KANKAKEE BANCORP INC
Form 10-Q
November 02, 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 September 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 November 2, 2001, there were 1,216,358 issued and outstanding shares of the Issuer's common stock (exclusive of 533,642 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

	September 3, 2001	December 31, 2000

Assets		
Cash and due from banks	$ 13,717,074	$ 18,707,762
Federal funds sold	1,434,698	1,329,776
Money market funds	3,713,814	5,109,735
Cash and cash equivalents	18,865,586	25,147,273
Certificates of deposit	50,000	50,000
Securities:		
Investment securities:		
Available-for-sale, at fair value	40,111,584	57,169,644
Held-to-maturity, at cost (fair value: September 30, 2001 - $2,118,927; December 31, 2000 - $1,434,708)	2,104,850	1,447,846
Total investment securities	42,216,434	58,617,490
Mortgage-backed securities:		
Available-for-sale, at fair value	12,663,650	16,050,792
Held-to-maturity, at cost (fair value: September 30, 2001 - $44,766; December 31, 2000 - $67,727)	44,388	66,867
Total mortgage-backed securities	12,708,038	16,117,659
Non-marketable equity securities	461,000	501,000
Loans, net of allowance for losses on loans ($2,323,329 at September 30, 2001; $2,156,420 at December 31, 2000)	384,454,781	338,956,136
Loans held for sale	525,575	-
Real estate held for sale	526,189	484,320
Federal Home Loan Bank stock, at cost	2,406,200	2,112,000
Office properties and equipment	8,328,606	8,594,823
Accrued interest receivable	3,046,484	3,282,214
Prepaid expenses and other assets	1,370,738	1,225,070
Intangible assets	4,524,788	4,805,849
Total assets	$479,484,419	$459,893,834

(Continued)

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

	September 30, 2001	December 31, 2000
Liabilities and stockholders' equity		
Liabilities:		
Deposits		

Noninterest bearing	$ 25,023,779	$ 25,357,749
Interest bearing	381,305,480	362,692,592
Short term borrowings	--	14,000,000
Other borrowings	30,000,000	15,000,000
Advance payments by borrowers for taxes and insurance	646,124	1,813,412
Other liabilities	1,996,944	1,740,938
Total liabilities	438,972,327	420,604,691
Stockholders' equity		
Preferred stock, $.01 par value; authorized, 500,000 shares; none outstanding	--	--
Common stock, $.01 par value; authorized, 3,500,000 shares; shares issued 1,750,000	17,500	17,500
Additional paid-in capital	15,291,660	15,328,249
Retained income, substantially restricted	36,234,115	34,285,960
Treasury stock (544,592 shares at September 30, 2001; 486,892 shares at December 31, 2000)	(11,861,354)	(10,458,535)
Accumulated other comprehensive income	830,171	115,969
Total stockholders' equity	40,512,092	39,289,143
Total liabilities and stockholders' equity	$ 479,484,419	$ 459,893,834

See notes to consolidated financial statements (unaudited)

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

	Three Months E
	2001
Interest income:	
Loans	$7,195,970
Investment securities and other	227,850
Mortgage-backed securities	788,540
Total interest income	8,212,360
Interest expense:	
Deposits	4,358,917
Borrowed funds	307,740
Total interest expense	4,666,657
Net interest income	3,545,703
Provision for losses on loans	139,000
Net interest income after provision for losses on loans	3,406,703

Other income:	
Net gain on sale of securities available-for-sale	441,120
Net gain on sales of real estate held for sale	14,330
Net gain on sales of loans held for sale	72,548
Fee income	600,114
Insurance commissions	23,537
Other	90,811
Total other income	1,242,460
Other expenses:	
Compensation and benefits	1,605,956
Occupancy	337,918
Furniture and equipment	150,146
Federal deposit insurance premiums	18,351
Advertising	101,204
Provision for losses on foreclosed assets	45,300
Data processing services	93,434
Telephone and postage	96,451
Amortization of intangible assets	93,687
Other general and administrative	573,801
Total other expenses	3,116,248
Income before income taxes	1,532,915
Income taxes	512,700
Net income	$1,020,215
Net income	$1,020,215
Other comprehensive income:	
Unrealized gains on available-for-sale securities, net of related income taxes	376,340
Comprehensive income	$1,396,555
Basic earnings per share	$ 0.84
Diluted earnings per share	$ 0.82

See notes to consolidated financial statements (unaudited)

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

	Nine Months End
	2001
Interest income:	

Loans	$21,135,829
Investment securities and other	765,262
Mortgage-backed securities	2,763,826
Total interest income	24,664,917
Interest expense:	
Deposits	13,370,060
Borrowed funds	998,794
Total interest expense	14,368,854
Net interest income	10,296,063
Provision for losses on loans	194,000
Net interest income after provision for losses on loans	10,102,063
Other income:	
Net gain on sale of securities available-for-sale	441,120
Net gain on sales of real estate held for sale	25,644
Net gain on sales of loans held for sale	112,628
Net gain on sales of property held for expansion	--
Fee income	1,689,798
Insurance commissions	71,505
Other	288,752
Total other income	2,629,447
Other expenses:	
Compensation and benefits	4,779,317
Occupancy	943,765
Furniture and equipment	499,127
Federal deposit insurance premiums	54,885
Advertising	274,933
Provision for losses on foreclosed assets	80,214
Data processing services	293,392
Telephone and postage	318,207
Amortization of intangible assets	281,061
Other general and administrative	1,622,657
Total other expenses	9,147,558
Income before income taxes	3,583,952
Income taxes	1,199,150
Net income	$ 2,384,802
Net income	$ 2,384,802
Other comprehensive income:	
Unrealized gains on available-for-sale securities, net of related income taxes	714,202
Comprehensive income	$ 3,099,004
Basic earnings per share	$ 1.96
Diluted earnings per share	$ 1.92

See notes to consolidated financial statements (unaudited)

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

	Nine Months Ended September 30, 2001	Nine Months Ended September 30, 2000
Cash flows from operating activities:		
Net income	$ 2,384,802	$ 1,876,476
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for losses on loans	194,000	20,000
Provision for losses on real estate held for sale	80,214	120,805
Depreciation and amortization	967,657	967,942
Amortization of investment premiums and discounts, net	(19,803)	2,658
Accretion of loan fees and discounts	5,983	10,902
Deferred income tax provision (benefit)	23,858	(41,838)
Originations of loans held for sale	(10,824,918)	(251,382)
Proceeds from sales of loans	10,411,971	255,441
Decrease (Increase) in interest receivable	235,730	(111,620)
Decrease in interest payable on deposits	(118,948)	(8,859)
Net gain on sales of loans	(112,628)	(4,059)
Net gain on sales of securities available-for-sale	(441,120)	--
Net gain on sales of real estate held for sale	(25,644)	(28,068)
Net income on sales of office related property	--	(11,552)
Federal home Loan Bank of Chicago, stock dividend	(116,900)	--
Other, net	(279,556)	441,424
Net cash from operating activities	2,364,698	3,238,270
Cash flows from investing activities:		
Investment securities:		
Available-for-sale:		
Purchases	(22,106,834)	(6,492,404)
Proceeds from sales	5,437,350	--
Proceeds from calls and maturities	35,070,000	11,500,000
Held to maturity:		
Purchases	(660,404)	(100,000)
Proceeds from maturities and paydowns	3,166	2,976
Mortgage-backed securities:		
Available-for-sale:		
Purchases	(300,890)	(1,962,724)
Proceeds from maturities and paydowns	3,888,898	2,538,308
Held-to-maturity:		
Proceeds from maturities and paydowns	22,480	24,999
Proceeds from sales of real estate	260,762	130,263
Deferred loan fees and costs, net	209,117	76,359
Loans originated	(145,272,661)	(137,475,649)
Principal collected on loans	98,988,189	81,357,379
Purchases of office properties and equipment, net	(421,079)	(232,949)

Net cash from investing activities	(24,881,906)	(50,633,442)

See notes to consolidated financial statements (unaudited).

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

	Nine Months Ended
	2001
Cash flows from financing activities	
Net increase in non-certificate of deposit accounts	$ 10,719,539
Net increase in certificate of deposit accounts	7,678,327
Net increase in advance payments by borrowers for taxes and insurance	(1,286,290)
Proceeds from short-term borrowings	15,000,000
Repayments of short-term borrowings	(29,000,000)
Proceeds from other borrowings	25,000,000
Repayments of other borrowings	(10,000,000)
Proceeds from exercise of stock options	103,952
Dividends paid	(436,647)
Purchase of treasury stock	(1,543,360)
Net cash from financing activities	16,235,521
Decrease in cash and cash equivalents	(6,281,687)
Cash and cash equivalents:	
Beginning of period	25,147,273
End of period	$ 18,865,586
Supplemental disclosures of cash flow information	
Cash paid during the period for:	
Interest on deposits	$ 13,489,000
Interest on borrowed funds	$ 1,030,000
Income taxes	$ 1,140,218
Supplemental disclosures of non-cash investing activities:	
Real estate acquired through foreclosure	$ 310,110
Increase (decrease) in unrealized gains on securities available-for-sale	$ 1,073,988
(Increase) decrease in deferred taxes attributable to the unrealized gains on securities available-for-sale	($ 359,786)

See notes to consolidated financial statements (unaudited).

KANKAKEE BANCORP, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
September 30, 2001

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, 2000 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 nine-month periods ended September 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 of 1,205,408. 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 September 30, 2001, stockholders' equity included a positive $830,000, 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 an income tax of $428,000. A decrease in market interest rates during the nine months ended September 30, 2001 resulted in a $714,000 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 book value of the available-for-sale securities portfolio exceeded the market value by $116,000, net of income tax.

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

Through October 2, 2001, the Federal Open Market Committee (the "FOMC") has this year lowered its target short-term interest rates nine times, by a total of four percentage points. The federal funds target is currently 2.50% and the Federal Reserve discount rate is currently 2.00%. The federal funds rate is the rate at which financial institutions borrow from each other, while the discount rate is the rate at which member institutions borrow from the Federal Reserve.

The FOMC continues to cite a slowing economy and the risk of recession as the motivating factors for lowering interest rates. The tragic events of September 11, 2001 have further clouded the economic outlook, severely impacting several major industries, as well as the economy as a whole. Additionally, consumer confidence, a key factor in the economy, has been negatively impacted. Lowering rates to current levels, with the possibility of further cuts, is intended to 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, are sold or are called, and as loans are repaid or prepaid, the reinvestment rates on those funds decrease. 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 continued to be retained in the portfolio. During the third quarter of 2001, the Company also began to sell loans with terms of 15 years to 20 years.

FINANCIAL CONDITION

Total assets of the Company increased by $19.6 million, or 4.3%, to $479.5 million at September 30, 2001 from $459.9 million at December 31, 2000.

Cash and cash equivalents decreased by $6.2 million, or 25.0%, from $25.1 million at December 31, 2000 to $18.9 million at September 30, 2001. The decrease was primarily attributable to an increase in loans during the period.

During the nine-month period ended September 30, 2001, net loans receivable increased by $45.5 million, or 13.4%, from $339.0 million to $384.5 million. This was primarily the result of the origination of $104.1 million of real estate loans and the origination of $41.2 million of consumer and commercial business loans, offset by loan repayments which totaled $99.0 million.

Loans held for sale were $526,000 as of September 30, 2001. There were no loans held for sale at December 31, 2000. During the nine months ended September 30, 2001, $9.0 million in residential real estate loans were originated for sale and $8.5 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 $17.1 million, or 29.8%, to $40.1 million at September 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 $35.1 million of securities, and the sale of $5.0 million of securities which were partially offset by the purchase of $22.1 million of securities and by the net change in market value adjustment.

Mortgage-backed securities available-for-sale decreased by $3.4 million, or 21.1%, to $12.7 million at September 30, 2001 from $16.1 million at December 31, 2000. The decrease resulted from the maturity of $3.9 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 $18.2 million, or 4.7%, from $388.1 million at December 31, 2000 to $406.3 million at September 30, 2001. During the nine month period, there was a $7.6 million increase in certificate of deposit accounts and a $10.7 million increase in passbook, checking and money market accounts.

Total borrowings increased by $1.0 million, or 3.4%, from $29.0 million at December 31, 2000 to $30.0 million at September 30, 2001. The increase was the result of $40.0 million in new borrowings, which were partially offset by repayments of $39.0 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. In addition, during the third quarter of 2001, the Company began selling fixed-rate mortgage loans with terms of 15 to 20 years. 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 $2.2 million, or 0.47%, of total assets at September 30, 2001 from $3.5 million, or 0.76% of total assets at December 31, 2000. During the nine month period ended September 30, 2001, non-performing construction and development loans, non-performing one-to-four family loans, non-performing commercial loans, and non-performing commercial business loans decreased by $900,000, $52,000, $10,000 and $713,000, respectively. These decreases were partially offset by an increase in non-performing consumer loans of $198,000. In addition, foreclosed assets increased by $40,000 and restructured troubled debts decreased by $189,000. 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 212.5% as of September 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 $1.5 million in non-performing loans.

The Company classified $1.6 million of its assets as Special Mention, $7.2 million as Substandard, $10,000 as Doubtful and $148,000 as Loss as of September 30, 2001. This represents a decrease of $2.0 million in the Special Mention category and a net increase of $5.1

million 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 1.88% at September 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 25.8% as of September 30, 2001 as 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 SEPTEMBER 30, 2001 AND 2000

Net income for the quarter ended September 30, 2001 was $1.0 million compared to $608,000 for the same period in 2000. This represented a $412,000, or 67.8%, increase. The increase in net income resulted from increases of $311,000 in net interest income and $580,000 in other income, which were partially offset by increases of $148,000 in other expenses, $119,000 in provisions for losses on loans and $212,000 in income taxes.

Basic earnings per share were $.84 for the quarter ended September 30, 2001 compared to $.48 for the comparable 2000 period. Diluted earnings per share were $.82 for the quarter ended September 30, 2001 compared to $.47 for the comparable 2000 period.

Net interest income increased $311,000, or 9.6%, during the quarter ended September 30, 2001, compared to the quarter ended September 30, 2000.

One of the tables presented at the end of management's discussion and analysis ("Table I"), sets forth an analysis of the Company's net interest income for the three-month periods ended September 30, 2001 and 2000.

As Table I indicates, interest income increased $318,000, or 4.0%, to $8.2 million for the three-month period ended September 30, 2001 from $7.9 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 $447.4 million during the 2001 period from $409.8 million during the 2000 period, which was partially offset by a decrease in the yield earned on interest-earning assets to 7.28% during the 2001 period from 7.64% during the 2000 period. The increase in the average balance of interest-earning assets was due to increases in balances of loans and FHLB stock, which were partially offset by decreases in balances of mortgage-backed securities, investment securities and other interest-earning assets 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 nine months of 2001.

Interest expense increased $7,000, or 0.1%, remaining at $4.7 million for the third quarter of 2001. The increase in interest expense was the result of an increase in the average outstanding balance of interest-bearing liabilities to $434.1 million during the 2001 period from $399.7 million during the 2000 period, which was substantially offset by a decrease in the average yield on interest-bearing liabilities to 4.27% during the 2001 period from 4.63% 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 decrease in the average yield on interest-bearing liabilities resulted from decreasing market interest rates during the quarter which resulted in lower costs on new and maturing certificates of deposit, money-market deposits and borrowed funds.

Based on management's review of the adequacy of the allowance for losses on loans, a provision for losses on loans of $139,000 was recorded during the third quarter of 2001 compared to a provision for losses on loans of $20,000 recorded during the third quarter of 2000. The increase in classified assets was a significant factor in the increase.

Other income for the three-month period ended September 30, 2001 increased $580,000, or 87.5%, to $1.2 million compared to $663,000 for the same period in 2000. The increase was primarily attributable to a $441,000 gain on the sale of securities available for sale. In addition, there were increases of $74,000 in fee income, $72,000 in gain on the sale of loans held for sale and $5,000 in other income. These increases were partially offset by decreases of $2,000 in gain on the sale of real estate held for sale and $10,000 in insurance commissions. The $74,000 increase in fee income resulted primarily from an increase in checking accounts subject to fees and the $72,000 increase in gain on the sale of loans held for sale was the result of a resumption of selling fixed-rate mortgage loans.

Other expenses for the third quarter of 2001 increased $148,000 or 5.0%, to $3.1 million from $3.0 million for the third quarter of 2000. There were increases of $57,000 (20.5%) in occupancy costs, $105,000 (22.4%) in other expenses, $5,000 (5.7%) in data processing services, $31,000 (2.0%) in compensation and benefits, $12,000 (13.3%) in advertising and $5,000 (5.4%) in telephone and postage. These increases were partially offset by decreases of $23,000 (13.4%), $44,000 (49.1%) and $1,000 (1.0%) in furniture and equipment expense, provision for losses on foreclosed assets and amortization of intangible assets, respectively. The increase in occupancy costs was the result of an increase in the number of building maintenance projects during 2001 compared to 2000. Postage expenses increased as a result of an increase in the number of checking accounts. A contributing factor to the increase in compensation and benefits was the higher cost of health insurance.

Federal income taxes increased $212,000 to $513,000 for the three-month period ended September 30, 2001, compared to $301,000 for the same period in 2000. The primary reason for this increase was the increase in pre-tax income.

RESULTS OF OPERATIONS
NINE MONTHS ENDED SEPTEMBER 30, 2001 and 2000

Net income for the nine-months ended September 30, 2001 was $2.4 million compared to $1.9

million for the same period in 2000. This represented a $508,000, or 27.1%, increase. The increase in net income resulted from an increase of $717,000 in net interest income, and an increase of $772,000 in other income, which were partially offset by increases of $555,000 in other expenses, $174,000 in provision for losses on loans and $251,000 in income tax expense.

Basic earnings per share were $1.96 for the nine months ended September 30, 2001 compared to $1.49 for the 2000 period. Diluted earnings per share were $1.92 for the nine months ended September 30, 2001 compared to $1.45 for the comparable 2000 period.

Net interest income increased $717,000, or 7.5%, during the nine months ended September 30, 2001, compared to the nine months ended September 30, 2000.

One of the tables presented at the end of management's discussion and analysis ("Table II"), sets forth an analysis of the Company's net interest income for the nine-month periods ended September 30, 2001 and 2000.

As Table II indicates, interest income increased $2.6 million, or 11.6%, to $24.7 million for the nine-month period ended September 30, 2001 from $22.1 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 $439.4 million during the 2001 period from $389.9 million during the 2000 period, which was partially offset by a decrease in the yield on interest-earning assets to 7.50% during the 2001 period from 7.57% 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 decrease in the yield earned on interest-earning assets was the result of decreasing market interest rates during 2001. Market interest rates decreased significantly during the first nine months of 2001, and the repricing to lower rates of maturing and prepaying assets reduced yields on those assets.

Interest expense increased $1.9 million, or 14.8%, to $14.4 million during the first nine months of 2001 from $12.5 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 $425.6 million during the 2001 period from $380.2 million during the 2000 period, and by an increase in the average yield on interest-bearing liabilities to 4.51% during the 2001 period from 4.40% 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 nine months of 2001, the impact of these decreases did not reduce funding costs to the same levels as those of the first nine 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 $194,000 was recorded during the first nine months of 2001, compared to a $20,000 provision for losses on loans recorded during the first nine months of 2000.

Other income for the nine-month period ended September 30, 2001 increased $772,000, or 41.6%, to $2.6 million compared to $1.9 million for the same period in 2000. The increase was primarily attributable to a $441,000 gain on the sale of securities available-for-sale. There were also increases of $285,000 in fee income, $23,000 in other income and $109,000 in gain on the sale of loans held for sale. These increases were partially offset by decreases of $71,000 in insurance

commissions and $2,000 in gain on 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 nine months of 2001 increased $555,000, or 6.5%, to $9.1 million from $8.6 million during the 2000 period. Most categories of other expenses increased, including increases of $125,000 (2.7%) in compensation and benefits, $137,000 (17.0%) in occupancy expenses, $41,000 (17.7%) in advertising, $35,000 (13.6%) in data processing services, $50,000 (18.5%) in telephone and postage and $236,000 (17.0%) 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 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 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 "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 September 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 September 30, 2001, the Bank's tangible capital was $33.0 million, or 7.0%, of adjusted total assets, which exceeded the 1.5% requirement by $25.9 million and exceeded the 2.0% "critically undercapitalized" threshold by $23.6 million. In addition, at September 30, 2001, the Bank had core capital of $33.0 million, or 7.0%, of adjusted total assets, which exceeded the 4.0% requirement by $14.1 million and exceeded the 5.0% "well capitalized" threshold by $9.4 million. The Bank had risk-based capital of $35.3 million at September 30, 2001, or 11.4%, of risk-adjusted assets, which exceeded the minimum risk-based capital requirement by $10.6 million and exceeded the 10.0% "well capitalized" threshold by $4.4 million. Additionally, the Bank's $33.0 million of core capital equaled 10.7% of total risk-weighted assets, which exceeded the 6.0% "well capitalized" threshold by $14.5 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. There has been a great deal of discussion concerning the method or methods which should be applied to determine the extent of impairment of goodwill, particularly in the case of publicly held corporations, such as the Company. While a final determination has not been made, the maximum impact on net income in 2002 due to the adoption of this Standard would be approximately $2.9 million, representing the full impairment of goodwill of $4.4 million, net of income tax of $1.5 million.

STOCK REPURCHASE

During the quarter ended September 30, 2001, the Company repurchased 2,000 shares of common stock at a total cost of $52,000 under the repurchase program approved by the Company's Board of Directors in January 2001. Through September 30, 2001, a total of 669,507 shares of common stock of the Company had been purchased under the current and previous repurchase programs at a total cost of $14.4 million. As of September 30, 2001, the Company held 544,592 shares of its common stock as treasury stock. During the period from September 30, 2001 through November 2, 2001 no additional shares of common stock were repurchased.

STOCK OPTIONS

During the third quarter of 2001, options on 2,500 shares of common stock were exercised. Between October 1, 2001 and November 2, 2001, options on 10,950 shares of common stock were exercised. Through November 2, 2001, the Company had received no additional notification from holders of options of their intent to exercise options.

DIVIDENDS

On October 9, 2001, a cash dividend of $.12 per share was declared, payable on November 30, 2001 to stockholders of record as of November 14, 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.

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

	Three Months Ended September 30,			
	2001			
	Average Outstanding Balance	Interest Earned/Paid	Yield/ Rate	Average Outstanding Balance
			(Dollars in Thousands)	
Interest-earning assets:				
Loans receivable (1)	$378,830	$7,196	7.54%	$316,328

Mortgage-backed securities (2)	13,197	228	6.85%	17,385
Investments securities (3)	42,265	616	5.78%	60,767
Other interest-earning assets	10,738	135	4.99%	13,500
FHLB stock	2,397	37	6.12%	1,868
Total interest-earning assets	447,427	8,212	7.28%	409,848
Other assets	29,337			29,916
Total assets	$476,764			$439,764
Interest-bearing liabilities:				
Certificate accounts	$252,649	3,469	5.45%	$239,083
Savings deposits	64,442	423	2.60%	60,264
Demand and NOW deposits	89,257	467	2.08%	76,632
Borrowings	27,750	308	4.40%	23,750
Total interest-bearing liabilities	434,098	4,667	4.27%	399,729
Other liabilities	2,798			2,466
Total liabilities	436,896			402,195
Stockholders' equity	39,868			37,569
Total liabilities and stockholders' equity	$476,764			$439,764
Net interest income		$3,545		
Net interest rate spread			3.01%	
Net earning assets	$ 13,329			$ 10,119
Net yield on average interest-earning assets (net interest margin)			3.14%	
Average interest-earning assets to average interest-bearing liabilities		103.07%		

(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.

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

	Nine Months Ended September 30,			
	2001			
	Outstanding Balance	Average Interest Earned/Paid	Yield/ Rate	Outstanding Balance
	(Dollars in Thousands)			
Interest-earning assets:				
Loans receivable (1)	$361,639	$21,136	7.81%	$ 294,217
Mortgage-backed securities (2)	14,491	765	7.06%	17,815
Investments securities (3)	45,484	2,028	5.96%	61,451
Other interest-earning assets	15,508	624	5.38%	14,527
FHLB stock	2,290	112	6.54%	1,840
Total interest-earning assets	439,412	24,665	7.50%	389,850
Other assets	29,424			29,998
Total assets	$468,836			$ 419,848
Interest-bearing liabilities:				
Certificate accounts	$250,050	10,709	5.73%	$ 226,888
Savings deposits	61,058	1,185	2.59%	60,598
Demand and NOW deposits	87,503	1,476	2.26%	76,314
Borrowings	27,000	999	4.95%	16,360
Total interest-bearing liabilities	425,611	14,369	4.51%	380,160
Other liabilities	3,833			2,960
Total liabilities	429,444			383,120
Stockholders' equity	39,392			36,728
Total liabilities and stockholders' equity	$468,836			$ 419,848

Net interest income		$10,296		
Net interest rate spread			2.99%	
Net earning assets	$ 13,801			$ 9,690
Net yield on average interest-earning assets (net interest margin)			3.13%	
Average interest-earning assets to average interest-bearing liabilities		103.24%		

(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.

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 - None

Item 5. Other Information - None

Item 6. Exhibits and Reports on Form 8-K

a. Exhibits - None

b. Reports on Form 8-K

On July 23, 2001, the Company filed a report on Form 8-K stating under Item 5 that the Company had, on July 23, 2001, issued a news release announcing its earnings for the quarter ended June 30, 2001, as well as other recent corporate events.

On October 11, 2001, the Company filed a report on Form 8-K stating under item 5 that the Company had, on October 10, 2001, issued a news release announcing that Thomas Schneider resigned as director of the Company and Kankakee Federal Savings Bank (the "Bank"), effective October 31, 2001, as the result of his relocation out of the Kankakee area. The Company also announced that on October 9, 2001, the Company's and the Bank's boards of directors elected Mark Smith to fill the vacancies created by Mr. Schneider's resignation, effective November 1, 2001.

On October 23, 2001, the Company filed a report on Form 8-K stating under item 5 that the Company had, on October 23, 2001, issued a news release announcing its earnings for the quarter ended September 30, 2001, and that the Company had entered into change of control agreements with six of its executive officers.

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: November 2, 2001

/s/ LARRY D. HUFFMAN
President and CEO

Date: November 2, 2001

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