FIRST BANCTRUST CORP
Form 10-Q
May 13, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d)
OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2005

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

FOR THE TRANSITION PERIOD FROM ___________ TO ___________
COMMISSION FILE NUMBER 0-32535

FIRST BANCTRUST CORPORATION
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)

37-1406661
(IRS EMPLOYER IDENTIFICATION NO.)

206 SOUTH CENTRAL AVENUE
PARIS, ILLINOIS
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)

61944
(ZIP CODE)

217-465-6381
(REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE)

INDICATE BY CHECK MARK WHETHER THE REGISTRANT (1) HAS FILED ALL REPORTS REQUIRED TO BE FILED BY SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 DURING THE PRECEDING 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 [ ]

INDICATE BY CHECK MARK WHETHER THE REGISTRANT IS AN ACCELERATED FILER (AS DEFINED IN RULE 12B-2 OF THE EXCHANGE ACT). YES [ ] NO [X]

INDICATE THE NUMBER OF SHARES OUTSTANDING OF EACH OF THE ISSUER'S CLASSES OF COMMON STOCK, AS OF THE LATEST PRACTICABLE DATE.

AS OF MAY 12, 2005 THE REGISTRANT HAD OUTSTANDING 2,497,050 SHARES OF COMMON STOCK.

First BancTrust Corporation

Form 10-Q Quarterly Report

FIRST BANCTRUST CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands of dollars except share data)

	MARCH 31, 2005 (unaudited
ASSETS	
Cash and due from banks	$
Interest-bearing demand deposits	
Cash and cash equivalents	1
Available-for-sale securities	7
Held-to-maturity securities (fair value of $4,758 and $4,831)	
Loans held for sale	
Loans, net of allowance for loan losses of $2,325 and $2,300	11
Premises and equipment	
Federal Home Loan Bank stock	
Foreclosed assets held for sale, net	
Interest receivable	
Loan servicing rights, net of valuation allowance of $6 and $24	

Cash surrender value of life insurance	
Deferred income taxes	
Other assets	
Total assets	$ 22
LIABILITIES AND STOCKHOLDERS' EQUITY	
Noninterest bearing deposits	$ 1
Interest bearing deposits	14
Total deposits	16
Federal funds purchased	
Federal Home Loan Bank advances	4
Pass through payments received on loans sold	
Advances from borrowers for taxes and insurance	
Deferred income taxes	
Interest payable	
Other	
Total liabilities	20
COMMITMENTS AND CONTINGENT LIABILITIES	
STOCKHOLDERS' EQUITY	
Preferred stock, $.01 par value; 1,000,000 shares authorized and unissued	
Common stock, $.005 par value, 5,000,000 shares authorized; 3,041,750 shares issued; 2,497,050 and 2,494,850 shares outstanding	
Additional paid-in capital	1
Retained earnings	1
Unearned employee stock ownership plan shares - 121,708 and 129,310 shares	
Unearned incentive plan shares - 81,700 and 85,126 shares	
Accumulated other comprehensive income (loss)	
Treasury stock, at cost - 544,700 and 546,900 shares	(
Total stockholders' equity	2
Total liabilities and stockholders' equity	$ 22

See notes to condensed consolidated financial statements.

FIRST BANCTRUST CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(in thousands of dollars except share data)
(unaudited)

THREE MONTHS ENDED MARCH 31	2005
INTEREST AND DIVIDEND INCOME	

Loans	
Taxable	$ 2,037
Tax exempt	16
Securities	
Taxable	720
Tax exempt	104
Dividends on Federal Home Loan Bank stock	58
Deposits with financial institutions and other	24
Total interest and dividend income	2,959
INTEREST EXPENSE	
Deposits	731
Federal Home Loan Bank advances and other debt	389
Total interest expense	1,120
NET INTEREST INCOME	1,839
Provision for loan losses	94
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	1,745
NONINTEREST INCOME	
Customer service fees	192
Other service charges and fees	182
Net gains on loan sales	73
Net realized gains on sales of available-for-sale securities	32
Net loan servicing fees	140
Brokerage fees	15
Abstract and title fees	104
Other	72
Total noninterest income	810
NONINTEREST EXPENSE	
Salaries and employee benefits	1,183
Net occupancy expense	103
Equipment expense	205
Data processing fees	115
Professional fees	111
Foreclosed assets expense, net	15
Marketing expense	71
Printing and office supplies	44
Amortization of loan servicing rights	124
Recovery of impairment of loan servicing rights	(18
Other expenses	204
Total noninterest expense	2,157

INCOME BEFORE INCOME TAX	$ 398	$ 346

Income tax expense	95	120
NET INCOME	303	$ 226
BASIC EARNINGS PER SHARE	$ 0.13	$ 0.10
DILUTED EARNINGS PER SHARE	$ 0.12	$ 0.09
DIVIDENDS PER SHARE	$ 0.06	$ 0.05

See notes to condensed consolidated financial statements.

-3-

FIRST BANCTRUST CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands of dollars)
(unaudited)

THREE MONTHS ENDED MARCH 31	2005
OPERATING ACTIVITIES	
Net income	$ 303
Items not requiring (providing) cash	
Depreciation and amortization	97
Provision for loan losses	94
Investment securities amortization, net	22
Amortization of loan servicing rights	124
Recovery of impairment of loan servicing rights	(18)
Deferred income taxes	(21)
Net realized gains on available-for-sale securities	(32)
Net loss on sales of foreclosed assets	8
Net loss on sale of premises and equipment	--
Net gains on loan sales	(73)
Loans originated for sale	(3,440)
Proceeds from sales of loans originated for sale	3,164
Federal Home Loan Bank stock dividends	(58)
Compensation expense related to employee stock ownership plan	92
Compensation expense related to incentive plan	27
Changes in	
Interest receivable	430
Cash surrender value of life insurance	(43)
Other assets	49
Interest payable	18
Other liabilities	132
Net cash provided by operating activities	875

INVESTING ACTIVITIES		
Purchases of available-for-sale securities		(3,046)
Proceeds from maturities of available-for-sale securities		5,936
Proceeds from sales of available-for-sale securities		275
Net change in loans		(1,223)
Proceeds from sales of foreclosed assets		130
Proceeds from sales of premises and equipment		--
Purchases of premises and equipment		(50)
Net cash provided by (used in) investing activities		2,022

FINANCING ACTIVITIES		
Net increase in demand deposits, money market, NOW and savings deposits	$	288
Net increase (decrease) in certificates of deposit		249
Net decrease in short-term borrowings		(2,000)
Pass through payments received on loans sold		86
Net increases in advances by borrowers for taxes and insurance		159
Proceeds from stock options exercised		22
Dividends paid		(150)
Net cash provided by (used in) by financing activities		(1,346)
INCREASE IN CASH AND CASH EQUIVALENTS		1,551
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR		9,113
CASH AND CASH EQUIVALENTS, END OF YEAR	$	10,664
SUPPLEMENTAL CASH FLOWS INFORMATION		
Real estate acquired in settlement of loans	$	67
Interest paid	$	1,102
Income tax paid	$	0

See notes to condensed consolidated financial statements.

FIRST BANCTRUST CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

Note 1 - Basis of Presentation

The accompanying unaudited interim condensed consolidated financial statements have been prepared pursuant to the rules and regulations for reporting on Form 10-Q. Accordingly, certain disclosures required by accounting principles generally accepted in the United States of America are not included herein. These interim statements should be read in conjunction with the audited consolidated financial statements and notes thereto, included in the Company's Form 10-KSB filed with the Securities and Exchange Commission.

Interim statements are subject to possible adjustments in connection with the annual audit of the Company for the year ended December 31, 2005. In the opinion of management of the Company, the accompanying unaudited interim condensed consolidated financial statements reflect all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of the consolidated financial position and consolidated results of operations for the periods presented. The results of operations for the three months ended March 31, 2005 are not necessarily indicative of the results to be expected for the full year.

The Company has a stock-based employee compensation plan, which is described more fully in the Notes to Financial Statements included in the December 31, 2004 Annual Report to shareholders. The Company accounts for this plan under the recognition and measurement principles of APB Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations. No stock-based employee compensation cost is reflected in net income, as all options granted under the plan had an exercise price equal to the market value of the underlying common stock on the grant date. The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value provisions of Statement of Financial Accounting Standards (SFAS) No. 123, Accounting for Stock-Based Compensation, to stock-based employee compensation.

	Three Months Ended March 31, 2005	Three Months Ended March 31, 2004
Net income, as reported	$ 303	$ 226
Less: Total stock-based employee compensation cost determined under the fair value based method, net of income taxes	(33)	(33)
Pro forma net income	$ 270	$ 193
EARNINGS PER SHARE:		
Basic - as reported	$ 0.13	$ 0.10
Basic - pro forma	$ 0.12	$ 0.09
Diluted - as reported	$ 0.12	$ 0.09
Diluted - pro forma	$ 0.11	$ 0.08

Note 2 - Employee Stock Ownership Plan

The Company has an Employee Stock Ownership Plan ("ESOP") for the benefit of its employees. The ESOP purchased required shares in the open market with funds borrowed from the Company. The ESOP expense was $92,000 and $96,000 for the three-month periods ended March 31, 2005 and 2004, respectively.

Shares purchased by the ESOP are held in a suspense account and are allocated to ESOP participants based on a pro rata basis as debt service payments are made to the Company. The loan is secured by the shares purchased with the proceeds and will be repaid by the ESOP with funds from the Company's discretionary contributions to the ESOP and earnings on ESOP assets. Principal payments are scheduled to occur over an eight-year period.

Note 3 - Earnings per Share

Basic earnings per share have been computed based upon the weighted average common shares outstanding for the three month periods ended March 31, 2005 and 2004. Diluted earnings per share reflect the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the Company.

Earnings per share were computed as follows (dollar amounts in thousands except share data):

	Income	Weighted Average Shares	Per Share Amount
FOR THE THREE MONTHS ENDED MARCH 31, 2005:			
Basic Earnings Per Share:			
Income available to common stockholders	$ 303	2,289,236	$ 0.13
Effect of Dilutive Securities:			
Unearned recognition and retention plan shares		94,091	
Stock Options		47,411	
Diluted Earnings per Share:			
Income available to common stockholders and assumed conversions	$ 303	2,430,738	$ 0.12
FOR THE THREE MONTHS ENDED MARCH 31, 2004:			
Basic Earnings Per Share:			
Income available to common stockholders	$ 226	2,249,254	$ 0.10
Effect of Dilutive Securities:			
Unearned recognition and retention plan shares		101,092	
Stock Options		52,154	
Diluted Earnings per Share:			
Income available to common stockholders and assumed conversions	$ 226	2,402,500	$ 0.09

Note 4 - Comprehensive Income (Loss)

Comprehensive income (loss) for the three month periods ended March 31, 2005 and 2004 is listed as follows:

	THREE MONTHS ENDE
	2005
NET INCOME	$ 303
OTHER COMPREHENSIVE INCOME	
Unrealized appreciation (depreciation) on available-for-sale securities, net of tax	(528)
Less: Reclassification adjustment for realized gains included in net income, net of tax	21
	(549)
COMPREHENSIVE INCOME	$ (246)

Note 5 - Stock Split

On April 19, 2004, the Board of Directors of the Company approved a two for one stock split of the Company's common stock payable as a 100% stock dividend on May 21, 2004 to shareholders of record on April 30, 2004. Prior period financial information has been adjusted to reflect the stock split.

Note 6 - Authorized Share Repurchase Program

On May 13, 2004, the Board of Directors authorized the open-market stock repurchases of up to 100,000 shares of the Company's outstanding stock over the one-year period ending May 13, 2005. The Company has purchased 5,600 of these shares in the open market. Previously, the Company had completed four other repurchase programs for stock repurchases of 541,300 shares. As of May 12, 2005, the Company owned a cumulative total of 544,700 shares in treasury stock. Twenty two hundred shares of treasury stock were used in the redemption of stock options in February, 2005.

Note 7 - Subsequent Event

On April 18, 2005, the Company entered into an Agreement and Plan of Merger with Rantoul First Bank, S.B., an Illinois chartered savings bank whereby the Company will acquire all of the outstanding shares of common stock of Rantoul First Bank. Shareholders of Rantoul First Bank will receive $22.10 per share in cash for each share of common stock held. The transaction is subject to approval by regulatory authorities and Rantoul First Bank shareholders and is expected to close in the third quarter of 2005.

On April 18, 2005 the Board of Directors authorized the open-market stock repurchase of up to 5%, or 124,850 shares of the Company's outstanding stock over the next one-year period ending April 18, 2006 as, in the opinion of managements, market conditions warrant. The repurchased shares will be held as treasury stock and will be available for general corporate purposes.

Note 8 - Recent Accounting Pronouncements

In December 2004, the FASB issued SFAS No. 123R, Share-Based Payment, which sets accounting requirements for "share-based" compensation to employees, including employee-stock-purchase-plans (ESPPs) and provides guidance on accounting for awards to non-employees. This Statement will require the Company to recognize in the income statement the grant-date fair value of stock options and other equity-based compensation issued to employees, but expresses no preference for a type of valuation model. This Statement is effective for the Company on January 1, 2006. The effect to the Company in 2006 is estimated to be $131,000 based on the current stock options outstanding.

Emerging Issues Task Force (EITF) Issue 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments." EITF 03-1 provides guidance for determining when an investment is considered impaired, whether impairment is other-than-temporary, and measurement of an impairment loss. An investment is considered impaired if the fair value of the investment is less than its cost. Generally, an impairment is considered other-

than-temporary unless: (i) the investor has the ability and intent to hold an investment for a reasonable period of time sufficient for an anticipated recovery of fair value up to (or beyond) the cost of the investment; and (ii) evidence indicating that the cost of the investment is recoverable within a reasonable period of time outweighs evidence to the contrary. If impairment is determined to be other-than-temporary, then an impairment loss should be recognized equal to the difference between the investment's cost and its fair value. Certain disclosure requirements of EITF 03-1 were adopted in 2003 and the Company began presenting the new disclosure requirements in its consolidated financial statements for the year ended December 31, 2003. The recognition and measurement provisions were initially effective for other-than-temporary impairment evaluations in reporting periods beginning after June 15, 2004. However, in September 2004, the effective date of these provisions was delayed until the finalization of a FASB Staff Position (FSP) to provide additional implementation guidance.

American Institute of Certified Public Accountants (AICPA) Statement of Position (SOP) No. 03-3, "Accounting for Certain Loans or Debt Securities Acquired in a Transfer." SOP 03-3 addresses accounting for differences between the contractual cash flows of certain loans and debt securities and the cash flows expected to be collected when loans or debt securities are acquired in a transfer and those cash flow differences are attributable, at least in part, to credit quality. As such, SOP 03-3 applies to loans and debt securities acquired individually, in pools or as part of a business combination and does not apply to originated loans. The application of SOP 03-3 limits the interest income, including accretion of purchase price discounts, that may be recognized for certain loans and debt securities. Additionally, SOP 03-3 does not allow the excess of contractual cash flows over cash flows expected to be collected to be recognized as an adjustment of yield, loss accrual or valuation allowance, such as the allowance for possible loan losses. SOP 03-3 requires that increases in expected cash flows subsequent to the initial investment be recognized prospectively through adjustment of the yield on the loan or debt security over its remaining life. Decreases in expected cash flows should be recognized as impairment. In the case of loans acquired in a business combination where the loans show signs of credit deterioration, SOP 03-3 represents a significant change from current purchase accounting practice whereby the acquiree's allowance for loan losses is typically added to the acquirer's allowance for loan losses. SOP 03-3 is effective for loans and debt securities acquired by the Company beginning January 1, 2005. The adoption of this new standard did not have a material impact on the Company's financial statements.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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 Litigation Reform Act of 1995 as amended, 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 affect on the operations and future prospects of the Company and its wholly-owned subsidiaries include, but are not limited to, changes in: interest rates; general economic conditions; legislative/regulatory provisions; 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; 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 statement. 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.

The following discussion compares the financial condition of First BancTrust Corporation (Company), First Bank & Trust, s.b. (Bank), First Charter Service Corporation, ECS Service Corporation, and the Bank's wholly owned subsidiary, Community Finance Center, Inc. at March 31, 2005 to its financial condition at December 31, 2004 and the results of operations for the three-month period ending March 31, 2005 to the same period in 2004. In prior years First Charter Service Corporation provided retail sales of uninsured investment products to customers of First Bank & Trust. In late 2004, First Bank & Trust entered into an agreement with First Advisors Financial Group LLC ("First Advisors") whereby First Advisors will provide investment advisory and asset management services to Bank customers in 2005. First Advisors will rent office space from the Bank, and will pay a percentage of fees generated from transactions with Bank customers to the Bank. As a result, First Charter Service Corporation has become inactive for 2005. This discussion should be read in conjunction with the interim financial statements and notes included herein.

FINANCIAL CONDITION

Total assets of the Company decreased by $1.4 million or 0.6%, to $229.5 million at March 31, 2005 from $230.9 million at December 31, 2004. The decrease in assets was primarily due to a decrease in available-for-sale securities of $4.1 million and a decrease in interest receivable of

$430,000 partially offset by increases in cash and cash equivalents of $1.6 million, in loans, net of allowance for loan losses, of $1.1 million, and $309,000 in loans held for sale. The decrease in assets was due primarily to a decrease in federal funds purchased.

The Company's cash and due from banks decreased by $702,000 or 11.02% to $5.7 million at March 31, 2005 from $6.4 million at December 31, 2004. This decrease was more than offset by an increase in interest-bearing demand deposits of $2.3 million or 82.2% to $5.0 million at March 31, 2005 compared to $2.7 million at December 31, 2004. The net increase in cash and cash equivalents of $1.6 million was primarily a result of a decrease in available-for-sale securities and an increase in deposits.

Available-for-sale investment securities amounted to $80.0 million at March 31, 2005 compared to $84.0 million at December 31, 2004, a $4.0 million decrease. The decrease resulted from $5.9 million in investment calls and maturities, primarily from payments on mortgage-backed securities and a maturity of a Federal Home Loan Bank ("FHLB") agency bond, sales of equity securities of $243,000 and a $930,000 decrease in the market valuation of the available-for-sale portfolio, partially offset by investment purchases of $3.0 million.

Loans held for sale increased by $309,000 from $138,000 at December 31, 2004 to $447,000 at March 31, 2005. Single family residential loans for qualified borrowers are originated and sold to Federal Home Mortgage Corporation ("FHLMC") and to the Illinois Housing Development Authority ("IHDA"). Loans held for sale at March 31, 2005 consisted entirely of single-family residential loans to be sold to FHLMC and IHDA.

The Company's net loan portfolio increased by $1.1 million to $118.5 million at March 31, 2005 from $117.4 million at December 31, 2004. Gross loans increased by $1.1 million while the allowance for loan losses increased by $25,000. Commercial nonresidential real estate loans increased by $948,000 primarily a result of loan originations generated in the Savoy area. Loans secured by 1-4 family residences increased by $538,000, primarily due to an increase in home equity loans, and farmland loans increased by $331,000. Commercial loans decreased by $236,000 and agricultural production loans decreased by $499,000 due to a seasonal fluctuation, while consumer loans increased by $383,000.

At March 31, 2005, the allowance for loan losses was $2.3 million or 1.92% of the total loan portfolio which was equal to the allowance for loan losses at December 31, 2004 of $2.3 million or 1.92% of the total loan portfolio. During the first quarter of 2005, the Company charged off $91,000 of loan losses, $53,000 of which were consumer loans, and $38,000 pertained to three loans secured by 1-4 family residential properties. The chargeoffs of $91,000 were partially offset by $21,000 in recoveries on consumer loans, primarily vehicle loans. The Company's nonperforming loans and troubled debt restructurings decreased from $1.6 million at December 31, 2004 compared to $1.4 million or 1.18% as a percentage of total loans at March 31, 2005. This decrease was primarily a result of reduced delinquencies 90 days and over from $443,000 at December 31, 2004 compared to $349,000 at March 31, 2005. The Company's troubled debt restructurings of $1.4 million at March 31, 2005 consists primarily of restructured commercial and agricultural loans. Included in the $1.4 million of troubled debt restructurings are restructured agricultural loans of $870,000 which are 90% guaranteed for $783,000 by the

Farmers Home Administration, thereby limiting the Company's exposure on those loans. Management reviews the adequacy of the allowance for loan losses quarterly, and believes that its allowance is adequate; however, the Company cannot assure that future chargeoffs and/or provisions will not be necessary.

Net foreclosed assets held for sale, totaling $119,000 at March 31, 2005 decreased $71,000, or 37.4%, compared to $190,000 at December 31, 2004. As of March 31, 2005, the Company had real estate properties totaling $51,000 consisting of three single-family residential properties and other repossessed assets of $68,000. Foreclosed assets are carried at lower of cost or net realizable value.

Interest receivable declined by $430,000 or 19.7% from $2.2 million to $1.7 million primarily due to annual payments received on agricultural loans. Federal Home Loan Bank stock increased by $58,000 due to the receipt of dividends in the form of stock.

Loan servicing rights declined by $66,000 from $757,000 at December 31, 2004 to $691,000 at March 31, 2005. Gross loan servicing rights decreased by $84,000 from $781,000 at December 31, 2004 to $697,000 at March 31, 2005 due to amortization of loan servicing rights of $124,000 offset by newly capitalized assets of $40,000. The valuation allowance decreased from $24,000 at December 31, 2004 to $6,000 at March 31, 2005, an $18,000 recovery of a previous impairment as a result of current valuations.

Adjustments to deferred income taxes for the tax effect of the decrease in market value of investment securities available for sale resulted in a deferred tax asset of $300,000 at March 31, 2005 compared to a deferred tax liability of $110,000 at December 31, 2004.

The Company's total deposits amounted to $160.0 million at March 31, 2005 compared to $159.5 million at December 31, 2004, an increase of $537,000. The 0.3% increase in total deposits was due to a $1.2 million increase in interest bearing deposits, partially offset by a $669,000 decrease in non-interest bearing deposits. The increase in interest bearing deposits was a result of a $763,000 increase in savings accounts, a $248,000 increase in certificates of deposit, and an increase of $195,000 in interest-bearing checking accounts.

Federal funds purchased decreased by $2.0 million from a balance of $2.0 million at December 31, 2004 to zero at March 31, 2005. Federal Home Loan Bank advances remained constant at $40.5 million at December 31, 2004 and March 31, 2005. The total average rate of all advances was 3.54% as of March 31, 2005.

Advances from borrowers for taxes and insurance increased by $159,000 from $138,000 at December 31, 2004 to $297,000 at March 31, 2005. Pass through payments received on loans sold increased by $86,000 from $60,000 at December 31, 2004 to $146,000 at March 31, 2005. Other liabilities increased by $132,000 from $962,000 at December 31, 2004 to $1.1 million at March 31, 2005, primarily due to an increase in accounts payable.

Stockholders' equity at March 31, 2005 was $27.3 million compared to $27.5 million at December 31, 2005, a decrease of $262,000. Accumulated comprehensive income (loss)

decreased by $557,000 due to a decrease in the fair value of securities available for sale, net of related tax effect. Retained earnings increased by the amount of net income or $303,000, partially offset by $150,000 in dividends declared and paid. As shares from the employee stock ownership plan vested to participants from December 31, 2004 to March 31, 2005, stockholders' equity increased by $92,000, and as shares from the incentive plan were earned by participants for the same period, stockholders' equity increased by $27,000.

RESULTS OF OPERATIONS

COMPARISON OF THREE MONTH PERIODS ENDED MARCH 31, 2005 AND 2004

Net income for the three months ended March 31, 2005 increased by $77,000 or 34.1% from $226,000 for the three months ended March 31, 2004 to $303,000 for the three months ended March 31, 2005. The increase in net income is primarily due to increases in net interest income and noninterest income, and decreases in provision for loan losses and income tax expense, partially offset by an increase in noninterest expense.

Net interest income increased $43,000 or 2.4% from $1.80 million for the three months ended March 31, 2004 to $1.84 million for the three months ended March 31, 2005. The primary reasons for the increase in net interest income was an increase in total interest and dividend income of $39,000 and a slight decrease of $4,000 in interest expense. The Company's net interest margin was 3.51% and 3.48% during the three months ended March 31, 2005 and 2004, respectively. The net interest margin increased slightly as a result of an increase in the average balance of interest-bearing assets, and a decrease in the average balance of interest-bearing liabilities.

Total interest and dividend income increased by $39,000 or 1.3% from $2.92 million for the three months ended March 31, 2004 to $2.96 million for the three months ended March 31, 2005. The increase of $39,000 was primarily due to increases in loan interest income and interest income from deposits with financial institutions partially offset by decreased interest and dividend income from securities. The increase of $65,000 in loan interest income was primarily due to an increase in the average loan balance, partially offset by a decrease in the average loan rate of 50 basis points. Interest and dividend income from securities decreased by $32,000 primarily due to a decrease in the average balance of available for sale investments, partially offset by an increase in average interest rate of 19 basis points. Interest income from deposits with financial institutions increased by $13,000 primarily due to an increase in average rate, partially offset by a decrease in the average balance of deposits with financial institutions.

Interest expense declined by only $4,000 or 0.4% from $1.12 million for the three months ended March 31, 2004 to $1.12 million for the three months ended March 31, 2005. This slight decline was primarily due to a decrease of $30,000 in interest on deposits, partially offset by $26,000 increase in interest on Federal Home Loan Bank advances. The $30,000 decrease in interest expense on deposits was primarily due to a decrease in the average balance of deposits. The $26,000 increase in interest on Federal Home Loan Bank advances was due to an increase in the average balance, partially offset by a 26 basis point reduction in interest rate.

For the three months ended March 31, 2005 and 2004, the provision for losses on loans was $94,000 and $150,000, respectively. The provision for the three months ended March 31, 2005 was based on the Company's analysis of the allowance for loan losses. Management meets on a quarterly basis to review the adequacy of the allowance for loan losses by classifying loans in compliance with regulatory classifications. Classified loans are individually reviewed to arrive at specific reserve levels for those loans. Once the specific portion for each loan is calculated, management calculates a historical portion for each category based on a combination of loss history, current economic conditions, and trends in the portfolio. While the Company cannot assure that future chargeoffs and/or provisions will not be necessary, the Company's management believes that, as of March 31, 2005, its allowance for loan losses was adequate.

Noninterest income increased $63,000 or 8.4% from $747,000 for the three months ended March 31, 2004 to $810,000 for the three months ended March 31, 2005. The increase was primarily a result of increases in other service fees and charges, net gains on loan sales, net loan servicing fees, and abstract and title fees. Other service charges and fees increased by $13,000 from $169,000 for the three months ended March 31, 2004 to $182,000 for the three months ended March 31, 2005, primarily due to an increase in commissions earned on credit life, accident and health insurance premiums. Net gains on loan sales increased by $13,000 from $60,000 for the three months ended March 31, 2004 to $73,000 for the three months ended March 31, 2005. This increase occurred primarily due to an increase in the amount of capitalized servicing fees. Although the $3.2 million of loans sold in the first quarter of 2005 was level with sales in the first quarter of 2004, the capitalized servicing is valued at current estimated lives of the associated loans. With interest rates on the rise, the expected life of the associated loans sold increases, which in turn increases the value of the servicing right associated with those loans. Net loan servicing fees increased by $9,000 from $131,000 for the three months ended March 31, 2004 to $140,000 for the three months ended March 31, 2005. Abstracting and title fees also increased by $21,000 from $83,000 for the three months ended March 31, 2004 to $104,000 for the three months ended March 31, 2005, due to an increase in commissions from the sale of title insurance and to increased abstracting fees.

Total noninterest expenses were $2.16 million for the three months ended March 31, 2005 as compared to $2.05 million for the three months ended March 31, 2004. The primary reasons for the $110,000 increase were increases in equipment expense, net occupancy expense, marketing expense, salaries and employee benefits expense, and other expenses, partially offset by a reduction in the amortization of loan servicing rights. Salaries and employee benefits increased by $14,000 from $1.17 million for the three months ended March 31, 2004 to $1.18 million for the three months ended March 31, 2005, primarily due to increases in payroll tax expense. Net occupancy expense increased by $29,000 from $74,000 for the three months ended March 31, 2004 compared to $103,000 for the three months ended March 31, 2005. This increase can be attributed to the Savoy branch which moved into a permanent facility in August, 2004. Equipment expense increased by $59,000 from $146,000 for the three months ended March 31, 2004 to $205,000 for the three months ended March 31, 2005. The $59,000 increase is primarily due to an increase in lease expense resulting from the origination of several operating leases in 2004 for furniture and office equipment for the Savoy branch, upgrading check imaging equipment, and for updating computer networks and operating systems.

Marketing expense increased by $25,000 from $46,000 for the three months ended March 31, 2004 to $71,000 for the three months ended March 31, 2005. The increase in marketing expense in 2005 is primarily due to the development of a cohesive marketing program to promote bank products and services. Amortization of loan servicing rights decreased by $31,000 from $155,000 for the three months ended March 31, 2004 to $124,000 for the three months ended March 31, 2005, as a result of a decrease in loan prepayments. The recovery of impairment of loan servicing rights was $27,000 for the three months ended March 31, 2004 compared to $18,000 for the three months ended March 31, 2005. The amount of the recovery or impairment is determined by comparing the book value of the loan servicing rights to an independent valuation based on a discounted cash flow methodology, utilizing current prepayment speeds and discount rates. Other expenses increased by $15,000 from $189,000 for the three months ended March 31, 2004 to $204,000 for the three months ended March 31, 2005, primarily due to increased charitable contributions and to a lesser extent an increase in debit card charge offs. The increase in charitable contributions was due to a contribution to the local hospital foundation for a capital campaign to fund an expansion project.

Income tax expense was $95,000 for the three months ended March 31, 2005 as compared to $120,000 for the three months ended March 31, 2004. The decrease of $25,000 in income tax expense was due to an increase in permanent tax differences. The effective tax rates were 23.9% and 34.7%, respectively, for the three months ended March 31, 2005 and 2004.

CRITICAL ACCOUNTING POLICIES

The preparation of financial statements in conformity with accounting standards generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the related disclosure of contingent assets and liabilities. Actual results could differ from those estimates under different assumptions and conditions. Management believes that its critical accounting policies and significant estimates include determining the allowance for loan losses, the valuation of loan servicing rights, and the valuation of foreclosed real estate.

Allowance for loan losses

The allowance for loan losses is a significant estimate that can and does change based on management's assumptions about specific borrowers and current general economic and business conditions, among other factors. Management reviews the adequacy of the allowance for loan losses on at least a quarterly basis. The evaluation by management includes consideration of past loss experience, changes in the composition of the loan portfolio, the current condition and amount of loans outstanding, identified problem loans and the probability of collecting all amounts due.

The determination of the adequacy of the allowance for loan losses is based on estimates that are particularly susceptible to significant changes in the economic environment and market conditions. A worsening or protracted economic decline would increase the likelihood of additional losses due to credit and market risk and could create the need for additional loss reserves.

Loan Servicing Rights

The Company recognizes the rights to service loans as separate assets on the consolidated balance sheet. The total cost of loans when sold is allocated between loans and loan servicing rights based on the relative fair values of each. Loan servicing rights are subsequently carried at the lower of the initial carrying value, adjusted for amortization, or fair value. Loan servicing rights are evaluated for impairment based on the fair value of those rights. Factors included in the calculation of fair value of the loan servicing rights include estimating the present value of future net cash flows, market loan prepayment speeds for similar loans, discount rates, servicing costs, and other economic factors. Servicing rights are amortized over the estimated period of net servicing revenue. It is likely that these economic factors will change over the life of the loan servicing rights, resulting in different valuations of the loan servicing rights. The differing valuations will affect the carrying value of the loan servicing rights on the consolidated balance sheet, as well as the income recorded from loan servicing in the income statement. As of March 31, 2005 and December 31, 2004, mortgage servicing rights had carrying values of $691,000 and $757,000, respectively.

Foreclosed Assets Held for Sale

Foreclosed assets held for sale are carried at the lower of cost or fair value less estimated selling costs. Management estimates the fair value of the properties based on current appraisal information. Fair value estimates are particularly susceptible to significant changes in the economic environment, market conditions, and the real estate market. A worsening or protracted economic decline would increase the likelihood of a decline in property values and could create the need to write down the properties through current operations.

LIQUIDITY

At March 31, 2005, the Company had outstanding commitments to originate $11.6 million in loans, and $10.6 million available to be drawn upon for open-end lines of credit. For more information on the outstanding commitments, see the discussion below the caption "Off-Balance Sheet Arrangements and Contractual Commitments". As of March 31, 2005, the total amount of certificates scheduled to mature in the following 12 months was $45.6 million. The Company believes that it has adequate resources to fund all of its commitments. The Company's most liquid assets are cash and cash equivalents. The level of cash and cash equivalents is dependent on the Company's operating, financing, lending and investing activities during any given period. The level of cash and cash equivalents at March 31, 2005 was $10.7 million. The Company's future short-term requirements for cash are not expected to significantly change. In the event that the Company should require funds beyond its capability to generate them internally, additional sources of funds are available such as Federal Home Loan Bank advances.

OFF-BALANCE SHEET ARRANGEMENTS AND CONTRACTUAL COMMITMENTS

At March 31, 2005, the Company had outstanding commitments to originate loans of $11.6 million. The commitments extended over varying periods of time with the majority being disbursed within a one-year period. Loan commitments at fixed rates of interest amounted to $6.1 million, with the remainder at floating rates. In addition, the Company had outstanding unused lines of credit to borrowers aggregating $7.6 million for commercial lines of credit, and $3.0 million for consumer lines of credit. Outstanding commitments for letters of credit at March 31, 2005 totaled $56,000. Since these commitments have fixed expiration dates, and some will expire without being drawn upon, the total commitment level may not necessarily represent future cash requirements.

The following table presents additional information about our unfunded commitments as of March 31, 2005, which by their terms have contractual maturity dates subsequent to March 31, 2005:

	Next 12 Months	13-36 Months	37-60 Months	More than 60 Months	Totals
UNFUNDED COMMITMENTS:					
Letters of credit	$ 56	$ ---	$ ---	$ ---	$ 56
Lines of credit	7,766	168	292	2,389	10,615
Totals	$ 7,822	$ 168	$ 292	$ 2,389	$ 10,671

CAPITAL RESOURCES

The Bank is subject to capital-to-asset requirements in accordance with Federal bank regulations. The following table summarizes the Bank's regulatory capital requirements, versus actual capital as of March 31, 2005:

MARCH 31, 2005	ACTUAL Amount	ACTUAL %	REQUIRED FOR ADEQUATE CAPITAL Amount	REQUIRED FOR ADEQUATE CAPITAL %	TO B CAPI Amount
			(Dollars in thousands)		
Total capital (to risk-weighted assets)	$ 26,855	21.81	$ 9,850	8.0	$ 12,31
Tier 1 capital (to risk-weighted assets)	25,307	20.55	4,925	4.0	7,38
Tier 1 capital (to average assets)	25,307	11.11	9,113	4.0	11,39

-18-

The Company's consolidated capital-to-asset requirements and actual capital as of March 31, 2005 are summarized in the following table:

MARCH 31, 2005	ACTUAL Amount	ACTUAL %	REQUIRED FOR ADEQUATE CAPITAL Amount	REQUIRED FOR ADEQUATE CAPITAL %	TO CAP Amoun
			(Dollars in thousands)		
Total capital (to risk-weighted assets)	$ 28,884	23.26	$ 9,934	8.0	---
Tier 1 capital (to risk-weighted assets)	27,323	22.00	4,967	4.0	---
Tier 1 capital (to average assets)	27,323	11.93	9,159	4.0	---

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Sources of market risk include interest rate risk, foreign currency exchange risk, commodity price risk and equity price risk. The Company is only subject to interest rate risk. The Company purchased no financial instruments for trading purposes during the three months ended March 31, 2005 and 2004.

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

The Company's key interest rate risk management tactics consist primarily of: (i) emphasizing the attraction and retention of core deposits, which tend to be a more stable source of funding; (ii) emphasizing the origination of adjustable rate mortgage loan products and short-term commercial and consumer loans for the in-house portfolio, although this is dependent largely on the market for such loans; (iii) selling longer-term fixed-rate one-to-four family mortgage loans

in the secondary market; and (iv) investing primarily in U.S. government agency instruments and mortgage-backed securities.

The Company's interest rate and market risk profile has not materially changed from the year ended December 31, 2004. Please refer to the Company's Form 10-KSB for the year ended December 31, 2004 for further discussion of the Company's market and interest risk.

ITEM 4. CONTROLS AND PROCEDURES

The Company carried out an evaluation as of March 31, 2005, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective. There were no significant changes in the Company's internal controls or in other factors that could significantly affect these controls during the quarter ended March 31, 2005.

Disclosure controls and procedures are the controls and other procedures of the Company that are designed to ensure that the information required to be disclosed by the Company in its reports filed or submitted under the Securities Exchange Act of 1934, as amended (Exchange Act) is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by the Company in its reports filed under the Exchange Act is accumulated and communicated to the Company's management, including the principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

PART II -- OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company and subsidiary are also subject to claims and lawsuits which arise primarily in the ordinary course of business, such as claims to enforce liens and claims involving the making and servicing of real property loans and other issues. It is the opinion of management that the disposition or ultimate determination of such possible claims or lawsuits will not have a material adverse effect on the consolidated financial position of the Company.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

(c) The following table provides information about purchases of the Company's common stock by the Company during the quarter ended March 31, 2005.

ISSUER PURCHASES OF EQUITY SECURITIES

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
1/1/2005 to 1/31/2005	---	---	---	94,400
2/1/2005 to 2/28/2005	---	---	---	94,400
3/1/2005 to 3/31/2005	---	---	---	94,400

(1) Our board of directors approved the repurchase by us of 100,000 shares over the one year period ending May 13, 2005.

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

(a) Exhibits

31.1 Certification of Terry J. Howard required by Rule 13a-14(a).

31.2 Certification of Ellen M. Litteral required by Rule 13a-14(a).

32.1 Certification of Terry J. Howard, Chief Executive Officer pursuant to Rule 13a-14(b) and Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350).

32.2 Certification of Ellen M. Litteral, Chief Financial Officer pursuant to Rule 13a-14(b) and Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350).

SIGNATURES

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

FIRST BANCTRUST CORPORATION

Date: May 12, 2005

/s/ Terry J. Howard

Terry J. Howard
President and Chief Executive Officer

Date: May 12, 2005

/s/ Ellen M. Litteral

Ellen M. Litteral
Treasurer and Chief Financial Officer