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FIRST BANCTRUST CORP
Form ARS
March 21, 2003

(FBTC LOGO)

ANNUAL REPORT
2002

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To Our Stockholders, Customers, and Friends:

I am pleased to present our second Annual Report to Stockholders for First BancTrust Corporation, parent company of First Bank & Trust, S.B., for the year ended December 31, 2002. The year 2002, from an economic perspective, was a continuation of 2001. Interest rates proceeded to decline to historically low levels, interest margins were further compressed, the economic recovery forecast for 2002 did not materialize, and the market for equity securities remained the domain of "bears". As a result interest rates on new loans fell to the lowest recorded in nearly forty years and prepayments on existing loans swelled to historically unprecedented levels.

Our net income for the year ended December 31, 2002, stood at \$1.3 million, or \$1.00 per share, fully diluted. This compares to \$1.9 million for the previous year. On an operating basis, our net interest income for the year

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actually increased by \$920,000, from \$6.6 million to \$7.5 million, a 14% increase. However, the interest rate environment I described resulted in increased amortization of and a provision for valuation allowance to our loan servicing assets, because of the historically high level of refinancing activity during the period. These charges resulted in a reduction of the total loan sales and servicing fees and gains of approximately \$1.5 million from 2001 to 2002. As a result, our non-interest income was reduced by nearly \$980,000 as compared with 2001. Non-interest expense also increased to \$6.8 million for the year ended December 31, 2002, compared to \$6.0 million for the prior year, due primarily to compensation related expenses.

Our fundamental operations continued to improve during the year. In addition to the increased net interest income from our lending and deposit receiving activities, loans, net of allowance for losses, grew to \$105.2 million at December 31, 2002, an increase of \$4.5 million. Deposits grew by \$6.0 million to \$147.3 million -- a strong showing, especially considering the low interest rate environment. Our existing deposit products and services accounted for most of this growth, but our newest products, "Pay Yourself First" and "Signature" savings accounts, attracted nearly 25 % of the total increase.

We also continued to originate and sell loans into the secondary market at record levels. Approximately \$41.2 million in loans were sold during 2002, as compared to \$31.3 million in 2001. We continue to maintain a strong presence in the loan servicing field for loans we originate for sale. In fact, the balances of loans we service for others are now about three-quarters of the total balances of loans we hold in our own portfolio. By selling into the secondary market, retaining servicing, and reinvesting sale proceeds, we not only put our deposit dollars to work again, we also benefit from fees others pay us to service loans we no longer own.

The confidence we at First BancTrust Corporation have in our service to the community is matched by the trust our customers place in us: the residents, small businesses and farmers of the communities we serve. We intend to keep that trust.

On behalf of the Board of Directors, officers, and employees, I would like to thank you for your continued interest in the Company. We all would like to take this opportunity to specially thank those of you who are customers of the Bank. I am grateful for the continued confidence of our shareholders and our customers in the communities we serve. I will always appreciate your support.

Sincerely,

/s/ Terry J. Howard

Terry J. Howard
President and
Chief Executive Officer

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FIRST BANCTRUST CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
(TABLE DOLLAR AMOUNTS IN THOUSANDS, EXCEPT SHARE DATA)

On October 16, 2000 the Board of Directors of First Bank & Trust, s.b. (the "Bank") adopted a Plan of Conversion to convert from an Illinois mutual savings

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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 of the Company was offered initially to eligible deposit account holders of First Bank & Trust, s.b. The Bank's conversion from an Illinois mutual savings bank to an Illinois stock savings bank (the "Conversion") was completed on April 18, 2001.

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.

The Company originates loans and solicits deposits through the Bank, but otherwise conducts no significant business, except through the Bank, the Bank's subsidiary, Community Finance Center, Incorporated, and the Company's subsidiaries First Charter Service Corporation and ECS Service Corporation. Community Finance Center, Incorporated provides retail consumer lending to the Bank's market area. First Charter Service Corporation provides securities brokerage services through a third-party broker-dealer, PrimeVest Financial Services, Inc., and also engages in the sale of tax deferred annuities. ECS Service Corporation, doing business as Edgar County Title, provides abstracting services and title insurance for the Bank's market area. All references to the Company include the Bank and subsidiaries, unless otherwise indicated.

"SAFE HARBOR" STATEMENT

In addition to historical information, forward-looking statements are contained herein that are subject to risks and uncertainties that could cause actual results to differ materially from those reflected in the forward-looking statements. Factors that could cause future results to vary from current expectations, include, but are not limited to, the impact of economic conditions (both generally and more specifically in the markets in which the Company operates), the impact of competition for the Company's customers from other providers of financial services, the impact of government legislation and regulation (which changes from time to time and over which the Company has no control), and other risks detailed in this Annual Report and in the Company's other Securities and Exchange Commission filings. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's analysis only as of the date hereof. The Company undertakes no obligation to publicly revise these forward-looking statements, to reflect events or

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circumstances that arise after the date hereof. Readers should carefully review the risk factors described in other documents the Company files from time to time with the Securities and Exchange Commission.

RESULTS OF OPERATIONS

General

Net income for the year ended December 31, 2002 decreased by \$548,000, or 29.45% from \$1,861,000 for the year ended December 31, 2001 to \$1,313,000 for the year ended December 31, 2002. The decrease in net income is primarily due to a decrease in noninterest income and increases in noninterest expense and an

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increase in the provision for loan losses, partially offset by an increase in net interest income and a decrease in income tax expense. Return on average assets decreased to 0.64% for the year ended December 31, 2002 from 0.99% for the year ended December 31, 2001. Return on average equity was 4.77% and 7.66% for the years ended December 31, 2002 and 2001, respectively.

Net Interest Income

Net interest income increased by \$922,000 or 14.0% from \$6.6 million for the year ended December 31, 2001 to \$7.5 million for the year ended December 31, 2002. The primary reason for the increase in net interest income is a decrease in interest expense of \$1.46 million partially offset by a decrease in interest income of \$542,000. The Company's net interest margin was 4.02% for the year ended December 31, 2002 compared to 3.92% for the year ended December 31, 2001.

The net interest margin increased as a result of increases in earning assets and earning liabilities, and an increase in the interest spread from 3.31% for the year ended December 31, 2001 to 3.57% for the year ended December 31, 2002. The increase in earning assets was primarily due to the additional investment in securities, while the increase in earning liabilities was primarily due to deposit growth. The proceeds from the stock conversion were invested in earning assets, primarily investment securities during the latter part of 2001. The increase in the interest spread resulted from a decrease in rate on interest-bearing liabilities partially offset by a decrease in rate on interest-earning assets.

Interest Income - Total interest income was \$13.0 million for the year 2002, a decrease of \$542,000, or 4.0% from \$13.6 million reported in 2001. Interest income from loans decreased by \$1.0 million from \$10.0 million in 2001 to \$9.1 million in 2002, and interest income from deposits with financial institutions decreased by \$285,000 from \$383,000 in 2001 to \$98,000 in 2002, while investment income increased by \$639,000 from \$3.0 million in 2001 to \$3.7 million in 2002, and dividend income from Federal Home Loan Bank stock increased from \$106,000 in 2001 to \$164,000 in 2002.

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The following schedule compares average total loan balances by major categories for the years 2002 and 2001:

	Average Balance		Change	%
	2002	2001		
Real Estate Loans				
One-to-four family	\$ 41,058	\$ 44,753	(3,695)	-8.26%
Multi-family	302	277	25	9.03%
Commercial	8,946	8,021	925	11.53%
Construction	653	692	(39)	-5.64%
Agricultural	12,239	11,991	248	2.07%
Total real estate loans	63,198	65,734	(2,536)	-3.86%
Agricultural production finance	9,850	8,226	1,624	19.74%
Commercial and industrial loans	7,527	8,889	(1,362)	-15.32%
Consumer loans	26,512	25,831	681	2.64%

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Total loans	107,087	108,680	(1,593)	-1.47%
Allowance for loan losses	(1,916)	(1,972)	56	-2.84%
Net loans	105,171	106,708	(1,537)	-1.44%

The average net loan portfolio decreased by \$1.5 million or 1.44% from \$106.7 million in 2001 to \$105.2 million in 2002. This was primarily a result of a decrease in the average one-to-four family residential loans of \$3.7 million, and a decrease of \$1.4 million in commercial and industrial loans, partially offset by an increase of \$1.6 million in agricultural production finance loans, an increase of \$925,000 in commercial real estate loans, and an increase of \$681,000 in the average consumer loans.

The decrease in the average one-to-four family residential loans resulted from increased refinancing in 2002 due to lower interest rates available on fixed-rate mortgages. Borrowers with adjustable rate loans converted to fixed-rate products which in turn were sold into the secondary market. Commercial and industrial loans decreased due to fewer originations in 2002. The Company's agricultural production finance loans increased by \$1.6 million from \$8.2 million average balance for 2001 compared to \$9.8 million average balance for 2002, as the number of loans outstanding increased, as did the average balance per loan. Commercial real estate loans increased due to several new large loans in this area, which raised the average balance per loan in this category. Consumer loans increased due to higher demand for vehicle loans.

The decrease in loan interest income of \$1.0 million from 2001 to 2002 was primarily due to a decrease in the average rate earned on outstanding loans. The average yield on loans receivable decreased by 77 basis points from 9.41% in 2001 to 8.64% in 2002. The decrease in loan yields was due to a general decline in interest rates during 2002.

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Income from investments increased by \$639,000 from \$3.0 million in 2001 to \$3.7 million in 2002. Average total investment securities were \$72.1 million during 2002, a \$22.4 million increase over the 2001 total of \$49.7 million. The increase in average investments was funded by deposit growth and the liquidation of interest-bearing deposits with financial institutions to invest in higher yielding mortgage-backed securities. This growth was the primary reason for the increase in interest income from securities, which was partially offset by a decrease in the average rate of 103 basis points, from 6.13% average rate in 2001 to 5.10% average rate in 2002.

Interest income earned on deposits with financial institutions decreased \$285,000 or 74.3% from \$383,000 in 2001 to \$98,000 in 2002. The average balance maintained at the Federal Home Loan Bank of Chicago in a cash management account decreased during 2002, from \$10.0 million in 2001 to \$6.2 million during 2002. The interest-bearing demand deposit account maintained by the Company is used for short-term cash needs. The cash proceeds from the stock conversion and funds generated by security calls and repayments on mortgage-backed securities kept the demand deposit account at higher than normal levels during 2001. In 2002, the discount rate remained at historic low levels, from a high of 1.8% to a low point in the latter part of 2002 of 1.30%. During 2001, the Federal Open Market

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committee or "FOMC," the governing body that establishes the federal funds rate and the discount rate, lowered these key interest rates a total of eleven times. The federal fund rates dropped from a high of 6.50% in January, 2001 to 1.75% in 2001. As a result, the average rate earned on deposits with financial institutions for 2002 was 1.58% as compared to an average rate of 3.83% for 2001.

Interest Expense - Interest expense decreased from \$7.0 million in 2001 to \$5.5 million in 2002, a decrease of \$1.5 million or 20.95%. Interest expense on deposits declined from \$5.6 million in 2001 to \$4.3 million in 2002, a reduction of \$1.3 million or 23.45%. Interest expense on certificates of deposit decreased by \$1.1 million, or 27.35%, from \$4.0 million in the year 2001 to \$2.9 million in the year 2001 primarily due to a decline in the average rate. The average rate paid on certificates for 2002 declined by 141 basis points from 5.45% in 2001 to 4.04% in 2002. The average balance of certificate of deposits has declined by \$1.3 million from \$72.4 million in 2001 to \$71.1 million in 2002.

Demand deposits, which are largely Investor Checking Accounts, increased on the average from \$40.6 million in 2001 to \$56.3 million in 2002, a \$15.7 million or a 38.7% increase, while the associated interest expense paid on demand deposits decreased by \$273,000 from \$1.3 million in 2001 to \$1.6 million in 2002. The average rate on demand deposits decreased from 3.87% in 2001, to 2.31% in 2002. The average balance of Investor Checking Accounts increased by \$7.3 million from \$34.6 million in 2001 to \$41.9 million for 2002. Investor Checking Accounts have comparable rates to a money market product without the transaction limitations. Rates on the Investor Checking Account repriced monthly off of an index tied to the 90-day Treasury bill rate. Average money market accounts increased from an average of \$2.2 million during 2001 to \$8.8 million average balance for 2002. The \$6.6 million increase in average balance was primarily due to a single business money market account from one

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corporate investor opened in June 2002, whose account had an average balance of \$5.7 million for 2002.

Interest expense on Federal Home Loan Bank (FHLB) advances and other debt for 2002 was \$1.2 million compared to \$1.3 million in 2001. The average balance of borrowings for 2002 was \$26.2 million compared to \$26.4 million for 2001. Borrowings at the FHLB typically consist of fixed-term notes, and an open-end line of credit. At December 31, 2002, \$25.5 million in advances were fixed rate and fixed term, with convertible options to variable rate loans, and the remaining \$1.0 million was drawn against the open-end line of credit. The average rate on average FHLB advances and other debt decreased from 5.01% in 2001 to 4.53% in 2002.

The average interest rate earned on interest-earning assets declined from 8.08% in 2001 to 6.98%, while the average balances increased from \$168.0 million in 2001 to \$186.6 million in 2002. The average rate of interest-bearing liabilities decreased from 4.77% in 2001 to 3.41% in 2002, due to the declining rate environment. The average balance of interest-bearing liabilities increased from \$146.5 million in 2001 to \$162.0 million in 2001. Interest rate spread for 2002 improved to 3.57% from 3.31% in 2001.

Average Balance Sheet

The following table presents the average balance sheet for the Company for the years ended December 31, 2002, 2001, and 2000, the interest on interest-earning

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assets and interest-bearing liabilities and the related average yield or cost. The yields or costs are calculated by dividing income or expense by the average balance of assets or liabilities, respectively, for the years shown. The yields and costs include fees, which are considered adjustments to yields.

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	As of December 31, 2002		
	Ending Balance	Average Yield/Rate	Average Balance
	(Dollars in thous		
INTEREST-EARNING ASSETS			
Loans receivable, net(1)	\$ 105,778	8.08%	\$ 105,171
Investments securities	72,748	5.34%	72,150
Deposits with financial institutions(2)	3,458	1.03%	6,193
Federal Home Loan Bank stock	3,712	6.00%	3,067
	185,696	6.83%	186,581
Non-interest-earning assets	17,029		17,176
Total assets	\$ 202,725		\$ 203,757
INTEREST-BEARING LIABILITIES			
Deposits:			
Demand	\$ 50,867	1.92%	\$ 56,329
Savings	8,657	1.64%	8,337
Certificates of deposits of \$100,000 or more	14,992	3.77%	15,080
Other certificates	55,524	3.52%	56,069
Borrowings	26,501	4.43%	26,205
Total interest-bearing liabilities	156,541	3.07%	162,020
Non-interest-bearing demand accounts	17,296		12,277
Non-interest-bearing liabilities	1,582		1,919
Total liabilities	175,419		176,216
Total equity capital(3)	27,306		27,541
Total liabilities and equity capital	\$ 202,725		\$ 203,757
Net average interest-earning assets	\$ 29,155		\$ 24,561
Net interest income; interest rate spread(4)			
Net interest margin(5)			
Average interest-earning assets to average interest-bearing liabilities			115.16

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- (1) Includes loans held for sale and nonaccruing loans.
- (2) Includes interest-bearing demand deposits and other interest bearing deposits.
- (3) Includes retained earnings and accumulated other comprehensive income (loss).
- (4) Interest rate spread represents the difference between the weighted average yield on interest-earning assets and the weighted average rate on interest-bearing liabilities.
- (5) Net interest margin is net interest income divided by net average interest-earning assets.

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	Year ended December			
	----- 2001 -----			
	Average Balance	Interest	Average Yield/Rate	Ave Bal

	(Dollars in thous			
INTEREST-EARNING ASSETS				
Loans receivable, net(1)	\$106,708	\$ 10,043	9.41%	\$109
Investments securities	49,724	3,042	6.12%	38
Deposits with financial institutions(2)	10,006	383	3.83%	2
Federal Home Loan Bank stock	1,543	106	6.87%	1
	-----	-----	-----	-----
Total interest-earning assets	167,981	13,574	8.08%	152
	-----	-----	-----	-----
Non-interest-earning assets	20,135			15
	-----			-----
Total assets	\$188,116			\$167
	=====			=====
INTEREST-BEARING LIABILITIES				
Deposits:				
Demand	\$ 40,629	\$ 1,572	3.87%	\$ 29
Savings	7,010	142	2.03%	8
Certificates of deposits of \$100,000 or more	15,606	795	5.09%	16
Other certificates	56,843	3,157	5.55%	60
Borrowings:				
Long-term	26,360	1,321	5.01%	21
Short-term	48	3	6.25%	3
	-----	-----	-----	-----
Total interest-bearing liabilities	146,496	6,990	4.77%	140
	-----	-----	-----	-----
Non-interest-bearing demand accounts	13,125			11
Non-interest-bearing liabilities	4,194			3
	-----			-----
Total liabilities	163,815			155
Total equity capital(3)	24,301			12

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Total liabilities and equity capital	----- \$188,116 =====			----- \$167 =====
Net average interest-earning assets	\$ 21,485 =====			\$ 12 =====
Net interest income; interest rate spread(4)		\$ 6,584 =====	3.31% =====	
Net interest margin(5)			3.92% =====	
Average interest-earning assets to average interest-bearing liabilities	114.67% =====			10 =====

- (1) Includes loans held for sale and nonaccruing loans.
- (2) Includes interest-bearing demand deposits and other interest bearing deposits.
- (3) Includes retained earnings and accumulated other comprehensive income (loss).
- (4) Interest rate spread represents the difference between the weighted average yield on interest-earning assets and the weighted average rate on interest-bearing liabilities.
- (5) Net interest margin is net interest income divided by net average interest-earning assets.

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Rate/Volume Analysis

The following table presents the extent to which changes in interest rates and changes in the volume of interest-earning assets and interest-bearing liabilities have affected the Company's interest income and expense during the periods indicated. Information is provided in each category with respect to (i) changes attributable to changes in volume (changes in volume multiplied by prior rate); (ii) changes attributable to changes in rate (change in rate multiplied by prior volume); and (iii) the net change. The changes attributable to the combined impact of volume and rate have been allocated proportionately to the changes due to volume and the changes due to rate.

Year Ended 12/31/2002 Compared to Year Ended 12/31/2001			Year Ended 12/31/2002 Compared to Year Ended 12/31/2001	
-----			-----	
Increase (Decrease) Due to			Increase (Decrease) Due to	
-----			-----	
Volume	Rate	Net	Volume	Rate
-----	-----	-----	-----	-----
(in thousands)				

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Interest-earning assets:

Interest-bearing demand deposits	\$ (143)	\$ (811)	\$ (954)	\$ (274)	\$ 436
Investment securities, net	1,207	(575)	632	696	(11)
Loans, net	(112)	(173)	(285)	287	(77)
FHLB stock	84	(18)	66	6	(16)
	-----	-----	-----	-----	-----
Total interest-earning assets	1,411	(1,952)	(541)	1,254	(208)

Interest-bearing liabilities:

Demand accounts	487	(760)	(273)	473	(458)
Savings accounts	27	(2)	25	(28)	1
Certificates of deposit	(26)	(169)	(195)	(239)	(3)
Long-term borrowings	(42)	(844)	(886)	234	(151)
Short-term borrowings	(10)	(126)	(136)	(194)	(8)
	-----	-----	-----	-----	-----
Total interest-bearing liabilities	683	(2,148)	(1,465)	322	(695)
	-----	-----	-----	-----	-----
Net change in net interest income	\$ 728	\$ 196	\$ 924	\$ 932	\$ 487
	=====	=====	=====	=====	=====

Provision for Loan Losses

The provision for loan losses for the year ended December 31, 2002 was \$718,000 compared to \$607,000 for the year ended December 31, 2001, an increase of \$111,000 or 18.29%. The provision for both periods reflects management's analysis of the Company's loan portfolio based on the information which was available to it at such time. In particular, 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

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portion for each loan is calculated, management calculates a historical portion for each category based on a combination of loss history adjusted for current national and local economic conditions, trends in delinquencies and charge-offs, trends in volume and term of loans, changes in underwriting standards, and industry conditions. Chargeoffs for 2002 were \$526,000 compared to \$1.3 million for the year 2001. Chargeoffs in 2002 included \$77,000 relating to the liquidation of business assets of a commercial borrower, and \$54,000 to another commercial borrower on an unsecured commercial loan. Chargeoffs on vehicle loans increased from \$190,000 in 2001 to \$212,000 in 2002, while chargeoffs on consumer finance loans increased from \$47,000 in 2001 to \$67,000 in 2002. While Company management believes that the allowance for loan losses is sufficient based on information currently available, no assurances can be made that future events, conditions, or regulatory directives will not result in increased provisions for loan losses or additional chargeoffs which may adversely affect net income.

Noninterest Income

Noninterest income totaled \$1.9 million in 2002, compared to \$2.9 million in 2001, a decrease of 983,000 or 33.9%, primarily due to a decreases in loan servicing fees (cost) and net gains on loan sales, partially offset by increases

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in other service charges and fees, brokerage fees, and net realized gains on sales of available-for-sale securities.

Loan servicing fees (cost) declined by \$1.1 million from the year ended December 31, 2001 to the year ended December 31, 2002. This decline was primarily due to the accelerated amortization of servicing assets, and the identification of an impairment which resulted in the establishment of a valuation allowance. Amortization of servicing assets for 2002 was \$895,000 compared to \$432,000 for 2001, an increase of \$463,000. The higher amortization in 2002 resulted from loans refinanced at lower interest rates, which accelerated prepayment speeds. Loans sold during 2002 amounted to \$41.2 million in 2002 compared to \$31.3 million in 2001. Of the \$41.2 million loans sold in 2002, many were refinances of existing loans, which had existing servicing assets which were then written off. When the refinanced loans were sold into the secondary market, servicing assets relating to these loans were calculated and recorded as required by accounting principles generally accepted in the United States of America. The new servicing assets were created using current estimated lives and prepayment assumptions, which resulted in a lower asset value. The decline in interest rates has resulted in increased prepayments, which shortens the expected average life of the servicing assets. When the existing servicing assets were valued with the estimated shorter lives due to the lower interest rate environment, the calculated value was substantially less than the book value of the servicing assets, identifying an impairment. The impairment of \$683,000 was charged against current year earnings, and a valuation allowance established for this amount. As of December 31, 2002 loans serviced for others totaled \$80.8 million, and the net value of the loan servicing rights totaled \$950,000, net of a valuation allowance of \$683,000.

Net gains on loan sales decreased \$339,000 from \$925,000 for the year ended December 31, 2001 to \$586,000 for the year ended December 31, 2002. Although loans sold during 2002

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increased by \$9.9 million from \$31.3 million in 2001 to \$41.2 million in 2002, the associated capitalized servicing asset created for the loans sold in 2002 was \$433,000 compared to \$824,000 in 2001. The servicing assets are created using the same assumptions in valuing the existing servicing assets. In 2002, the decline in interest rates and accelerated prepayment speeds shortened the estimated lives of servicing assets. As a result, the servicing assets recognized in 2002 were calculated with a shorter estimated useful life than servicing assets recognized in 2001.

Other service charges and fees increased by \$83,000 due to an increase in loan fees of \$58,000 and increased debit card fees of \$25,000. Loan fees increased as a result of continued refinancing activity in one-to-four family residential loans and an overall fee increase for the consumer loans. Income from debit and ATM cards increased due to a bank-wide promotion to increase the number of cards in use.

Net realized gains on sales of available-for-sale securities for the year ended December 31, 2002 increased by \$120,000 from 2001. Equity securities of \$378,000 were sold during 2002 generating recognized income of \$120,000.

Brokerage fees increased by \$154,000 from \$22,000 in 2001 to \$177,000 in 2002 due to the employment of a new brokerage service representative for First Charter Service Corporation, one of the Company's wholly-owned subsidiaries. Other income increased \$77,000 from \$207,000 in 2001 to \$284,000 in 2002, primarily due to an increase in earnings on cash surrender value of bank owned

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life insurance of \$80,000 due to the purchase of additional policies of \$1.1 million in December, 2001.

Noninterest Expense

Total noninterest expense increased from \$6.0 million in 2001 to \$6.8 million in 2002, an increase of \$731,000 or 12.1% due primarily to increases in salaries and employee benefits and other expenses. Salaries and employee benefits totaled \$3.5 million in 2001 and \$3.9 million in 2002, an increase of \$431,000. The increase in salaries and employee benefits was primarily due to increases in salaries, employee stock ownership plan expense, and recognition and retention plan expense. Salaries and wages increased by \$204,000 due to normal pay increases, the addition of three full-time employees, and increased commissions paid to brokerage employees due to a higher sales volume. In connection with the Conversion, the Company established an Employee Stock Ownership Plan ("ESOP") in April, 2001. The ESOP expense for 2002 was \$240,000 compared to \$150,000 for 2001. The increase was due to a full year of expense for 2002 compared to nine months of expense for 2001, and an increase in the average stock price in 2002. The ESOP expense each month is calculated on a fixed number of shares at the average share price for the month, and as the monthly average share price increases, the ESOP expense increases accordingly. In April, 2002 at the annual stockholders' meeting, the stockholders approved the adoption of the 2002 Recognition and Retention Plan and Trust Agreement (the "RRP"). In February, 2002 the Committee of the Board of Directors which administers the plan approved the grant of

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34,246 shares of restricted stock that will vest over a five-year period. The associated expense for 2002 for the RRP was \$73,000.

Other expenses increased \$166,000 from \$626,000 in 2001 to \$792,000 in 2002, an increase of 26.6%. Office supplies and printing expense increased by \$42,000 from \$90,000 in 2001 to \$132,000 in 2002 primarily due to updating brochures and disclosures and costs associated with the printing of the annual reports and proxies in 2002. Filing fees for the Company increased by \$27,000 due to increased corporate franchise tax and fees associated with filing regulatory reports with the Securities and Exchange Commission. Charitable contributions increased by \$17,000 primarily due to the establishment of a foundation to fund scholarships to area college students. Dues expense increased due to additional memberships in banking organizations, while postage expense increased due to an overall increase in postage rates. Other expenses also increased due to increases in check losses, insurance expense, and correspondent bank fees.

Income Tax Expense

Total income tax expense was \$613,000 in 2002, compared to \$968,000 in 2001, a decrease of \$355,000 or 36.7%. The decrease of \$355,000 is attributable to lower taxable income in 2002 of \$1.9 million compared to \$2.8 million in 2001. The effective tax rates for the years ended December 31, 2002 and December 31, 2001 were 31.8% and 34.2%, respectively. The decrease in the effective tax rate from 2001 to 2002 was due to an increase in the cash surrender value of life insurance.

FINANCIAL CONDITION

Total assets of the Company increased by \$6.7 million or 3.4% to \$202.7 million at December 31, 2002 from \$196.0 million at December 31, 2001. The growth in total assets was due primarily to a \$7.5 million increase in investment securities available for sale, a \$4.5 million increase in loans, net of

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allowance for loan losses, and a \$2.1 million increase in Federal Home Loan Bank stock, partially offset by an \$6.3 million decrease in cash and cash equivalents and a \$1.1 decrease in loan servicing rights, net of valuation allowance. The overall increase in total assets was funded by increases in deposits and Federal Home Loan Bank advances.

The Company's cash and cash equivalents decreased by \$6.3 million, from \$16.7 million at December 31, 2001 to \$10.5 million at December 31, 2002. Interest-bearing demand deposits with banks decreased by \$6.0 million from \$9.4 million at December 31, 2001 to \$3.5 million at December 31, 2002. Cash and due from banks also decreased by \$312,000 from December 31, 2001 to December 31, 2002. Cash and cash equivalents decreased due to less liquidity as excess cash was invested in higher yielding investments.

Investment securities available for sale totaled to \$72.7 million at December 31, 2002 compared to \$65.2 million at December 31, 2001, an increase of \$7.5 million. The increase

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in securities available for sale was due to the investment of excess cash and cash equivalents in higher yielding assets, and funds provided by deposit growth.

The Company's net loan portfolio increased by \$4.5 million or 4.5%, from \$100.7 million at December 31, 2001 to \$105.1 million at December 31, 2002. Gross loans increased by \$4.8 million, offset by a increase in the allowance for loan loss of \$306,000. Loans secured by 1-4 family residences decreased by \$1.4 million from December 31, 2001 to December 31, 2002. Low fixed mortgage rates have resulted in higher loan volume with many borrowers refinancing adjustable rate loans to fixed rate to take advantage of the lower rates. These fixed rate residential loans are sold into the secondary market. Farmland loans have increased by \$1.3 million, due to a higher average balance per loan, and agricultural production loans have increased by \$3.3 million, due to higher volume of loans as well as a higher average balance per loan. Commercial real estate loans have increased by \$1.8 million primarily due to several large loans originated in 2002 which were underwritten with guarantees by the Small Business Administration. Vehicle loans have increased by \$1.7 million due to a higher number of loans.

At December 31, 2002, the allowance for loan losses was \$2.0 million or 1.83% of the total loan portfolio compared to \$1.7 million or 1.62% at December 31, 2001. The Company's net chargeoffs were \$412,000 for 2002 compared to \$1.2 million for 2001. The Company's loans delinquent 90 days or more at December 31, 2002 were \$1.5 million or 1.42% of total loans, compared to \$1.2 million or 1.12% of total loans at December 31, 2001. Nonperforming assets and troubled debt restructurings as of percentage of total loans increased slightly from 2.17% at December 31, 2001 to 2.25% at December 31, 2002. The Company's nonperforming assets and troubled debt restructurings of \$2.6 million at December 31, 2002 consist primarily of restructured commercial and agricultural loans and nonperforming loans primarily secured by residences and farming assets and foreclosed assets held for sale. Included in the \$2.6 million of nonperforming loans and troubled debt restructurings are agricultural loans of \$340,000 which are 90% guaranteed for \$306,000 by the Farmers Home Administration, thereby limiting the Company's exposure on those loans. Management reviews the adequacy of the allowance for loan losses quarterly, and believes that its allowance is adequate; however, the Company cannot assure that future chargeoffs and/or provisions will not be necessary.

Premises and equipment increased by \$336,000 from \$2.4 million at December 31,

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2001 to \$2.8 million at December 31, 2002, primarily due to the expansion at the Bank's branch in Marshall, Illinois. An additional 2000 square feet was added to the facility in a main floor addition with a finished basement.

Foreclosed assets have decreased by \$622,000 from \$807,000 at December 31, 2001 to \$185,000 at December 31, 2002. As of December 31, 2002, the Company had two foreclosed real estate properties totaling \$92,000 including a single family residence and one commercial property. Other repossessed assets consisted of \$93,000, primarily repossessed vehicles. Foreclosed assets are carried at lower or cost or net realizable value. When

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foreclosed assets are acquired, any required adjustment is charged to the allowance for loan losses. All subsequent activity is included in current operations.

Interest receivable increased by \$240,000 from \$2.1 million as of December 31, 2001 to \$2.4 million as of December 31, 2002. The increase was a primarily a result of the increase in agricultural related loans, the majority of which are annual payment loans.

Loan servicing rights decreased \$1.1 million from \$2.1 million at December 31, 2001 to \$950,000 at December 31, 2002. The decline was due to accelerated amortization of loan servicing rights, and an identified impairment of \$683,000, partially offset by newly capitalized assets. Both the accelerated amortization and impairment were a result of increased prepayments due to decreases in interest rates. The decline in long-term interest rates resulted in an increase in the projected rate at which loans serviced for others are expected to prepay, thereby shortening their expected average lives. When the loan servicing rights were valued in the current environment with shorter lives, the assets had less value, and an impairment was identified. The impairment was charged against current earnings as a valuation allowance was established for the impaired amount. Total loans sold in 2002 were \$41.2 million compared to \$31.3 million during 2001. The related servicing rights capitalized did not increase at the same percentage increase as loans sold from 2001 to 2002 due to the new assets being established used current estimated prepayment speeds and estimated lives. Capitalized servicing assets for 2002 were \$433,000 compared to \$824,000 for 2001. Amortization of servicing rights amounted to \$895,000 in 2002 compared to \$432,000 in 2001. In addition, in 2002 a provision for the valuation allowance of \$683,000 was recorded. The original amount capitalized is recognized as a gain and is included as gain on sale of loans in the income statement. Capitalized servicing rights are amortized in proportion to and over the period of estimated servicing revenues. The amortization of and the provision for valuation allowance on the capitalized servicing rights are offset by the servicing fees (costs) received and is included as loan service fees in the income statement.

Cash surrender of life insurance increased from \$3.5 million at December 31, 2001 to \$3.7 million at December 31, 2002. The increase of \$188,000 was due increase in the cash surrender value of bank owned life insurance.

Federal Home Loan Bank stock increased from \$1.6 million at December 31, 2001 to \$3.7 million at December 31, 2002. The increase of \$2.1 million was due to \$2.0 million purchases of additional stock and \$130,000 in dividends paid in the form of stock. Other assets declined by \$212,000 from \$317,000 at December 31, 2001 to \$105,000 at December 31, 2002.

The Company's total deposits increased from \$141.3 million at December 31, 2001 to \$147.3 million at December 31, 2002, an increase of \$6.0 million or 4.3%. The

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increase in total deposits was due to a \$3.3 million increase in non-interest bearing demand deposits, a \$3.5 million increase in interest-bearing demand accounts, and a \$1.3 million increase in savings accounts, partially offset by a \$2.1 million decrease in certificates of deposits. At December

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31, 2002, time deposits \$100,000 or more totaled \$15.0 million compared to \$15.7 million at December 31, 2001.

Investor Checking, the largest component of interest-bearing demand deposits were \$41.0 million at December 31, 2001 compared to \$39.4 million at December 31, 2001. Investor Checking has comparable rates to money market accounts, without withdrawal restrictions. Business money market accounts have grown \$2.3 million in 2002, from eight accounts totaling \$1.7 million at December 31, 2001 to twenty-two accounts totaling \$4.0 million at December 31, 2002. Regular NOW accounts declined by \$340,000 from \$5.5 million at December 31, 2001 to \$5.2 million at December 31, 2002.

Savings accounts have grown from \$7.4 million at December 31, 2001 to \$8.7 million at December 31, 2002. This can be partially attributed to a new savings product introduced in September 2001. "Pay Yourself First" savings accounts are structured so interest is paid on a tiered basis, with the requirement of an automatic transfer from a bank checking account at least monthly. At December 31, 2002, "Pay Yourself First" savings accounts had grown to \$1.4 million compared to \$729,000 at December 31, 2001, an increase of \$681,000. Signature savings accounts, a more traditional savings product, had growth of \$405,000 to \$6.9 million at December 31, 2002.

Certificates of deposit have declined by \$2.1 million from \$72.6 million at December 31, 2001 to \$70.5 million at December 31, 2002. Continued low rates discourage account holders from investing in term products, although the Bank continues to offer a competitive "special" to attract term deposits. At December 31, 2002, the special certificate of deposit offered was a 2.20% certificate of deposit for an eleven-month term or a 2.65% certificate of deposit for a twenty-one month term. At December 31, 2002 the weighted average rate on certificates of deposits was 3.57% compared to 4.75% at December 31, 2001.

Federal Home Loan Bank advances and other debt at December 31, 2002 was \$26.5 million, an increase of \$1.0 million over the December 31, 2001 balance of \$25.5 million. At December 31, 2002, borrowings consisted of \$1.0 million drawn on the open end line-of-credit, and \$25.5 million in long-term fixed rate advances. The long-term advances are all convertible advances with specific lock-out periods, usually two to three years, after which the Federal Home Loan Bank has the option to convert the advance to a quarterly adjustable rate loan, with the option of prepayment at the conversion date, or on any future date of rate adjustment. At December 31, 2002 the average rate on Federal Home Loan Bank advances was fairly level at 4.43% compared to 4.54% at December 31, 2001.

Stockholder's equity at December 31, 2002 was \$27.3 million compared to \$27.7 million at December 31, 2001, a decrease of 412,000. The decrease was a result of treasury stock and incentive plan purchases, offset by increases in retained earnings and accumulated other comprehensive income. Retained earnings increased by \$1.0 million due to net income of \$1.3 million offset by dividends paid of \$283,000. The change in accumulated other comprehensive income was due to unrealized appreciation on available-for-sale securities from December 31, 2001 to December 31, 2002 of \$817,000 partially offset by a

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reclassification adjustment of \$70,000 for realized gains included in net income, net of income tax expense. The change of \$176,000 in unallocated employee stock ownership plan shares was due to the allocation of 15,204 shares to plan participants. In 2002, stockholders approved the adoption of the Recognition and Retention Plan and Trust Agreement which authorized the Company to purchase 60,835 shares of Common Stock for the Trust. In 2002, 34,246 shares were granted to directors and executive officers that will vest over a five-year period. The 60,835 shares were purchased for a cost of \$1.0 million, which was partially offset by \$75,000 for the shares earned in 2002. Treasury stock increased by \$1.5 million from \$865,000 at December 31, 2001 to \$2.4 million at December 31, 2002. The Company purchased 92,565 shares for a cost of \$1.5 million. All repurchased shares will be held as treasury shares to be used for general corporate purposes.

CRITICAL ACCOUNTING POLICIES

The accounting and reporting policies of the Company are in accordance with accounting principles generally accepted in the United States and conform to general practices within the banking industry. The Company's significant accounting policies are described in detail in the notes to the Company's consolidated financial statements for the year ended December 31, 2002. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. The financial position and results of operations can be affected by these estimates and assumptions and are integral to the understanding of reported results. Critical accounting policies are those policies that management believes are the most important to the portrayal of the Company's financial condition and results, and they require management to make estimates that are difficult, subjective, or complex.

Allowance for Loan Losses - The allowance for loan losses provides coverage for probable losses inherent in the Company's loan portfolio. Management evaluates the adequacy of the allowance for credit losses each quarter based on changes, if any, in underwriting activities, the loan portfolio composition (including product mix and geographic, industry or customer-specific concentrations), trends in loan performance, regulatory guidance and economic factors. This evaluation is inherently subjective, as it requires the use of significant management estimates. Many factors can affect management's estimates of specific and expected losses, including volatility of default probabilities, rating migrations, loss severity and economic and political conditions. The allowance is increased through provisions charged to operating earnings and reduced by net charge-offs.

The Company determines the amount of the allowance based on relative risk characteristics of the loan portfolio. The allowance recorded for commercial loans is based on reviews of individual credit relationships and an analysis of the migration of commercial loans and actual loss experience. The allowance recorded for homogeneous consumer loans is based on an analysis of loan mix, risk characteristics of the portfolio, fraud loss and bankruptcy experiences, and historical losses, adjusted for current trends, for each homogenous category or group of loans. The allowance for credit losses relating to impaired loans is based on the

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loan's observable market price, the collateral for certain collateral-dependent loans, or the discounted cash flows using the loan's effective interest rate.

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Regardless of the extent of the Company's analysis of customer performance, portfolio trends or risk management processes, certain inherent but undetected losses are probable within the loan portfolio. This is due to several factors including inherent delays in obtaining information regarding a customer's financial condition or changes in their unique business conditions, the judgmental nature of individual loan evaluations, collateral assessments and the interpretation of economic trends. Volatility of economic or customer-specific conditions affecting the identification and estimation of losses for larger non-homogeneous credits and the sensitivity of assumptions utilized to establish allowances for homogeneous groups of loans are among other factors. The Company estimates a range of inherent losses related to the existence of the exposures. The estimates are based upon the Company's evaluation of imprecision risk associated with the commercial and consumer allowance levels and the estimated impact of the current economic environment.

Mortgage Servicing Rights - Mortgage servicing rights ("MSRs") associated with loans originated and sold, where servicing is retained, are capitalized and included in the consolidated balance sheet. The value of the capitalized servicing rights represents the present value of the future servicing fees arising from the right to service loans in the portfolio. Critical accounting policies for MSRs relate to the initial valuation and subsequent impairment tests. The methodology used to determine the valuation of MSRs requires the development and use of a number of estimates, including anticipated principal amortization and prepayments of that principal balance. Events that may significantly affect the estimates used are changes in interest rates, mortgage loan prepayment speeds and the payment performance of the underlying loans. The carrying value of the MSRs is periodically reviewed for impairment based on a determination of fair value. For purposes of measuring impairment, the servicing rights are compared to a valuation prepared based on a discounted cash flow methodology, utilizing current prepayment speeds and discount rates. Impairment, if any, is recognized through a valuation allowance and included in net loan fees (costs) in the income statement.

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2002, the Company had outstanding commitments to originate \$3.2 million in loans. In addition, the Company had outstanding unused lines of credit to borrowers aggregating \$4.8 million for commercial lines, and \$850,000 for consumer lines of credit. As of December 31, 2002, the total amount of certificates scheduled to mature in the following 12 months was \$44.4 million. The Company believes that it has adequate resources to fund all of its commitments. The Company's most liquid assets are cash and cash equivalents. The level of cash and cash equivalents is dependent on the Company's operating, financing, lending and investing activities during any given period. The level of cash and cash equivalents at December 31, 2002 was \$10.5 million. The Company's future short-term requirements for cash are not expected to significantly change. However, in the event that the Company should require funds beyond its ability to generate them internally, additional

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sources of funds are available, such as Federal Home Loan Bank advances. With no parent company debt and sound capital levels, the Company has several options for longer-term cash needs, such as for future expansion and acquisitions.

A review of the Consolidated Statement of Cash Flows included in the accompanying financial statements shows that the Company's cash and cash equivalents ("cash") decreased by \$6.3 million in 2002 and increased \$7.6 million in the year ended December 31, 2001. Cash decreased in 2002 due to net cash used by investing activities of \$13.7 million, partially offset by net cash

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provided by operating activities of \$3.2 million and net cash provided by financing activities of \$4.2 million. Cash provided by operating activities included net income of \$1.3 million, plus non cash adjustments to net income including the proceeds from sales of loans originated for sale of \$41.2 million offset by \$41.0 million of loans originated for sale and net gain on loan sales of \$586,000, the provision for loan losses of \$718,000, depreciation and amortization of \$268,000, amortization of loan servicing rights of \$895,000, the provision for valuation allowance for loan servicing rights of \$683,000, and compensation related to employee stock ownership and incentive plans of \$313,000.

Net cash used by investing activities included \$41.0 million in purchases of available-for-sale securities, the purchase of Federal Home Loan Bank stock of \$2.0 million, net originations of loans of \$5.7 million, and the purchase of premises and equipment of \$604,000, offset by proceeds from maturities of available-for-sale securities of \$34.2 million, proceeds from sales of foreclosed assets of \$986,000, and proceeds from sales of available-for-sale securities of \$378,000. Cash provided by financing activities included a net increase in demand deposits, money market, NOW and savings accounts of \$8.1 million and \$1.0 million proceeds for the issuance of Federal Home Loan Bank advances offset by a decrease in certificates of deposit of \$2.1 million, the purchase of incentive plan shares of \$1.0 million, and the purchase of treasury stock of \$1.5 million.

Cash increased in 2001 due to net cash provided by operating activities of \$3.0 million and net cash provided by financing activities of \$21.7 million, offset by net cash used by investing activities of \$17.1 million. Cash provided by operating activities included net income of \$1.9 million, plus non cash adjustments to net income including the proceeds from sales of loans originated for sale of \$31.3 million offset by \$31.1 million of loans originated for sale and net gain on loan sales of \$925,000, the provision for loan losses of \$607,000, depreciation and amortization of \$300,000, amortization of loan servicing rights of \$432,000, deferred income tax expense of \$245,000 and compensation related to Employee Stock Ownership Plan. Net cash used by investing activities included \$46.9 million in purchases of available-for-sale securities and the purchase of bank owned life insurance of \$1.4 million offset by proceeds from maturities of available-for-sale securities of \$23.4 million, net originations of loans of \$7.0 million, and proceeds from sales of foreclosed assets of \$1.1 million. Cash provided by financing activities included \$22.5 million proceeds for the issuance of Federal Home Loan Bank advances, proceeds from the sale of stock of \$14.4 million, and net increase in demand deposits, money market, NOW and savings accounts of \$8.9 million offset by repayment of Federal Home Loan Bank advances and other debt of \$20.0 million, a

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decrease in certificates of deposit of \$1.6 million, and purchase of Employee Stock Ownership Plan shares of \$1.4 million.

For a discussion of commitments and credit risk, see note 20 to the consolidated financial statements.

The Bank is required to maintain regulatory capital sufficient to meet tier I leverage, tier I risk-based and total risk-based capital ratios of at least 4.0%, 4.0% and 8.0%, respectively. At December 31, 2002, the Bank exceeded each of its capital requirements with ratios of 10.7%, 19.2% and 20.4%, respectively.

MANAGEMENT OF INTEREST RATE RISK

The principal objectives of the Company's interest rate risk management function

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are: (i) to evaluate the interest rate risk included in certain balance sheet accounts; (ii) to determine the level of risk appropriate given the Company's business focus, operating environment, capital and liquidity requirements, and performance objectives; (iii) to establish asset concentration guidelines; and (iv) to manage the risk consistent with Board-approved guidelines. Through such management, the Company seeks to reduce the vulnerability of its operations to changes in interest rates and to manage the ratio of interest rate sensitive assets to interest rate sensitive liabilities within specified maturity terms or repricing dates. The Company's Board of Directors has established as Asset/Liability Committee consisting of directors and senior management officers, which is responsible to reviewing the Company's asset/liability policies and interest rate risk position. Such committee generally meets on a quarterly basis, and at other times as dictated by market conditions, and reports to the Board of Directors.

The Company's interest rate risk strategy primarily consists of: (i) emphasizing the attraction and retention of core deposits, which tend to be a more stable source of funding; (ii) emphasizing the origination of adjustable rate mortgage loan products and short-term commercial and consumer loans for the in-house portfolio, although this is dependent largely on the market for such loans; (iii) selling longer-term fixed-rate one-to-four family mortgage loans into the secondary market; and (iv) investing primarily in U.S. government agency investments and mortgage-backed securities.

Our ability to maintain net interest income depends upon earning a higher yield on assets than the rates we pay on deposits and borrowings and sustaining this positive interest rate spread during the fluctuations in prevailing interest rates. Interest rate sensitivity is a measure of the difference between amounts of interest-earning assets and interest-bearing liabilities that either re-price or mature within a given period of time. The difference, or the interest rate repricing "gap", provides an indication of how an institution's interest rate spread will be affected by changes in interest rates. A gap is considered positive when the amount of interest-rate sensitive assets exceeds the amount of interest-rate sensitive liabilities, and is considered negative when the amount of interest-rate sensitive liabilities exceeds the amount of interest-rate sensitive assets. Generally, during a period of rising interest rates, a negative gap within shorter maturities would adversely affect net interest income, while a

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positive gap within shorter maturities would result in an increase in net interest income. During a period of falling interest rates, a negative gap within shorter maturities would result in an increase in net interest income while a positive gap within shorter maturities would have the opposite effect.

The following table sets forth the amounts of interest-earning assets and interest-bearing liabilities outstanding at December 31, 2002, which mature or re-price in the periods shown. Except as stated in the table, the amount of assets and liabilities shown which re-price or mature during a particular period were determined in accordance with the earlier of term to repricing or contractual maturity. As of December 31, 2002, the amount of the Company's interest-earning assets which were estimated to mature or re-price within one year exceeded the Company's interest-bearing liabilities with the same characteristics by \$21.9 million or 10.78% of the Company's total assets.

Daily	1 to 3	3 to 12	1 to 3	3 to 5
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	Reprice	Months	Months	Years	Years
	-----	-----	-----	-----	-----
	(in thousands)				
Interest-earning Assets:					
Loans receivable, net (1,5,6)	\$ 0	\$ 19,141	\$ 25,842	\$ 39,821	\$ 18,276
Investment Securities (2,3,5,6)	0	9,980	14,669	21,598	16,277
Interest-bearing Due From	3,458	0	0	0	0
	-----	-----	-----	-----	-----
TOTAL	3,458	29,121	40,511	61,419	34,553
	-----	-----	-----	-----	-----
Interest-bearing Liabilities					
Deposits (4)	0	9,656	40,570	43,670	21,695
Borrowings	1,000	1	0	0	7,678
	-----	-----	-----	-----	-----
TOTAL	1,000	9,657	40,570	43,670	29,373
	-----	-----	-----	-----	-----
Gap	2,458	19,464	(59)	17,749	5,180
	-----	-----	-----	-----	-----
Cumulative Gap	\$ 2,458	\$ 21,922	\$ 21,863	\$ 39,612	\$ 44,792
	=====	=====	=====	=====	=====
Cumulative Gap as a % of Total Assets	1.21%	10.81%	10.78%	19.54%	22.09%
	-----	-----	-----	-----	-----

(1) Fixed rate loans are slotted according to their final maturity date. Adjustable rate loans are slotted according to their next reprice date. The cash flows Residential R/E, Commercial R/E and Consumer Installment Loans all receive an amortizing treatment. The cash flows for Residential R/E are accelerated to reflect assumptions for prepayments.

(2) Reflects re-pricing, contractual maturity, or anticipated call date.

(3) All securities are classified as available for sale.

(4) Adjusted to reflect various decay rate assumptions.

(5) The cash flows for MBS receive an amortizing treatment.

(6) The cash flows for MBS are accelerated to reflect assumptions for prepayments.

The Company tends to be asset sensitive due to the levels of assets that re-price daily, investment that mature within twelve months, and loans that mature or re-price within twelve months. The effect of interest rate increases on loans, since they are subject to competitive pressure, tends to lag behind change in market rates. This lag generally lessens the positive impact on net interest income during a period of rising interest rates. Based on information

provided in the table, assuming no significant impact from competitive pressure, the effect of an increase in interest rates of 100 basis points would be an

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increase in annualized net interest income of approximately \$218,000. A decrease in interest rates would have the opposite effect.

Management believes that the assumptions used to evaluate interest rate sensitivity approximate actual experience and considers this method a reasonable tool; however, the interest rate sensitivity of the Company's assets and liabilities and the estimated effect of changes in interest rates on net interest income could vary substantially if different assumptions were used or actual experience differs from the historical experiences on which these assumptions were based.

IMPACT OF INFLATION AND CHANGING PRICES

The consolidated financial statements of the Company and related notes presented herein have been prepared in accordance with generally accepted accounting principles, which generally require the measurement of financial position and operating results in terms of historical dollars, without considering changes in relative purchasing power over time due to inflation. Unlike most industrial companies, virtually all of the Bank's assets and liabilities are monetary in nature. As a result, interest rates generally have a more significant impact on the Bank's performance than does the effect of inflation. Interest rates do not necessarily move in the same direction or in the same magnitude as the prices of goods and services, since such prices are affected by inflation to a larger extent than interest rates.

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INDEPENDENT ACCOUNTANTS' REPORT

To the Stockholders
and Board of Directors
First BancTrust Corporation and Subsidiaries
Paris, Illinois

We have audited the accompanying consolidated balance sheets of First BancTrust Corporation and subsidiaries as of December 31, 2002 and 2001, and the related consolidated statements of income, stockholders' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements described above present fairly, in all material respects, the consolidated financial position of First BancTrust Corporation and subsidiaries as of December 31, 2002 and 2001, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of

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America.

/s/ BKD, LLP

Decatur, Illinois

January 17, 2003

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FIRST BANCTRUST CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2002 AND 2001

ASSETS

	2002	2001
	-----	-----
Cash and due from banks	\$ 6,995,804	\$ 7,307,000
Interest-bearing deposits with financial institutions	3,457,568	9,438,000
	-----	-----
Cash and cash equivalents	10,453,372	16,745,000
	-----	-----
Available-for-sale securities	72,747,550	65,206,000
Loans held for sale	596,565	596,000
Loans, net of allowance for loan losses of \$1,962,551 and \$1,656,946 at December 31, 2002 and 2001, respectively	105,181,804	100,656,000
Premises and equipment	2,771,616	2,435,000
Foreclosed assets held for sale, net	185,083	807,000
Interest receivable	2,356,771	2,116,000
Loan servicing rights, net of valuation allowance of \$683,087 and \$0 at December 31, 2002 and 2001, respectively	949,580	2,094,000
Cash surrender value of life insurance	3,666,926	3,478,000
Federal Home Loan Bank stock	3,711,600	1,582,000
Other	104,543	317,000
	-----	-----
Total assets	\$202,725,410	\$196,037,000
	=====	=====

See Notes to Consolidated Financial Statements

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LIABILITIES AND STOCKHOLDERS' EQUITY

	2002	2001
	-----	-----
LIABILITIES		
Noninterest-bearing deposits	\$ 17,295,781	\$ 13,900,000
Interest-bearing deposits		
Demand	50,866,975	47,300,000
Savings	8,656,922	7,300,000
Time	70,515,703	72,600,000
	-----	-----
Total deposits	147,335,381	141,300,000
	-----	-----
Federal Home Loan Bank advances and other debt	26,501,230	25,500,000
Pass through payments received on loans sold	260,753	200,000
Advances from borrowers for taxes and insurance	132,885	100,000
Deferred income taxes	267,765	100,000
Interest payable	105,651	100,000
Other	816,021	800,000
	-----	-----
Total liabilities	175,419,686	168,300,000
	-----	-----
COMMITMENTS AND CONTINGENT LIABILITIES		
STOCKHOLDERS' EQUITY		
Preferred stock, \$.01 par value; authorized and unissued - 1,000,000 shares		
Common stock, \$.01 par value; authorized 5,000,000 shares; issued and outstanding - 1,520,875 shares	15,209	14,300,000
Additional paid-in capital	14,444,010	14,300,000
Retained earnings	16,243,149	15,200,000
Accumulated other comprehensive income		
Unrealized appreciation on available-for-sale securities, net of income taxes 2002 - \$695,280, 2001 - \$171,359	993,257	200,000
	-----	-----
Total stockholders' equity	31,695,625	29,800,000
	-----	-----
Unallocated employee stock ownership plan; 2002 - 95,063 shares, 2001 - 110,267 shares	(1,098,766)	(1,200,000)
Unearned incentive plan shares; 2002 - 56,267 shares	(928,538)	
Treasury stock, at cost		
Common; 2002 - 155,165 shares, 2001 - 62,600 shares	(2,362,597)	(800,000)
	-----	-----
Total stockholders' equity	27,305,724	27,700,000
	-----	-----
Total liabilities and stockholders' equity	\$ 202,725,410	\$ 196,000,000
	=====	=====

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FIRST BANCTRUST CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2002 AND 2001

	2002	2001
	-----	-----
INTEREST AND DIVIDEND INCOME		
Loans		
Taxable	\$ 9,044,909	\$ 9,990,947
Tax exempt	43,952	52,477
Available-for-sale securities		
Taxable	3,387,666	2,778,226
Tax exempt	293,145	263,297
Deposits with financial institutions	98,337	383,150
Dividends on Federal Home Loan Bank stock and other	163,752	105,848
	-----	-----
Total interest and dividend income	13,031,761	13,573,945
	-----	-----
INTEREST EXPENSE		
Deposits	4,337,536	5,665,970
Federal Home Loan Bank advances and other debt	1,188,340	1,324,190
	-----	-----
Total interest expense	5,525,876	6,990,160
	-----	-----
NET INTEREST INCOME	7,505,885	6,583,785
PROVISION FOR LOAN LOSSES	718,000	607,000
	-----	-----
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	6,787,885	5,976,785
	-----	-----
NONINTEREST INCOME		
Customer service fees	544,041	495,018
Other service charges and fees	877,746	794,579
Net gains on loan sales	585,934	925,289
Net realized gains on sales of available-for-sale securities	119,654	--
Net loan servicing fees (cost)	(1,079,756)	48,293
Brokerage fees	176,739	22,415
Abstract and title fees	406,247	405,430
Other	284,059	206,662
	-----	-----
Total noninterest income	1,914,664	2,897,686
	-----	-----

See Notes to Consolidated Financial Statements

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	2002	2001
	-----	-----
NONINTEREST EXPENSE		
Salaries and employee benefits	\$3,939,395	\$3,508,830
Net occupancy expense	191,794	189,922
Equipment expense	644,102	658,928
Data processing fees	475,410	487,141
Advertising and promotion expense	206,239	186,571
Professional fees	313,937	251,122
Foreclosed assets expense, net	214,268	137,950
Other	791,909	625,538
	-----	-----
Total noninterest expense	6,777,054	6,046,002
	-----	-----
INCOME BEFORE INCOME TAXES	1,925,495	2,828,469
PROVISION FOR INCOME TAXES	612,788	967,689
	-----	-----
NET INCOME	1,312,707	1,860,780
	-----	-----
OTHER COMPREHENSIVE INCOME		
Unrealized appreciation on available-for-sale securities, net of income taxes of \$573,320 and \$216,799, for 2002 and 2001, respectively	816,922	311,983
Less: reclassification adjustment for realized gains included in net income, net of income tax expense of \$49,399 and \$0 for 2002 and 2001, respectively	70,255	--
	-----	-----
	746,667	311,983
	-----	-----
COMPREHENSIVE INCOME	\$2,059,374	\$2,172,763
	=====	=====
BASIC EARNINGS PER SHARE	\$ 1.02	N/A
	=====	=====
DILUTED EARNINGS PER SHARE	\$ 1.00	N/A
	=====	=====

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FIRST BANCTRUST CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2002 AND 2001

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	COMMON STOCK	ADDITIONAL -IN CAPITAL
	-----	-----
BALANCE, JANUARY 1, 2001	\$ --	\$ --
Net income	--	
Dividends on common stock, \$.05 per share	--	
Change in unrealized appreciation on available-for-sale securities, net of income taxes of \$216,799	--	
Sale of stock (1,520,875 shares)	15,209	14,000
Employee stock ownership plan shares purchased (121,670 shares)	--	
Employee stock ownership plan shares allocated (11,403 shares)	--	
Purchase of treasury stock (62,600 shares)	--	
	-----	-----
BALANCE, DECEMBER 31, 2001	15,209	14,000
Net income	--	
Dividends on common stock, \$.20 per share	--	
Change in unrealized appreciation on available-for-sale securities, net of income taxes of \$523,921	--	
Employee stock ownership plan shares allocated (15,204 shares)	--	
Incentive plan shares purchased (60,835 shares)	--	
Incentive plan shares allocated (4,568 shares)	--	
Purchase of treasury stock (92,565 shares)	--	
	-----	-----
BALANCE, DECEMBER 31, 2002	\$ 15,209	\$ 14,000
	=====	=====

See Notes to Consolidated Financial Statements

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	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)
	-----	-----
BALANCE, JANUARY 1, 2001	\$ 13,428,894	\$ (65,393)
Net income	1,860,780	--
Dividends on common stock, \$.05 per share	(76,049)	--
Change in unrealized appreciation on available-for-sale securities, net of income taxes of \$216,799	--	311,983
Sale of stock (1,520,875 shares)	--	--
Employee stock ownership plan shares purchased (121,670 shares)	--	--
Employee stock ownership plan shares allocated (11,403 shares)	--	--
Purchase of treasury stock (62,600 shares)	--	--
	-----	-----

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BALANCE, DECEMBER 31, 2001	15,213,625	246,590
Net income	1,312,707	--
Dividends on common stock, \$.20 per share	(283,183)	--
Change in unrealized appreciation on available-for-sale securities, net of income taxes of \$523,921	--	746,667
Employee stock ownership plan shares allocated (15,204 shares)	--	--
Incentive plan shares purchased (60,835 shares)	--	--
Incentive plan shares allocated (4,568 shares)	--	--
Purchase of treasury stock (92,565 shares)	--	--
	-----	-----
BALANCE, DECEMBER 31, 2002	\$ 16,243,149	\$ 993,257
	=====	=====
	TREASURY STOCK	TOTAL
	-----	-----
BALANCE, JANUARY 1, 2001	\$ --	\$ 13,363,501
Net income	--	1,860,780
Dividends on common stock, \$.05 per share	--	(76,049)
Change in unrealized appreciation on available-for-sale securities, net of income taxes of \$216,799	--	311,983
Sale of stock (1,520,875 shares)	--	14,378,956
Employee stock ownership plan shares purchased (121,670 shares)	--	(1,406,297)
Employee stock ownership plan shares allocated (11,403 shares)	--	149,778
Purchase of treasury stock (62,600 shares)	(864,855)	(864,855)
	-----	-----
BALANCE, DECEMBER 31, 2001	(864,855)	27,717,797
Net income	--	1,312,707
Dividends on common stock, \$.20 per share	--	(283,183)
Change in unrealized appreciation on available-for-sale securities, net of income taxes of \$523,921	--	746,667
Employee stock ownership plan shares allocated (15,204 shares)	--	240,006
Incentive plan shares purchased (60,835 shares)	--	(1,003,888)
Incentive plan shares allocated (4,568 shares)	--	73,360
Purchase of treasury stock (92,565 shares)	(1,497,742)	(1,497,742)
	-----	-----
BALANCE, DECEMBER 31, 2002	\$ (2,362,597)	\$ 27,305,724
	=====	=====

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FIRST BANCTRUST CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2002 AND 2001

2002 2001

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OPERATING ACTIVITIES		
Net income	\$ 1,312,707	\$ 1,860,780
Items not requiring (providing) cash		
Depreciation and amortization	267,618	299,969
Provision for loan losses	718,000	607,000
Amortization (accretion) of premiums and discounts on securities, net	257,207	(18,365)
Amortization of loan servicing rights	894,553	432,297
Provision for impairment of loan servicing rights	683,087	--
Deferred income taxes	(382,868)	244,648
Net realized gains on available-for-sale securities	(119,654)	--
Net loss on sales of foreclosed assets	75,644	9,239
Net gain on sales of premises and equipment	--	(2,448)
Net gain on loan sales	(585,934)	(925,289)
Federal Home Loan Bank stock dividends	(129,500)	(104,500)
Compensation related to employee stock ownership and incentive plans	313,366	149,778
Changes in		
Loans originated for sale	(41,039,245)	(31,068,814)
Proceeds from sales of loans originated for resale	41,192,812	31,304,234
Interest receivable	(240,449)	(171,807)
Cash surrender value	(188,285)	(136,697)
Other assets	212,674	368,418
Interest payable	(18,109)	(70,463)
Other liabilities	(10,378)	259,611
	-----	-----
Net cash provided by operating activities	3,213,246	3,037,591
	-----	-----
INVESTING ACTIVITIES		
Change in interest-bearing time deposits	--	50,310
Purchases of available-for-sale securities	(40,973,822)	(46,881,104)
Proceeds from maturities of available-for-sale securities	34,188,402	23,363,561
Proceeds from sales of available-for-sale securities	377,724	--
Purchase of bank owned life insurance	--	(1,440,000)
Purchase of Federal Home Loan Bank stock	(2,000,000)	--
Net (originations) collections of loans	(5,682,690)	6,955,521
Proceeds from sales of foreclosed assets	985,615	1,053,435
Purchase of premises and equipment	(604,116)	(250,170)
Proceeds from sales of premises and equipment	--	6,013
	-----	-----
Net cash used in investing activities	(13,708,887)	(17,142,434)
	-----	-----

See Notes to Consolidated Financial Statements

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	2002	2001
	-----	-----
FINANCING ACTIVITIES		
Net increase in demand deposits, money market, NOW and savings accounts	\$ 8,131,613	\$ 8,846,4

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Net decrease in certificates of deposit	(2,111,943)	(1,605,0
Proceeds from the issuance of Federal Home Loan Bank advances and other debt	1,000,000	22,500,0
Repayment of Federal Home Loan Bank advances and other debt	(14,343)	(20,013,5
Pass through payments received on loans sold	(9,769)	(49,2
Net increases in advances from borrowers for taxes and insurance	(7,663)	(5,9
Proceeds from sale of stock	--	14,378,9
Purchase of incentive plan shares	(1,003,888)	(1,406,2
Dividends paid	(283,183)	(76,0
Purchase of treasury stock	(1,497,742)	(864,8
	-----	-----
Net cash provided by financing activities	4,203,082	21,704,3
	-----	-----
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(6,292,559)	7,599,5
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	16,745,931	9,146,3
	-----	-----
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 10,453,372	\$ 16,745,9
	=====	=====
SUPPLEMENTAL CASH FLOWS INFORMATION		
Interest paid	\$ 5,543,985	\$ 7,060,6
Income taxes paid (net of refunds)	\$ 780,008	\$ 593,2
Real estate acquired in settlement of loans	\$ 439,008	\$ 1,413,3

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FIRST BANCTRUST CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2002 AND 2001

NOTE 1: NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NATURE OF OPERATIONS

First BancTrust Corporation (Company) and its wholly-owned subsidiaries, First Bank & Trust, S.B. (Bank), ECS Service Corporation, and First Charter Service Corporation, are primarily engaged in providing a full range of banking and mortgage services to individual and corporate customers in East Central Illinois. The Company also provides other services, such as brokerage and abstract and title services through its subsidiaries, ECS Service Corporation and First Charter Service Corporation. The Bank's subsidiary, Community Finance Center, Inc., provides retail consumer loans to the Company's customers. The Company is subject to competition from other financial institutions. The Company is a financial holding company and the Bank is an Illinois chartered savings bank. The Company and Bank are subject to the regulation of certain federal and state agencies and undergo periodic examinations by those regulatory authorities.

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PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and Bank and their subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan losses, the valuation of real estate acquired in connection with foreclosures or in satisfaction of loans and loan servicing rights. In connection with the determination of the allowance for loan losses and the valuation of foreclosed assets held for sale, management obtains independent appraisals for significant properties. Management estimates loan servicing rights taking into consideration changes in interest rates, current prepayment rates and expected future cash flows and obtains an independent valuation for the asset.

CASH EQUIVALENTS

The Company considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2002 and 2001, cash equivalents consisted of interest-bearing deposits with financial institutions.

See Notes to Consolidated Financial Statements

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FIRST BANCTRUST CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2002 AND 2001

SECURITIES

Available-for-sale securities, which include any security for which the Company has no immediate plan to sell but which may be sold in the future, are carried at fair value. Realized gains and losses, based on amortized cost of the specific security, are included in noninterest income. Unrealized gains and losses are recorded, net of related income tax effects, in stockholders' equity. Premiums and discounts are amortized and accreted, respectively, to interest income using the level-yield method over the period to maturity.

Interest and dividends on investments in debt and equity securities are included in income when earned.

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LOANS HELD FOR SALE

The Company sells one-to-four family residential loans, real estate loans and agricultural loans, including farmland and agricultural production finance, to various investors. The agricultural loans are underwritten to carry a government guarantee that covers 90% of any loss on the loan. The guaranteed portion is sold to the various investors with servicing retained.

Loans held for sale are carried at the lower of cost or fair value, determined using an aggregate basis. Write-downs to fair value are recognized as a charge to earnings at the time the decline in value occurs and are recognized through a valuation allowance. Gains and losses resulting from sales of loans are recognized when the respective loans are sold to investors. Gains and losses are determined by the difference between the selling price and the carrying amount of the loans sold, net of discounts collected or paid and considering a normal servicing rate.

LOANS

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoffs are reported at their outstanding principal balances adjusted for any charge-offs and net of the allowance for loan losses. Interest income is reported on the interest method. Generally, loans are placed on non-accrual status at ninety days past due and interest is considered a loss, unless the loan is well-secured and in the process of collection.

ALLOWANCE FOR LOAN LOSSES

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

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FIRST BANCTRUST CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the

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contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price or the fair value of the collateral if the loan is collateral dependent.

Large groups of smaller balance homogenous loans are collectively evaluated for impairment. Accordingly, the Company does not separately identify individual consumer and residential loans for impairment disclosures.

PREMISES AND EQUIPMENT

Depreciable assets are stated at cost less accumulated depreciation. Depreciation is charged to expense using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are capitalized and depreciated using the straight-line method over the terms of the respective leases or the estimated useful lives of the improvements, whichever is shorter.

FEDERAL HOME LOAN BANK STOCK

Federal Home Loan Bank stock is stated at cost and is a required investment for institutions that are members of the Federal Home Loan Bank system. The required investment in the common stock is based on a predetermined formula. The Federal Home Loan Bank stock is recognized based on the price at which it may be resold to the Federal Home Loan Bank.

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FIRST BANCTRUST CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2002 AND 2001

FORECLOSED ASSETS HELD FOR SALE

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in net expenses from foreclosed assets expense.

FEE INCOME

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Loan origination fees, net of direct origination costs, are recognized as income using the level-yield method over the term of the loans.

Loan servicing income, net of the amortization of loan servicing rights and provision for valuation allowance, represents net fees earned (costs incurred) for servicing real estate and agricultural loans owned by various investors. Abstract and title fees represent fees earned as the real estate abstracting and title services are performed for customers in Edgar and Clark counties in Illinois.

LOAN SERVICING

Loan servicing rights on originated loans that have been sold are capitalized by allocating the total cost of the loans between the loan servicing rights and the loans based on their relative fair values. Capitalized servicing rights are amortized in proportion to and over the period of estimated servicing revenues. Impairment of loan servicing rights is assessed based on the fair value of those rights. Fair values are estimated using either an independent valuation or by discounted cash flows based on a current market interest rate. For purposes of measuring impairment, the rights are stratified based on the predominant risk characteristics of the underlying loans. The predominant characteristic currently used for stratification is type of loan. The amount of impairment recognized is the amount by which the capitalized loan servicing rights for a stratum exceed their fair value.

INCENTIVE PLAN

The Company accounts for its stock award program or incentive plan in accordance with Accounting Principals Board Opinion (APB) No. 25, Accounting for Stock Issued to Employees. The aggregate purchase price of all shares owned by the incentive plan is reflected as a reduction of stockholders' equity. Compensation expense is based on the market price of the Company's stock on the date the shares are granted and is recorded over the vesting period. The difference between the aggregate purchase price and the fair value on the date granted of the shares earned is recorded as an adjustment to paid-in capital.

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FIRST BANCTRUST CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001

EMPLOYEE STOCK OWNERSHIP PLAN

The Company accounts for its employee stock ownership plan (ESOP) in accordance with American Institute of Certified Public Accountants (AICPA) Statement of Position 93-6. The cost of shares issued to the ESOP but not yet allocated to participants are presented in the consolidated balance sheet as a reduction of stockholders' equity. Compensation expense is recorded based on the market price of the shares as they are committed to be released for allocation to participant accounts. The difference between the market price and the cost of shares committed to be released is recorded as an adjustment to paid-in capital. Dividends on allocated ESOP shares are recorded as a reduction

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of retained earnings; dividends on unallocated ESOP shares are reflected as a reduction of debt.

Shares are considered outstanding for earnings per share calculations when they are committed to be released; unallocated shares will not be considered outstanding.

STOCK OPTIONS

At December 31, 2002, the Company authorized a stock-based employee compensation plan, which is described more fully in Note 16. The Company will account 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 will be reflected in net income, as all options granted under those plans will have an exercise price equal to the market value of the underlying common stock on the grant date.

INCOME TAXES

Deferred tax liabilities and assets are recognized for the tax effects of differences between the financial statement and tax bases of assets and liabilities. The Company files consolidated income tax returns with its subsidiaries.

TREASURY STOCK

Treasury stock is stated at cost. Cost is determined by the first-in, first-out method.

EARNINGS PER SHARE

Basic earnings per share have been computed based upon the weighted average common shares outstanding during each year. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the Company. The Bank converted to a stock savings bank in April 2001. Earnings per share for 2001 are not meaningful and are therefore not presented.

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FIRST BANCTRUST CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001

RECLASSIFICATIONS

Certain reclassifications have been made to the 2001 financial statements to conform to the 2002 financial statement presentation. These classifications had no effect on net earnings.

NOTE 2: CONVERSION TO STOCK OWNERSHIP

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On April 18, 2001, the Bank consummated its conversion from a state chartered mutual savings bank to a state chartered stock savings bank pursuant to the Bank's plan of conversion. Concurrent with the formation of the Company, the Company acquired 100% of the stock of the Bank and issued 1,520,875 shares of Company common stock, with \$.01 par value, at \$10 per share. Net proceeds of the Company's stock issuance, after costs, were \$14,378,956.

NOTE 3: RESTRICTION ON CASH AND DUE FROM BANKS

The Company is required to maintain reserve funds in cash and/or on deposit with the Federal Reserve Bank. The reserve required at December 31, 2002 was \$2,418,000.

NOTE 4: SECURITIES

The amortized cost and approximate fair values of securities classified as available for sale are as follows:

	DECEMBER 31, 2002			
AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED (LOSSES)	APPROXIMATE FAIR VALUE	
-----	-----	-----	-----	
U.S. government agencies	\$ 9,497,724	\$ 150,385	\$ --	\$ 9,648,109
Mortgage-backed securities	53,168,583	1,213,022	(181,016)	54,200,589
State and political subdivisions	6,872,582	430,907	--	7,303,489
Equity securities	1,520,124	75,239	--	1,595,363
	-----	-----	-----	-----
	\$ 71,059,013	\$ 1,869,553	\$ (181,016)	\$ 72,747,550
	=====	=====	=====	=====

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FIRST BANCTRUST CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2002 AND 2001

	DECEMBER 31, 2001			
AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED (LOSSES)	APPROXIMATE FAIR VALUE	
-----	-----	-----	-----	
U.S. government agencies	\$ 12,480,958	\$ 50,499	\$ (236,829)	\$ 12,294,628

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Mortgage-backed securities	44,560,750	701,044	(213,157)	45,048,637
State and political subdivisions	6,707,645	107,459	(31,556)	6,783,548
Equity securities	1,039,517	40,489	--	1,080,006
	-----	-----	-----	-----
	\$ 64,788,870	\$ 899,491	\$ (481,542)	\$ 65,206,819
	=====	=====	=====	=====

The amortized cost and fair value of available-for-sale debt securities at December 31, 2002, by contractual majority, are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	AMORTIZED COST	APPROXIMATE FAIR VALUE
	-----	-----
One year or less	\$ 10,000	\$ 10,000
After one through five years	10,538,648	10,741,551
After five through ten years	3,721,329	3,981,392
After ten years	2,100,329	2,218,655
Mortgage-backed securities not due on a single maturity date	53,168,583	54,200,589
	-----	-----
	\$69,538,889	\$71,152,187
	=====	=====

The book value of securities pledged as collateral, to secure public deposits, Federal Home Loan Bank advances and for other purposes, amounted to \$21,262,260 at December 31, 2002 and \$19,157,259 at December 31, 2001. The approximate fair value of pledged securities amounted to \$21,874,713 at December 31, 2002 and \$19,366,764 at December 31 2001.

Gross gains of \$119,654 resulting from sales of available-for-sale securities were realized for 2002. There were no sales of available-for-sale securities for 2001. Income tax expense of \$49,399 was recognized on the sales of available-for-sale securities during 2002.

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FIRST BANCTRUST CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001

With the exception of securities of U.S. government agencies and corporations, the Company did not hold any securities of a single issuer, payable from and secured by the same source of revenue or taxing authority, the book value of which exceeded 10% of stockholder's equity at December 31, 2002.

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NOTE 5: LOANS AND ALLOWANCE FOR LOAN LOSSES

Categories of loans at December 31, 2002 and 2001, include:

	2002	2001
	-----	-----
Commercial and industrial	\$ 6,044,968	\$ 6,290,894
Agricultural production financing	11,570,334	8,303,760
Real estate construction	724,021	937,136
Commercial and agricultural real estate	22,325,759	19,527,702
Residential real estate	39,935,439	41,297,999
Consumer	26,584,209	25,432,233
Other	901,464	1,073,191
	-----	-----
Total loans	108,086,194	102,862,915
Less		
Unearned discount and fees	(613,534)	(364,465)
Undisbursed loans in process	(328,305)	(185,382)
Allowance for loan losses	(1,962,551)	(1,656,946)
	-----	-----
Net loans	\$ 105,181,804	\$ 100,656,122
	=====	=====

Activity in the allowance for loan losses was as follows:

	2002	2001
	-----	-----
Balance, beginning of year	\$ 1,656,946	\$ 2,221,982
Provision charged to expense	718,000	607,000
Losses charged off, net of recoveries of \$113,680 for 2002 and \$160,759 for 2001	(412,395)	(1,172,036)
	-----	-----
Balance, end of year	\$ 1,962,551	\$ 1,656,946
	=====	=====

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FIRST BANCTRUST CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001

Impaired loans totaled \$6,300,019 and \$5,144,791 at December 31, 2002 and 2001, respectively. An allowance for loan losses of \$1,057,232 and \$754,419 relates to impaired loans of \$4,449,318 and \$3,465,063, at

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December 31, 2002 and 2001, respectively. At December 31, 2002 and 2001, impaired loans of \$1,850,701 and \$1,679,728 had no related allowance for loan losses.

Interest of \$351,033 and \$372,469 was recognized on average impaired loans of \$5,857,487 and \$4,255,800 for 2002 and 2001. Interest of \$313,228 and \$261,525 was recognized on impaired loans on a cash basis during 2002 and 2001.

At December 31, 2002 and 2001, accruing loans delinquent 90 days or more totaled \$1,511,000 and \$1,150,000, respectively. Non-accruing loans at December 31, 2002 and 2001 were \$9,000 and \$374,000, respectively.

NOTE 6: PREMISES AND EQUIPMENT

Major classifications of premises and equipment, stated at cost, are as follows:

	2002	2001
	-----	-----
Land	\$ 495,702	\$ 488,052
Buildings and improvements	2,748,817	2,254,730
Leasehold improvements	5,946	5,946
Equipment	3,682,896	3,580,517
	-----	-----
	6,933,361	6,329,245
Less accumulated depreciation	(4,161,745)	(3,894,127)
	-----	-----
Net premises and equipment	\$ 2,771,616	\$ 2,435,118
	=====	=====

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FIRST BANCTRUST CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2002 AND 2001

NOTE 7: LOAN SERVICING

Loans serviced for others are not included in the accompanying consolidated balance sheets. The unpaid principal balances of serviced loans consist of the following:

	2002	2001
	-----	-----
One-to-four family residential loans		
FHLMC	\$55,651,739	\$44,113,736
IHDA	7,971,222	9,455,604

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Other	127,827	581,146
	-----	-----
	63,750,788	54,150,486
	-----	-----
Agricultural loans		
Farmer Mac	706,540	1,125,885
GSC Group	16,376,428	16,239,573
	-----	-----
	\$80,833,756	\$71,515,944
	=====	=====

Custodial escrow balances maintained in connection with the foregoing loan servicing, and included in demand deposits, were approximately \$144,272 and \$119,253 at December 31, 2002 and 2001, respectively.

The aggregate fair value of capitalized loan servicing rights at December 31, 2002 and 2001 totaled \$949,580 and \$2,094,510, respectively. Comparable market values and a valuation model that calculates the present value of future cash flows were used to estimate fair value. For purposes of measuring impairment, risk characteristics including product type, and interest rate, were used to stratify the originated loan servicing rights.

	2002	2001
	-----	-----
Loan Servicing Rights		
Balance, beginning of year	\$ 2,094,510	\$ 1,702,846
Servicing rights capitalized	432,710	823,961
Amortization of servicing rights	(894,553)	(432,297)
	-----	-----
	1,632,667	2,094,510
Valuation allowance	(683,087)	--
	-----	-----
Balance, end of year	\$ 949,580	\$ 2,094,510
	=====	=====

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FIRST BANCTRUST CORPORATION AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 DECEMBER 31, 2002 AND 2001

Activity in the valuation allowance for loan servicing rights was as follows:

2002 2001

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	-----	-----
Balance, beginning of year	\$ --	\$ --
Additions	683,087	--
Deletions	--	--
Direct write-downs	--	--
	-----	-----
Balance, end of year	\$ 683,087	\$ --
	=====	=====

NOTE 8: DEPOSITS

Deposits in denominations of \$100,000 or more were \$38,046,681 on December 31, 2002, and \$29,819,774 on December 31, 2001.

At December 31, 2001, the scheduled maturities of time deposits are as follows:

2003	\$44,437,493
2004	13,939,411
2005	4,551,427
2006	1,848,434
2007	2,733,810
Thereafter	3,005,128

	\$70,515,703
	=====

NOTE 9: INCOME TAXES

The provision for income taxes includes these components:

	2002	2001
	-----	-----
Taxes currently payable		
Federal	\$ 829,342	\$ 619,232
State	166,314	103,809
Deferred income taxes		
Federal	(318,540)	203,543
State	(64,328)	41,105
	-----	-----
Income tax expense	\$ 612,788	\$ 967,689
	=====	=====

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DECEMBER 31, 2002 AND 2001

A reconciliation of income tax expense at the statutory rate to the Company's actual income tax expense is shown below:

	2002	2001
Computed at the statutory rate (34%)	\$ 654,668	\$ 961,679
Increase (decrease) resulting from		
Tax exempt interest	(97,197)	(82,852)
State income taxes	67,311	95,643
Increase in cash surrender value of life insurance	(69,592)	(38,099)
Other	57,598	31,318
	\$ 612,788	\$ 967,689
Actual tax expense	\$ 612,788	\$ 967,689

The tax effects of temporary differences related to deferred taxes shown on the balance sheets were:

	2002	2001
Deferred tax assets		
Allowance for loan losses	\$ 784,783	\$ 659,485
Reserve for uncollected interest	45,042	26,375
Deferred compensation	49,747	35,553
Other	45,906	85,867
	925,478	807,280
Deferred tax liabilities		
Depreciation	(174,539)	(200,063)
Unrealized gains on available-for-sale securities	(695,280)	(171,359)
Federal Home Loan Bank stock dividends	(162,687)	(95,652)
Capitalized loan servicing rights	(66,938)	(466,472)
Other	(93,799)	(446)
	(1,193,243)	(933,992)
Net deferred tax liability	\$ (267,765)	\$ (126,712)

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2002 AND 2001

Retained earnings at December 31, 2002 and 2001, include approximately \$2,000,000 for which no deferred federal income tax liability has been recognized. These amounts represent an allocation of income to bad debt deductions for tax purposes only. Reduction of amounts so allocated for purposes other than tax bad debt losses or adjustments arising from carryback of net operating losses would create income for tax purposes only, which would be subject to the then-current corporate income tax rate. The deferred income tax liabilities on the preceding amounts that would have been recorded if they were expected to reverse into taxable income in the foreseeable future were approximately \$800,000 at December 31, 2002 and 2001.

NOTE 10: FEDERAL HOME LOAN BANK ADVANCES AND OTHER DEBT

Federal Home Loan Bank advances and other debt consisted of the following components:

	2002	2001
	-----	-----
Federal Home Loan Bank open line of credit, variable rate, 1.48% at December 31, 2002	\$ 1,000,000	\$ --
Federal Home Loan Bank advances, fixed and variable rates ranging from 3.12% to 5.32% at December 31, 2002, due at various dates through September 2011	25,500,000	25,500,000
Other debt	1,230	15,573
	-----	-----
Total Federal Home Loan Bank advances and other debt	\$26,501,230	\$25,515,573
	=====	=====

Aggregate annual maturities of long-term debt at December 31, 2002, are:

2003	\$ 1,230
2008 and thereafter	26,500,000

	\$26,501,230
	=====

The Federal Home Loan Bank advances are secured by first-mortgage loans, certain mortgage and other investment securities, and all Federal Home Loan Bank stock owned by the Company. Advances are subject to restrictions or penalties in the event of prepayment. The Company's Federal Home Loan Bank borrowings as of December 31, 2002 are callable. These callable advances are subject to being called as follows: 2003 - \$15,500,000 and 2004 - \$10,000,000.

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Other debt consists of contract for deed related to the purchase of real estate, payable in equal monthly installments of \$1,230, including interest at a fixed rate of 5.53% per annum. Final payment is due January 15, 2003.

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FIRST BANCTRUST CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2002 AND 2001

NOTE 11: REGULATORY MATTERS

The Company and Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and Bank must meet specific capital guidelines that involve quantitative measures of assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined). Management believes, as of December 31, 2002 and 2001, that the Company and Bank meet all capital adequacy requirements to which they are subject.

As of December 31, 2002, the most recent notification from the regulatory agencies categorized the Company and Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Company and Bank must maintain capital ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the Company and Bank's category.

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FIRST BANCTRUST CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2002 AND 2001

The Company and Bank's actual capital amounts and ratios are also presented in the following table.

ACTUAL		FOR CAPITAL ADEQUACY PURPOSES		TO BE WELL CAPITALIZED UNDER PROMPT CORRECTIVE ACTION PROVISION	
AMOUNT	RATIO	AMOUNT	RATIO	AMOUNT	RATIO

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	-----	-----	-----	-----	-----	-----
As of December 31, 2002						
Total Capital						
(to Risk-Weighted Assets)						
Consolidated	\$27,527	24.2%	\$ 9,118	8.0%		N/A
Bank	23,044	20.4	9,021	8.0	\$11,276	10.0
Tier I Capital						
(to Risk-Weighted Assets)						
Consolidated	26,096	22.9	4,559	4.0		N/A
Bank	21,628	19.2	4,511	4.0	6,765	6.0
Tier I Capital						
(to Average Assets)						
Consolidated	26,096	12.8	8,167	4.0		N/A
Bank	21,628	10.7	8,105	4.0	10,132	5.0
As of December 31, 2001						
Total Capital						
(to Risk-Weighted Assets)						
Consolidated	\$28,574	26.1%	\$ 8,761	8.0%		N/A
Bank	22,207	20.4	8,708	8.0	\$10,886	10.0
Tier I Capital						
(to Risk-Weighted Assets)						
Consolidated	27,161	24.8	4,380	4.0		N/A
Bank	20,843	19.1	4,354	4.0	6,531	6.0
Tier I Capital						
(to Average Assets)						
Consolidated	27,161	14.0	7,712	4.0		N/A
Bank	20,843	10.8	7,689	4.0	9,612	5.0

The Bank is permitted to pay dividends to the Company in an amount equal to its net profits in any fiscal year; however, in the event that capital is less than 6% to total assets, the Bank can pay up to 50% of its net profits for that year without prior approval of the State of Illinois Office of Banks and Real Estate. In addition, the Bank is unable to pay dividends in an amount which would reduce its capital below the greater of (i) the amount required by the FDIC or (ii) the amount required by the Bank's liquidation account. The FDIC and the Commissioner also have the authority to prohibit the payment of any dividends by the Bank if they determine that the distribution would constitute an unsafe or unsound practice.

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FIRST BANCTRUST CORPORATION AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 DECEMBER 31, 2002 AND 2001

NOTE 12: RELATED PARTY TRANSACTIONS

At December 31, 2002 and 2001, the Company had loans outstanding to executive officers, directors and companies in which the Company's executive officers or directors were principal owners.

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In management's opinion, such loans and other extensions of credit were made in the ordinary course of business and were made on substantially the same terms (including interest rates and collateral) as those prevailing at the time for comparable transactions with other persons. Further, in management's opinion, these loans did not involve more than normal risk of collectibility or present other unfavorable features.

The aggregate amount of loans, as defined, to such related parties were as follows:

Balance, January 1, 2002	\$ 498,962
New loans, including renewals	246,596
Payment, etc., including renewals	(273,217)

Balance, December 31, 2002	\$ 472,341
	=====

NOTE 13: EMPLOYEE BENEFIT PLANS

The Company has a retirement savings 401(k) covering substantially all employees. The Company may contribute to the plan at the discretion of the Board of Directors. Employer contributions charged to expense for 2002 and 2001 were \$7,913 and \$16,308, respectively.

The Company also maintains a voluntary employee's benefit association (VEBA) for the benefit of substantially all of its full-time employees. Those benefits available under the VEBA include major medical, life, accidental death and dismemberment, and disability insurance. These benefits are available to all employees who have attained a minimum age and length of service. The VEBA is funded through voluntary contributions from employees and contributions of the Company. Employer contributions totaled \$319,000 and \$312,000 for the years ended December 31, 2002 and 2001. The VEBA has been determined to be a tax-exempt organization with its fiscal year ending December 31.

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FIRST BANCTRUST CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2002 AND 2001

The Company has a defined-benefit deferred director fee plan covering certain directors whereby each director may elect to defer their annual fees. For the years ended December 31, 2002 and 2001, fees deferred and interest expense related to the plan totaled \$69,011 and \$41,760, respectively. The liability related to these plans was \$144,227 and \$75,216 as of December 31, 2002 and 2001.

NOTE 14: EMPLOYEE STOCK OWNERSHIP PLAN

In connection with the conversion to stock ownership during April 2001, the Company established an employee stock ownership plan (ESOP) covering

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substantially all employees who work 20 or more hours per week. The ESOP borrowed \$1,406,297 from the Company and used those funds to acquire 121,670 shares of the Company's common stock at an average price of \$11.56.

Shares issued to the ESOP are allocated to ESOP participants based on principal repayments made by the ESOP on the loan from the Company. The loan is secured by shares purchased with the loan proceeds and will be repaid by the ESOP with funds from the Bank's discretionary contributions to the ESOP and earnings on ESOP assets. Dividends on unallocated ESOP shares will be applied to reduce the loan. Principal payments are scheduled to occur in even annual amounts over an eight year period. However, in the event contributions exceed the minimum debt service requirements, additional principal payments will be made.

Stock totaling 15,204 and 11,403 shares with an average fair value of \$15.79 and \$13.13 were committed to be released, resulting in ESOP compensation expense of \$240,006 and \$149,778 for 2002 and 2001, respectively. The ESOP shares as of December 31 were as follows:

	2002	2001
	-----	-----
Allocated shares committed to be released	26,607	11,403
Shares released for allocation	--	--
Unreleased shares	95,063	110,267
	-----	-----
Total ESOP shares	121,670	121,670
	=====	=====
Fair value of unreleased shares at December 31	\$1,585,651	\$1,654,005
	=====	=====

The Company is obligated at the option of each beneficiary to repurchase shares of the ESOP upon the beneficiary's termination or after retirement.

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FIRST BANCTRUST CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2002 AND 2001

NOTE 15: INCENTIVE PLAN

During 2002, the Company adopted a stock-based compensation program which included a stock award program or incentive plan. The incentive plan covers key employees and directors and was authorized to acquire and grant 60,835 shares of the Company's common stock. The Company granted 34,246 shares during April 2002. The shares were purchased in fiscal year 2002. Participants in the incentive plan vest over five years.

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As of December 31, 2002, no shares were distributed and 750 shares were forfeited. For the year December 31, 2002, \$73,360 was recorded as compensation expense under the plan.

NOTE 16: STOCK OPTION PLAN

During 2002, the Company authorized a stock option plan authorizing the grant of options up to 152,000 shares of the Company's stock. The stock option plan will have a vesting period of five years and will expire ten years from the date of grant. As of December 31, 2002, no shares under the stock option plan have been granted. The Company will account 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 will be reflected in net income, as all options granted under those plans will have an exercise price equal to the market value of the underlying common stock on the grant date.

NOTE 17: EARNINGS PER SHARE

Earnings per share (EPS) were computed as follows:

	INCOME	YEAR ENDED DECEMBER 31, 2002 WEIGHTED -AVERAGE SHARES	PER SHARE AMOUNT
	-----	-----	-----
Net income	\$1,312,707	\$1,281,573	\$ 1.
Effect of dilutive securities			
Unearned incentive plan shares	--	30,281	
	-----	-----	
Diluted earnings per share			
Income available to common stockholders and assumed conversions	\$1,312,707	\$1,311,854	\$ 1.
	=====	=====	=====

The Bank converted to a stock savings bank in April 2001. Earnings per share for 2001 are not meaningful.

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FIRST BANCTRUST CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001

NOTE 18: DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table presents estimated fair values of the Company's financial instruments. The fair values of certain of these instruments were calculated by discounting expected cash flows, which method

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involves significant judgments by management and uncertainties. Fair value is the estimated amount at which financial assets or liabilities could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Because no market exists for certain of these financial instruments and because management does not intend to sell these financial instruments, the Company does not know whether the fair values shown below represent values at which the respective financial instruments could be sold individually or in the aggregate.

	DECEMBER 31, 2002		DECEMBER 31, 2001	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
Financial assets				
Cash and cash equivalents	\$ 10,453,372	\$ 10,453,372	\$ 16,745,931	\$ 16,745,931
Available-for-sale securities	72,747,550	72,747,550	65,206,819	65,206,819
Loans held for sale	596,565	596,565	596,908	596,908
Loans, net allowance of loan losses	105,181,804	105,295,137	100,656,122	99,137,000
Interest receivable	2,356,771	2,356,771	2,116,322	2,116,322
Federal Home Loan Bank stock	3,711,600	3,711,600	1,582,100	1,582,100
Financial liabilities				
Deposits	147,335,381	147,934,033	141,315,711	141,650,000
Federal Home Loan Bank advances and other debt	26,501,230	26,321,428	25,515,573	25,690,000
Interest payable	105,651	105,651	123,760	123,760
Pass through payments received on loans sold	260,753	260,753	270,522	270,522
Advances by borrowers for taxes and insurance	132,885	132,885	140,548	140,548
Unrealized financial instruments (net of contract amount)				
Commitments to extend credit	0	0	0	0
Lines of credit	0	0	0	0

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FIRST BANCTRUST CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001

The following methods and assumptions were used to estimate the fair value of each class of financial instruments.

CASH AND CASH EQUIVALENTS

For these short-term instruments, the carrying amount approximates fair

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value.

INVESTMENT SECURITIES

Fair values for investment securities equal quoted market prices, if available. If quoted market prices are not available, fair value is estimated based on quoted market prices of similar securities.

LOANS HELD FOR SALE

For homogeneous categories of loans, such as loans held for sale, fair value is estimated using the quoted market prices for securities backed by similar loans, adjusted for differences in loans characteristics.

LOANS

The fair value of loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. Loans with similar characteristics were aggregated for purposes of the calculations. The carrying amount of accrued interest approximates its fair value.

FEDERAL HOME LOAN BANK STOCK

Fair value of Federal Home Loan Bank stock is based on the price at which it may be resold to the Federal Home Loan Bank.

DEPOSITS

The fair value of demand deposits, savings accounts, NOW accounts, and certain money market deposits is the amount payable on demand at the reporting date, i.e., their carrying amount. The fair value of fixed-maturity time deposits is estimated using a discounted cash flow calculation that applies the rates currently offered for deposits of similar remaining maturities. The carrying amount of accrued interest payable approximates its fair value.

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FIRST BANCTRUST CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2002 AND 2001

FEDERAL HOME LOAN BANK ADVANCES AND OTHER DEBT

Rates currently available to the Company for debt with similar terms and remaining maturities are used to estimate fair value of existing debt.

PASS THROUGH PAYMENTS RECEIVED ON LOAN SOLD

The fair value approximates the carrying value.

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ADVANCE PAYMENTS BY BORROWERS FOR TAXES AND INSURANCE

The fair value approximates the carrying value.

COMMITMENTS TO EXTEND CREDIT AND LINES OF CREDIT

The fair value of commitments is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. The fair value of lines of credit is based on fees currently charged for similar agreements or on the estimated cost to terminate or otherwise settle the obligations with the counterparties at the reporting date.

NOTE 19: SIGNIFICANT ESTIMATES AND CONCENTRATIONS

Generally accepted accounting principles require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Estimates related to the allowance for loan losses, loan servicing rights, and foreclosed assets held for sale are reflected in the footnotes regarding loans, loan servicing rights, and foreclosed assets held for sale. Current vulnerabilities due to certain concentrations of credit risk are discussed in the footnote on commitments and credit risk.

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FIRST BANCTRUST CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2002 AND 2001

NOTE 20: COMMITMENTS AND CREDIT RISK

The Company generates commercial, mortgage and consumer loans and receives deposits from customers located primarily in Edger and Clark counties as well as the surrounding communities. The Company's loans are generally secured by specific items of collateral including real property, consumer assets and business assets. Although the Company has a diversified loan portfolio, a substantial portion of its debtors' ability to honor their contracts is dependent upon economic conditions in the agricultural industry.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since a portion of the commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Each customer's creditworthiness is evaluated on a case-by-case basis. The amount of collateral obtained, if deemed necessary, is based on management's credit evaluation of the counterparty. Collateral held varies, but may include accounts receivable, inventory, property, plant and equipment, commercial real estate and residential real estate.

At December 31, 2002 and 2001, the Company had outstanding commitments

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to originate loans aggregating approximately \$3,245,665 and \$5,636,029, respectively. The commitments extended over varying periods of time with the majority being disbursed within a one-year period. Loan commitments at fixed rates of interest amounted to \$3,001,765 and \$4,327,029 at December 31, 2002 and 2001, respectively, with the remainder at floating market rates.

Lines of credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Lines of credit generally have fixed expiration dates. Since a portion of the line may expire without being drawn upon, the total unused lines do not necessarily represent future cash requirements. Each customer's creditworthiness is evaluated on a case-by-case basis. The amount of collateral obtained, if deemed necessary, is based on management's credit evaluation of the counterparty. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment, commercial real estate and residential real estate. Management uses the same credit policies in granting lines of credit as it does for on-balance-sheet instruments.

At December 31, 2002, the Company had granted unused lines of credit to borrowers aggregating approximately \$4,771,472 and \$847,644 for commercial lines and open-end consumers lines, respectively. At December 31, 2001, unused lines of credit to borrowers aggregated approximately \$7,173,045 for commercial lines and \$400,692 for open-end consumer lines.

The Company had a concentration of funds on deposit with the Federal Home Loan Bank totaling \$3,577,334 and \$9,344,000 at December 31, 2002 and 2001.

The Company and Subsidiaries are subject to claims and lawsuits which arise primarily in the ordinary course of business. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the consolidated financial position of the Company.

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FIRST BANCTRUST CORPORATION SHAREHOLDER INFORMATION

STOCK LISTING AND PRICE INFORMATION

The Company's common stock trades on the Nasdaq SmallCap Market under the symbol "FBTC". At March 14, 2003, 386,456 shares of the Company's common stock were held of record by 479 persons or entities, not including the number of persons or entities holding stock in nominee or street name through various brokers or banks.

The following schedule shows the high and low bid prices for each of the quarters in 2001 and 2002, following the April 18, 2001 date of conversion:

Quarter Ended:	High	Low
-----	-----	-----
June 30, 2001	\$13.05	\$11.25
September 30, 2001	13.50	12.00

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December 31, 2001	15.80	12.00
March 31, 2002	15.10	14.65
June 30, 2002	16.70	14.91
September 30, 2002	16.55	15.40
December 31, 2002	16.75	15.74

At March 14, 2003 the closing price of a common share was \$17.50. Such prices do not necessarily reflect retail markups, markdowns, or commissions. During the years ended December 31, 2001 and 2002, the Company declared dividends as follows:

Date Declared -----	Record Date -----	Payment Date -----	Amount -----
September 27, 2001	October 11, 2001	October 25, 2001	\$0.05
February 7, 2002	February 19, 2002	February 28, 2002	\$0.05
May 9, 2002	May 23, 2002	May 31, 2002	\$0.05
August 9, 2002	August 22, 2002	August 30, 2002	\$0.05
November 14, 2002	November 27, 2002	December 6, 2002	\$0.05

Stockholders, investors and analysts interested in additional information may contact:

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 101 S. Central Avenue
 Paris, IL 61944-0880

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Annual Report on Form 10-KSB

A copy of the annual report on Form 10-KSB for the fiscal year ended December 31, 2002, filed with the Securities and Exchange Commission is available to stockholders (excluding exhibits) at no charge, upon written request to Ellen M. Litteral, Chief Financial Officer, at the above address.

SPECIAL REGULATORY COUNSEL

Elias, Matz, Tiernan & Herrick L.L.P.
 12th Floor
 734 15th Street, N.W.
 Washington, D.C. 20005

INDEPENDENT ACCOUNTANTS

BKD, LLP
 225 North Water Street
 Suite 400
 Decatur, IL 62525-1580

ANNUAL MEETING OF STOCKHOLDERS

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The Annual Meeting of Stockholders of First BancTrust Corporation will be held at 10:00 a.m. April 21, 2003 at:

Human Resources Center
118 E. Court Street
Paris, Illinois 61944

TRANSFER AGENT

Inquiries regarding stock transfer, registration, lost certificates or changes in name and address should be directed to the transfer agent:

Illinois Stock Transfer Company
209 W. Jackson Boulevard
Suite 903
Chicago, Illinois 60606

(312) 427-2953

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DIRECTORS

TERRY T. HUTCHISON
Chairman of the Board; Self-employed
Business Consultant in Paris, Illinois

JOHN W. WELBORN
Retired Former Facilities Manager,
TRW, Inc., Marshall, Illinois

JOSEPH R. SCHROEDER
Attorney in private practice with law
firm of Bennett, Schroeder & Wieck,
Marshall, Illinois

DAVID W. DICK
Insurance Agent for Country
Companies Insurance, Bloomington,
Illinois

MARY ANN TUCKER
Retired former retailer in Paris,
Illinois

TERRY J. HOWARD
President and Chief Executive
Officer of the Company and First
Bank

JAMES D. MOTLEY
Self employed Certified Public
Accountant, Accounting and Tax
Preparation, Paris, Illinois

EXECUTIVE OFFICERS

TERRY J. HOWARD
Director, President and Chief
Executive Officer of the Company
and First Bank

DAVID F. SULLIVAN
Vice President of the Company and
Senior Vice President - Lending of
First Bank

ELLEN M. LITTERAL
Chief Financial Officer and
Treasurer of the Company and Senior
Vice President and Controller of
First Bank

LARRY W. STROHM
Vice President of the Company and
Senior Vice President - Branch
Manager of First Bank

JACK R. FRANKLIN
Vice President of the Company and
Senior Vice President - Operations

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and Marketing of First Bank

BANKING LOCATIONS

MAIN OFFICE

206 South Central Avenue
Paris, Illinois 61944
(217) 465-6381

OPERATIONS CENTER

101 South Central Avenue
Paris, Illinois 61944

BRANCH OFFICE

610 North Michigan Avenue
Marshall, Illinois 62441
(217) 826-6308

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[FBTC LOGO]

First BancTrust Corporation

206 S. Central Ave. P.O. Box 880 Paris, Illinois 61944
Phone 217-465-6381 800-228-6381 Fax 217-465-0234