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KANKAKEE BANCORP INC  
Form 10-Q  
August 08, 2002

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 June 30, 2002.

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 X No

-----  
As of August 1, 2002, there were 1,176,756 issued and outstanding shares of the  
Issuer's common stock (exclusive of 573,244 shares of the Issuer's common stock  
held as treasury stock).

KANKAKEE BANCORP, INC.

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Assets	
Cash and due from banks	\$ 14,737,771
Federal funds sold	2,273,689
Money market funds	12,143,985
	-----
Cash and cash equivalents	29,155,445
	-----
Certificates of deposit	50,000
	-----
Securities:	
Investment securities:	
Available-for-sale, at fair value	36,965,208
Held-to-maturity, at cost (fair value: June 30, 2002 - \$1,471,645; December 31, 2001 - \$1,483,946)	1,461,343
	-----
Total investment securities	38,426,551
	-----
Mortgage-backed securities:	
Available-for-sale, at fair value	42,238,219
Held-to-maturity, at cost (fair value: June 30, 2002 - \$30,116; December 31, 2001 - \$38,003)	29,967
	-----
Total mortgage-backed securities	42,268,186
	-----
Non-marketable equity securities	1,000
Loans, net of allowance for losses on loans (\$3,179,842 at June 30, 2002; \$2,582,234 at December 31, 2001)	400,558,441
Loans held for sale	623,300
Real estate held for sale	163,821
Federal Home Loan Bank stock, at cost	2,673,500
Office properties and equipment	9,174,124
Accrued interest receivable	3,112,201
Bank Owned Life Insurance	8,125,550
Goodwill and intangible assets	4,339,067
Other assets	2,647,304
	-----
Total assets	\$ 541,318,490
	=====

(Continued)

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

	June 30,
	2002
	-----
Liabilities and stockholders' equity	
Liabilities:	
Deposits	
Noninterest bearing	\$ 29,154,614
Interest bearing	390,233,525
Other borrowings	67,300,000

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Trust preferred indentures	10,000,000
Advance payments by borrowers for taxes and insurance	1,883,810
Other liabilities	1,812,078
	-----
Total liabilities	500,384,027
	-----
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
Additional paid-in capital	15,010,583
Retained income, partially restricted	38,466,860
Treasury stock (568,699 shares at June 30, 2002; 533,642 shares at December 31, 2001), at cost	(13,530,586)
Accumulated other comprehensive income	970,106
	-----
Total stockholders' equity	40,934,463
	-----
Total liabilities and stockholders' equity	\$ 541,318,490
	=====

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
	-----
	2002
	-----
Interest income:	
Loans	\$ 7,074,868
Investment securities and other	638,602
Mortgage-backed securities	603,086
	-----
Total interest income	8,316,556
	-----
Interest expense:	
Deposits	3,435,576
Borrowed funds	802,840
	-----
Total interest expense	4,238,416
	-----
Net interest income	4,078,140
	-----
Provision for losses on loans	463,952
	-----
Net interest income after provision for losses on loans	3,614,188
	-----
Other income:	

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Net gain on sales of real estate held for sale	23,934
Net gain on sales of loans held for sale	174,026
Fee income	670,874
Insurance commissions	15,298
Other	229,827
	-----
Total other income	1,113,959
	-----
Other expenses:	
Compensation and benefits	1,772,144
Occupancy	291,651
Furniture and equipment	144,898
Federal deposit insurance premiums	18,131
Advertising	85,643
Provision for losses on foreclosed assets	48,301
Data processing services	98,659
Telephone and postage	78,366
Amortization of intangible assets	46,017
Other general and administrative	792,059
	-----
Total other expenses	3,375,869
	-----
Income before income taxes	1,352,278
Income taxes	413,850
	-----
Net income	\$ 938,428
	=====
Net income	\$ 938,428
Other comprehensive income:	
Unrealized gains (losses) on available-for-sale securities, net of related income taxes	731,604
	-----
Comprehensive income	\$ 1,670,032
	=====
Basic earnings per share	\$ 0.78
	=====
Diluted earnings per share	\$ 0.77
	=====

See notes to consolidated financial statements (unaudited)

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

	Six Months Ended J
	-----
	2002
	-----
Interest income:	
Loans	\$ 14,055,198
Investment securities and other	1,227,164
Mortgage-backed securities	813,966

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Total interest income	16,096,328
Interest expense:	
Deposits	7,006,697
Borrowed funds	1,164,789
Total interest expense	8,171,486
Net interest income	7,924,842
Provision for losses on loans	611,920
Net interest income after provision for losses on loans	7,312,922
Other income:	
Net gain on sales of real estate held for sale	34,143
Net gain on sales of loans held for sale	411,944
Fee income	1,261,290
Insurance commissions	26,091
Other	339,952
Total other income	2,073,420
Other expenses:	
Compensation and benefits	3,574,876
Occupancy	589,395
Furniture and equipment	293,774
Federal deposit insurance premiums	36,398
Advertising	153,566
Provision for losses on foreclosed assets	54,301
Data processing services	213,702
Telephone and postage	214,418
Amortization of intangible assets	92,034
Other general and administrative	1,533,567
Total other expenses	6,756,031
Income before income taxes	2,630,311
Income taxes	798,696
Net income	\$ 1,831,615
Net income	\$ 1,831,615
Other comprehensive income:	
Unrealized gains on available-for-sale securities, net of related income taxes	365,028
Comprehensive income	\$ 2,196,643
Basic earnings per share	\$ 1.51
Diluted earnings per share	\$ 1.49

See notes to consolidated financial statements (unaudited)

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## CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED) KANKAKEE BANCORP, INC. AND SUBSIDIARY

	Six Months Ended
	2002
Cash flows from operating activities:	
Net income	\$ 1,831,615
Adjustments to reconcile net income to net cash provided by operating activities:	
Provision for losses on loans	611,920
Provisions for losses on real estate held for sale	54,301
Depreciation and amortization	521,311
Amortization of investment premiums and discounts, net	22,302
Accretion of loan fees and discounts	(35,399)
Deferred income tax provision (benefit)	-
Originations of loans held for sale	(25,953,008)
Proceeds from sales of loans	26,570,262
Decrease (increase) in interest receivable	(289,111)
Decrease in interest payable on deposits	(98,769)
Net gain on sales of loans	(411,944)
Net gain on sales of real estate held for sale	(34,143)
Federal Home Loan Bank of Chicago, stock dividend	(65,900)
Increase in cash surrender value of Bank Owned Life Insurance	(125,550)
Other, net	(336,377)
	2,261,510
Net cash from operating activities	
Cash flows from investing activities:	
Investment securities	
Available-for sale:	
Purchases	(\$4,011,223)
Proceeds from calls and maturities	2,000,000
Held-to-maturity:	
Purchases	-
Proceeds from maturities and paydowns	3,367
Mortgage-backed securities:	
Available-for-sale:	
Purchases	(32,532,683)
Proceeds from maturities and pay downs	2,262,106
Held-to-maturity:	
Proceeds from maturities and pay downs	7,660
Proceeds from sales of real estate	400,016
Deferred loan fees and costs, net	(79,411)
Loans originated	(77,822,929)
Loans purchased	(1,853,194)
Principal collected on loans	72,237,042
Purchases of office properties and equipment, net	(1,206,228)
Purchase of Bank Owned Life Insurance	(8,000,000)
	(48,595,477)
Net cash from investing activities	

See notes to consolidated financial statements (unaudited).

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

	Six Months Ended
	----- 2002 -----
Cash flows from financing activities	
Net increase in non-certificate of deposit accounts	\$ 2,502,935
Net increase in certificate of deposit accounts	1,517,137
Net increase in advance payments by borrowers for taxes and insurance	(40,294)
Proceeds from short-term borrowings	-
Repayments of short-term borrowings	-
Proceeds from other borrowings	52,600,000
Repayments of other borrowings	(5,300,000)
Proceeds from exercise of stock options	509,722
Dividends paid	(329,087)
Purchase of treasury stock	(2,633,715)
	-----
Net cash from financing activities	48,826,698
	-----
Increase (decrease) in cash and cash equivalents	2,492,731
Cash and cash equivalents:	
Beginning of period	26,662,714
	-----
End of period	\$ 29,155,445
	=====
Supplemental disclosures of cash flow information	
Cash paid during the period for:	
Interest on deposits	\$ 7,105,500
	=====
Interest on borrowed funds	\$ 990,400
	=====
Income taxes	\$ 678,644
	=====
Supplemental disclosures of non-cash investing activities:	
Real estate acquired through foreclosure	\$ 120,060
	=====
Increase in unrealized gains on securities available-for-sale	\$ 548,899
	=====
Increase in deferred taxes attributable to the unrealized gains on securities available-for-sale	(\$183,871)
	=====

See notes to consolidated financial statements (unaudited).

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

June 30, 2002

### Note 1 - Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with instructions to Form 10-Q. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America 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, 2001 has been derived from the audited financial statements at that date, but does not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. Operating results for the three-month and six-month periods ended June 30, 2002 are not necessarily indicative of the results that may be expected for the year ending December 31, 2002. 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, 2001.

### 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 of 1,207,074 and 1,217,827, respectively, for the three-month and six-month periods ended June 30, 2002. 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, totaling 1,594 and 7,786, respectively, for the three-month and six-month periods ended June 30, 2002 assume 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 June 30, 2002, stockholders' equity included a positive \$970,000, 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 \$500,000. A decrease in market interest rates during the six months ended June 30, 2002 resulted in a \$365,000 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 2001, the market value of the available-for-sale securities portfolio exceeded the book value by \$605,000, net of income tax benefit.

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### Note 4 - Accounting Change

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Effective January 1, 2002, the Company applied FASB Statement No. 142, Goodwill and Other Intangible Assets. Among its provisions is a requirement to disclose what reported net income would have been in all periods presented exclusive of amortization expense (net of related income tax effects) recognized in those periods related to goodwill, intangible assets no longer being amortized, and changes in amortization periods for intangible assets that will continue to be amortized together with related per share amounts.

	Three months ended June 30,		Six mo J
	2002	2001	2002
	-----		-----
Reported net income	\$938,428	\$733,584	\$1,831,615
Add goodwill amortization	-	31,462	-
	-----		-----
Adjusted net income	\$938,438	\$765,046	\$1,831,615
	=====		=====
Basic earnings per share:			
Reported net income	\$ 0.78	\$ 0.61	\$ 1.51
Goodwill amortization	-	0.03	-
	-----		-----
Adjusted net income	\$ 0.78	\$ 0.64	\$ 1.51
	=====		=====
Diluted earnings per share:			
Reported net income	\$ 0.77	\$ 0.60	\$ 1.49
Goodwill amortization	-	0.03	-
	-----		-----
Adjusted net income	\$ 0.77	\$ 0.63	\$ 1.49
	=====		=====

Based on current information, the Company determined during the second quarter that there was no impairment as the result of the application of FASB Statement No. 142. Impairment testing will be done annually in accordance with the requirements of the statement.

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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

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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

During 2001, the Federal Open Market Committee ("the FOMC") lowered its target short-term interest rates by a total of four and three-quarters percentage points. The federal funds target went from 6.50% to 1.75% and the Federal Reserve discount rate went from 6.00% to 1.25%. 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 banks borrow from the Federal Reserve. During 2001, the FOMC cited a slowing economy and a possible recession as the primary reasons for lowering interest rates. Lower short-term interest rates would tend to stimulate economic activity by reducing the financing costs on borrowed funds for both businesses and individuals.

A slowing economy would usually result in some increase in problem assets, and could possibly result in some increase in loan losses. In a slowing economy or recession, cash flows and profits of commercial customers decrease, which could result in an increase in delinquencies. Additionally, individual borrowers experience cash flow problems from job loss, reduction in investment returns or other causes. This could also result in an increase in delinquencies.

During the first six months of 2002, the FOMC held target interest rates at the December 31, 2001 levels while maintaining a cautionary posture on the state of the economy. While some economic indicators are pointing toward a recovery, others are still weak, indicating that the economy remains slow. During the second quarter of 2002, a number of accounting and corporate governance problems at large publicly held companies have come to light, contributing to the volatility in the markets, which could impact the speed at which the economy moves into a full recovery. If the economy does move into a full recovery, then the next FOMC interest rate move would likely be an increase in its target rates.

Rising interest rates, because of the Company's current structure of assets and liabilities, could have a detrimental effect on the Company's interest rate spread and results of operations. The Company had negative cumulative one-year gaps of 5.0% and 2.5%, respectively, at

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December 31, 2001 and March 31, 2002, the most recent information available. A negative gap indicates that an increase in market interest rates might negatively affect net interest income and the results of operations, due to liabilities maturing, and repricing, from their current rates to higher rates, more quickly than assets will mature and reprice to higher rates. Management believes that the Company's current level of interest rate sensitivity is reasonable, in light of the current market rates and the possibility of increasing market rates. However, significant fluctuations in interest rates may have an adverse effect on the Company's financial condition and results of operations.

### BUSINESS DEVELOPMENTS AND CURRENT INITIATIVES

During the late 1990s, the Company experienced significant growth and improvement in its office facilities and a widening of its market areas. This was accomplished through the acquisition of a bank, the opening of several new

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offices and the replacement of an outdated office building. There were also significant changes and improvements in products and services brought about through the use of technology.

During this same period, the Company began the process of shifting its operating philosophy to a sales orientation and away from traditional approaches to banking services. Management continues to support and encourage this process, recognizing that changes, particularly of this type and magnitude, require employee education and customer communication. These changes in philosophy and culture require not only time but allocation of other Company resources. None of these efforts were without cost, and have been, and, to some degree, will continue to be, reflected in operating expenses and net income.

In the first quarter of 2000, management initiated an aggressive growth strategy which was aimed at increasing deposits and growing the loan portfolio, which resulted in the reduction of the size of the investment portfolio. The strategy, which continued into the first quarter of 2001, was intended to improve earnings in a number of ways which included:

- . Improved utilization of facilities and increased productivity of personnel;
- . Increased capital leverage; and
- . Improved asset yields, due to increased commercial and consumer lending and the replacement of investments with fixed-rate mortgage loans.

It was recognized that such a strategy would:

- . Likely increase the cost of funds, due to aggressive deposit pricing and the potential need to borrow money at wholesale market rates; and
- . Necessitate the assumption of an increased level of interest rate risk, due to aggressive loan pricing and the need to retain longer term, fixed-rate mortgages for the portfolio.

In response to rapidly falling interest rates during 2001, the Company modified its growth strategy and, once again, began to sell its fixed-rate mortgage originations in the secondary market. This strategy remained in effect through the first six months of 2002.

Late In the first quarter of 2002, the Company's wholly-owned subsidiary Kankakee Federal Savings Bank invested \$8.0 million in Bank Owned Life Insurance, (commonly referred to as "BOLI"), covering the lives of fourteen (14) senior officers. BOLI is variable rate, single premium whole life insurance. The Bank is the beneficiary of the policies, and the policies build cash value. Neither the increase in cash value, which is included in other income, nor the death

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benefits are taxable to the Bank or the Company. This provides a significant enhancement to earnings, which will help offset increases in the cost of employee benefits such as health insurance.

In late March, Kankakee Federal Savings Bank reimplemented a capital utilization strategy, which involved the purchase of \$30.0 million of adjustable-rate, mortgage-backed securities, using borrowed funds. The securities are the collateral for the borrowed funds, and there is a positive spread in the transaction which enhances net interest income, net income and earnings per share. The Company has evaluated the program, and it is comfortable

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with potential earnings volatility that may result from interest rate fluctuation. This strategy increased net interest income and pretax income by approximately \$136,000 and \$143,000, respectively for the three- and six-month periods ended June 30, 2002.

The results of the Company's evaluation of its existing branch network and other service delivery systems, including locations, market areas, physical layouts, accessibility and market potentials and corporate identity are under review. Several market areas other than those currently served by the Company are also being considered as part of the process. As part of this process, on August 2, 2002, Kankakee Federal Savings Bank announced plans to construct a full-service banking facility in Bradley, Illinois, which, when completed in 2003, will replace its in-store branch in that community. In addition, the Bank also announced the acquisition of property at the north edge of Bourbonnais, Illinois as the site for a new banking facility. Planning for both facilities is in process. It is expected that several other changes will result as the evaluation process continues. In addition, the Company has completed a review of its organizational structure, including lines of authority, job functions and supervisory responsibilities. As a result of this review, three positions at the vice president level were eliminated, effective July 10, 2002.

During the second quarter, the Company issued \$10.0 million in trust preferred securities as part of a large pool of such securities. These securities, which carry a variable rate of interest, are includable, within specified limits, in regulatory capital. These funds are available to repurchase stock, fund an accretive acquisition or purchase securities as part of a leveraging strategy. Interest payments on these securities are deductible for income tax purposes.

### FINANCIAL CONDITION

Total assets of the Company increased by \$51.0 million, or 10.4%, to \$541.3 million at June 30, 2002 from \$490.3 million at December 31, 2001.

Cash and cash equivalents increased by \$2.5 million, or 9.4%, from \$26.7 million at December 31, 2001 to \$29.2 million at June 30, 2002. The increase was primarily attributable to increases in deposits and borrowed money.

During the six-month period ended June 30, 2002, net loans receivable increased by \$6.8 million, or 1.7%, from \$393.8 million to \$400.6 million. This was primarily the result of the origination of \$50.8 million of real estate loans, the purchase of \$1.9 million of real estate loans and the origination of \$26.0 million of consumer and commercial business loans, offset by loan repayments which totaled \$72.2 million.

Loans held for sale decreased by \$205,000, or 24.8%, from \$828,000 at December 31, 2001 to \$623,000 at June 30, 2002. This was the result of the sale of \$26.6 million of loans held for sale, at a net gain of \$412,000, which was partially offset by the origination of \$26.0 million of such loans.

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Securities available-for-sale increased by \$2.2 million, or 6.4%, to \$37.0 million at June 30, 2002 from \$34.8 million at December 31, 2001 as the result of the purchase of \$4.0 million of securities, which was partially offset by the exercise of call options by issuers on \$2.0 million of securities, and by the net change in market value adjustment.

Mortgage-backed securities available-for-sale increased by \$30.6 million, or 263.0%, to \$42.2 million at June 30, 2002 from \$11.6 million at December 31,

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2001. The increase resulted from the purchase of \$32.5 million of securities, which was partially offset by the maturity of \$2.3 of securities, and by the net change in market value adjustments.

Deposits increased by \$3.9 million, or 0.9%, from \$415.5 million at December 31, 2001 to \$419.4 million at June 30, 2002. During the six month period, there was a \$1.5 million increase in certificate of deposit accounts, a \$2.5 million increase in passbook, checking and money market accounts and a \$99,000 decrease in accrued interest on deposits.

Total borrowings increased by \$47.3 million, or 157.7%, from \$30.0 million at December 31, 2001 to \$77.3 million at June 30, 2002. The increase was the result of \$52.6 million in new borrowings, which were partially offset by repayments of \$5.3 million. Borrowings at June 30, 2002 consisted of \$10.0 million of Trust Preferred Debentures, \$39.7 million in advances from the Federal Home Loan Bank of Chicago and \$27.6 million in funds from securities sold under agreement to repurchase.

### ASSET/LIABILITY MANAGEMENT

During the first quarter of 2001, consistent with the growth strategy implemented in 2000, the Company retained virtually all the fixed-rate mortgage loans it originated. As a result of the changing interest rate environment during 2001, the Company, during the second quarter of 2001, resumed selling fixed-rate mortgage loans with terms of 20 years or longer in the secondary market. Late in the third quarter of 2001, the Company also began selling loans with terms of 15 years. Through the first six months of 2002, the Company continued to sell virtually all fixed-rate mortgage loans it originated with terms of 15 years or longer.

In an attempt to manage its exposure to changes in interest rates, management closely monitors the Company's interest rate risk. The Bank has a funds management committee, consisting of the president, certain vice presidents and the controller of the Bank, which meets weekly and reviews the Bank's interest rate risk position and evaluates its current asset/liability pricing and strategies. This committee adjusts pricing and strategies as needed and makes recommendations to the Bank's board of directors regarding significant changes in strategy. In addition, on a quarterly basis the board reviews the Bank's asset/liability position, including simulations of the effect on the Bank's capital of various interest rate scenarios.

In managing its asset/liability mix, the Company, at times, depending on the relationship between long-term and short-term interest rates, market conditions and consumer preferences, may place somewhat greater emphasis on maximizing its net interest margin than on better matching the interest rate sensitivity of its assets and liabilities in an effort to improve its net income. Management believes that the increased net income resulting from a mismatch in the maturity of its asset and liability portfolios can, during periods of declining or stable interest rates, provide returns that justify the increased exposure to sudden and unexpected increases in interest rates which can result from such a mismatch.

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The Company attempts to manage its interest rate risk to the extent consistent with its interest margin objectives through management of the mix of its assets and liabilities in a number of ways, including the following:

- . To the extent requested in its lending areas, the Company has focused its one-to-four family residential lending program on

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adjustable rate mortgages ("ARMS").

- . The Company has continued its origination of consumer loans having terms to maturity that are significantly shorter than residential loans.
- . The Company has increased originations of commercial business and construction loans having adjustable or floating interest rates, relatively short terms to maturity, or a combination thereof.
- . The Company regularly reviews its policy on newly originated fixed-rate mortgage loans, as to the question of which loans, if any, should be retained in portfolio versus which should be sold in the secondary market. Trends in the economy, trends in market interest rates, the Company's interest margin and the Company's current asset/liability mix are among the factors considered. Changes resulting from these reviews take effect on a specific calendar date and impact either those loans which are applied for on or after that date, or those loans which are closed on or after that date.

The Company currently does not enter 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 increased to \$4.1 million, or 0.76%, of total assets at June 30, 2002 from \$2.2 million, or 0.45% of total assets at December 31, 2001. This represented an increase of \$1.9 million over the six-month period and a decrease of \$1.6 million from the March 31, 2002 total of \$5.7 million in non-performing assets. During the six month period ended June 30, 2002, non-performing construction and development loans, non-performing commercial real estate loans and non-performing commercial business loans increased by \$1.9 million, \$432,000 and \$226,000, respectively. These increases were partially offset by decreases in non-performing one-to-four family real estate loans and non-performing consumer loans of \$130,000 and \$135,000, respectively. In addition, foreclosed assets decreased by \$306,000 and restructured troubled debts decreased by \$63,000.

Non-performing assets increased by approximately \$1.9 million. The increase was primarily due to previously classified loans to three of the Company's long-term borrowers that became non-performing during the first quarter of 2002, the largest of which remained non-performing at the end of the second quarter. Many financial institutions, such as the Company, have experienced an increase in non-performing assets during this difficult economic period, as even well-established business borrowers have developed cash flow and other business related problems. It is management's belief that the allowance for losses on loans at June 30, 2002, was adequate, particularly in light of the second quarter reduction in total non-performing assets and the increase in the allowance for losses on loans. However, there can be no assurance that the allowance for losses on loans will be adequate to cover all losses.

The ratio of the allowance for losses on loans to non-performing loans decreased to 93.2% as of June 30, 2002 compared to 230.3% as of December 31, 2001. The decrease in this ratio,

which excludes foreclosed assets and restructured troubled debt, was the result

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of the increase of \$2.3 million in non-performing loans.

The Company classified \$949,000 of its assets as Special Mention, \$6.2 million as Substandard and \$295,000 as Loss as of June 30, 2002. No assets were classified as Doubtful at June 30, 2002. This represents a decrease of \$561,000 in the Special Mention category and a net decrease of \$823,000 in the other categories from the December 31, 2001 totals for classified assets. The ratio of classified assets to total assets (including items classified as Special Mention) was 1.37% at June 30, 2002 as compared to 1.80% at December 31, 2001. The ratio of the allowance for losses on loans to classified assets increased to 42.9% as of June 30, 2002 compared to 29.3% as of December 31, 2001.

### RESULTS OF OPERATIONS

#### THREE MONTHS ENDED JUNE 30, 2002 AND 2001

Net income for the quarter ended June 30, 2002 was \$938,000 compared to \$734,000 for the same period in 2001. This represented a \$204,000, or 27.9%, increase. The increase in net income resulted from an increase of \$673,000 in net interest income and \$325,000 in other income which were partially offset by increases of provisions for losses on loans of \$424,000, other expenses of \$324,000 and income tax expense of \$44,000.

Basic earnings per share were \$.78 for the quarter ended June 30, 2002 compared to \$.61 for the 2001 quarter. Diluted earnings per share were \$.77 for the quarter ended June 30, 2002 compared to \$.60 for the comparable 2001 period, representing an increase of 28.3%.

Net interest income increased \$673,000, or 19.8%, during the quarter ended June 30, 2002, compared to the quarter ended June 30, 2001.

The table presented on page 23 ("Table I"), sets forth an analysis of the Company's net interest income for the three-month periods ended June 30, 2002 and 2001.

As Table I indicates, interest income increased \$59,000, or 0.7%, remaining at approximately \$8.3 million for the three-month period ended June 30, 2002 compared to the same period in 2001. The increase in interest income was the result of an increase in the average balance of interest-earning assets to \$503.2 million during the 2002 period from \$441.1 million during the 2001 period, which was substantially offset by a decrease in the yield earned on interest-earning assets to 6.63% during the 2002 period from 7.51% during the 2001 period. The increase in the average balance of interest-earning assets was due to increases in balances of loans, mortgage-backed securities and other interest-earning assets, which were partially offset by a decrease in balances of investment securities during the quarter. The decrease in the yield earned on interest-earning assets was the result of decreasing market interest rates during the quarter, which resulted in lower yields on short term assets and a lower yield on the reinvestment of principal repayments and prepayments on loans and on newly originated loans. The increase in average loans was primarily the result of an aggressive residential mortgage lending program during the first half of 2001, and growth in both commercial real estate and commercial business loans.

Interest expense decreased \$614,000, or 12.7%, to \$4.2 million during the second quarter from \$4.9 million in the same period in 2001. The decrease in interest expense was the result of a decrease in the average yield on interest-bearing liabilities to 3.43% during the 2002 period from 4.56% during the 2001 period, which was partially offset by an increase in the average outstanding balance of interest-bearing liabilities to \$495.0 million during the 2002 period from



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\$426.9 million during the 2001 period. The increase in average interest-bearing liabilities resulted from the implementation of a leveraging strategy, increased use of borrowed funds, and the continuing movement to a sales oriented operation. The decrease in the average yield on interest-bearing liabilities resulted from decreasing market interest rates during the last eighteen months and an improvement in the deposit mix with a higher ratio of non-certificate deposit accounts.

The provision for losses on loans totaled \$464,000 during the second quarter of 2002, compared to \$40,000 during the second quarter of 2001. The increase in the provision for losses on loans during the 2002 period was the result of several factors, including a specific reserve of \$250,000, the overall increase in the loan portfolio and an increase in non-performing assets since December 31, 2001.

Other income for the three-month period ended June 30, 2002 increased \$325,000, or 41.1%, to \$1.1 million compared to \$789,000 for the same period in 2001. The increase was attributable to increases of \$54,000 (8.8%) in fee income, \$134,000 (334.2%) in gain on sale of loans held for sale, \$120,000 (108.4%) in other income and \$23,000 in net gain on the sale of real estate held for sale. These increases were partially offset by a decrease of \$6,000 in insurance commissions. The \$134,000 increase in gain on the sale of loans held for sale was the result of a full quarter of loan sales during 2002, compared to the 2001 quarter, during which loan sales were resumed. The increase in other income was the result of \$137,000 in earnings from the investment in BOLI.

Other expenses for the second quarter of 2002 increased \$324,000 or 10.6%, to \$3.4 million from \$3.1 million for the second quarter of 2001. There were increases of \$280,000 (54.6%) in other expenses, \$154,000 (9.5%) in compensation and benefits, and \$30,000 (165.2%) in provision for losses on foreclosed assets. These increases were partially offset by decreases of \$10,000 (3.4%) in occupancy costs, \$20,000 (12.2%) in furniture and equipment expense, \$20,000 (18.6%) in advertising, \$41,000 (34.6%) in telephone and postage and \$48,000 (50.9%) in amortization of intangible assets. The increase in other expenses was primarily due to additional costs related to a proxy contest in connection with the annual meeting. A significant contributing factor to the increase in compensation and benefits was the higher cost of health insurance. Postage expenses decreased from the 2001 quarter during which an extensive mailing was required informing customers of the Company's privacy policy.

Federal income taxes increased \$45,000 to \$414,000 for the three-month period ended June 30, 2002, compared to \$369,000 for the same period in 2001. The primary reason for this increase was the increase in pre-tax income.

### RESULTS OF OPERATIONS SIX MONTHS ENDED JUNE 30, 2002 AND 2001

Net income for the six months ended June 30, 2002 was \$1.8 million compared to \$1.4 million for the same period in 2001. This represented a \$467,000, or 34.2%, increase. The increase in net income resulted from an increase of \$1.2 million in net interest income, and an increase of \$686,000 in other income, which were partially offset by increases of \$725,000 in other expenses, \$557,000 in provision for losses on loans and \$112,000 in income tax expense.

Basic earnings per share were \$1.51 for the six months ended June 30, 2002 compared to \$1.12 for the 2001 period. Diluted earnings per share were \$1.49 for the six months ended June 30, 2002 compared to \$1.10 for the comparable 2001 period, representing an increase of 35.5%.

Net interest income increased \$1.2 million, or 17.4%, during the six months ended June 30, 2002, compared to the six months ended June 30, 2001.

The table presented on page 24 ("Table II") sets forth an analysis of the Company's net interest income for the six-month periods ended June 30, 2002 and 2001.

As Table II indicates, interest income decreased \$356,000, or 2.2%, to \$16.1 million for the six-month period ended June 30, 2002 from \$16.5 million for the same period in 2001. The decrease in interest income was the result of a decrease in the yield earned on interest-earning assets to 6.68% during the 2002 period from 7.62% during the 2001 period, which was partially offset by an increase in the average balance of interest-earning assets to \$485.9 million during the 2002 period from \$435.1 million during the 2001 period. The decrease in the yield earned on interest-earning assets was the result of decreasing market interest rates during 2001. Market rates have remained relatively low during the first half of 2002, resulting in lower rates on newly originated or purchased assets and on the reinvestment of maturing and prepaying assets. The increase in the average balance of interest-earning assets was primarily due to increases in balances of loans, mortgage-backed securities and other interest-earning assets, which were partially offset by a decrease in balances of investment securities during the period.

Interest expense decreased \$1.5 million, or 15.8%, to \$8.2 million during the first six months of 2002 from \$9.7 million in the same period in 2001. The decrease in interest expense was the result of a decrease in the average yield on interest-bearing liabilities to 3.48% during the 2002 period from 4.65% during the 2001 period, which was partially offset by an increase in the average outstanding balance of interest-bearing liabilities to \$474.0 million during the 2002 period from \$421.1 million during the 2001 period. The decrease in the average yield on interest-bearing liabilities resulted from decreasing market rates during 2001 and an improvement in the deposit mix with a higher ratio of non-certificate deposit accounts. The increase in average interest-bearing liabilities resulted from the implementation of a leveraging strategy, increased use of borrowed funds and the continuing movement to a sales oriented operation.

The provision for losses on loans totaled \$612,000 during the first six months of 2002, compared to \$55,000 during the first six months of 2001. The increase in the provision for losses on loans during 2002 was the result of several factors, including a specific reserve of \$250,000, the overall increase in the loan portfolio and an increase in non-performing loans. Although non-performing loans have increased since the end of 2001, they decreased during the second quarter of 2002.

Other income for the six-month period ended June 30, 2002 increased \$686,000, or 49.5%, to \$2.1 million compared to \$1.4 million for the same period in 2001. The increase was attributable to increases of \$172,000 (15.7%) in fee income, \$142,000 (71.7%) in other income, \$372,000 (927.8%) in gain on the sale of loans held for sale and \$23,000 (201.8%) in net gain on the sale of real estate held for sale. These increases were partially offset by a decrease of \$22,000 in insurance commissions. The increase in fee income was primarily the result of an increase in checking accounts subject to fees. The increase in gain on the sale of loans held for sale was the result of a full six months of loan sales during 2002 compared to 2001, when loan sales were resumed during the second quarter. The increase in other income was the result of earnings from the investment in BOLI, which was made during the first quarter of 2002.

Other expenses for the first half of 2002 increased \$725,000, or 12.0%, to

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\$6.8 million from \$6.0 million during the 2001 period. There were increases of \$402,000 (12.7%) in

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compensation and benefits, \$19,000 (55.5%) in provision for losses on foreclosed assets, \$14,000 (6.9%) in data processing services, and \$485,000 (46.2%) in other expenses. These increases were partially offset by decreases of \$16,000 (2.7%) in occupancy costs, \$55,000 (15.8%) in furniture and equipment expense, \$20,000 (11.6%) in advertising and \$95,000 (50.9%) in amortization of intangible assets. The increase in compensation and benefits was due in large part to cost increases in employee benefits, such as health insurance. The increase in other expenses was primarily due to additional costs related to a proxy contest in connection with the 2002 annual meeting.

Federal income taxes increased \$113,000 to \$799,000 for the six-month period ended June 30, 2002, compared to \$686,000 for the same period in 2001. 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 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 accumulated other comprehensive income 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.

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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 institution with a ratio of core capital to adjusted total assets of 3.0% will be

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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.

As of June 30, 2002, 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 June 30, 2002, the Bank's tangible capital was \$35.2 million, or 6.7%, of adjusted total assets, which exceeded the 1.5% requirement by \$27.4 million and exceeded the 2.0% "critically undercapitalized" threshold by \$24.7 million. In addition, at June 30, 2002, the Bank had core capital of \$35.2 million, or 6.7%, of adjusted total assets, which exceeded the 4.0% requirement by \$14.2 million and exceeded the 5.0% "well capitalized" threshold by \$9.0 million. The Bank had risk-based capital of \$38.2 million at June 30, 2002, or 11.2%, of risk-adjusted assets, which exceeded the minimum risk-based capital requirement by \$10.8 million and exceeded the 10.0% "well capitalized" threshold by \$4.0 million. Additionally, the Bank's \$35.2 million of core capital equaled 10.3% of total risk-weighted assets, which exceeded the 6.0% "well capitalized" threshold by \$14.7 million.

### STOCK REPURCHASE

During the quarter ended June 30, 2002, the Company repurchased 50,156 shares of common stock at a total cost of \$1.9 million under its current stock repurchase program. Through June 30, 2002, a total of 737,699 shares of common stock of the Company had been purchased under the current and previous repurchase programs at a total cost of \$17.0 million. As of June 30, 2002, the Company held 568,699 shares of its common stock as treasury stock. During the period from June 30, 2002 through August 1, 2002, an additional 4,545 shares of common stock were repurchased at a total cost of \$168,000. At its July 9, 2002 meeting, the Company's Board of Directors authorized the repurchase of an additional 90,000 shares of common stock through January 31, 2003.

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### STOCK OPTIONS

During the second quarter of 2002, options on 7,700 shares of common stock were exercised. Between June 30, 2002 and August 1, 2002, no options on shares of common stock were exercised. Through August 8, 2002, no notice was received from the one remaining holder of options of the intention to exercise options.

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### DIVIDENDS

On July 9, 2002, a cash dividend of \$.15 per share was declared, payable on August 30, 2002 to stockholders of record as of August 15, 2002. The Company's strong earnings performance provided the Board with the opportunity to continue dividend payments at the increased rate paid in the second quarter. The Company has paid a dividend every quarter since the dividend program was instituted in the first quarter of 1995. 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.

### SPECIAL NOTE CONCERNING FORWARD-LOOKING STATEMENTS

This document (including information incorporated by reference) contains, and future oral and written statements of the Company and its management may contain, forward-looking statements, within the meaning of such term in the Private Securities Litigation Reform Act of 1995, with respect to the financial condition, results of operations, plans, objectives, future performance and business of the Company. Forward-looking statements, which may be based upon beliefs, expectations and assumptions of the Company's management and on information currently available to management, are generally identifiable by the use of words such as "believe," "expect," "anticipate," "plan," "intend" "estimate," "may," "will," "would," "could," "should" or other similar expressions. Additionally, all statements in this document, including forward-looking statements, speak only as of the date they are made, and the Company undertakes no obligation to update any statement in light of new information or future events.

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, the following:

- . The strength of the United States economy in general and the strength of the local economies in which the Company conducts its operations which may be less favorable than expected and may result in, among other things, a deterioration in the credit quality and value of the Company's assets.
- . The economic impact of the terrorist attacks that occurred on September 11th, as well as any future threats and attacks, and the response of the United States to any such threats and attacks.
- . The effects of, and changes in, federal, state and local laws, regulations and policies affecting banking, securities, insurance and monetary and financial matters.
- . The effects of changes in interest rates (including the effects of changes in the rate of prepayments of the Company's assets) and the policies of the Board of Governors of the Federal Reserve System.
- . The ability of the Company to compete with other financial

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institutions as effectively as the Company currently intends due to increases in competitive pressures in the financial services sector.

- . The inability of the Company to obtain new customers and to retain existing customers.
- . The timely development and acceptance of products and services, including products and services offered through alternative delivery channels such as the Internet.
- . Technological changes implemented by the Company and by other parties, including third party vendors, which may be more difficult or more expensive than anticipated or which may have unforeseen consequences to the Company and its customers.

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- . The ability of the Company to develop and maintain secure and reliable electronic systems.
- . The ability of the Company to retain key executives and employees and the difficulty that the Company may experience in replacing key executives and employees in an effective manner.
- . Consumer spending and saving habits which may change in a manner that affects the Company's business adversely.
  - o Business combinations and the integration of acquired businesses which may be more difficult or expensive than expected.
  - o The costs, effects and outcomes of existing or future litigation.
- . Changes in accounting policies and practices, as may be adopted by state and federal regulatory agencies and the Financial Accounting Standards Board.

The ability of the Company to manage the risks associated with the foregoing as well as anticipated. These risks and uncertainties should be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements. Additional information concerning the Company and its business, including other 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 (UNAUDITED)  
KANKAKEE BANCORP, INC. AND SUBSIDIARY

	Three Months Ended June			
	----- 2002 -----			
	Average Outstanding Balance -----	Interest Earned/ Paid -----	Yield/ Rate -----	Avera Outstan Balan -----
	(Dollars in Thousan			
Interest-earning assets:				
Loans receivable (1)	\$398,827	\$ 7,075	7.12%	\$362,
Mortgage-backed securities (2)	41,565	603	5.82%	14,

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Investments securities (3)	38,188	532	5.59%	41,
Other interest-earning assets	22,009	74	1.35%	19,
FHLB stock	2,625	33	5.04%	2,
	-----	-----		-----
Total interest-earning assets	503,214	8,317	6.63%	441,
	-----	-----		-----
Other assets	38,238			29,
	-----			-----
Total assets	\$541,452			\$470,
	=====			=====
Interest-bearing liabilities:				
Certificate accounts	\$249,969	2,662	4.27%	\$249,
Savings deposits	74,124	384	2.08%	61,
Demand and NOW deposits	99,718	390	1.57%	88,
Borrowings	71,200	803	4.52%	27,
	-----	-----		-----
Total interest-bearing liabilities	495,011	4,239	3.43%	426,
	-----	-----		-----
Other liabilities	5,203			4,
	-----			-----
Total liabilities	500,214			431,
	-----			-----
Stockholders' equity	41,238			39,
	-----			-----
Total liabilities and stockholders' equity	\$541,452			\$470,
	=====			=====
Net interest income		\$ 4,078		
		=====		
Net interest rate spread			3.20%	
			=====	
Net earning assets	\$ 8,203			\$ 14,
	=====			=====
Net yield on average interest-earning assets (net interest margin)			3.25%	
			=====	
Average interest-earning assets to average interest-bearing liabilities		101.66%		
		=====		

- (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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TABLE II  
NET INTEREST INCOME ANALYSIS (UNAUDITED)  
KANKAKEE BANCORP, INC. AND SUBSIDIARY

	Six Months Ended June			
	2002			
	Average Outstanding Balance	Interest Earned/ Paid	Yield/ Rate	Avera Outstan Balanc
			(Dollars in Thousand)	
Interest-earning assets:				
Loans receivable (1)	\$396,405	\$ 14,055	7.15%	\$353,
Mortgage-backed securities (2)	28,706	814	5.72%	15,
Investments securities (3)	36,802	991	5.43%	46,
Other interest-earning assets	21,384	173	1.63%	17,
FHLB stock	2,557	63	4.97%	2,
	-----	-----		-----
Total interest-earning assets	485,854	16,096	6.68%	435,
	-----	-----		-----
Other assets	34,365			29,
	-----			-----
Total assets	\$520,219			\$464,
	=====			=====
Interest-bearing liabilities:				
Certificate accounts	\$250,592	5,506	4.43%	\$247,
Savings deposits	71,796	739	2.08%	59,
Demand and NOW deposits	98,103	761	1.56%	87,
Borrowings	53,543	1,165	4.39%	26,
	-----	-----		-----
Total interest-bearing liabilities	474,034	8,171	3.48%	421,
	-----	-----		-----
Other liabilities	4,776			4,
	-----			-----
Total liabilities	478,810			425,
	-----			-----
Stockholders' equity	41,409			39,
	-----			-----
Total liabilities and stockholders' equity	\$520,219			\$464,
	=====			=====
Net interest income		\$ 7,925		
		=====		
Net interest rate spread			3.20%	
			=====	



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Net earning assets	\$ 11,820 =====	\$ 13, =====
Net yield on average interest-earning assets (net interest margin)		3.29% =====
Average interest-earning assets to average interest-bearing liabilities	102.49% =====	

- (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

- Item 1. Legal Proceedings - There are no material pending legal proceedings to 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
- Item 3. Defaults Upon Senior Securities - None
- Item 4. Submission of Matters to a Vote of Security Holders - The Meeting of Stockholders of the Company was held on April 26, 2002. At the meeting, stockholders voted to elect two nominees to the board of directors and to ratify the appointment of McGladrey & Pullen, LLP, as the Company's independent auditors for 2002. Because of the contested nature of the annual meeting, the Company hired IVS Associates, Inc. to act as the independent inspectors of election. IVS Associates has certified that William Cheffer and Michael A. Stanfa were elected to serve as directors with terms expiring in 2005. The matters approved by stockholders at the meeting and the number of votes cast for, against or withheld (as well as the number of abstentions) as to each matter are set forth below:
  - a. The election of directors for a three year term expiring in 2005.

NOMINEE	FOR	WITHHOLD
William Cheffer	603,911	9,252
Michael A. Stanfa	605,598	7,565
Lawrence Seidman	478,434	2,001

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Robert Williamson	478,434	2,001
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- b. The ratification of McGladrey & Pullen, LLP, as the auditors for the year ending December 31, 2002.

FOR	AGAINST	ABSTAIN
1,062,964	10,640	19,984

Item 5. Other Information - None

Item 6. Exhibits and Reports on Form 8-K

- a. Exhibits - 99.1 - Certification of Chief Executive Officer  
99.2 - Certification of Chief Financial Officer

b. Reports on Form 8-K

On April 15, 2002, the Company filed a report on Form 8-K stating under Item 5 that the Company had, on April 15, 2002, issued a news release announcing its earnings for the quarter ending March 31, 2002, as well as other recent corporate events.

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On April 22, 2002, the Company filed a report on Form 8-K stating under Item 5 that the Company had, on April 22, 2002, issued a news release announcing that Institutional Shareholder Services ("ISS"), recommended management's nominees for director at this year's annual meeting of stockholders.

On May 1, 2002, the Company filed a report on Form 8-K stating under Item 5 that the Company had, on May 1, 2002, issued a news release announcing the preliminary results of the election of directors conducted at the annual meeting of stockholders on April 26, 2002.

On May 8, 2002, the Company filed a report on Form 8-K stating under Item 5 that the Company had, on May 8, 2002, issued a news release announcing the certification of the results of the election of directors conducted at the annual meeting of stockholders on April 26, 2002.

On July 19, 2002, the Company filed a report on Form 8-K stating under Item 5 that the Company had, on July 19, 2002 issued a news release announcing its earnings for the quarter ended June 30, 2002, as well as other recent corporate events.

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KANKAKEE BANCORP, INC.

SIGNATURES

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: August 8, 2002  
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/s/ LARRY D. HUFFMAN  
-----  
President and CEO

Date: August 8, 2002  
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/s/ RONALD J. WALTERS  
-----  
Vice President and Treasurer  
(Principal Financial  
And Accounting Officer)