	
Deferred income taxes	4	
Net gain on sales of foreclosed assets	4	
Net gains on sales of premises and equipment	-	
Net gains on loan sales	(596)	
Loans originated for sale	(15,223)	(12
Proceeds from sales of loans originated for resale	15,241	11
Federal Home Loan Bank stock dividends	(43)	
Compensation expense related to employee stock ownership plan	118	
Compensation expense related to recognition and retention plan	18	
Changes in		
Interest receivable	106	
Cash surrender value	(85)	
Other assets	4	
Interest payable	36	
Other liabilities	(227)	
Net cash provided by operating activities	1,315	
INVESTING ACTIVITIES		
Net change in interest-bearing time deposits	--	
Purchases of available-for-sale securities	(29,574)	(19
Proceeds from maturities of available-for-sale securities	10,187	9
Proceeds from sales of available-for-sale securities	179	
Purchase of Federal Home Loan Bank stock	(2,000)	
Net collections (originations) in loans	(4,753)	1
Proceeds from sales of foreclosed assets	559	
Purchases of premises and equipment	(84)	
Proceeds from sale of premises and equipment	--	
Net cash used in investing activities	(25,486)	(7

FINANCING ACTIVITIES		
Net increase (decrease) in demand deposits, money market, NOW and savings deposits	$ 124	$ (1
Net increase (decrease) in certificates of deposit	18,862	(1
Net decrease in short-term borrowings	--	(1
Proceeds from the issuance of Federal Home Loan Bank advances	--	17
Repayment of Federal Home Loan Bank advances and other debt	(8)	(13
Pass through payments received on loans sold	(245)	
Net increases (decreases) in advances by borrowers for taxes and insurance	(65)	
Proceeds from stock issuance	--	14
Dividends paid	(143)	
Purchase of employee stock ownership plan shares	--	(1

Purchase of treasury stock	(774)	
Purchase of stock for recognition and retension plan	(297)	
	--------	----
Net cash provided by financing activities	17,454	12
	--------	----
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(6,717)	5
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	16,746	9
	--------	----
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 10,029	$ 14
	========	====
SUPPLEMENTAL CASH FLOWS INFORMATION		
Real estate and other assets acquired in settlement of loans	$ 372	$ 1
Interest paid	2,825	2
Income tax paid	557	

See notes to condensed consolidated 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 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 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 six months ended June 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 ESOP expense was $62,000 and $118,000 for the three-month and six-month periods ended June 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

Amounts reported as earnings per common share reflect earnings available to common stockholders for the period divided by the weighted average number of common shares outstanding during the period. 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 three-month and six-month periods ended June 30, 2001.

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

	Income	Weighted Average Shares	Per Share Amount

For the six months ended June 30, 2002:

Basic Earnings Per Share:			
Income available to common stockholders	$ 718	1,325,528	$ 0.54
Effect of Dilutive Securities:			
Unearned recognition and retention plan shares		2,726	
Diluted Earnings per Share:			
Income available to common stockholders and assumed conversions	$ 718	1,328,254	$ 0.54

For the three months ended June 30, 2002:

Basic Earnings Per Share:			
Income available to common stockholders	$ 440	1,303,847	$ 0.34
Effect of Dilutive Securities:			
Unearned recognition and retention plan shares		5,451	
Diluted Earnings per Share:			
Income available to common stockholders and assumed conversions	$ 440	1,309,298	$ 0.34

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Note 5 - 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 August 12, 2002, the Company had repurchased 117,165 shares.

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 June 30, 2002 to its financial condition at December 31, 2001 and the results of operations for the three-month and six-month periods ending June 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 $19.0 million or 9.69%, to $215.0 million at June 30, 2002 from $196.0 million at December 31, 2001. Available-for-sale securities increased by $20.0 million, loans net of allowance for loan losses increased by $3.9 million, and Federal Home Loan Bank stock increased by $2.0 million, partially offset by a $6.7 million decrease in cash and cash equivalents and a $191,000 decrease in foreclosed assets held for sale.

The Company's cash and due from banks decreased by $1.8 million or 25.08% to $5.5 million at June 30, 2002 from $7.3 million at December 31, 2001. Interest-bearing demand deposits decreased $4.8 million or 51.75% to $4.6 million at June 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 $85.3 million at June 30, 2002 compared to $65.2 million at December 31, 2001, a $20.1 million or 30.80% increase. The increase resulted from $29.6 million in investment purchases, primarily in mortgage-backed securities and Federal Home Loan Bank ("FHLB") agency bonds and an increase of $877,000 in market value, partially offset by calls, maturities, and principal repayments of $10.2 million and sales of $179,000.

The Company's net loan portfolio increased by $3.9 million or 3.86% to $104.5 million at June 30, 2002 from $100.7 million at December 31, 2001. Gross loans increased by $4.3 million while the allowance for loan losses increased by $375,000. Non-farm non-residential real estate loans increased by $1.0 million, agricultural production loans increased by $2.9 million, and consumer loans increased by $1.3 million. Loans secured by 1-4 family residences decreased by $600,000, construction loans declined by $170,000 as they were converted to permanent financing, and farmland loans decreased by $300,000.

At June 30, 2002 the allowance for loan losses was $2.0 million or 1.91% 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 determines classified assets into watch, substandard, doubtful, and loss categories, as defined by federal regulation. Classified assets at June 30, 2002 were $6.39 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 3.05% or $3.2 million at June 30, 2002. The Company's nonperforming loans and troubled debt restructurings of $3.2 million at June 30, 2002 consist of $2.8 million in nonperforming loans primarily secured by agricultural production loans and 1-4 family residences and restructured loans of $400,000 secured by commercial and agricultural loans. During the second quarter the Company identified an additional exposure of $270,000 relating to one agricultural borrower on loans secured by farm equipment. The Company's recoveries of $56,000 for the six-months ended June 30, 2002 partially offset the charge-offs for the six-months ended June 30, 2002 of $177,000. 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 have decreased $191,000 to $616,000 at June 30, 2002, compared to $807,000 at December 31, 2001. As of June 30, 2002 the Company had eight real estate properties totaling $409,000 consisting of four single-family dwellings, two commercial buildings, one multi-family dwelling and one farmland property, and other repossessed assets of $207,000. Foreclosed assets are carried at lower of cost or net realizable value.

Interest receivable declined by $106,000 or 5.01% from $2.1 million to $2.0 million primarily due to the receipt of annual payments on agricultural loans. Federal Home Loan Bank stock increased by $2.0 million to $3.6 million at June 30, 2002 from $1.6 million at December 31, 2001. The increase was due to an additional $2.0 million investment in the stock.

The Company's total deposits amounted to $160.3 million at June 30, 2002 compared to $141.3 million at December 31, 2001, an increase of $19.0 million. The increase in total deposits was due to a $18.9 million increase in interest bearing deposits. The increase in interest bearing deposits was a result of an increase of $18.0 million in interest-bearing checking accounts, and a $1.6 million increase in savings accounts, partially offset by a $675,000 reduction in certificates of deposit. Of the $18.0 million increase in interest-bearing checking accounts, approximately $14.2 million is a business money market account from one corporate depositor, and $2.8 million is from growth in the Investor Checking product, which has a comparable rate to a money market account without the transaction limitations. The $14.2 million business money market account was opened in June 2002 and represents 8.91% of total deposits as of June 30, 2002. The Company believes it has adequate resources to fund the withdrawal of this deposit either through internal funding or Federal Home Loan Bank advances.

Pass through payments received on loans sold declined by $245,000 from $270,000 at December 31, 2001 to $25,000 at June 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 $65,000 from $140,000 at December 31, 2001 to $75,000 at June 30, 2002. The decrease was due to real estate taxes being paid in June 2002. 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 $365,000 to $492,000 at June 30, 2002 compared to $127,000 at December 31, 2001. Other liabilities declined by $226,000 from $826,000 at December 31, 2001 to $600,000 at June 30, 2002, primarily due to payment of income taxes.

Stockholders' equity at June 30, 2002 was $27.9 million compared to $27.7 million at December 31, 2001, a decrease of $156,000. Accumulated comprehensive income increased by $517,000, due to an increase in the fair value of securities available for sale. Retained earnings increased by $575,000 from net income of $718,000, partially offset by $143,000 in dividends declared and paid. Treasury stock increased from $865,000 at December 31, 2001 to $1.6 million at June 30, 2002 due to open-market share repurchases amounting to $774,000. The recognition and retention plan trust purchased $297,000 of Company stock with $18,000 allocated to participants.

RESULTS OF OPERATIONS

COMPARISON OF SIX MONTH PERIODS ENDED JUNE 30, 2002 AND 2001

Net income for the six months ended June 30, 2002 decreased by $77,000 or 9.69% from $795,000 for the six months ended June 30, 2001 to $718,000 for the six months ended June 30, 2002. The decrease in net income is primarily due to increases in non-interest expense and provision for loan losses, and a decrease in noninterest income, partially offset by an increase in net interest income.

Net interest income increased $561,000 or 18.4% from $3.05 million for the six months ended June 30, 2001 to $3.61 million for the six months ended June 30, 2002. The primary reason for the increase in net interest income was a decrease in interest expense of $874,000 partially offset by a decrease of $313,000 in interest income. The Company's net interest margin was 3.93% and 3.68% during the six months ended June 30, 2002 and 2001, respectively. The net interest margin increased as a result of an increase in the interest spread from 3.06%

for the six months ended June 30, 2001 to 3.49% for the six months ended June 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.

Loan interest income for the six months ended June 30, 2002 declined by $651,000 to $4.4 million from $5.1 million for the six months ended June 30, 2001 due to both a decrease in yield of 75 basis points and a decrease in the average portfolio size of $5.6 million. Investment income increased by $465,000 to $1.8 million for the six months ended June 30, 2002 from $1.4 million for the six months ended June 30, 2001 due to an increase of $22.0 million in the average investment portfolio, which was partially offset by a decrease in average yield by 66 basis points. Interest income earned on deposits with financial institutions decreased by $137,000 due to a 3.69% decrease in the average rate partially offset by an $834,000 increase in the average balance.

Interest expense declined by $874,000 from $3.7 million for the six months ended June 30, 2001 to $2.9 million for the six months ended June 30, 2002. Interest expense on deposits declined from $3.0 million for the six months ended June 30, 2001 to $2.3 million for the six months ended June 30, 2002 due to lower rates paid on deposits which was partially offset by a higher volume in interest-bearing checking 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 six months ended June 30, 2002 and 2001 the provision for losses on loans was $496,000 and $272,000, respectively, an increase of $224,000. The provision for the six months ended June 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 June 30, 2002, its allowance for loan losses was adequate.

Noninterest income decreased $99,000 or 7.17% from $1.38 million for the six months ended June 30, 2001 to $1.28 million for the six months ended June 30, 2002. The decrease was primarily a result of a reduction in loan servicing fees of $420,000 partially offset by increased net gains on loan sales of $212,000 and increased brokerage fees of $78,000.

Loan servicing fees declined from $56,000 for the six months ended June 30, 2001 to a negative $364,000 for the six months ended June 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, and an identification of a servicing asset impairment. Loans sold for the six months ended June 30, 2002 were $15.2 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 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 generally accepted accounting principles. Amortization of servicing assets increased from $169,000 for the six months ended June 30, 2001 as compared to $510,000 for the six months ended June 30, 2002. An additional $105,000 was amortized in June, 2002 due to the identification of an impaired servicing asset. Servicing assets are revalued periodically, and if the valuation is lower than book value on servicing assets, an impairment exists, and is required to be charged off.

Net gains on loan sales increased by $212,000 from $384,000 for the six months ended June 30, 2001 to $596,000 for the six months ended June 30, 2002, primarily due to gains related to capitalized servicing assets. Capitalized servicing assets were $578,000 for the six months ended June 30, 2002 compared to $345,000 for the six months ended June 30, 2001. Brokerage fees from First Charter Service Corporation, a wholly owned subsidiary of the Company, increased $78,000 from $12,000 for the six months ended June 30, 2001 to $90,000 for the six months ended June 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.

Total noninterest expenses were $3.3 million for the six months ended June 30, 2002 as compared to $2.9 million for the six months ended June 30, 2001, an increase of $369,000 or 12.7%. The primary reason for the increase was an increase in salaries and employee benefits of $275,000 and an increase in other expenses of $120,000. Salaries and employee benefits increased by $275,000 from $1.69 million for the six months ended June 30, 2001 to $1.96 million for the six months ended June 30, 2002 due to increased salaries expense, director fees, employee stock ownership expense and training expense. Salaries expense increased by $138,000 due primarily to normal pay increases, the addition of three full-time employees and one part-time employee, and increased commissions paid to brokerage employees due to higher sales volume. Employee stock ownership expense increased by $78,000 due to six months expense for 2002 compared to three months expense for 2001, as the Employee Stock Ownership Plan was adopted in April, 2001. The Recognition and Retention Plan received shareholder approval in April 2002, and the expense for the six months ended June 30, 2002 was $17,000.

Other expenses increased by $120,000 from $318,000 for the six months ended June 30, 2001 to $438,000 for the six months ended June 30, 2002. The increase in other expense is primarily due to increases in holding company expenses and increased expenses related to disposition of foreclosed assets. Holding company expenses increased by $39,000 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. Expenses for disposition of foreclosed assets increased by $38,000 for the six months ended June 30, 2002 as foreclosed assets were liquidated.

Income tax expense was $407,000 for the six months ended June 30, 2002 as compared to $461,000 for the six months ended June 30, 2001. The effective tax rates were 36.2% and 36.7%, respectively, for the six months ended June 30, 2002 and 2001.

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

Net income for the three months ended June 30, 2002 decreased by $42,000 or 8.71% from $482,000 for the three months ended June 30, 2001 to $440,000 for the three months ended June 30, 2002. The decrease in net income is primarily due to increases in noninterest 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 $234,000 or 14.4% from $1.62 million for the three months ended June 30, 2001 to $1.86 million for the three months ended June 30, 2002. The primary reason for

the increase in net interest income was a decrease in interest expense of $409,000 partially offset by a decrease of $175,000 in interest income. The Company's net interest margin was 4.11% and 3.97% during the three months ended June 30, 2002 and 2001, respectively. The net interest margin increased as a result of an increase in the interest spread from 3.39% for the three months ended June 30, 2001 to 3.66% for the three months ended June 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.

Loan interest income decreased by $299,000 from $2.5 million for the three months ended June 30, 2001 to $2.2 million for the three months ended June 30, 2002. The decrease is primarily due to a $6.2 million decrease in average portfolio size as well as a 61 basis point decrease in yield. Income from investment securities for the three months ended June 30, 2002 increased by $213,000 due to a $21.1 million increase in the average investment portfolio, partially offset by a 95 basis point decrease in average yield. Interest income on deposits held with financial institutions decreased by $105,000 for the three months ended June 30, 2002 compared to the same period in 2001 due primarily to a rate decline of 5.38%.

Interest expense declined by $409,000 for the three months ended June 30, 2002 compared to the three months ended June 30, 2001 due to a decrease in rates paid on deposits. Interest expense on deposits for the three months ended June 30, 2002 was $1.1 million compared to $1.5 million for the three months ended June 30, 2001, a reduction of $374,000 due to a decrease in rates paid of 1.72% partially offset by an increase in the average balance of $15.3 million. Interest on Federal Home Loan Bank advances and other borrowed money declined by $35,000 due to reduced rates on borrowings.

For the three months ended June 30, 2002 and 2001 the provision for losses on loans was $297,000 and $125,000, respectively, an increase of $172,000. The provision for the three months ended June 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 June 30, 2002, its allowance for loan losses was adequate.

Noninterest income increased $27,000 or 3.56% from $758,000 for the three months ended June 30, 2001 to $785,000 for the three months ended June 30, 2002. The increase was primarily a result of increased net gains on loan sales of $217,000 and increased brokerage fees of $81,000 partially offset by a reduction in loan servicing fees of $254,000.

Loan servicing fees declined from $34,000 for the three months ended June 30, 2001 to a negative $220,000 for the three months ended June 30, 2002. This decline was primarily due to the accelerated amortization of servicing assets resulting from increased principal reductions on the related loans, and an impairment of servicing assets. Loans sold for the three months ended June 30, 2002 were $8.3 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 $40,000 for the three months ended June 30, 2001 compared to $164,000 for the three months ended June 30, 2002. An additional $105,000 was amortized in June 2002 due to an impairment 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 off.

Net gains on loan sales increased from $215,000 for the three months ended June 30, 2001 to $432,000 for the three months ended June 30, 2002, an increase of $217,000. This increase was primarily a result of gains recognized on servicing assets of $409,000 for the three months ended June 30, 2002 compared to $188,000 for the three months ended June 30, 2001. Brokerage fees from First Charter Service Corporation, a wholly owned subsidiary of the Company, increased from $7,000 for the three months ended June 30, 2001 to $88,000 for the three months ended June 30, 2002. The increase was a result of a new established representative for Primevest Financial Services and a newly referral program to generate annuity sales.

Total noninterest expenses were $1.7 million for the three months ended June 30, 2002 as compared to $1.5 million for the three months ended June 30, 2001. The primary reason for the increase was an increase in salaries and employee benefits of $173,000 and an increase in other expenses of $38,000. Salaries and employee benefits increased by $173,000 from $871,000 for the three months ended June 30, 2001 to $1.0 million for the three months ended June 30, 2002. Salaries increased by $110,000 due to normal pay increases, the addition of three full-time employees and one part-time employee, and increased commissions paid to brokerage employees due to higher sales volume. Employee stock ownership plan expense increased by $20,000 due to a higher average stock price. Director fees increased by $10,000 and recognition and retention expense increased by $17,000.

Income tax expense was $215,000 for the three months ended June 30, 2002 as compared to $288,000 for the three months ended June 30, 2001. The effective tax rates were 32.8% and 37.4%, respectively, for the three months ended June 30, 2002 and 2001. The decrease in the effective rate was due to changes in permanent tax differences.

CRITICAL ACCOUNTING POLICIES

The notes to the consolidated financial statements contain a summary of the Company's significant accounting policies presented on pages 28 through 32 of the Annual Report to Shareholders for the year ended December 31, 2001. 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 include determining the allowance for loan losses, the valuation of loan servicing rights, and the valuation of foreclosed assets held 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 June 30, 2002 and December 31, 2001, mortgage servicing rights had carrying values of $2,059,000 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 June 30, 2002, the Company had outstanding commitments to originate $3.2 million in loans. In addition, open-end line of credit loans had $5.5 million available to be drawn upon. As of June 30, 2002, the total amount of certificates scheduled to mature in the following 12 months was $46.7 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 June 30, 2002:

JUNE 30, 2002	ACTUAL		REQUIRED FOR ADEQUATE CAPITAL		
	Amount	%	Amount	%	Am
			(Dollars in thousands)		
Total capital (to risk-weighted assets)	$22,939	19.92	$9,213	8.0	$1
Tier 1 capital (to risk-weighted assets)	21,493	18.66	4,607	4.0	6
Tier 1 capital (to average assets)	21,493	11.10	7,747	4.0	9

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

JUNE 30, 2002	ACTUAL		REQUIRED FOR ADEQUATE CAPITAL		
	Amount	%	Amount	%	Am
			(Dollars in thousands)		
Total capital (to risk-weighted assets)	$28,193	24.25	$9,300	8.0	
Tier 1 capital (to risk-weighted assets)	26,733	23.00	4,650	4.0	
Tier 1 capital (to average assets)	26,733	13.75	7,778	4.0	

CURRENT ACCOUNTING ISSUES

In June 2001, Statement of Financial Accounting Standards ("SFAS") No. 141, "Business Combinations" was issued establishing accounting and reporting standards requiring all business combinations initiated after June 30, 2001 to be accounted for using the purchase method. SFAS No. 141 is effective for the Company for the fiscal quarter beginning July 1, 2001. The impact of this statement is dependent on future acquisition activity.

Also in June 2001, SFAS No. 142 "Goodwill and Other Intangible Assets" was issued effective for the first period of all fiscal years beginning after March 15, 2001. SFAS No. 142 addresses how acquired intangible assets should be accounted for in financial statements upon their acquisition, and also how goodwill and other intangible assets should be accounted for after they

have been initially recognized in the financial statements. In general, non-goodwill intangible assets are to be amortized in accordance with their useful lives. In addition, amortization of goodwill has been eliminated, with capitalized goodwill now being subjected to at least an annual assessment for impairment. A two-step process is to be used to determine, first whether an impairment exists, and then whether an adjustment is required. The Company has no goodwill or intangible assets; therefore, the adoption of this standard has not had an impact on the Company.

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 beginning June 15, 2002. The adoption of this standard did not have an 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 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.

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.

a. The Company's Annual Meeting of Shareholders was held on April 22, 2002.

b. Not applicable.

c. At such meeting there were 1,458,275 shares of Common Stock entitled to be voted.

The shareholders approved the following matters:

1. The election of the following individuals as Directors;

	Votes For	Votes Withheld	Term
David W. Dick	1,334,372	25,617	3 years
Terry J. Howard	1,334,168	25,821	3 years

2. The adoption of the 2002 Stock Option Plan which reserves 152,087 shares of Common Stock for future issuance, as reflected by 777,593 votes for, 168,176 votes against, and 46,970 abstentions. There were 367,250 broker non-votes.

3. The adoption of the 2002 Recognition and Retention Plan and Trust Agreement which authorizes the Trust established to purchase 60,835 shares, as reflected by 668,501 votes for, 304,911 votes against, and 19,327 abstentions. There were 367,250 broker non-votes.

4. The ratification of BKD, LLP as independent auditor of the Company for the fiscal year ending December 31, 2002, as reflected by 1,326,933 votes for, 24,490 votes against and 8,566 abstentions.

d. Not applicable.

ITEM 5. OTHER INFORMATION.

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: August 12, 2002

/s/ Terry J. Howard
____
Terry J. Howard
Chief Executive Officer and President

Date: August 12, 2002

/s/ Ellen M. Litteral
____
Ellen M. Litteral
Chief Financial Officer and Treasurer

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