FIRST BANCTRUST CORP
Form 10QSB
May 14, 2003

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

FORM 10-QSB

[X] QUARTERLY REPORT UNDER SECTION 13 OR 15 (d)
OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2003
[ ] 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, 2003 THE REGISTRANT HAD OUTSTANDING 1,281,610 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, 2003 (unaudited)	DECEMBER 31, 2002
ASSETS		
Cash and due from banks	$ 4,573	$ 6,996
Interest-bearing deposits with financial institutions	5,190	3,457
Cash and cash equivalents	9,763	10,453
Available-for-sale securities	85,843	72,747
Loans held for sale	1,256	597
Loans, net of allowance for loans losses of $1,840 and $1,963	102,977	105,182
Premises and equipment	2,749	2,772
Foreclosed assets held for sale, net	271	185
Interest receivable	1,793	2,357
Loan servicing rights, net of valuation allowance of $599 and $683	879	949
Cash surrender value of life insurance	3,711	3,667
Federal Home Loan Bank stock	3,814	3,712
Deferred income taxes	12	--
Other assets	198	104

Total assets	$ 213,266	$ 202,725
LIABILITIES AND STOCKHOLDERS' EQUITY		
Noninterest bearing deposits	$ 15,672	$ 17,296
Interest bearing deposits	131,844	130,039
Total deposits	147,516	147,335
Federal Home Loan Bank advances and other debt	38,500	26,501
Pass through payments received on loans sold	146	261
Advances from borrowers for taxes and insurance	266	133
Deferred income taxes	--	268
Interest payable	153	106
Other	735	815
Total liabilities	187,316	175,419
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	14,464	14,445
Retained earnings	16,687	16,243
Accumulated other comprehensive income		
Unrealized appreciation on available-for-sale securities, net of income taxes of $421 and $695	599	993
	31,765	31,696
Unallocated employee stock ownership plan shares - 91,262 and 95,063 shares	(1,055)	(1,099)
Unearned incentive plan shares - 54,554 and 56,267 shares	(900)	(928)
Treasury stock, at cost - 239,265 and 155,165 shares	(3,860)	(2,363)
Total stockholders' equity	25,950	27,306
Total liabilities and stockholders' equity	$ 213,266	$ 202,725

See notes to condensed financial statements.

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

THREE MONTHS ENDED MARCH 31	2003	2002

INTEREST AND DIVIDEND INCOME		
Loans		
Taxable	$ 2,232	$ 2,235
Tax exempt	9	11
Available-for-sale securities		
Taxable	714	864
Tax exempt	75	72
Deposits with financial institutions	17	35
Dividends on Federal Home Loan Bank stock and other	56	20
Total interest and dividend income	3,103	3,237
INTEREST EXPENSE		
Deposits	847	1,160
Federal Home Loan Bank advances and other debt	315	289
Total interest expense	1,162	1,449
NET INTEREST INCOME	1,941	1,788
Provision for loan losses	164	199
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	1,777	1,589
NONINTEREST INCOME		
Customer service fees	165	95
Other service charges and fees	212	191
Net gains on loan sales	166	164
Net loan servicing fees (cost)	(42)	(144)
Brokerage fees	35	2
Abstract and title fees	105	104
Other	71	69
Total noninterest income	712	481
NONINTEREST EXPENSE		
Salaries and employee benefits	1,029	917
Net occupancy expense	54	45
Equipment expense	174	155
Data processing fees	101	113
Advertising and promotion expense	50	40
Professional fees	75	92
Foreclosed assets expense, net	25	41
Other expenses	234	197
Total noninterest expense	1,742	1,600
INCOME BEFORE INCOME TAX	747	470
Income tax expense	235	192
NET INCOME	512	278
OTHER COMPREHENSIVE LOSS		

Unrealized depreciation on available-for-sale securities	(394)	(371)
COMPREHENSIVE INCOME (LOSS)	$ 118	$ (93)
BASIC EARNINGS PER SHARE	$ 0.43	$ 0.21
DILUTED EARNINGS PER SHARE	$ 0.41	$ 0.21

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	2003	2002
OPERATING ACTIVITIES		
Net income	$ 512	$ 278
Items not requiring (providing) cash		
Depreciation and amortization	70	70
Provision for loan losses	164	199
Investment securities amortization (accretion), net	106	6
Amortization of loan servicing rights	262	269
Recovery of impairment of loan servicing rights	(84)	--
Deferred income taxes	(6)	5
Net loss (gain) on sales of foreclosed assets	7	(4)
Net gains on loan sales	(166)	(164)
Loans originated for sale	(11,852)	(10,169)
Proceeds from sales of loans originated for resale	11,251	6,936
Federal Home Loan Bank stock dividends	(47)	(23)
Compensation expense related to employee stock ownership plan	65	56
Compensation expense related to incentive plan	27	--
Changes in		
Interest receivable	564	253
Cash surrender value	(44)	(42)
Other assets	(149)	5
Interest payable	47	35
Other liabilities	(80)	(33)
Net cash provided (used) by operating activities	647	(2,323)
INVESTING ACTIVITIES		
Purchases of available-for-sale securities	(28,228)	(8,897)
Proceeds from maturities of available-for-sale securities	14,358	4,534

Proceeds from sales of available-for-sale securities	--	85
Net collections in loans	1,869	591
Proceeds from sales of foreclosed assets	79	190
Purchases of premises and equipment	(47)	(7)
Net cash used by investing activities	(11,969)	(3,504)
FINANCING ACTIVITIES		
Net decrease in demand deposits, money market, NOW and savings deposits	(111)	(1,221)
Net increase in certificates of deposit	292	1,359
Proceeds from the issuance of Federal Home Loan Bank advances	18,000	--
Repayment of Federal Home Loan Bank advances and other debt	(6,001)	(4)
Pass through payments received on loans sold	(115)	(134)

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	2003	2002
Net increases in advances by borrowers for taxes and insurance	$ 133	$ 146
Dividends paid	(68)	(73)
Purchase of treasury stock	(1,498)	(74)
Net cash provided (used) by financing activities	10,632	(1)
DECREASE IN CASH AND CASH EQUIVALENTS	(690)	(5,828)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	10,453	16,746
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 9,763	$ 10,918
SUPPLEMENTAL CASH FLOWS INFORMATION		
Real estate acquired in settlement of loans	$ 172	$ 206
Interest paid	$ 1,115	$ 1,414
Income tax paid	$ 290	$ 193

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, dated January 17, 2003, 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, 2003. 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, 2003 and 2002 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 $65,000 and $56,000 for the three-month periods ended March 31, 2003 and 2002, respectively.

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

Note 4 - Earnings per Share

Basic earnings per share have been computed based upon the weighted average common shares outstanding for the three month periods ended March 31, 2003 and 2002. 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, 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
FOR THE THREE MONTHS ENDED MARCH 31, 2002:			
Basic Earnings Per Share:			
Income available to common stockholders	$ 278	1,347,209	$ 0.21

Note 5 - Authorized Share Repurchase Program

On December 4, 2002 the Company announced that the Board of Directors authorized the open-market stock repurchases of up to 6.1%, or 85,477 shares of the Company's outstanding stock over the one-year period ending October 23, 2003. On March 13, 2003 the Board of Directors authorized the additional 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, as in the

opinion of management, market conditions warrant. Previously, the Company had completed two repurchase programs for stock repurchases of 143,451 shares representing 10% of the outstanding shares. As of May 12, 2003, the Company had repurchased a cumulative total of 239,265 shares.

Note 6 - Recent Accounting Pronouncements

In November 2002, the FASB issued Interpretation No. 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others ("FIN 45"). FIN 45 will change current practice in the accounting for and disclosure of guarantees. Guarantees meeting the characteristics described in FIN 45 are required to be initially recorded at fair value, which is different from the general current practice of recording a liability only when a loss is probable and reasonably estimable, as those terms are defined in FASB Statement No. 5, Accounting for Contingencies. FIN 45 also requires a guarantor to make new disclosures for virtually all guarantees even if the likelihood of the guarantor's having to make payments under the guarantee is remote.

In general, FIN 45 applies to contracts or indemnification agreements that contingently require the guarantor to make payments to the guaranteed party based on changes in an underlying asset, liability, or an equity security of the guaranteed party such as financial standby letters of credit.

Disclosure requirements of FIN 45 are effective for financial statements of interim or annual periods ending after December 31, 2002. The initial recognition and measurement provisions are applicable on a prospective basis to guarantees issued or modified after December 31, 2002, irrespective of the guarantor's fiscal year-end. The guarantor's previous accounting for guarantees issued prior to the date of FIN 45 initial applications should not be revised or restated to reflect the provisions of FIN 45.

The Company adopted FIN 45 on January 1, 2003. The adoption of FIN 45 does not currently have a material impact on the Company's consolidated financial statements.

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, 2003 to its financial condition at December 31, 2002 and the results of operations for the three-month period ending March 31, 2003 to the same period in 2002. 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 was transferred from the Bank to the Company in 2002. 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 $10.5 million or 5.2%, to $213.3 million at March 31, 2003 from $202.7 million at December 31, 2002. The increase in assets was primarily due to increases in available-for-sale securities of $13.1 million and loans held for sale of $659,000, offset by decreases in loans, net of allowance for loan losses, of $2.2 million, a decrease in cash and cash equivalents of $690,000 and a decrease in interest receivable of $564,000. The increase in assets was funded by Federal Home Loan Bank borrowings.

The Company's cash and due from banks decreased by $2.4 million or 34.6% to $4.6 million at March 31, 2003 from $7.0 million at December 31, 2002. This decrease was partially offset by an increase in interest-bearing demand deposits of $1.7 million or 50.1% to $5.2 million at March 31, 2003 compared to $3.5 million at December 31, 2002. The net decrease in cash and cash equivalents of $690,000 was primarily used to partially fund investment purchases. Available-for-sale investment securities amounted to $85.8 million at March 31, 2003 compared to $72.7 million at December 31, 2002, a $13.1 million or 18.0% increase. The increase resulted from $28.2 million in investment purchases, primarily in mortgage-backed securities and Federal Home Loan Bank ("FHLB") agency bonds, offset by calls and maturities of $14.4 million, and a net decrease in market value of $670,000. The increase in available-for-sale investments was primarily funded by Federal Home Loan Bank advances.

Loans held for sale increased by $659,000 from $597,000 at December 31, 2002 to $1.3 million at March 31, 2003. This increase is primarily due to continued refinancing activity at lower fixed interest rates on loans to be sold in the secondary market. Loans held for sale at March 31, 2003 consisted entirely of single-family residential loans.

The Company's net loan portfolio decreased by $2.2 million to $103.0 million at March 31, 2003 from $105.2 million at December 31, 2002. Gross loans decreased by $2.3 million while the allowance for loan losses decreased by $123,000. Loans secured by 1-4 family residences decreased by $1.8 million as borrowers continued to refinance existing loans to fixed-rate loans to take advantage of the lower interest rates. These loans were then sold into the secondary market. During the first quarter of 2003, residential loans originated for resale into the secondary market totaled $11.9 million compared to $10.2 million in the first quarter of 2002. Agricultural production loans decreased by $926,000 and consumer loans decreased $782,000 while loans secured by farmland increased by $934,000 and loans secured by nonfarm nonresidential real estate grew by $642,000.

At March 31, 2003 the allowance for loan losses was $1.8 million or 1.76% of the total loan portfolio compared to $2.0 million, or 1.83% at December 31, 2002. During the first quarter of 2003, the Company charged off $320,000 of loan losses, of which $233,000 pertained to one agricultural credit secured by farm equipment. The chargeoffs of $320,000 were partially offset by $34,000 in recoveries. The Company's nonperforming loans and troubled debt restructurings as a percentage of total loans decreased from 2.25% or $2.4 million at December 31, 2002 compared to 1.31% or $1.4 million at March 31, 2003. This decrease was primarily a result of reduced delinquencies 90 days and over from $1.5 million at December 31, 2002 compared to $788,000 at March 31, 2003. The Company's troubled debt restructurings of $601,000 at March 31, 2003 consists primarily of restructured commercial and agricultural 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, totalling $271,000 at March 31, 2003 increased $86,000, compared to $185,000 at December 31, 2002. As of March 31, 2003 the Company had four real estate properties totaling $193,000 consisting of three single-family dwellings and one

commercial building, and other repossessed assets of $78,000. Foreclosed assets are carried at lower of cost or net realizable value.

Loan servicing rights declined by $70,000 from $949,000 at December 31, 2002 to $879,000 at March 31, 2003. Gross loan servicing rights decreased by $154,000 from $1.6 million at December 31, 2002 to $1.5 million at March 31, 2003 due to accelerated amortization of loan servicing rights of $262,000 offset by newly capitalized assets of $107,000. The valuation allowance decreased from $683,000 at December 31, 2002 to $599,000 at March 31, 2003, an $84,000 recovery of a previous impairment as a result of current valuations.

Interest receivable declined by $564,000 or 24.0% from $2.4 million to $1.8 million primarily due to annual payments received on agricultural loans. Federal Home Loan Bank stock increased due to the receipt of dividends in the form of stock.

The Company's total deposits amounted to $147.5 million at March 31, 2003 compared to $147.3 million at December 31, 2002, an increase of $181,000. The slight increase in total deposits was due to a $1.8 million increase in interest bearing deposits, partially offset by a $1.6 million decrease in non-interest bearing deposits. The increase in interest bearing deposits was a result of an increase of $638,000 in interest-bearing checking accounts, an $885,000 increase in savings accounts, and a $292,000 increase in certificates of deposit, mostly IRA accounts.

Federal Home Loan Bank advances and other debt increased by $12.0 million from $26.5 million at December 31, 2002 to $38.5 million at March 31, 2003, to fund investment purchases. The $12.0 million net increase was primarily a result of two fixed rate Federal Home Loan Bank advances totaling $10.0 million for an average rate of 2.77% for maturities of three and five years. The remaining $2.0 million increase was a result of the Company's use of the open end line of credit, which reprices daily. The total average rate of all advances was 3.85% as of March 31, 2003.

Pass through payments received on loans sold declined by $115,000 from $261,000 at December 31, 2002 to $146,000 at March 31, 2003. Advances by borrowers for taxes and insurance increased by $133,000 from $133,000 at December 31, 2002 to $266,000 at March 31, 2003. Adjustments to deferred income taxes for the tax effect of the decline in market value of investment securities available for sale resulted in a deferred tax asset of $12,000 at March 31, 2003 compared to a liability of $268,000 at December 31, 2002.

Stockholders' equity at March 31, 2003 was $26.0 million compared to $27.3 million at December 31, 2002, a decrease of $1.4 million. Retained earnings increased by the amount of net income or $512,000, partially offset by $68,000 in dividends declared and paid. Accumulated comprehensive income decreased by the decline in the fair value of securities available for sale, net of tax, or $394,000. Treasury stock increased from $2.4 million at December 31, 2002 to $3.9 million at March 31, 2003 due to purchases of 84,100 shares of common stock for $1.5 million.

RESULTS OF OPERATIONS

COMPARISON OF THREE MONTH PERIODS ENDED MARCH 31, 2003 AND 2002

Net income for the three months ended March 31, 2003 increased by $234,000 or 84.2% from $278,000 for the three months ended March 31, 2002 to $512,000 for the three months ended March 31, 2003. The increase in net income is primarily due to an increase in net interest income and an increase in noninterest income, partially offset by an increase in noninterest expense.

Net interest income increased $153,000 or 8.6% from $1.79 million for the three months ended March 31, 2002 to $1.94 million for the three months ended March 31, 2003. The primary reason for the increase in net interest income was a decrease in interest expense of $287,000 partially offset by a decrease of $134,000 in interest and dividend income. The Company's net interest margin was 4.14% and 4.08% during the three months ended March 31, 2003 and 2002, respectively. The net interest margin increased slightly as a result of a decrease in interest rates on interest-bearing liabilities, partially offset by a decrease in interest rates on interest-bearing assets.

Total interest and dividend income decreased by $134,000 or 4.1% from $3.24 million for the three months ended March 31, 2002 to $3.10 million for the three months ended March 31, 2003. The decrease was primarily due to a decrease in interest income from available-for-sale securities, partially offset by increased dividends on Federal Home Loan Bank stock. Interest expense declined by $287,000 or 19.8% from $1.45 million for the three months ended March 31, 2002 to $1.16 million for the three months ended March 31, 2003. This decline was primarily due to a decrease of $313,000 in interest on deposits, partially offset by $26,000 increase in interest on Federal Home Loan Bank advances.

For the three months ended March 31, 2003 and 2002 the provision for losses on loans was $164,000 and $199,000, respectively. The provision for the three months ended March 31, 2003 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, 2003, its allowance for loan losses was adequate.

Noninterest income increased $231,000 or 48.0% from $481,000 for the three months ended March 31, 2002 to $712,000 for the three months ended March 31, 2003. The increase was primarily a result of decreased net loan servicing cost, increased customer service fees, and increased brokerage fees. Net loan servicing cost declined from $144,000 for the three months ended March 31, 2002 to $42,000 for the three months ended March 31, 2003, a decrease of $102,000. This decrease was primarily a result of the recovery of a previously identified impairment of $84,000. Customer service fees increased $70,000 from $95,000 for the three

months ended March 31, 2002 to $165,000 for the three months ended March 31, 2003. The increase of $70,000 was primarily attributable to increased non-sufficient funds and overdraft fees. The increase in non-sufficient funds and overdraft fees is primarily attributable to the "Safety-Net Checking" product which provides a pre-approved amount of overdrafts, most often $500. At March 31, 2003 there were 1,017 "Safety Net Checking" accounts compared to 738 at March 31, 2002. Other service charges and fees increased slightly from $191,000 for the three months ended March 31, 2002 to $212,000 for the three months ended March 31, 2003.

Total noninterest expenses were $1.74 million for the three months ended March 31, 2003 as compared to $1.60 million for the three months ended March 31, 2002. The primary reason for the $142,000 increase was an increase in salaries and employee benefits of $112,000 and an increase in other expenses of $37,000. Salaries and employee benefits increased by $112,000 from $917,000 for the three months ended March 31, 2002 to $1.03 million for the three months ended March 31, 2003. The salary increase was $72,000 which was primarily due to normal pay increases, the addition of three full-time employees, and increased commissions. The increase in employee benefits was due to increased FICA expenses, and employee recognition and retention expense. The Recognition and Retention Plan received shareholder approval in April, 2002, and the expense for the three months ended March 31, 2003 was $27,000. Other expenses increased by $37,000 from $197,000 for the three months ended March 31, 2002 to $234,000 for the three months ended March 31, 2003. The increase in other expense was primarily due to loan related expenses such as filing fees, blanket insurance on vehicle loans and fees associated with secondary market loans, and postage and scholarship foundation expense.

Income tax expense was $235,000 for the three months ended March 31, 2003 as compared to $192,000 for the three months ended March 31, 2002. The effective tax rates were 31.5% and 40.8%, respectively, for the three months ended March 31, 2003 and 2002. The decrease in the effective tax rate from 2002 to 2003 was due to a increase in permanent tax differences in 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, 2003 and December 31, 2002, mortgage servicing rights had carrying values of $879,000 and $949,000, 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, 2003, the Company had outstanding commitments to originate $3.7 million in loans. In addition, open-end line of credit loans had $6.3 million available to be drawn upon. As of March 31, 2003, the total amount of certificates scheduled to mature in the following 12 months was $45.9 million. The Company believes that it has adequate resources to fund all of its commitments and that it can adjust the rate on certificates of deposit to retain deposits in changed interest environments. If the Company requires funds beyond its internal funding capabilities, advances from the Federal Home Loan Bank of Chicago are available as an additional source of funds.

CAPITAL RESOURCES

The Bank is subject to capital-to-asset requirements in accordance with Federal bank regulations. The following table summarizes the Bank's regulatory capital requirements, versus actual capital as of March 31, 2003:

MARCH 31, 2003	ACTUAL		REQUIRED FOR ADEQUATE CAPITAL		TO BE WELL CAPITALIZED	
	Amount	%	Amount	%	Amount	%
	(Dollars in thousands)					
Total capital (to risk-weighted assets)	$23,690	20.74	$9,138	8.0	$11,422	10.0
Tier 1 capital (to risk-weighted assets)	22,258	19.49	4,569	4.0	6,853	6.0
Tier 1 capital (to average assets)	22,258	11.01	8,085	4.0	10,106	5.0

The Company's consolidated capital-to-asset requirements and actual capital as of March 31, 2003 are summarized in the following table:

MARCH 31, 2003	ACTUAL		REQUIRED FOR ADEQUATE CAPITAL		TO BE WELL CAPITALIZED	
	Amount	%	Amount	%	Amount	%
	(Dollars in thousands)					
Total capital (to risk-weighted assets)	$26,568	23.02	$9,231	8.0	---	N/A
Tier 1 capital (to risk-weighted assets)	25,121	21.77	4,617	4.0	---	N/A
Tier 1 capital (to average assets)	25,121	12.35	8,137	4.0	---	N/A

CURRENT ACCOUNTING ISSUES

The Financial Accounting Standards Board ("FASB") adopted Statement of Financial Accounting Standards ("SFAS") No. 148, Accounting for Stock-Based Compensation -- Transition and Disclosure. This Statement amends FASB Statement No. 123, Accounting for Stock-Based Compensation. SFAS No. 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS No. 148 amends the disclosure requirements of SFAS No. 123 to require more prominent and more frequent disclosures in financial statements about the effects of stock-based compensation.

Under the provisions of SFAS No. 123, companies that adopted the fair value based method were required to apply that method prospectively for new stock option awards. This contributed to a "ramp-up" effect on stock-based compensation expense in the first few years following adoption, which caused concern for companies and investors because of the lack of consistency in reported results. To address that concern, SFAS No. 148 provides two additional methods of transition that reflect an entity's full complement of stock-based compensation expense immediately upon adoption, thereby eliminating the ramp-up effect.

SFAS No. 148 also improves the clarity and prominence of disclosures about the proforma effects of using the fair value based method of accounting for stock-based compensation for all companies - regardless of the accounting method used -- by requiring that the data be presented more prominently and in a more user-friendly format in the footnotes to the financial statements. In addition, SFAS No. 148 improves the timeliness of those disclosures by requiring that this information be included in interim as well as annual financial statements. In the past, companies were required to make proforma disclosures only in annual financial statements.

The transition guidance and annual disclosure provisions of SFAS No. 148 are effective for fiscal years ending after December 15, 2002, with earlier application permitted in certain circumstances. The interim disclosure provisions are effective for financial reports containing financial statements for interim periods beginning after December 15, 2002. The Company's shareholders have approved the issuance of stock options; however, none of these have stock options have yet been granted.

The FASB has stated it intends to issue a new statement on accounting for stock-based compensation and will require companies to expense stock options using a fair value based method at date of grant. The effective date for this proposed statement is not known.

In November 2002, the FASB issued Interpretation No. 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others ("FIN 45"). FIN 45 will change current practice in the accounting for and disclosure of guarantees. Guarantees meeting the characteristics described in FIN 45 are required to be initially recorded at fair value, which is different from the general current practice of recording a liability only when a loss is probable and reasonably estimable, as those terms are defined in FASB Statement No. 5, Accounting for Contingencies. FIN 45 also requires a guarantor to make new disclosures for virtually all guarantees even if the likelihood of the guarantor's having to make payments under the guarantee is remote.

In general, FIN 45 applies to contracts or indemnification agreements that contingently require the guarantor to make payments to the guaranteed party based on changes in an underlying asset, liability, or an equity security of the guaranteed party such as financial standby letters of credit.

Disclosure requirements of FIN 45 are effective for financial statements of interim or annual periods ending after December 31, 2002. The initial recognition and measurement provisions are applicable on a prospective basis to guarantees issued or modified after December 31, 2002, irrespective of the guarantor's fiscal year-end. The guarantor's previous accounting for

guarantees issued prior to the date of FIN 45 initial applications should not be revised or restated to reflect the provisions of FIN 45.

The Company adopted FIN 45 on January 1, 2003. The adoption of FIN 45 does not currently have a material impact on the Company's consolidated financial statements.

ITEM 3. CONTROLS AND PROCEDURES

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

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

PART II -- OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

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

ITEM 2. CHANGES IN SECURITIES

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

None

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.

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 12, 2003 /s/ Terry J. Howard

Terry J. Howard
President and Chief Executive Officer

Date: May 12, 2003 /s/ Ellen M. Litteral

Ellen M. Litteral
Treasurer

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CERTIFICATIONS

SECTION 302 CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER

I, Terry J. Howard, certify that:

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

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

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

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

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

   b) evaluated the effectiveness of the Registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

   c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The Registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the Registrant's auditors and the audit

committee of Registrant's board of directors (or persons performing the equivalent functions):

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

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

6. The Registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 12, 2003 /s/ Terry J. Howard

TERRY J. HOWARD
Chief Executive Officer and President

SECTION 302 CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Ellen M. Litteral, certify that:

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

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

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

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

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

b) evaluated the effectiveness of the Registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The Registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the Registrant's auditors and the audit committee of Registrant's board of directors (or persons performing the equivalent functions):

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

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

6. The Registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 12, 2003

/s/ Ellen M. Litteral

ELLEN M. LITTERAL
Chief Financial Officer and Treasurer