KANKAKEE BANCORP INC
Form 10-Q
August 08, 2001

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

[X] Quarterly Report Under Section 13 or 15(d) of the Securities Exchange Act of 1934 For the Quarterly Period Ended June 30, 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 X No _______

As of August 8, 2001, there were 1,207,408 issued and outstanding shares of the Issuer's common stock (exclusive of 542,592 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

	June 30, 2001
Assets	

Cash and due from banks	$ 13,142,830
Federal funds sold	3,082,981
Money market funds	4,167,880
Cash and cash equivalents	20,393,691
Certificates of deposit	50,000
Securities:	
Investment securities:	
Available-for-sale, at fair value	40,574,225
Held-to-maturity, at cost (fair value: June 30, 2001 - $2,110,071; December 31, 2000 - $1,434,708)	2,104,897
Total investment securities	42,679,122
Mortgage-backed securities:	
Available-for-sale, at fair value	13,709,705
Held-to-maturity, at cost (fair value: June 30, 2001 - $51,567; December 31, 2000 - $67,727)	50,906
Total mortgage-backed securities	13,760,611
Non-marketable equity securities	501,000
Loans, net of allowance for losses on loans ($2,191,420 at June 30, 2001; $2,156,420 at December 31, 2000)	372,497,070
Loans held for sale	390,750
Real estate held for sale	564,700
Federal Home Loan Bank stock, at cost	2,368,400
Office properties and equipment	8,446,849
Accrued interest receivable	3,076,250
Prepaid expenses and other assets	1,436,733
Intangible assets	4,618,475
Total assets	$470,783,651

(Continued)

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

	June 30, 2001	De
Liabilities and stockholders' equity		
Liabilities:		
Deposits		
Noninterest bearing	$ 24,518,539	$
Interest bearing	376,705,711	3
Short term borrowings	-	
Other borrowings	27,000,000	

Advance payments by borrowers for taxes and insurance	2,021,453	
Other liabilities	1,263,294	
Total liabilities	431,508,997	4
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	15,308,401	
Retained income, partially restricted	35,358,788	
Treasury stock (545,092 shares at June 30, 2001; 486,892 shares at December 31, 2000)	(11,863,866)	(
Accumulated other comprehensive income	453,831	
Total stockholders' equity	39,274,654	
Total liabilities and stockholders' equity	$470,783,651	$4

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	
	2001	
Interest income:		
Loans	$ 7,084,193	$
Investment securities and other	918,042	
Mortgage-backed securities	255,582	
Total interest income	8,257,817	
Interest expense:		
Deposits	4,524,089	
Borrowed funds	328,652	
Total interest expense	4,852,741	
Net interest income	3,405,076	
Provision for losses on loans	40,000	
Net interest income after provision for losses on loans	3,365,076	
Other income:		
Net gain on sales of real estate held for sale	931	
Net gain on sales of loan held for sale	40,080	
Fee income	616,781	

Insurance commissions	21,341	
Other	110,289	
Total other income	789,422	
Other expenses:		
Compensation and benefits	1,618,205	
Occupancy	301,828	
Furniture and equipment	164,960	
Federal deposit insurance premiums	18,207	
Advertising	105,211	
Provision for losses on foreclosed assets	18,214	
Data processing services	99,256	
Telephone and postage	119,776	
Amortization of intangible assets	93,687	
Other general and administrative	512,420	
Total other expenses	3,051,764	
Income before income taxes	1,102,734	
Income taxes	369,150	
Net income	$ 733,584	$
Net income	$ 733,584	$
Other comprehensive income:		
Unrealized gains (losses) on available-for-sale securities, net of related income taxes	(135,780)	
Comprehensive income (loss)	$ 597,804	$
Basic earnings per share	$0.61	
Diluted earnings per share	$0.60	

See notes to consolidated financial statements (unaudited)

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

	Six Months Ended Jun	
	2001	200
Interest income:		
Loans	$13,939,859	$11,07
Investment securities and other	1,975,286	2,49
Mortgage-backed securities	537,412	62
Total interest income	16,452,557	14,19
Interest expense:		

Deposits	9,011,143	7,51
Borrowed funds	691,054	33
Total interest expense	9,702,197	7,85
Net interest income	6,750,360	6,34
Provision for losses on loans	55,000	
Net interest income after provision for losses on loans	6,695,360	6,34
Other income:		
Net gain on sales of real estate held for sale	11,314	1
Net gain on sales of loans held for sale	40,080	
Net gain on sales of property held for expansion	-	1
Fee income	1,089,684	87
Insurance commissions	47,968	10
Other	197,941	18
Total other income	1,386,987	1,19
Other expenses:		
Compensation and benefits	3,173,361	3,07
Occupancy	605,847	52
Furniture and equipment	348,981	35
Federal deposit insurance premiums	36,534	3
Advertising	173,729	14
Provision for losses on foreclosed assets	34,914	3
Data processing services	199,958	16
Telephone and postage	221,756	17
Amortization of intangible assets	187,374	18
Other general and administrative	1,048,856	91
Total other expenses	6,031,310	5,62
Income before income taxes	2,051,037	1,91
Income taxes	686,450	64
Net income	$ 1,364,587	$ 1,26
Net income	$ 1,364,587	$ 1,26
Other comprehensive income:		
Unrealized gains (losses) on available-for-sale securities, net of related income taxes	337,862	(9
Comprehensive income (loss)	$ 1,702,449	$ 1,17
Basic earnings per share	$1.12	
Diluted earnings per share	$1.10	

See notes to consolidated financial statements (unaudited)

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

	Six Months E
	2001
Cash flows from operating activities:	
Net income	$ 1,364,587
Adjustments to reconcile net income to net cash provided by operating activities:	
Provision for losses on loans	55,000
Provisions for losses on real estate held for sale	34,914
Depreciation and amortization	656,998
Amortization of investment premiums and discounts, net	(16,564
Accretion of loan fees and discounts, net	2,020
Deferred income tax provision (benefit)	23,858
Originations of loans held for sale	(5,598,265
Proceeds from sales of loans	5,247,595
Decrease (increase) in interest receivable	205,964
Decrease in interest payable on deposits	(130,036
Net gain on sales of loans	(40,080
Net gain on sales of real estate held for sale	(11,314
Net income on sales of office related property	-
Federal Home Loan Bank of Chicago, stock dividend	(79,100
Other, net	(986,405
Net cash from operating activities	729,172
Cash flows from investing activities	
Investment securities	
Available-for sale:	
Purchases	(6,041,387
Proceeds from calls and maturities	23,070,000
Held-to-maturity:	
Purchases	(660,404
Proceeds from maturities and paydowns	3,166
Mortgage-backed securities:	
Available-for-sale:	
Purchases	(300,890
Proceeds from maturities and pay downs	2,737,439
Held-to-maturity:	
Proceeds from maturities and pay downs	15,962
Proceeds from sales of real estate	58,484
Deferred loan fees and costs, net	134,661
Loans originated	(97,779,454
Principal collected on loans	63,824,276
Purchases of office properties and equipment, net	(322,350
Net cash from investing activities	(15,260,497

See notes to consolidated financial statements (unaudited).

CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED) (continued)

KANKAKEE BANCORP, INC. AND SUBSIDIARY

	Six Months Ended June 30, 2001	Six Months Ended June 30, 2000
Cash flows from financing activities		
Net increase in non-certificate of deposit accounts	$ 9,053,886	$ 1,992,121
Net increase in certificate of deposit accounts	4,250,059	9,427,375
Net increase in advance payments by borrowers for taxes and insurance	190,736	331,105
Proceeds from short-term borrowings	5,000,000	19,000,000
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	66,281	600,577
Dividends paid	(291,759)	(302,621)
Purchase of treasury stock	(1,491,460)	(535,470)
Net cash from financing activities	9,777,743	24,313,087
Decrease in cash and cash equivalents	(4,753,582)	(5,928,244)
Cash and cash equivalents:		
Beginning of period	25,147,273	30,093,583
End of period	$ 20,393,691	$24,165,339
Supplemental disclosures of cash flow information		
Cash paid during the period for:		
Interest on deposits	$ 9,141,200	$ 7,490,300
Interest on borrowed funds	$ 716,900	$ 298,400
Income taxes	$ 692,218	$ 358,144
Supplemental disclosures of non-cash investing activities:		
Real estate acquired through foreclosure	$ 182,393	$ -
Increase (decrease) in unrealized gains on securities available-for-sale	$ 511,912	($149,255)
(Increase) decrease in deferred taxes attributable to the unrealized gains on securities available-for-sale	($174,050)	$ 50,747

See notes to consolidated financial statements (unaudited).

KANKAKEE BANCORP, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

June 30, 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 and six-month periods ended June 30, 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 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, 2001, stockholders' equity included a positive $454,000, 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 $234,000. A decrease in market interest rates during the six months ended June 30, 2001 resulted in a $338,000 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.

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 half of 2001, the Federal Open Market Committee (the "FOMC") lowered its target short-term interest rates six times, by a total of two and three-quarters percentage points. The federal funds target became 3.75% and the Federal Reserve discount rate became 3.25%. 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 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 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, again began to sell most of the long-term, fixed-rate single-family mortgage loans it originated. 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 $10.9 million, or 2.4%, to $470.8 million at June 30, 2001 from $459.9 million at December 31, 2000.

Cash and cash equivalents decreased by $4.7 million, or 18.9%, from $25.1 million at December 31, 2000 to $20.4 million at June 30, 2001. The decrease was primarily attributable to an increase in loans during the period.

During the six-month period ended June 30, 2001, net loans receivable increased by $33.5 million, or 9.9%, from $339.0 million to $372.5 million. This was primarily the result of the origination of $69.0 million of real estate loans and the origination of $28.8 million of consumer and commercial business loans, offset by loan repayments which totaled $63.8 million.

Loans held for sale were $391,000 as of June 30, 2001. There were no loans held for sale at December 31, 2000. During the six months ended June 30, 2001, $3.8 million in residential real estate loans were originated for sale and $3.4 million of those loans were sold. In addition, $1.8 million in commercial real estate loans were originated for sale and sold during the period.

Securities available-for-sale decreased by $16.6 million, or 29.0%, to $40.6 million at June 30, 2001 from $57.2 million at December 31, 2000 as the result of the maturity, or the exercise of call options by issuers, of $23.1 million of securities, which was partially offset by the purchase of $6.0 million of securities and by the net change in market value adjustment.

Mortgage-backed securities available-for-sale decreased by $2.4 million, or 14.6%, to $13.7 million at June 30, 2001 from $16.1 million at December 31, 2000. The decrease resulted from the maturity of $2.7 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 $13.1 million, or 3.3%, from $388.1 million at December 31, 2000 to $401.2 million at June 30, 2001. During the six month period, there was a $4.0 million increase in certificate of deposit accounts and a $9.1 million increase in passbook, checking and money market accounts.

Total borrowings decreased by $2.0 million, or 6.9%, from $29.0 million at December 31, 2000 to $27.0 million at June 30, 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 and through the first quarter of 2001, the Company retained virtually all the fixed-rate mortgage loans it originated. Approximately $10.3 million of fixed-rate mortgage loans with terms of 20 years or longer were originated and retained

during the first quarter of 2001. While the Company continues to promote the origination of adjustable rate mortgages, commercial real estate loans, commercial 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 has, during the second quarter of 2001, resumed 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 $2.6 million, or 0.56%, of total assets at June 30, 2001 from $3.5 million, or 0.76% of total assets at December 31, 2000. During the six month period ended June 30, 2001, non-performing construction and development loans, non-performing one-to-four family loans, non-performing consumer loans, and non-performing commercial business loans decreased by $900,000, $27,000, $77,000 and $733,000, respectively. These decreases were partially offset by increases in non-performing commercial real estate loans and non-performing multi-family loans of $447,000 and $121,000, respectively. In addition, foreclosed assets increased by $80,000 and restructured troubled debts increased by $71,000. 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 140.9% as of June 30, 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 $1.0 million in non-performing loans.

The Company classified $3.8 million of its assets as Special Mention, $2.5 million as Substandard and $103,000 as Loss as of June 30, 2001. No assets were classified as Doubtful at June 30, 2001. This represents an increase of $195,000 in the Special Mention category and a net increase of $282,000 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 1.36% at June 30, 2001 as compared to 1.29% at December 31, 2000. The ratio of the allowance for losses on loans to classified assets decreased to 34.2% as of June 30, 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.

RESULTS OF OPERATIONS
THREE MONTHS ENDED JUNE 30, 2001 AND 2000

Net income for the quarter ended June 30, 2001 was $734,000 compared to $768,000 for the same period in 2000. This represented a $34,000, or 4.5%, decrease. The decrease in net income resulted from an increase of $348,000 in other expenses, and an increase of $40,000 in provisions for losses on loans, which were substantially offset by increases in net interest income of $130,000 and other income of $196,000, and by a decrease of $27,000 in income tax expense.

Basic earnings per share were $.61 for both the quarter ended June 30, 2001 and the comparable 2000 period. Diluted earnings per share were $.60 for the quarter ended June 30, 2001 compared to $.59 for the comparable 2000 period.

Net interest income increased $130,000, or 4.0%, during the quarter ended June 30, 2001, compared to the quarter ended June 30, 2000.

The table presented on page 17 ("Table I"), sets forth an analysis of the Company's net interest income for the three-month periods ended June 30, 2001 and 2000.

As Table I indicates, interest income increased $956,000, or 13.1%, to $8.3 million for the three-month period ended June 30, 2001 from $7.3 million for the same period in 2000. The increase in interest income was the result of an increase in the average balance of interest-earning assets to $441.1 million during the 2001 period from $385.6 million during the 2000 period, which was partially offset by a decrease in the yield earned on interest-earning assets to 7.51% during the 2001 period from 7.60% during the 2000 period. The increase in the average balance of interest-earning assets was due to increases in balances of loans and other interest-earning assets, which were partially offset by decreases in balances of mortgage-backed securities and 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 lending program during 2000 and the first half of 2001.

Interest expense increased $825,000, or 20.5%, to $4.9 million during the second quarter from $4.0 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 $426.9 million during the 2001 period from $374.5 million during the 2000 period, and by an increase in the average yield on interest-bearing liabilities to 4.56% during the 2001 period from 4.31% 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 from a more aggressive pricing policy, primarily during 2000, the effects of which are reflected in higher interest costs on certificate balances.

Based on management's review of the adequacy of the allowance for losses on loans, a provision for losses on loans of $40,000 was recorded during the second quarter of 2001. There was no provision for losses on loans recorded during the second quarter of 2000.

Other income for the three-month period ended June 30, 2001 increased $196,000, or 33.1%, to $789,000 compared to $593,000 for the same period in 2000. The increase was attributable to increases of $150,000 in fee income, $38,000 in gain on sale of loans held for sale and $14,000 in other income. These increases were partially offset by decreases of $4,000 in gain on the sale of real estate held for sale and $1,000 in insurance commissions. The $150,000 increase in fee income resulted primarily from an increase in checking accounts subject to fees.

Other expenses for the second quarter of 2001 increased $348,000 or 12.9%, to $3.1 million from $2.7 million for the second quarter of 2000. There were increases of $42,000 (16.3%) in occupancy costs, $97,000 (23.4%) in other expenses, $17,000 (21.0%) in data processing services, $114,000 (7.6%) in compensation and benefits, $39,000 (58.7%) in advertising, $45,000 (59.5%) in telephone and postage and $5,000 (36.9%) in provision for losses on foreclosed assets. These increases were partially offset by decreases of $10,000 (5.6%) and $1,000 (1.0%) in furniture and equipment expense and amortization of intangible assets, respectively. The increase in the cost of data processing services was due to costs associated with an upgrade in mainframe hardware and to costs associated with implementation of on-line banking. Postage expenses increased as a result of an increase in the number of checking accounts and an extensive mailing required to inform customers of the Company's privacy policy. A contributing factor to the increase in compensation and benefits was the higher cost of health insurance.

Federal income taxes decreased $27,000 to $369,000 for the three-month period ended June 30, 2001, compared to $396,000 for the same period in 2000. The primary reason for this decrease was the decrease in pre-tax income.

RESULTS OF OPERATIONS
SIX MONTHS ENDED JUNE 30, 2001 and 2000

Net income for the six-months ended June 30, 2001 was $1.4 million compared to $1.3 million for the same period in 2000. This represented a $96,000, or 7.6%, increase. The increase in net income resulted from an increase of $405,000 in net interest income, and an increase of $193,000 in other income, which were partially offset by increases of $408,000 in other expenses, $55,000 in provision for losses on loans and $39,000 in income tax expense.

Basic earnings per share were $1.12 for the six months ended June 30, 2001 compared to $1.01 for the 2000 period. Diluted earnings per share were $1.10 for the six months ended June 30, 2001 compared to $.98 for the comparable 2000 period.

Net interest income increased $405,000, or 6.4%, during the six months ended June 30, 2001, compared to the six months ended June 30, 2000.

The table presented on page 18 ("Table II"), sets forth an analysis of the Company's net interest income for the six-month periods ended June 30, 2001 and 2000.

As Table II indicates, interest income increased $2.3 million, or 15.9%, to $16.5 million for the six-month period ended June 30, 2001 from $14.2 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 7.62% during the 2001 period from 7.51% during the 2000 period, and an increase in the average balance of interest-earning assets to $435.1 million during the 2001 period from $380.0 million during the 2000 period. The increase in the average balance of interest-earning assets was primarily due to increases in balances of loans and other interest-earning assets, which were partially offset by decreases in balances of mortgage-backed securities and investment securities during the period. The increase in the yield earned on interest-earning assets was the result of increasing market interest rates during 2000, a period during which the Company had significant growth. While market interest rates have decreased significantly during the first six months of 2001, the repricing to lower rates of maturing and prepaying assets has not yet reduced yields to the levels experienced in the first six months of 2000.

Interest expense increased $1.8 million, or 23.5%, to $9.7 million during the first six months of 2001 from $7.9 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 $421.1 million during the 2001 period from $370.4 million during the 2000 period, and by an increase in the average yield on interest-bearing liabilities to 4.65% during the 2001 period from 4.26% 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 from increasing market rates during 2000 and a more aggressive pricing policy. While market interest rates have decreased significantly during the first six months of 2001, the impact of these decreases has not yet reduced funding costs to the same levels as those of the first six months of 2000.

Based on management's review of the adequacy of the allowance for losses on loans, a provision for losses on loans of $55,000 was recorded during the first six months of 2001. There was no provision for losses on loans recorded during the first six months of 2000.

Other income for the six-month period ended June 30, 2001 increased $193,000, or 16.1%, to $1.4 million compared to $1.2 million for the same period in 2000. The increase was attributable to increases of $212,000 in fee income, $17,000 in other income and $37,000 in gain on the sale of loans held for sale. These increases were partially offset by decreases of $61,000 in insurance commissions and $1,000 in gain on the sale of real estate held for sale. 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 resuming the sale of long-term, fixed-rate loans during the second quarter. The decrease in insurance commissions was due to a high level of commissions during the first quarter of 2000 which did not recur in 2001.

Other expenses for the first half of 2001 increased $408,000, or 7.3%, to $6.0 million from $5.6 million during the 2000 period. Most categories of other expenses increased, including increases of $94,000 (3.1%) in compensation and benefits, $80,000 (15.1%) in occupancy expenses, $29,000 (20.4%) in advertising, $30,000 (17.6%) in data processing services, $45,000 (25.2%) in telephone and postage and $131,000 (14.2%) in other expenses. The increase in compensation and benefits was due in large part to increased costs of medical insurance in 2001. The increase in the cost of data processing services was due to costs associated with an upgrade in mainframe hardware and to costs associated with implementation of on-line banking. Postage expenses increased as a result of an increase in the number of checking accounts and an extensive mailing required to inform customers of the Company's privacy policy.

LIQUIDITY AND CAPITAL RESOURCES

The Company maintains a level of cash and other liquid assets sufficient 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 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 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 A1" 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, 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 June 30, 2001, the Bank's tangible capital was $32.2 million, or 6.9%, of adjusted total assets, which exceeded the 1.5% requirement by $25.3 million and exceeded the 2.0% "critically undercapitalized" threshold by $22.9 million. In addition, at June 30, 2001, the Bank had core capital of $32.2 million, or 6.9%, of adjusted total assets, which exceeded the 4.0% requirement by $13.7 million and exceeded the 5.0% "well capitalized" threshold by $9.0 million. The Bank had risk-based capital of $34.3 million at June 30, 2001, or 11.4%, of risk-adjusted assets, which exceeded the minimum risk-based capital requirement by $10.3 million and exceeded the 10.0% "well capitalized" threshold by $4.3 million. Additionally, the Bank's $32.2 million of core capital equaled

10.7% of total risk-weighted assets, which exceeded the 6.0% "well capitalized" threshold by $14.2 million.

EMERGING ACCOUNTING STANDARDS

In June 2001, the Financial Accounting Standards Board issued two statements which are summarized as follows:

Business Combinations Statement of Financial Accounting Standard No. 141, "Business Combinations" (FAS 141) addresses financial accounting and reporting for business combinations. It requires all business combinations covered by the scope of the Standard to be accounted for using the purchase method. It is effective for business combinations initiated after June 30, 2001 and business combinations completed July 1, 2001 and later which use the purchase method of accounting. The Company has no pending business combinations which would be impacted by this statement. The requirements of this statement would need to be considered in any business combination contemplated in the future.

Goodwill and Other Intangible Assets Statement of Financial Accounting Standard No. 142, "Goodwill and Other Intangible Assets" (FAS 142) addresses financial accounting and reporting for goodwill and other intangible assets. It addresses how intangible assets should be accounted for at the time of acquisition and in subsequent periods. It requires that goodwill and other intangible assets having indefinite useful lives not be amortized. Instead, such assets must be tested at least annually for impairment. Such assets having finite useful lives would continue to be amortized over those lives. The Standard provides specific guidance for testing goodwill and other intangible assets for impairment and also requires additional disclosures concerning goodwill and other intangible assets.

FAS 142 is effective for fiscal years beginning after December 15, 2001 and must be applied to all goodwill and other intangible assets recognized in financial statements as of the start of that fiscal year. Impairment losses resulting from the initial application of the Standard are to be reported as resulting from a change in accounting principle. At this time, the Company does not believe the adoption of the Standard will have a material impact on the consolidated financial statements. However, the evaluation of the impact has not yet been completed.

STOCK REPURCHASE

During the quarter ended June 30, 2001, the Company repurchased 18,500 shares of common stock at a total cost of $442,000 under the repurchase program approved the Company's Board of Directors in January 2001. Through June 30, 2001, a total of 667,507 shares of common stock of the Company had been purchased under the current and previous repurchase programs at a total cost of $14.3 million. As of June 30, 2001, the Company held 545,092 shares of its common stock as treasury stock. During the period from June 30, 2001 through August 8, 2001 no additional shares of common stock were repurchased.

STOCK OPTIONS

During the second quarter of 2001, no options on shares of common stock were exercised. Between June 30, 2001 and August 8, 2001, options on 2,500 shares of common stock were exercised. Through August 8, 2001, no notice was received from holders of options of their intent to exercise options.

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DIVIDENDS

On July 10, 2001, a cash dividend of $.12 per share was declared, payable on August 31, 2001 to stockholders of record as of August 10, 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," "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 (UNAUDITED)

KANKAKEE BANCORP, INC. AND SUBSIDIARY

Three Months Ended June 30,

(Dollars in Thousands)

	2001			2000	
	Average Outstanding Balance	Interest Earned/Paid	Yield/ Rate	Average Outstanding Balance	Inter Earned
Interest-earning assets:					
Loans receivable (1)	$362,541	$ 7,084	7.84%	$293,843	$
Mortgage-backed securities (2)	14,573	256	7.05%	18,130	
Investments securities (3)	41,692	632	6.08%	60,840	
Other interest-earning assets	19,972	248	4.98%	10,957	
FHLB stock	2,315	38	6.58%	1,835	
Total interest-earning assets	441,093	8,258	7.51%	385,605	
Other assets	29,622			29,068	
Total assets	$470,715			$414,673	
Interest-bearing liabilities:					
Certificate accounts	$249,478	3,633	5.84%	$221,558	
Savings deposits	61,499	405	2.64%	61,942	
Demand and NOW deposits	88,942	486	2.19%	76,279	
Borrowings	27,000	329	4.89%	14,750	
Total interest-bearing liabilities	426,919	4,853	4.56%	374,529	
Other liabilities	4,616			3,657	
Total liabilities	431,535			378,186	
Stockholders' equity	39,180			36,487	
Total liabilities and stockholders' equity	$470,715			$414,673	
Net interest income		$ 3,405			$
Net interest rate spread			2.95%		
Net earning assets	$ 14,174			$ 11,076	
Net yield on average interest-					

earning assets (net interest margin)		3.10%	
		====	
Average interest-earning assets to average interest-bearing liabilities	103.32%		1
	=======		==

(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 30,				
	2001			2000	
	Average Outstanding Balance	Interest Earned/Paid	Yield/ Rate	Average Outstanding Balance	Inter Earned
	(Dollars in Thousands)				
Interest-earning assets:					
Loans receivable (1)	$353,422	$13,940	7.95%	$283,456	$1
Mortgage-backed securities (2)	15,126	537	7.16%	18,041	
Investments securities (3)	46,929	1,408	6.05%	61,704	
Other interest-earning assets	17,398	492	5.70%	14,941	
FHLB stock	2,240	75	6.75%	1,825	
	--------	-------		--------	--
Total interest-earning assets	435,115	16,452	7.62%	379,967	1
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Other assets	29,468			30,029	
	--------			--------	
Total assets	$464,583			$409,996	
	========			========	
Interest-bearing liabilities:					
Certificate accounts	$247,940	7,240	5.89%	$219,997	
Savings deposits	59,375	762	2.59%	61,256	
Demand and NOW deposits	87,249	1,009	2.33%	75,955	
Borrowings	26,571	691	5.24%	13,229	
	--------	-------		--------	--
Total interest-bearing liabilities	421,135	9,702	4.65%	370,437	
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Other liabilities	4,344			3,237	
Total liabilities	425,479			373,674	
Stockholders' equity	39,104			36,322	
Total liabilities and stockholders' equity	$464,583			$409,996	
Net interest income		$ 6,750			$
Net interest rate spread			2.97%		
Net earning assets	$ 13,980			$ 9,530	
Net yield on average interest-earning assets (net interest margin)			3.13%		
Average interest-earning assets to average interest-bearing liabilities		103.32%			1

(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 Annual Meeting of Stockholders of the Company was held on April 20, 2001. At the meeting, Brenda L. Baird and Larry D. Huffman were elected to serve as directors with terms expiring in 2004. Continuing with terms expiring in 2002 were William Cheffer and Michael A. Stanfa. Continuing with terms expiring in 2003 were Charles C. Huber, Thomas M. Schneider and Wesley E. Walker.

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 and broker non-votes) as to each matter are set forth below:

	Number of Votes	
	For	Withheld
The election of the following directors for a three-year term:		
Brenda L. Baird	913,198	120,333
Larry D. Huffman	899,273	134,258

	For	Against	Abstain	Broker Non-Votes
The ratification of McGladrey & Pullen, LLP, as the auditors for the year ending December 31, 2001	1,021,920	9,514	2,097	-

Item 5. Other Information - None

Item 6. Exhibits and Reports on Form 8-K

a. Exhibits - None

b. Reports on Form 8-K

On April 18, 2001, the Company filed a report on Form 8-K stating under Item 5 that the Company had, on April 18, 2001, issued a news release announcing its earnings for the quarter ending March 31, 2001, as well as other recent corporate events.

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, 2001 /s/ LARRY D. HUFFMAN
President and CEO

Date: August 8, 2001 /s/ RONALD J. WALTERS
Vice President and Treasurer
(Principal Financial
And Accounting Officer)