FIRST BANCTRUST CORP
Form 10QSB
November 13, 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 SEPTEMBER 30, 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 NOVEMBER 12, 2003 THE REGISTRANT HAD OUTSTANDING 1,260,510 SHARES OF COMMON STOCK.

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

First BancTrust Corporation

Form 10-QSB Quarterly Report

FIRST BANCTRUST CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
AS OF SEPTEMBER 30, 2003 AND DECEMBER 31, 2002
(in thousands of dollars except share data)

	SEPTEMBER 30, 2003 (unaudited)	DECEMBER 2002
ASSETS		
Cash and due from banks	$ 6,407	$ 6,9
Interest-bearing deposits with financial institutions	9,450	3,4
Cash and cash equivalents	15,857	10,4
Available-for-sale securities	86,446	72,7
Loans held for sale	710	5
Loans, net of allowance for loans losses of $1,955 and $1,963	106,943	105,1
Premises and equipment	2,773	2,7
Foreclosed assets held for sale, net	91	1
Interest receivable	2,152	2,3
Loan servicing rights, net of valuation allowance of $367 and $683	999	9
Cash surrender value of life insurance	3,796	3,6
Federal Home Loan Bank stock	3,937	3,7
Deferred income taxes	503	
Other assets	296	1
Total assets	$ 224,503	$ 202,7

LIABILITIES AND STOCKHOLDERS' EQUITY		
Noninterest bearing deposits	$ 17,207	$ 17,2
Interest bearing deposits	145,107	130,0
Total deposits	162,314	147,3
Federal Home Loan Bank advances and other debt	35,500	26,5
Pass through payments received on loans sold	60	2
Advances from borrowers for taxes and insurance	14	1
Deferred income taxes	--	2
Interest payable	153	1
Other	721	8
Total liabilities	198,762	175,4
COMMITMENTS AND CONTINGENT LIABILITIES		
STOCKHOLDERS' EQUITY		
Preferred stock, $.01 par value; 1,000,000 shares authorized and unissued		
Common stock, $.01 par value, 5,000,000 shares authorized; 1,520,875 shares issued and outstanding	15	
Additional paid-in capital	14,533	14,4
Retained earnings	17,428	16,2
Accumulated other comprehensive income (loss)		
Unrealized appreciation (depreciation) on available-for-sale securities, net of income taxes (credit) of ($74) and $695	(107)	9
	31,869	31,6
Unallocated employee stock ownership plan shares - 83,660 and 95,063 shares	(967)	(1,0
Unearned incentive plan shares - 51,128 and 56,267 shares	(844)	(9
Treasury stock, at cost - 260,365 and 155,165 shares	(4,317)	(2,3
Total stockholders' equity	25,741	27,3
Total liabilities and stockholders' equity	$ 224,503	$ 202,7

See notes to condensed consolidated financial statements.

FIRST BANCTRUST CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
FOR THE NINE MONTH PERIOD ENDED SEPTEMBER 30, 2003 AND 2002
(in thousands of dollars)
(unaudited)

NINE MONTHS ENDED SEPTEMBER 30	2003	20
INTEREST AND DIVIDEND INCOME		
Loans		
Taxable	$ 6,398	$ 6,
Tax exempt	27	
Available-for-sale securities		

Taxable	1,996	2,
Tax exempt	249	
Deposits with financial institutions	51	
Dividends on Federal Home Loan Bank stock and other	159	
Total interest and dividend income	8,880	9,
INTEREST EXPENSE		
Deposits	2,422	3,
Federal Home Loan Bank advances and other debt	1,046	
Total interest expense	3,468	4,
NET INTEREST INCOME	5,412	5,
Provision for loan losses	484	
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	4,928	4,
NONINTEREST INCOME		
Customer service fees	575	
Other service charges and fees	677	
Net gains on loan sales	660	
Loan servicing income	392	
Recovery (Impairment) of loan servicing rights	316	(
Net realized gains on sales of available-for-sale securities	133	
Brokerage fees	60	
Abstract and title fees	337	
Other	211	
Total noninterest income	3,361	2,
NONINTEREST EXPENSE		
Salaries and employee benefits	3,170	2,
Net occupancy expense	161	
Equipment expense	494	
Data processing fees	319	
Advertising and promotion expense	193	
Professional fees	204	
Foreclosed assets expense, net	85	
Amortization of loan servicing rights	668	
Other expenses	687	
Total noninterest expense	5,981	5,
INCOME BEFORE INCOME TAX	2,308	1,
Income tax expense	801	
NET INCOME	1,507	
OTHER COMPREHENSIVE INCOME (LOSS)		
Unrealized appreciation (depreciation) on available-for-sale securities	(1,022)	
Less: Reclassification adjustment for realized gains included in net income	78	

	(1,100)	
COMPREHENSIVE INCOME	$ 407	$ 1,
BASIC EARNINGS PER SHARE	$ 1.30	$ 0
DILUTED EARNINGS PER SHARE	$ 1.24	$ 0

See notes to condensed consolidated financial statements.

FIRST BANCTRUST CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
FOR THE THREE MONTH PERIOD ENDED SEPTEMBER 30, 2003 AND 2002
(in thousands of dollars)
(unaudited)

THREE MONTHS ENDED SEPTEMBER 30	2003	20
INTEREST AND DIVIDEND INCOME		
Loans		
Taxable	$ 2,058	$ 2,
Tax exempt	9	
Available-for-sale securities		
Taxable	632	
Tax exempt	94	
Deposits with financial institutions	16	
Dividends on Federal Home Loan Bank stock and other	52	
Total interest and dividend income	2,861	3,
INTEREST EXPENSE		
Deposits	768	1,
Federal Home Loan Bank advances and other debt	366	
Total interest expense	1,134	1,
NET INTEREST INCOME	1,727	1,
Provision for loan losses	151	
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	1,576	1,
NONINTEREST INCOME		
Customer service fees	209	
Other service charges and fees	231	
Net gains on loan sales	239	
Loan servicing income	129	

Recovery (Impairment) of loan servicing rights	179	(
Net realized gains on sales of available-for-sale securities	133	
Brokerage fees	3	
Abstract and title fees	110	
Other	72	
Total noninterest income	1,305	
NONINTEREST EXPENSE		
Salaries and employee benefits	1,119	
Net occupancy expense	59	
Equipment expense	157	
Data processing fees	113	
Advertising and promotion expense	81	
Professional fees	56	
Foreclosed assets expense, net	24	
Amortization of loan servicing rights	201	
Other expenses	236	
Total noninterest expense	2,046	1,
INCOME BEFORE INCOME TAX	835	
Income tax expense	299	
NET INCOME	536	
OTHER COMPREHENSIVE INCOME (LOSS)		
Unrealized appreciation (depreciation) on available-for-sale securities	(1,012)	
Less: Reclassification adjustment for realized gains included in net income	78	
	(1,090)	
COMPREHENSIVE INCOME (LOSS)	$ (554)	$
BASIC EARNINGS PER SHARE	$ 0.47	$ 0
DILUTED EARNINGS PER SHARE	$ 0.45	$ 0

See notes to condensed consolidated financial statements.

FIRST BANCTRUST CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTH PERIOD ENDED SEPTEMBER 30, 2003 AND 2002
(in thousands of dollars)
(unaudited)

NINE MONTHS ENDED SEPTEMBER 30	2003	2002
OPERATING ACTIVITIES		
Net income	$ 1,507	$ 777
Items not requiring (providing) cash		
Depreciation and amortization	205	203
Provision for loan losses	484	663
Investment securities amortization, net	389	103
Amortization of loan servicing rights	668	782
Recovery (impairment) of loan servicing rights	(316)	802
Deferred income taxes	(6)	6
Net realized gains on available-for-sale securities	(133)	(120)
Net loss on sales of foreclosed assets	28	46
Net gain on sales of premises and equipment	(5)	--
Net gain on loan sales	(660)	(760)
Loans originated for sale	(41,034)	(25,919)
Proceeds from sales of loans originated for resale	41,179	25,251
Federal Home Loan Bank stock dividends	(159)	(84)
Compensation expense related to employee stock ownership plan	224	179
Compensation expense related to incentive plan	82	46
Changes in		
Interest receivable	205	(257)
Cash surrender value	(129)	(128)
Other assets	(181)	(225)
Interest payable	28	25
Other liabilities	(96)	(569)
Net cash provided by operating activities	2,280	821
INVESTING ACTIVITIES		
Purchases of available-for-sale securities	(83,833)	(32,062)
Proceeds from maturities of available-for-sale securities	67,597	20,651
Proceeds from sales of available-for-sale securities	417	590
Purchase of Federal Home Loan Bank stock	--	(2,000)
Net originations in loans	(2,636)	(8,337)
Proceeds from sales of foreclosed assets	457	817
Purchases of premises and equipment	(199)	(422)
Proceeds from sales of premises and equipment	5	--
Net cash received from purchase of deposits (plus cash acquired)	3,192	--
Net cash used by investing activities	(15,000)	(20,763)

See notes to condensed consolidated financial statements.

FIRST BANCTRUST CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTH PERIOD ENDED SEPTEMBER 30, 2003 AND 2002
(in thousands of dollars)
(unaudited)

NINE MONTHS ENDED SEPTEMBER 30	2003	2002

FINANCING ACTIVITIES		
Net increase (decrease) in demand deposits, money market, NOW and savings deposits	$ 12,427	$ (1,512)
Net increase (decrease) in certificates of deposit	(704)	11,297
Proceeds from the issuance of Federal Home Loan Bank advances	18,000	8,000
Repayment of Federal Home Loan Bank advances and other debt	(9,001)	(4,011)
Pass through payments received on loans sold	(201)	(116)
Net decreases in advances by borrowers for taxes and insurance	(119)	(115)
Dividends paid	(324)	(213)
Purchase of treasury stock	(1,954)	(973)
Purchase of stock for recognition and retention plan	--	(1,004)
Net cash provided by financing activities	18,124	11,353
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	5,404	(8,589)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	10,453	16,746
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 15,857	$ 8,157
SUPPLEMENTAL CASH FLOWS INFORMATION		
Real estate acquired in settlement of loans	$ 391	$ 466
Interest paid	$ 3,421	$ 4,232
Income tax paid	$ 975	$ 897

See notes to condensed consolidated financial statements.

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FIRST BANCTRUST CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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 and nine months ended September 30, 2003 are not necessarily indicative of the results to be expected for the full year.

The Company has a stock-based employee compensation plan, which is described more fully in Notes to Financial Statements included in the December 31, 2002 Annual Report to shareholders. The Company accounts for this plan under the recognition and measurement principles of APB Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations. No stock-based employee compensation cost is reflected in net income, as all options granted under the plan had an exercise price equal to the market value of the underlying common stock on the grant date. The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value provisions of Statement of Financial Accounting Standards (SFAS) No. 123, Accounting for Stock-Based Compensation, to stock-based employee compensation.

	Three Months Ended September 30, 2003	Three Months Ended September 30, 2002	Nine Months Ended September 30, 2
Net income, as reported	$ 536	$ 59	$ 1,507
Less: Total stock-based employee compensation cost determined under the fair value based method, net of income taxes	(33)	---	(49)
Pro forma net income	$ 503	$ 59	$ 1,458
EARNINGS PER SHARE:			
Basic - as reported	$ 0.47	$ 0.05	$ 1.30
Basic - pro forma	$ 0.45	$ 0.05	$ 1.27
Diluted - as reported	$ 0.45	$ 0.05	$ 1.24
Diluted - pro forma	$ 0.42	$ 0.05	$ 1.21

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 $83,000 and $61,000 for the three-month periods ended September 30, 2003

and 2002, and $224,000 and $179,000 for the nine-month periods ended September 30, 2003 and 2002.

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 and nine-month periods ended September 30, 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 NINE MONTHS ENDED SEPTEMBER 30, 2003:			
Basic Earnings Per Share:			
Income available to common stockholders	$ 1,507	1,151,559	$ 1.31
Effect of Dilutive Securities:			
Unearned recognition and retention plan shares		55,901	
Stock Options		7,230	
Diluted Earnings per Share:			
Income available to common stockholders and assumed conversions	$ 1,507	1,214,690	$ 1.24
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2002:			
Basic Earnings Per Share:			

Income available to common stockholders	$ 777	1,298,028	$ 0.59
Effect of Dilutive Securities:			
Unearned recognition and retention plan shares		21,371	
Diluted Earnings per Share:			
Income available to common stockholders and assumed conversions	$ 777	1,319,399	$ 0.59
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2003:			
Basic Earnings Per Share:			
Income available to common stockholders	$ 536	1,130,217	$ 0.47
Effect of Dilutive Securities:			
Unearned recognition and retention plan shares		54,809	
Stock Options		15,624	
Diluted Earnings per Share:			
Income available to common stockholders and assumed conversions	$ 536	1,200,650	$ 0.45
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2002:			
Basic Earnings Per Share:			
Income available to common stockholders	$ 59	1,243,028	$ 0.05
Effect of Dilutive Securities:			
Unearned recognition and retention plan shares		58,662	
Diluted Earnings per Share:			
Income available to common stockholders and assumed conversions	$ 59	1,301,690	$ 0.05

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 September 30, 2003 to its financial condition at December 31, 2002 and the results of operations for the three-month and nine-month periods ending September 30, 2003 to the same periods 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. Application was made and approved by regulators to establish a new banking facility in Savoy, Illinois in Champaign County. Operations began in late September, 2003 with the purchase of $3.2 million in deposits from another area institution. 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 $21.8 million or 10.7%, to $224.5 million at September 30, 2003 from $202.7 million at December 31, 2002. The increase in assets was primarily due to an increase in cash and cash equivalents of $5.4 million, increases in available-for-sale securities of $13.7 million, loans, net of allowance for loan losses of $1.8 million, deferred income taxes of

$503,000, Federal Home Loan Bank stock of $225,000 and other assets of $192,000 offset by a decrease in interest receivable of $205,000. The increase in assets was funded by increases in deposits and Federal Home Loan Bank borrowings.

The Company's cash and due from banks decreased by $589,000 or 8.4% to $6.4 million at September 30, 2003 from $7.0 million at December 31, 2002. This decrease was more than offset by an increase in interest-bearing demand deposits of $6.0 million to $9.5 million at September 30, 2003 compared to $3.5 million at December 31, 2002. Available-for-sale investment securities amounted to $86.4 million at September 30, 2003 compared to $72.7 million at December 31, 2002, a $13.7 million or 18.8% increase. The increase resulted from $83.8 million in investment purchases, primarily in mortgage-backed securities, U.S. Treasury bonds, and Federal Home Loan Bank ("FHLB") agency bonds, offset by calls, maturities, and pre-payments of $67.6 million, securities sales of $284,000 and amortization of premiums of $389,000. The increase in available-for-sale investments was primarily funded by Federal Home Loan Bank advances and deposits.

Loans held for sale increased by $113,000 from $597,000 at December 31, 2002 to $710,000 at September 30, 2003, an increase of 18.9%. Loans held for sale at September 30, 2003 consisted entirely of single-family residential loans, which were in the process of being sold into the secondary market to Federal Home Loan

Mortgage Corporation and Illinois Housing Development Authority.

The Company's net loan portfolio increased by $1.8 million to $106.9 million at September 30, 2003 from $105.2 million at December 31, 2002. Gross loans increased by $1.8 million while the allowance for loan losses decreased by $8,000. Loans secured by 1-4 family residences decreased by $2.9 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 nine months of 2003, residential loans originated for resale into the secondary market totaled $36.2 million compared to $18.7 million in the first nine months of 2002. Agricultural loans originated for resale into the secondary market were $4.8 million for the nine months ended September 30, 2003 compared to $7.2 million for the nine months ended September 30, 2002. Agricultural production loans increased by $3.0 million and farmland loans increased by $1.1 million while commercial loans increased by $80,000. Construction loans increased by $907,000 and nonresidential real estate loans increased by $132,000 while consumer loans decreased by $484,000.

At September 30, 2003, the allowance for loan losses was $2.0 million or 1.80% of the total loan portfolio compared to $2.0 million, or 1.83% at December 31, 2002. During 2003, the Company charged off $577,000 of loans, of which $233,000 pertained to one agricultural credit secured by farm equipment. The chargeoffs of $577,000 were partially offset by $86,000 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 to 1.95% or $2.1 million at September 30, 2003. This decrease was primarily a result of a reduction in troubled debt restructurings from $888,000 at December 31, 2002 to $626,000 at September 30, 2003. Delinquencies 90 days and over remained at $1.5 million at September 30, 2003 from $1.5 million at December 31, 2002. The Company's delinquencies 90 days and over at September 30,

2003 consisted primarily of $688,000 in residential loans, $448,000 in nonresidential real estate loans, $114,000 in construction loans, and $128,000 in consumer loans. The Company's troubled debt restructurings of $626,000 at September 30, 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, totaling $91,000 at September 30, 2003 decreased $94,000, compared to $185,000 at December 31, 2002. As of September 30, 2003, the Company had two real estate properties totaling $38,000 which consisted of single-family dwellings, and other repossessed assets of $53,000.

Interest receivable declined by $205,000 or 8.7% from $2.4 million to $2.2 million primarily due to annual payments received on agricultural loans. Federal Home Loan Bank stock increased by $225,000 due to the receipt of dividends in the form of stock.

Loan servicing rights increased by $50,000 from $949,000 at December 31, 2002 to $999,000 at September 30, 2003. Gross loan servicing rights decreased by $266,000 from $1.6 million at December 31, 2002 to $1.4 million at September 30, 2003 due to amortization of loan servicing rights of $668,000 offset by newly capitalized assets of $402,000. The valuation allowance decreased from $683,000 at December 31, 2002 to $367,000 at September 30, 2003, a $316,000 recovery of a previous impairment as a result of current valuations.

The Company's total deposits amounted to $162.3 million at September 30, 2003 compared to $147.3 million at December 31, 2002, an increase of $15.0 million. The increase in total deposits was due to a $15.0 million increase in interest bearing deposits, partially offset by an $89,000 decrease in non-interest bearing deposits. The increase in interest bearing deposits was a result of an increase of $11.3 million in interest-bearing checking accounts, a $1.5 million increase in savings accounts, and by a $2.2 million increase in certificates of deposit. The increase of $11.3 million in interest-bearing checking accounts was primarily a result of $8.9 million in public funds invested in short-term interest-bearing checking accounts during construction projects. In late September, 2003, operations commenced in a temporary facility at Savoy, Illinois with the purchase of $3.2 million in deposits from another financial institution. Construction is scheduled to begin in the fourth quarter of 2003 on a permanent facility.

Federal Home Loan Bank advances and other debt increased by $9.0 million from $26.5 million at December 31, 2002 to $35.5 million at September 30, 2003, primarily to fund investment purchases and loans. The $9.0 million net increase was primarily a result of proceeds from two fixed rate Federal Home Loan Bank advances totaling $10.0 million with an average rate of 2.77%, offset by the repayment of the open end line of credit of $1.0 million. The average rate of all outstanding advances was 4.04% as of September 30, 2003.

Pass through payments received on loans sold decreased by $201,000 from $261,000 at December 31, 2002 to $60,000 at September 30, 2003 due to increased payments received at year-end on agricultural loans which are sold in the secondary market. Advances by borrowers for taxes and insurance decreased by $119,000 from $133,000 at December 31, 2002 to $14,000

at September 30, 2003, due to payment of real estate taxes in the second and third quarters. Interest payable increased $47,000 from $106,000 at December 31, 2002 to $153,000 at September 30, 2003. Other liabilities decreased by $94,000 from $815,000 at December 31, 2002 to $721,000 at September 30, 2003, primarily due to payment of accrued income taxes.

Stockholders' equity at September 30, 2003 was $25.7 million compared to $27.3 million at December 31, 2002, a decrease of $1.6 million. Retained earnings increased by the amount of net income or $1.5 million, partially offset by $324,000 in dividends declared and paid. Accumulated other comprehensive income decreased due to a reduction in the market value, net of income taxes, of $1.1 million on available-for-sale securities. Treasury stock increased from $2.4 million at December 31, 2002 to $4.3 million at September 30, 2003 due to the repurchase of 105,200 shares of common stock for $2.0 million. On December 4, 2002 the Company announced that the Board of Directors authorized 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 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 November 12, 2003, the Company had repurchased a cumulative total of 260,365 shares.

RESULTS OF OPERATIONS

COMPARISON OF NINE MONTH PERIODS ENDED SEPTEMBER 30, 2003 AND 2002

Net income for the nine months ended September 30, 2003 increased by $730,000 or 94.0% from $777,000 for the nine months ended September 30, 2002 to $1.5 million for the nine months ended September 30, 2003. The increase in net income is primarily due to an increase in noninterest income and a decrease in the provision for loan losses, partially offset by a decrease in net interest income and increases in noninterest expense and income tax expense.

Net interest income decreased $228,000 from $5.64 million for the nine months ended September 30, 2002 to $5.41 million for the nine months ended September 30, 2003. The primary reason for the decrease in net interest income was a decrease in interest and dividend income of $1.02 million partially offset by a decrease of $789,000 in interest expense. The Company's net interest margin was 3.68% and 4.02% during the nine months ended September 30, 2003 and 2002, respectively. The net interest margin decreased as a result of a decrease in interest rates on interest-bearing assets, partially offset by a decrease in interest rates on interest-bearing liabilities.

Total interest and dividend income decreased by $1.02 million or 10.3% from $9.90 million for the nine months ended September 30, 2002 to $8.88 million for the nine months ended September 30, 2003. The decrease was primarily due to decreases in interest income from loans and available-for-sale securities, partially offset by increased dividends on Federal Home Loan Bank stock. Interest expense declined by $789,000 or 18.5% from $4.26 million for the nine

months ended September 30, 2002 to $3.47 million for the nine months ended September 30, 2003. This decline was primarily due to a decrease of $951,000 in interest on deposits, partially offset by a $162,000 increase in interest on Federal Home Loan Bank advances.

For the nine months ended September 30, 2003 and 2002 the provision for losses on loans was $484,000 and $663,000, respectively. The provision for the nine months ended September 30, 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 September 30, 2003, its allowance for loan losses was adequate.

Noninterest income increased $1.31 million or 64.0% from $2.05 million for the nine months ended September 30, 2002 to $3.36 million for the nine months ended September 30, 2003. The increase was primarily a result of a recovery of a previously identified impairment of loan servicing rights, and increased customer service fees and other service charges and fees, partially offset by decreased gains on loan sales and decreased brokerage fees. An increase of $1.12 million in recovery (impairment) of loan servicing rights resulted from $802,000 identified as an impairment in the nine months ended September 30, 2002, and the partial recovery of $316,000 of that impairment in the nine months ended September 30, 2003. Customer service fees increased $205,000 from $370,000 for the nine months ended September 30, 2002 to $575,000 for the nine months ended September 30, 2003. The increase of $205,000 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 September 30, 2003 there were 1,140 "Safety Net Checking" accounts compared to 851 at September 30, 2002. Other service charges and fees increased from $596,000 for the nine months ended September 30, 2002 to

$677,000 for the nine months ended September 30, 2003 primarily due to fees associated with residential mortgage loans sold into the secondary market, increased consumer loan fees and fees earned from the use of debit cards. Brokerage fees decreased by $81,000 from $141,000 for the nine months ended September 30, 2002 to $60,000 for the nine months ended September 30, 2003 due to the resignation of the broker representative in April, 2003.

Net gains on loan sales decreased by $100,000 from $760,000 for the nine months ended September 30, 2002 to $660,000 for the nine months ended September 30, 2003 due to a reduction in capitalized servicing assets. When a loan is sold into the secondary market and the servicing rights to that loan are retained, an asset is created representing the future payment stream of the servicing which is recognized as income from the loan sale. The estimated useful life used to determine the value of the asset is estimated based on the current independent valuation of the servicing portfolio. Although loan sales into the secondary market for the nine months ended September 30, 2003 were $41.2 million compared to $25.3 million for the nine months ended September 30, 2002, the gain recognized from the creation of the servicing assets was $401,000 for the nine months ended September 30, 2003 compared to $698,000 for the nine

months ended June 30, 2002. Of the $41.2 million in loans sold for the nine months ended September 30, 2003, $4.8 million were agricultural loans, compared to $7.2 million in agricultural loans sold for the nine months ended September 30, 2002. The gain recognized from the capitalization of the servicing related to the agricultural loans was $133,000 for the nine months ended September 30, 2003 compared to $488,000 for the nine months ended September 30, 2002.

Total noninterest expenses were $6.0 million for the nine months ended September 30, 2003 as compared to $5.8 million for the nine months ended September 30, 2002. The primary reason for the $194,000 increase was an increase in salaries and employee benefits of $221,000 and an increase in other expenses of $127,000, partially offset by a decrease in amortization of loan servicing rights and a decrease in expenses associated with foreclosed assets. Salaries and employee benefits increased by $221,000 from $2.95 million for the nine months ended September 30, 2002 to $3.17 million for the nine months ended September 30, 2003. The $221,000 increase in salaries and employee benefits was primarily due to increases in salaries, FICA expenses, Employee Stock Ownership Plan ("ESOP") expense, health insurance and employee recognition and retention expense. Salaries increased by $102,000 due to normal pay increases, the addition of one full-time employee, and increased commissions paid on a higher volume of loan originations. ESOP expense increased by $44,000 due to a higher average share price. The monthly expense for the ESOP is determined by the average share price in the open market for the month, and as the monthly average share price increases, the ESOP expense increases accordingly. The Recognition and Retention Plan received shareholder approval in April, 2002, and the expense for the nine months ended September 30, 2003 was $82,000 compared to $46,000 for the nine months ended September 30, 2002, an increase of $37,000. FICA expense increased by $19,000 as a result of increased taxable wages, and health insurance expense increased by $19,000 as a result of higher premiums.

Amortization of loan servicing rights decreased by $114,000 from $782,000 for the nine months ended September 30, 2002 to $668,000 for the nine months ended September 30, 2003. The primary reason for the $114,000 decrease was due to the reduction of newly capitalized servicing assets to be amortized in 2003. The amortization reported in 2002 related to loan servicing rights with higher values from prior years. Net foreclosed assets expense of $85,000 for the nine months ended September 30, 2003 was $79,000 less than the $164,000 expense for the nine months ended September 30, 2002, a result of fewer properties in foreclosed assets during 2003. Other expenses increased by $127,000 from

$560,000 for the nine months ended September 30, 2002 to $687,000 for the nine months ended September 30, 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 $801,000 for the nine months ended September 30, 2003 as compared to $462,000 for the nine months ended September 30, 2002. The effective tax rates were 34.7% and 37.3%, respectively, for the nine months ended September 30, 2003 and 2002.

COMPARISON OF THREE MONTH PERIODS ENDED SEPTEMBER 30, 2003 AND 2002

Net income for the three months ended September 30, 2003 increased by $477,000 from $59,000 for the three months ended September 30, 2002 to $536,000 for the three months ended September 30, 2003. The large increase in net income is primarily due to an increase in noninterest income, partially offset by a decrease in net interest income, and increases in noninterest expense and income tax expense.

Net interest income decreased $237,000 or 12.1% from $1.96 million for the three months ended September 30, 2002 to $1.73 million for the three months ended September 30, 2003. The primary reason for the decrease in net interest income was a decrease in interest and dividend income of $499,000 partially offset by a decrease of $262,000 in interest expense. The Company's net interest margin was 3.46% and 3.97% during the three months ended September 30, 2003 and 2002, respectively. The net interest margin decreased as a result of a decrease in interest rates on interest-bearing assets, partially offset by a decrease in interest rates on interest-bearing liabilities.

Total interest and dividend income declined by $499,000 or 14.9% from $3.36 million for the three months ended September 30, 2002 to $2.86 million for the three months ended September 30, 2003. The decrease was primarily due to decreases in interest income from loans and interest income from available-for-sale securities. Interest expense declined by $262,000 or 18.8% from $1.40 million for the three months ended September 30, 2002 to $1.13 million for the three months ended September 30, 2003. This decline was primarily due to a decrease of $326,000 in interest on deposits resulting from the reduction in the average rate paid on deposits, partially offset by a $64,000 increase in interest on Federal Home Loan Bank advances.

For the three months ended September 30, 2003 and 2002, the provision for losses on loans was $151,000 and $167,000, respectively. The provision for the three months ended September 30, 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 September 30, 2003, its allowance for loan losses was adequate.

Noninterest income increased $1.12 million from $190,000 for the three months ended September 30, 2002 to $1.31 million for the three months ended September 30, 2003. The increase was primarily due to the recovery of loan servicing rights that were written down as impaired in the prior year, increased customer service fees, and increased gains on loan sales partially offset by decreased brokerage fees. An impairment of loan servicing rights of $802,000 was identified in the three months ended September 30, 2002, and charged against earnings. In the three months ended September 30, 2003, $179,000 was recovered from the previously identified impairments. Customer service fees increased $61,000 from $148,000 for the three months ended September 30, 2002 to $209,000 for the three months ended September 30, 2003.

The increase of $61,000 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.

Net gains on loan sales increased by $75,000 from $164,000 for the three months ended September 30, 2002 to $239,000 for the three months ended September 30, 2003 due to increased capitalized assets recognized and increased gains on cash sales. Capitalized loan servicing assets recognized for the three months ended September 30, 2002 were $120,000 compared to $146,000 for the three months ended September 30, 2003, an increase of $26,000. Loan sales for the three months ended September 30, 2003 were $13.85 million compared to $10.05 million for the three months ended September 30, 2002. Brokerage fees declined by $48,000 from $51,000 for the three months ended September 30, 2002 to $3,000 for the three months ended September 30, 2003 due to the resignation of the investment representative.

Total noninterest expenses were $2.05 million for the three months ended September 30, 2003 as compared to $1.87 million for the three months ended September 30, 2002. The primary reason for the $173,000 increase was a $131,000 increase in salaries and employee benefits expense, an increase in other expenses of $57,000, an increase in amortization of loan servicing rights of $34,000, and an increase in amortization of loan servicing rights, partially offset by a reduction in net foreclosed assets expense of $57,000. Salaries and employee benefits expense increased by $131,000 from $988,000 for the three months ended September 30, 2002 to $1.12 million for the three months ended September 30, 2003, primarily due to increased salaries and wages, increased director fees, increased ESOP expense, and increased health insurance expense. Amortization of loan servicing rights increased by $34,000 from $167,000 for the three months ended September 30, 2002 compared to $201,000 for the three months ended September 30, 2003. Net foreclosed assets expense decreased by $57,000 from $81,000 for the three months ended September 30, 2002 to $24,000 for the three months ended September 30, 2003 due to a reduction in the number of properties in foreclosed assets. Other expenses increased by $57,000 from $179,000 for the three months ended September 30, 2002 to $236,000 for the three months ended September 30, 2003. The increase in other expenses was primarily due to loan related expenses such as blanket insurance on vehicle loans and fees associated with secondary market loans, and increases in trust department expense and scholarship foundation expense.

Income tax expense was $299,000 for the three months ended September 30, 2003 as compared to $55,000 for the three months ended September 30, 2002, an increase of $244,000. The increase in income taxes is due to an increase in income before taxes of $721,000. The effective tax rates were 35.8% and 48.2%, respectively, for the three months ended September 30, 2003 and 2002.

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 September 30, 2003 and December 31, 2002, mortgage servicing rights had carrying values of $999,000 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 September 30, 2003, the Company had outstanding commitments to originate $2.0 million in loans. In addition, open-end line of credit loans had $4.5 million available to be drawn upon. As of September 30, 2003, the total amount of certificates scheduled to mature in the following 12 months was $47.2 million. The Company believes that it has adequate resources to fund all of its commitments and that it can adjust the rate on certificates of deposit to retain deposits in changed interest environments. If the Company requires funds beyond its internal funding capabilities, advances from the Federal Home Loan Bank of Chicago are available as an additional source of funds.

CAPITAL RESOURCES

The Bank is subject to capital-to-asset requirements in accordance with Federal bank regulations. The following table summarizes the Bank's regulatory capital requirements, versus actual capital as of September 30, 2003:

	ACTUAL		REQUIRED FOR ADEQUATE CAPITAL		TO BE WELL CAPITALIZED	
SEPTEMBER 30, 2003	Amount	%	Amount	%	Amount	
	(Dollars in thousands)					
Total capital (to risk-weighted assets)	$24,397	19.60	$ 9,960	8.0	$12,449	1
Tier 1 capital (to risk-weighted assets)	22,837	18.34	4,980	4.0	7,470	
Tier 1 capital (to average assets)	22,837	10.92	8,362	4.0	10,453	

The Company's consolidated capital-to-asset requirements and actual capital as of September 30, 2003 are summarized in the following table:

	ACTUAL		REQUIRED FOR ADEQUATE CAPITAL		TO BE WELL CAPITALIZED	
SEPTEMBER 30, 2003	Amount	%	Amount	%	Amount	
	(Dollars in thousands)					
Total capital (to risk-weighted assets)	$27,167	21.60	$10,062	8.0	---	N
Tier 1 capital (to risk-weighted assets)	25,591	20.35	5,031	4.0	---	N
Tier 1 capital (to average assets)	25,591	12.16	8,415	4.0	---	N

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ITEM 3. CONTROLS AND PROCEDURES

The Company carried out an evaluation as of September 30, 2003, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective. There were no significant changes in the Company's internal controls or in other factors that could significantly affect these controls during the quarter ended September 30, 2003.

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

PART II -- OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

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

ITEM 2. CHANGES IN SECURITIES

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None

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

None

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ITEM 5. OTHER INFORMATION.

None

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

(a) Exhibits

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

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

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

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

(b) The Company filed a Current Report on Form 8-K on August 6, 2003 related to its second quarter 2003 earnings announcement. The Company filed a Current Report on Form 8-K on August 18, 2003 related to its 5% stock repurchase program announcement.

SIGNATURES

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

FIRST BANCTRUST CORPORATION

Date: November 13, 2003

/s/ Terry J. Howard

Terry J. Howard
President and Chief Executive Officer

Date: November 13, 2003

/s/ Ellen M. Litteral

Ellen M. Litteral
Treasurer