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KANKAKEE BANCORP INC  
Form 10-Q  
May 08, 2001

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

Quarterly Report Under Section 13 or 15(d) of the Securities Exchange Act of 1934 For the Quarterly Period Ended March 31, 2001.

or

Transition Report Under Section 13 or 15(d) of the Securities Exchange Act of 1934 For the Transition Period From \_\_\_\_\_ to \_\_\_\_\_.

Commission File Number 1-13676

KANKAKEE BANCORP, INC.

(Exact Name of Registrant as Specified in its Charter)

Delaware

36-3846489

(State or Other Jurisdiction of Incorporation or Organization)

(I.R.S. Employer Identification Number)

310 South Schuyler Avenue, Kankakee, Illinois

60901

(Address of Principal Executive Offices)

(Zip Code)

(815) 937-4440

(Registrant's telephone number, including area code)

Check whether the Issuer (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

As of May 8, 2001, there were 1,208,908 issued and outstanding shares of the Issuer's common stock (exclusive of 541,092 shares of the Issuer's common stock held as treasury stock).

KANKAKEE BANCORP, INC.

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CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION (UNAUDITED)  
KANKAKEE BANCORP, INC. AND SUBSIDIARY

	March 31, 2001	December 31, 2000
	-----	-----
Assets		
Cash and due from banks	\$16,718,532	\$ 18,707,762
Federal funds sold	16,881,618	1,329,776

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Money market funds	4,540,338	5,109,735
Cash and cash equivalents	38,140,488	25,147,273
Certificates of deposit	50,000	50,000
Securities:		
Investment securities:		
Available-for-sale, at fair value	39,678,351	57,169,644
Held-to-maturity, at cost (fair value: March 31, 2001 - \$1,441,849; December 31, 2000 - \$1,434,708)	1,447,743	1,447,846
Total investment securities	41,126,094	58,617,490
Mortgage-backed securities:		
Available-for-sale, at fair value	15,232,028	16,050,792
Held-to-maturity, at cost (fair value: March 31, 2001 - \$60,382; December 31, 2000 - \$67,727)	59,345	66,867
Total mortgage-backed securities	15,291,373	16,117,659
Non-marketable equity securities	501,000	501,000
Loans, net of allowance for losses on loans (\$2,160,321 at March 31, 2001; \$2,156,420 at December 31, 2000)	350,220,911	338,956,136
Loans held for sale	-	-
Real estate held for sale	515,087	484,320
Federal Home Loan Bank stock, at cost	2,154,000	2,112,000
Office properties and equipment	8,584,686	8,594,823
Accrued interest receivable	2,912,938	3,282,214
Prepaid expenses and other assets	1,214,383	1,225,070
Intangible assets	4,712,162	4,805,849
Total assets	\$465,423,122	\$459,893,834

(Continued)

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CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION (UNAUDITED) (continued)  
KANKAKEE BANCORP, INC. AND SUBSIDIARY

	March 31, 2001	December 31, 2000
	-----	-----
Liabilities and stockholders' equity		
Liabilities:		
Deposits		
Noninterest bearing	\$ 25,736,020	\$ 25,357,749
Interest bearing	369,124,965	362,692,592
Short term borrowings	-	14,000,000
Other borrowings	27,000,000	15,000,000
Advance payments by borrowers for taxes and insurance	3,081,285	1,813,412
Other liabilities	1,220,465	1,740,938
Total liabilities	426,162,735	420,604,691

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Stockholders' equity		
Preferred stock, \$.01 par value; authorized, 500,000 shares; none outstanding	-	-
Common stock, \$.01 par value; authorized, 3,500,000 shares; issued 1,750,000	17,500	17,500
Additional paid-in capital	15,304,393	15,328,249
Retained income, partially restricted	34,770,274	34,285,960
Treasury stock (526,592 shares at March 31, 2001; 486,892 shares at December 31, 2000)	(11,421,391)	(10,458,535)
Accumulated other comprehensive income	589,611	115,969
	-----	-----
Total stockholders' equity	39,260,387	39,289,143
	-----	-----
Total liabilities and stockholders' equity	\$465,423,122	\$459,893,834
	=====	=====

See notes to consolidated financial statements (unaudited)

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CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME (UNAUDITED)  
KANKAKEE BANCORP, INC. AND SUBSIDIARY

	Three Months Ended March 31,	
	2001	2000
	-----	-----
Interest income:		
Loans	\$6,855,666	\$5,272,718
Investment securities and other	1,057,244	1,314,539
Mortgage-backed securities	281,830	308,684
	-----	-----
Total interest income	8,194,740	6,895,941
	-----	-----
Interest expense:		
Deposits	4,487,054	3,685,493
Borrowed funds	362,402	140,250
	-----	-----
Total interest expense	4,849,456	3,825,743
	-----	-----
Net interest income	3,345,284	3,070,198
Provision for losses on loans	15,000	-
	-----	-----
Net interest income after provision for losses on loans	3,330,284	3,070,198
Other income:		
Net gain on sales of real estate held for sale	10,383	6,745
Net gain on sales of loans held for sale	-	1,592
Net gain on sales of property held for expansion	-	11,552
Fee income	472,903	411,175
Insurance commissions	26,627	86,010
Other	87,652	84,228
	-----	-----
Total other income	597,565	601,302

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Other expenses:		
Compensation and benefits	1,555,156	1,574,551
Occupancy	304,019	266,813
Furniture and equipment	184,021	176,286
Federal deposit insurance premiums	18,327	18,148
Advertising	68,518	78,011
Provision for losses on foreclosed assets	16,700	18,422
Data processing services	100,702	87,955
Telephone and postage	101,980	102,010
Amortization of intangible assets	93,687	94,617
Other general and administrative	536,436	502,906
	-----	-----
Total other expenses	2,979,546	2,919,719
	-----	-----
Income before income taxes	948,303	751,781
Income taxes	317,300	251,500
	-----	-----
Net income	\$ 631,003	\$ 500,281
	=====	=====
Net income	\$ 631,003	\$ 500,281
Other comprehensive income:		
Unrealized gains (losses) on available-for-sale securities, net of related income taxes	473,642	(241,167)
	-----	-----
Comprehensive income	\$1,104,645	\$ 259,114
	=====	=====
Basic earnings per share	\$ 0.51	\$ 0.40
	=====	=====
Diluted earnings per share	\$ 0.50	\$ 0.39
	=====	=====

See notes to consolidated financial statements (unaudited)

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CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)  
KANKAKEE BANCORP, INC. AND SUBSIDIARY

	Three Months Ended March 31,	
	2001	2000
	-----	-----
Cash flows from operating activities:		
Net income	\$ 631,003	\$ 500,281
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for losses on loans	15,000	-
Provisions for losses on real estate held for sale	16,700	18,422
Depreciation and amortization	341,464	323,188
Amortization of investment premiums and discounts, net	(8,811)	5,260
Accretion of loan fees and discounts, net	13,391	18,789
Deferred income tax provision (benefit)	23,858	(41,838)
Originations of loans held for sale	(1,741,425)	(74,058)
Proceeds from sales of loans	1,741,425	75,650
Increase in interest receivable	369,276	250,265
Increase (decrease) in interest payable on deposits	72,663	(38,511)

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Net gain on sales of loans	-	(1,592)
Net gain on sales of real estate held for sale	(10,383)	(6,745)
Net income on sales of office related property	-	(11,553)
Federal Home Loan Bank of Chicago, stock dividend	(42,000)	-
Other, net	(790,184)	528,149
	-----	-----
Net cash from operating activities	631,977	1,545,707
	-----	-----
Cash flows from investing activities		
Investment securities		
Available-for sale:		
Purchases	(2,008,944)	(4,999,906)
Proceeds from calls and maturities	20,070,000	8,500,000
Held-to-maturity:		
Purchases	-	(100,000)
Mortgage-backed securities:		
Available-for-sale:		
Purchases	(300,890)	(1,962,724)
Proceeds from maturities and pay downs	1,276,429	823,601
Held-to-maturity:		
Proceeds from maturities and pay downs	7,522	8,063
Proceeds from sales of real estate	58,484	55,331
Deferred loan fees and costs, net	57,174	31,038
Loans originated	(39,458,334)	(37,373,762)
Principal collected on loans	28,014,035	28,187,818
Purchases of office properties and equipment, net	(237,640)	(59,647)
	-----	-----
Net cash from investing activities	7,477,836	(6,890,188)
	-----	-----

See notes to consolidated financial statements (unaudited).

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CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED) (continued)  
KANKAKEE BANCORP, INC. AND SUBSIDIARY

	Three Months Ended March 31,	
	2001	2000
	-----	-----
Cash flows from financing activities		
Net increase in non-certificate of deposit accounts	\$ 3,404,364	\$ 2,206,081
Net increase (decrease) in certificate of deposit accounts	3,333,617	(1,416,726)
Net increase in advance payments by borrowers for taxes and insurance	1,278,822	1,125,603
Proceeds from short-term borrowings	5,000,000	-
Repayments of short-term borrowings	(19,000,000)	-
Proceeds from other borrowings	12,000,000	-
Repayments of other borrowings	-	(6,200,000)
Proceeds from exercise of stock options	62,273	87,330
Dividends paid	(146,689)	(149,566)
Purchase of treasury stock	(1,048,985)	(411,670)
	-----	-----
Net cash from financing activities	4,883,402	(4,758,948)
	-----	-----

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Increase (decrease) in cash and cash equivalents	12,993,215	(10,103,429)
Cash and cash equivalents:		
Beginning of period	25,147,273	30,093,583
	-----	-----
End of period	\$ 38,140,488	\$ 19,990,154
	=====	=====
Supplemental disclosures of cash flow information		
Cash paid during the period for:		
Interest on deposits	\$ 4,414,400	\$ 3,647,700
	=====	=====
Interest on borrowed funds	\$ 378,700	\$ 141,000
	=====	=====
Income taxes	\$ 55,218	\$ 73,144
	=====	=====
Supplemental disclosures of non-cash investing activities:		
Real estate acquired through foreclosure	\$ 65,899	\$ -
	=====	=====
Increase in unrealized gains on securities available-for-sale	\$ 717,638	\$ 359,952
	=====	=====
Increase in deferred taxes attributable to the unrealized gains on securities available-for-sale	\$ 243,996	\$ 118,784
	=====	=====

See notes to consolidated financial statements (unaudited).

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### KANKAKEE BANCORP, INC. AND SUBSIDIARY

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

March 31, 2001

#### Note 1 - Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with instructions to Form 10-Q. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. The statement of condition at December 31, 2000 has been derived from the audited financial statements at that date, but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. Operating results for the three-month period ended March 31, 2001 are not necessarily indicative of the results that may be expected for the year ending December 31, 2001. For further information, refer to the consolidated financial statements and footnotes thereto included in the annual report for Kankakee Bancorp, Inc. (the "Company") on Form 10-K for the year ended December 31, 2000.

#### Note 2 - Earnings Per Share

Basic earnings per share of common stock have been determined by dividing net income for the period by the average number of shares of common stock outstanding. Diluted earnings per share of common stock have been determined by dividing net income for the period by the average number of shares of common stock and common stock equivalents outstanding. Common stock equivalents assume

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exercise of stock options, and the calculation assumes purchase of treasury stock with the option proceeds at the average market price for the period (when dilutive). The Company has an incentive stock option plan for the benefit of directors, officers and employees. Diluted earnings per share have been determined considering the stock options granted, net of stock options which have been exercised.

### Note 3 - Accounting for Certain Investments in Debt and Equity Securities

At March 31, 2001, stockholders' equity included a positive \$590,000, which represents the amount by which the market value of the available-for-sale securities and the available-for-sale mortgage-backed securities exceeded the book value, net of income tax of \$309,000. A decrease in market interest rates during the three months ended March 31, 2001 resulted in a \$474,000 increase in the market value, net of income tax effect, of the available-for-sale securities and the available-for-sale mortgage-backed securities. At the end of 2000, the market value of the available-for-sale securities portfolio exceeded the book value by \$116,000, net of income tax benefit.

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### KANKAKEE BANCORP, INC. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

#### GENERAL

The Company is a Delaware company formed in 1992 for the purpose of becoming the savings and loan holding company of Kankakee Federal Savings Bank (the "Bank"), the Company's principal subsidiary. The Bank was originally chartered in 1885 as an Illinois savings and loan association and was converted to a federally chartered thrift institution in 1937.

The Company serves the financial needs of families and local businesses in its primary market areas through its main office at 310 South Schuyler Avenue, Kankakee, Illinois and fourteen branch offices located in the communities of Ashkum, Bourbonnais, Bradley, Braidwood, Champaign, Coal City (2), Diamond, Dwight, Herscher, Hoopeston, Manteno, Momence and Urbana, Illinois. The Company's business involves attracting deposits from the general public and using such deposits to originate residential mortgage loans and, to a lesser extent, commercial real estate, consumer, commercial business, multi-family and construction loans in its market areas. The Company also invests in investment securities, mortgage-backed securities and various types of short term liquid assets.

#### ECONOMIC CLIMATE AND BUSINESS DEVELOPMENTS

During the first quarter of 2001, the Federal Open Market Committee (the "FOMC") lowered its target short-term interest rates three times, by a total of one and one-half percentage points. In April 2001, the FOMC lowered those same rates by an additional one-half percentage point. The federal funds target became 4.50% and the Federal Reserve discount rate became 4.00%. The federal funds rate is the rate at which financial institutions borrow from each other, while the discount rate is the rate at which member institutions borrow from the Federal Reserve. The FOMC continues to cite a slowing economy and the risk of recession as the motivating factors for lowering interest rates. Lower rates should provide stimulus to the economy by reducing borrowing costs for both businesses and individuals.

A slowing economy could adversely affect cash flows for both commercial and individual borrowers, as a result of which, the Company could experience



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increases in problem assets, delinquencies and losses on loans.

Lower market interest rates could benefit the Company by reducing its cost of funds, as term deposits and borrowed money reprice to lower rates at maturity. However, lower interest rates could also reduce the Company's return on interest-earning assets. As investments mature or are called, and as loans are repaid or prepaid, the reinvestment rates on those funds are lower. The impact of changes in market interest rates on the Company's financial condition and results of operations is the Company's interest rate sensitivity. While management believes that the Company's current level of interest rate sensitivity is reasonable, significant fluctuations in interest rates may have an adverse effect on the Company's financial condition and results of operations.

During 2000, the Company initiated an aggressive growth strategy which was aimed at increasing deposits and growing the loan portfolio, while continuing to reduce the size of the investment portfolio. While committed to continuing profitable growth of its assets and liabilities, the Company, during the second quarter of 2001, will resume selling most of the long-term, fixed-rate single-family mortgage loans it originates. Such loans with terms of less than 20 years will continue to be retained in the portfolio.

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### FINANCIAL CONDITION

Total assets of the Company increased by \$5.5 million, or 1.2%, to \$465.4 million at March 31, 2001 from \$459.9 million at December 31, 2000.

Cash and cash equivalents increased by \$13.0 million, or 51.7%, from \$25.1 million at December 31, 2000 to \$38.1 million at March 31, 2001. The increase was primarily attributable to an increase in deposit balances and a decrease in investment securities during the period.

During the three-month period ended March 31, 2001, net loans receivable increased by \$11.2 million, or 3.3%, from \$339.0 million to \$350.2 million. This was primarily the result of the origination of \$27.2 million of real estate loans and the origination of \$12.3 million of consumer and commercial business loans, offset by loan repayments which totaled \$28.0 million.

There were no loans held for sale at either March 31, 2001, or at December 31, 2000. During the three months ended March 31, 2001, \$1.7 million in commercial real estate loans were originated for sale and sold.

Securities available-for-sale decreased by \$17.5 million, or 30.6%, to \$39.7 million at March 31, 2001 from \$57.2 million at December 31, 2000 as the result of the maturity, or the exercise of call options by issuers, of \$20.1 million of securities, which was partially offset by the purchase of \$2.0 million of securities and by the net change in market value adjustment.

Mortgage-backed securities available-for-sale decreased by \$819,000, or 5.1%, to \$15.2 million at March 31, 2001 from \$16.1 million at December 31, 2000. The decrease resulted from the maturity of \$1.3 million of securities, which was partially offset by the purchase of \$301,000 of securities and by the net change in market value adjustments.

Deposits increased by \$6.8 million, or 1.8%, from \$388.1 million at December 31, 2000 to \$394.9 million at March 31, 2001. During the three month period, there was a \$3.4 million increase in certificate of deposit accounts and a \$3.4 million increase in passbook, checking and money market accounts.

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Total borrowings decreased by \$2.0 million, or 6.9%, from \$29.0 million at December 31, 2000 to \$27.0 million at March 31, 2001. The decrease was the result of \$19.0 million in repayments, which were partially offset by new borrowings of \$17.0 million. Borrowings consisted entirely of advances from the Federal Home Loan Bank of Chicago.

### ASSET/LIABILITY MANAGEMENT

Management attempts to control fluctuations in net interest income which result from an imbalance in the amounts of assets and liabilities that reprice during a period of time. The Company attempts to mitigate its interest rate exposure, to the extent consistent with the maintenance of an adequate interest rate spread. Adjustable rate mortgage loans, and loans with typically shorter terms, such as commercial real estate loans, commercial business loans and consumer loans, have historically been, and continue to be, retained. Historically, most fixed-rate mortgage loans, particularly those with terms of 20-years or longer, have been sold in the secondary market (with servicing usually retained). Since the beginning of 2000, the Company has retained virtually all the fixed-rate mortgage loans it has originated. Those with terms of 20-years or longer totaled approximately \$10.3 million during the three month period. While the Company continues to promote the origination of adjustable rate mortgages, commercial real estate loans, commercial

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business loans and consumer loans, management determined that the Company's asset/liability position was such that retention of additional longer term fixed-rate mortgage loans was appropriate. In light of the changing economic climate and the current interest rate environment, the Company will, during the second quarter of 2001, resume selling fixed-rate mortgage loans with terms of 20 years or longer in the secondary market. Management reviews the Company's asset/liability position on a regular basis.

The Company has not entered into derivative financial instruments including futures, forwards, interest rate risk swaps, option contracts, or other financial instruments with similar characteristics. However, the Company is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers such as commitments to extend credit and letters of credit.

### NON-PERFORMING ASSETS AND ALLOWANCE FOR LOSSES ON LOANS

The Company's non-performing assets decreased to \$2.0 million, or 0.43%, of total assets at March 31, 2001 from \$3.5 million, or 0.76% of total assets at December 31, 2000. During the three month period ended March 31, 2001, non-performing construction and development loans, non-performing one-to-four family loans and non-performing commercial business loans decreased by \$900,000, \$79,000 and \$816,000, respectively. These decreases were partially offset by increases in non-performing commercial real estate loans and non-performing consumer loans of \$202,000 and \$93,000, respectively. In addition, foreclosed assets increased by \$31,000 and restructured troubled debts decreased by \$17,000. The decrease in non-performing construction and development loans was due to the repayment in full of a single loan. The decrease in non-performing commercial business loans was due to the loans involved having been brought current. The ratio of the allowance for losses on loans to non-performing loans increased to 201.9% as of March 31, 2001 compared to 83.9% as of December 31, 2000. The increase in this ratio, which excludes foreclosed assets and restructured troubled debt, was primarily the result of the decrease of \$1.5 million in non-performing loans.

The Company classified \$3.1 million of its assets as Special Mention, \$2.5

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million as Substandard and \$78,000 as Loss as of March 31, 2001. No assets were classified as Doubtful at March 31, 2001. This represents a decrease of \$496,000 in the Special Mention category and a net increase of \$253,000 in the other categories from the December 31, 2000 totals for classified assets. The ratio of classified assets to total assets (including items classified as Special Mention) was 1.22% at March 31, 2001 as compared to 1.29% at December 31, 2000. The ratio of the allowance for losses on loans to classified assets increased to 38.0% as of March 31, 2001 compared to 36.3% as of December 31, 2000.

The allowance for losses on loans is established through a provision for losses on loans based on management's evaluation of the risk inherent in the loan portfolio and changes in the nature and volume of its loan activity. Such evaluation, which includes a review of all loans with respect to which full collectibility may not be reasonably assured, considers the fair value of the underlying collateral, economic conditions, historical loan loss experience, level of classified loans and other factors that warrant recognition in providing for an adequate allowance for losses on loans.

While management believes that it uses the best information available to determine the allowance for losses on loans, unforeseen market conditions could result in adjustments to the allowance for losses on loans and net earnings could be significantly affected if circumstances differ substantially from the assumptions used in establishing the allowance for losses on loans.

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### RESULTS OF OPERATIONS

THREE MONTHS ENDED MARCH 31, 2001 AND 2000

Net income for the quarter ended March 31, 2001 was \$631,000 compared to \$500,000 for the same period in 2000. This represented a \$131,000, or 26.1%, increase. The increase in net income resulted from an increase of \$275,000 in net interest income, which was partially offset by increases of \$15,000 in provisions for losses on loans, \$59,000 in other expenses and \$66,000 in income tax expense, and by a decrease of \$4,000 in other income.

Basic earnings per share were \$.51 for the quarter ended March 31, 2001 compared to \$.40 for the 2000 period. Diluted earnings per share were \$.50 for the quarter ended March 31, 2001 compared to \$.39 for the comparable 2000 period.

Net interest income increased \$275,000, or 9.0%, during the quarter ended March 31, 2001, compared to the quarter ended March 31, 2000.

The table presented on page 14 ("Table I"), sets forth an analysis of the Company's net interest income for the three-month periods ended March 31, 2001 and 2000.

As Table I indicates, interest income increased \$1.3 million, or 18.8%, to \$8.2 million for the three-month period ended March 31, 2001 from \$6.9 million for the same period in 2000. The increase in interest income was the result of an increase in the yield earned on interest-earning assets to 7.73% during the 2001 period from 7.45% during the 2000 period, and an increase in the average balance of interest-earning assets to \$429.7 million during the 2001 period from \$372.2 million during the 2000 period. The increase in the average balance of interest-earning assets was due to an increase in balances of loans, which was partially offset by decreases in balances of mortgage-backed securities, investment securities and other interest-earning assets during the quarter. The increase in the yield earned on interest-earning assets was the result of increasing market interest rates during 2000, which resulted in higher yields on

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short term assets and a higher yield on both the reinvestment of principal repayments on loans and newly originated loans. The increase in average loans was primarily the result of an aggressive lending program during 2000 and the first quarter of 2001.

Interest expense increased \$1.0 million, or 26.8%, to \$4.8 million during the first quarter from \$3.8 million in the same period in 2000. The increase in interest expense was the result of an increase in the average outstanding balance of interest-bearing liabilities to \$415.5 million during the 2001 period from \$363.9 million during the 2000 period, and, by an increase in the average yield on interest-bearing liabilities to 4.73% during the 2001 period from 4.23% during the 2000 period. The increase in average interest-bearing liabilities resulted primarily from a more aggressive pricing policy and the continuing movement to a sales oriented operation. The increase in the average yield on interest-bearing liabilities resulted primarily from a more aggressive pricing policy.

Based on management's review of the adequacy of the allowance for losses on loans, a provision for losses on loans of \$15,000 was recorded during the first quarter of 2001. There was no provision for losses on loans recorded during the first quarter of 2000.

Other income for the three-month period ended March 31, 2001 decreased \$4,000, or 0.6%, to \$597,000 compared to \$601,000 for the same period in 2000. The decrease was attributable to decreases of \$59,000 in insurance commissions, \$2,000 in gain on the sale of loans held for sale and \$12,000 in gain on sale of property held for expansion. These decreases were partially offset by increases of \$62,000 in fee income, \$4,000 in gain on sale of real estate held for sale and \$3,000 in other income. The \$59,000 decrease in insurance commissions resulted primarily from a

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corresponding decrease in sales of annuity products during the first quarter of 2001 compared to the same period in 2000.

Other expenses for the first quarter of 2001 increased \$60,000 or 2.0%, to \$3.0 million from \$2.9 million for the first quarter of 2000. There were increases of \$37,000 (13.9%) in occupancy costs, \$34,000 (6.7%) in other expenses, \$13,000 (14.5%) in data processing services and \$8,000 (4.4%) in furniture and equipment expenses. These increases were partially offset by decreases of \$19,000 (1.2%) in compensation and benefits, \$9,000 (12.2%) in advertising and \$2,000 (9.3%) in provision for losses on foreclosed assets. A contributing factor in the increase in occupancy costs was higher energy costs associated with heating the Company's office buildings.

Federal income taxes increased \$66,000 to \$317,000 for the three-month period ended March 31, 2001, compared to \$251,000 for the same period in 2000. The primary reason for this increase was the increase in pre-tax income.

### LIQUIDITY AND CAPITAL RESOURCES

The Company maintains a certain level of cash and other liquid assets to fund normal volumes of loan commitments, deposit withdrawals and other obligations. The Office of Thrift Supervision (the "OTS") regulations currently require each savings association to maintain sufficient liquidity to ensure its safe and sound operation.

The Company's primary sources of funds are deposits and proceeds from payments of principal and interest on loans and the sale or maturity of investment securities and mortgage-backed securities. Management considers

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current liquidity and additional sources of funds adequate to meet outstanding liquidity needs.

Federally insured savings banks, such as the Bank, are required by federal law and OTS regulations to maintain minimum levels of regulatory capital. The OTS has established the following minimum capital requirements: a risk-based capital ratio, a core capital ratio and a tangible capital ratio. In addition to these minimum regulatory capital requirements, another provision of federal law grants the OTS broad power to take prompt corrective action to resolve the problems of undercapitalized institutions. The OTS regulations implementing this statutory authority (the "prompt corrective action regulations") establish other capital thresholds which determine whether an institution will be deemed to be "well capitalized", "adequately capitalized", "undercapitalized", "significantly undercapitalized" or "critically undercapitalized". The capital category to which an institution is assigned in turn determines the actions the OTS may take to address the institution's undercapitalization. The capital regulations of the OTS exclude the effect of SFAS 115 for the purpose of calculating regulatory capital.

The capital regulations currently require tangible capital of at least 1.5% of adjusted total assets (as defined by regulation). Under the prompt corrective action regulations, however, an institution with a ratio of tangible capital to total assets below 2.0% is deemed to be "critically undercapitalized" and, as such, will be subject to a variety of sanctions under the prompt corrective action regulations, including, without limitation, limits on asset growth, restrictions on activities and, ultimately, the appointment of a receiver. Tangible capital generally includes common stockholders' equity and retained income and certain non-cumulative perpetual preferred stock and related income less intangible assets (other than specified amounts of mortgage servicing rights) and certain non-includable investments in subsidiaries.

The capital regulations also currently require core capital equal to at least 3.0% of adjusted total assets (as defined by regulation). Under the prompt corrective action regulations, however, an

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institution with a ratio of core capital to adjusted total assets of 3.0% will be deemed to be "adequately capitalized" only if the institution also has a composite rating of "1" under the Uniform Financial Institutions Rating System ("UFIRS"). All other institutions must maintain a minimum ratio of core capital to adjusted total assets of 4.0% in order to be deemed to be "adequately capitalized", and an institution, regardless of its UFIRS rating, will be deemed to be "well capitalized" only if it maintains a ratio of core capital to adjusted total assets of at least 5.0%. If an institution fails to remain at least "adequately capitalized", the OTS may impose one or more of a variety of sanctions on the institution to address its undercapitalized condition, including, without limitation, requiring the submission of a capital plan, restricting growth and restricting the payment of capital distributions (such as dividends). Core capital generally consists of tangible capital plus specified amounts of certain intangible assets.

The OTS risk-based requirement currently requires associations to have total capital of at least 8.0% of risk-weighted assets. In order to be considered "well capitalized" under the prompt corrective action regulations, however, an institution must maintain a ratio of total capital to total risk-weighted assets of at least 10.0% and a ratio of core capital to total risk-weighted assets of at least 6.0%. Total capital consists of core capital plus supplementary capital, which consists of, among other things, maturing capital instruments, such as subordinated debt and mandatorily redeemable preferred stock, and a portion of the Bank's general allowance for losses on loans.

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As of March 31, 2001, the Bank exceeded all current minimum regulatory capital standards and was deemed to be "well capitalized" for purposes of the OTS's prompt corrective action regulations. At March 31, 2001, the Bank's tangible capital was \$31.7 million, or 6.9%, of adjusted total assets, which exceeded the 1.5% requirement by \$24.8 million and exceeded the 2.0% "critically undercapitalized" threshold by \$22.5 million. In addition, at March 31, 2001, the Bank had core capital of \$31.7 million, or 6.9%, of adjusted total assets, which exceeded the 4.0% requirement by \$13.4 million and exceeded the 5.0% "well capitalized" threshold by \$8.8 million. The Bank had risk-based capital of \$33.8 million at March 31, 2001, or 11.7%, of risk-adjusted assets, which exceeded the minimum risk-based capital requirement by \$10.7 million and exceeded the 10.0% "well capitalized" threshold by \$4.9 million. Additionally, the Bank's \$31.7 million of core capital equaled 11.0% of total risk-weighted assets, which exceeded the 6.0% "well capitalized" threshold by \$14.4 million.

### STOCK REPURCHASE

During the quarter ended March 31, 2001, the Company completed the repurchase of common stock approved by the Board of Directors in January 2000, when it repurchased 43,700 shares of common stock at a total cost of \$1.0 million. On January 9, 2001, the Company's Board of Directors authorized the repurchase through January 31, 2002, of up to 90,000 shares of its common stock. There were no purchases under this program during the quarter. Through March 31, 2001, a total of 649,007 shares of common stock of the Company had been purchased under the current and previous repurchase programs at a total cost of \$13.9 million. As of March 31, 2001, the Company held 526,592 shares of its common stock as treasury stock. During the period from March 31, 2001 through May 8, 2001, an additional 14,500 shares of common stock were repurchased at a total cost of \$341,000.

### STOCK OPTIONS

During the first quarter of 2001, options on 4,000 shares of common stock were exercised. Between March 31, 2001 and May 8, 2001, no options on shares of common stock were exercised. Through May 8, 2001, no notice was received from holders of options of their intent to exercise options.

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### DIVIDENDS

On April 9, 2001, a cash dividend of \$.12 per share was declared, payable on May 31, 2001 to stockholders of record as of May 15, 2001. Future dividends will depend primarily upon earnings, financial condition and need for funds, as well as restrictions imposed by regulatory authorities regarding dividend payments and capital requirements.

### SAFE HARBOR STATEMENT UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

This report contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. The Company intends such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Reform Act of 1995, and is including this statement for purposes of these safe harbor provisions. Forward-looking statements, which are based on certain assumptions and describe future plans, strategies and expectations of the Company, are generally identifiable by use of the words "believe," "expect," "intend," "anticipate,"

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"estimate," "project" or similar expressions. The Company's ability to predict results or the actual effect of future plans or strategies is inherently uncertain. Factors which could have a material adverse effect on the operations and future prospects of the Company and its subsidiaries include, but are not limited to, changes in: interest rates, general economic conditions, legislative/regulatory changes, monetary and fiscal policies of the U. S. Government, including policies of the U. S. Treasury and the Federal Reserve Board, the quality of composition of the loan or investment portfolios, demand for loan products, deposit flows, competition, demand for financial services in the Company's market area, implementation by the Company of new technologies, the Company's ability to develop and maintain secure and reliable electronic systems and accounting principles, policies and guidelines. These risks and uncertainties should be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements. Further information concerning the Company and its business, including additional factors that could materially affect the Company's financial results, is included in the Company's filings with the Securities and Exchange Commission.

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TABLE I  
NET INTEREST INCOME ANALYSIS  
KANKAKEE BANCORP, INC. A

	Three Months Ended M		
	2001		
	Average Outstanding Balance	Interest Earned/Paid	Yield/ Rate
	(Dollars in Thous		
Interest-earning assets:			
Loans receivable (1)	\$343,504	\$ 6,856	8.09%
Mortgage-backed securities (2)	15,721	282	7.27%
Investments securities (3)	50,728	776	6.20%
Other interest-earning assets	17,589	244	5.63%
FHLB stock	2,144	37	7.00%
Total interest-earning assets	429,686	8,195	7.73%
Other assets	28,976		
Total assets	\$458,662		
Interest-bearing liabilities:			
Certificate accounts	\$246,581	3,607	5.93%
Savings deposits	57,080	357	2.54%
Demand and NOW deposits	85,622	523	2.48%
Borrowings	26,250	363	5.61%
Total interest-bearing liabilities	415,533	4,850	4.73%

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Other liabilities	4,062		
	-----		
Total liabilities	419,595		
	-----		
Stockholders' equity	39,067		
	-----		
Total liabilities and stockholders' equity	\$485,662		
	=====		
Net interest income		\$ 3,345	
		=====	
Net interest rate spread			3.00%
			=====
Net earning assets	\$ 14,153		
	=====		
Net yield on average interest- earning assets (net interest margin)			3.16%
			=====
Average interest-earning assets to average interest-bearing liabilities		103.41%	
		=====	

- (1) Calculated including loans held for sale, and net of deferred loan fees, loan discounts, loans in process and the allowance for losses on loans.
- (2) Calculated including mortgage-backed securities available-for-sale.
- (3) Calculated including investment securities available-for-sale and certificates of deposit.

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KANKAKEE BANCORP, INC.

PART II - OTHER INFORMATION

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- Item 1. Legal Proceedings - There are no material pending legal proceedings to  
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which the Company or the Bank is a party other than ordinary routine litigation incidental to their respective businesses.
  - Item 2. Changes in Securities - None  
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  - Item 3. Defaults Upon Senior Securities - None  
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  - Item 4. Submission of Matters to a Vote of Security Holders - None  
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Item 5. Other Information - None  
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Item 6. Exhibits and Reports on Form 8-K  
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a. Exhibits  
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10.1 employment contract between the Company and Larry D. Huffman, dated April 1, 2001.

b. Reports on Form 8-K  
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On January 29, 2001, the Company filed a report on Form 8-K stating under Item 5 that the Company had, on January 29, 2001, issued a news release announcing its earnings for the quarter ending December 31, 2000, its payment of a quarterly dividend to its stockholders and the date of its annual meeting of stockholders.

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KANKAKEE BANCORP, INC.

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

KANKAKEE BANCORP, INC.  
Registrant

Date: May 8, 2001  
-----

/s/ MICHAEL A. STANFA  
-----  
Executive Vice President

Date: May 8, 2001  
-----

/s/ RONALD J. WALTERS  
-----  
Vice President and Treasurer  
(Principal Financial  
and Accounting Officer)

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