KANKAKEE BANCORP INC
Form 10-K
March 23, 2001

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2000

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 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 S. Schuyler Avenue, Kankakee, Illinois	60901
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (815) 937-4440

Securities Registered Pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on which Registered
Common Stock, par value $.01 per share	American Stock Exchange

Securities Registered Pursuant to Section 12(g) of the Act:
NONE
(Title of Class)

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 twelve months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such requirements for the past 90 days.
YES X NO ___

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the

best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [_]

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As of March 1, 2001, the Registrant had issued and outstanding 1,223,408 shares of the Registrant's Common Stock. The aggregate market value of the voting stock held by non-affiliates of the Registrant as of March 1, 2001, was $23,629,492.*

DOCUMENTS INCORPORATED BY REFERENCE

PARTS II and IV of Form 10-K--Portions of the 2000 Annual Report to Stockholders.
PART III of Form 10-K--Portions of the Proxy Statement for the 2001 Annual Meeting of Stockholders.

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* Based on the last reported price ($22.75) of an actual transaction in the Registrant's Common Stock on March 1, 2001, and reports of beneficial ownership filed by directors and executive officers of the Registrant and by beneficial owners of more than 5% of the outstanding shares of Common Stock of the Registrant; however, such determination of shares owned by affiliates does not constitute an admission of affiliate status or beneficial interest in shares of the Registrant's Common Stock.

KANKAKEE BANCORP, INC.

2000 ANNUAL REPORT ON FORM 10-K

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PART I

Item 1. Business

THE COMPANY

General

Kankakee Bancorp, Inc., a Delaware corporation (the "Company"), is a savings and loan holding company registered under the Home Owner's Loan Act, as amended (the "HOLA"). The Company's primary business activity is acting as the holding company for Kankakee Federal Savings Bank, a federally chartered savings bank (the "Bank"). The Bank has two subsidiaries, KFS Service Corp., and its wholly-owned subsidiary, KFS Insurance Agency, Inc., which engage in the business of providing securities brokerage services and insurance and annuity products to its customers and appraisal services to the Bank and other lenders in the Kankakee area. All references to KFS Service Corp. include KFS Insurance Agency, Inc., unless clearly indicated otherwise. The Company was organized in 1992, in connection with the Bank's conversion from the mutual to the stock form of organization (the "Conversion") which was completed on December 30, 1992. As part of the Conversion, the Company issued 1,750,000 shares of its common stock, $.01 par value per share (the "Common Stock"), at a price of $9.875 per share. On March 24, 1995, the Company's Common Stock was listed on the American Stock Exchange under the symbol "KNK". Prior to March 24, 1995, the Company's Common Stock was quoted on The Nasdaq Stock Market under the symbol "KNKB".

The Bank is the Company's only financial institution subsidiary and was initially chartered as an Illinois state savings and loan association in 1885. The Bank converted to a federally chartered savings and loan association in 1937 and changed its name to Kankakee Federal Savings Bank in connection with its conversion to stock form in 1992. All references to the Company include the Bank and KFS unless clearly indicated otherwise.

The Company and the Bank are subject to comprehensive regulation, examination and supervision by the Office of Thrift Supervision (the "OTS") and the Federal Deposit Insurance Corporation (the "FDIC"). The Bank is a member of the Federal Home Loan Bank System (the "FHLB") and its deposits are insured by the Savings Association Insurance Fund ("SAIF") to the maximum extent permitted by the FDIC.

The Bank serves the financial needs of families and local businesses in its primary market areas through its main office located at 310 S. 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. At December 31, 2000, the Company had consolidated assets of $459.9 million, deposits of $388.1 million and stockholders' equity of $39.3 million.

Branch offices in Braidwood, Coal City and Diamond, Illinois were acquired on January 29, 1998, when the Company completed the acquisition of Coal City National Bank from Coal City Corporation, a multi-bank holding company headquartered in Chicago, Illinois. At the time of purchase, the bank had total assets of $56.0 million, deposits of $51.7 million and stockholders' equity of $3.7 million. The transaction, which was accounted for as a purchase, resulted in the recording of approximately $3.8 million in intangible assets.

The Company engages in a general full service retail banking business and offers a broad variety of consumer oriented products and services to residents of its primary market areas. The Company is principally engaged in the business of attracting deposits from the general public and originating residential mortgage loans in its primary market areas. The Company also originates commercial real estate, consumer, multi-family, commercial business and construction loans. In addition, the Company invests in mortgage-backed securities, investment securities, certificates of deposit and short-term liquid assets. The Company also offers a Visa/MasterCard program, debit card services and, on an agency basis through KFS Service Corp., securities brokerage services and insurance and annuity products to the Company's customers and provides appraisal services for the Bank and others.

Since 1998, the Bank has offered trust services. While the Bank has authority for full trust services, it has initially focused on personal trust services and limited employee benefit plan services.

The Company's revenues are derived from interest on loans, mortgage-backed and related securities and investments, service charges and loan origination fees, loan servicing fees and proceeds from the sale, through KFS Service Corp., of securities brokerage services, insurance and annuity products and appraisal services. The Company's operations are materially affected by general economic conditions, the monetary and fiscal policies of the federal government and the policies of the various regulatory authorities, including the OTS and the Board of Governors of the Federal Reserve System (the "FRB"). The Company's results of operations are largely dependent upon its net interest income, which is the difference between the interest it receives on its loan and investment securities portfolios and the interest it pays on deposit accounts and borrowings.

The executive offices of the Company are located at 310 S. Schuyler Avenue, Kankakee, Illinois 60901 and its telephone number at that address is (815) 937-4440.

Market Area

The Bank's main office is located at 310 S. Schuyler Avenue, Kankakee, Illinois. The bank also has fourteen branch offices located in the communities of Ashkum, Bourbonnais, Bradley, Braidwood, Champaign, Coal City (2), Diamond, Dwight, Herscher, Hoopeston, Manteno, Momence and Urbana. The Company's market areas include Kankakee, Champaign, Iroquois and Livingston Counties and portions of Will, Grundy and Vermilion Counties, in Illinois.

Kankakee is located approximately 35 miles south of the metropolitan Chicago area. The metropolitan Kankakee area has a population of just under 60,000 and has experienced a slight decrease in population since 1990. Kankakee County has a mixed agricultural and industrial economy with the largest number of residents employed in the agricultural, health care, food processing,

chemical and retail redistribution industries. Major employers include Riverside HealthCare, Provena St. Mary's Hospital, Shapiro Development Center, the Baker and Taylor Company, CIGNA Companies, Armstrong World Industries, Aventis Behring, Bunge Edible Oil Corporation, Cognis Corporation, KMART Corporation Distribution Center, Sears Logistics Services, Inc., American Spring Wire, Crown Cork and Seal Company, Inc., and Dow Automotive.

Champaign/Urbana is located approximately 75 miles south of Kankakee. It is the location of the original campus of the University of Illinois which employs 16,200 people and has a student body of over 30,000. In addition, the economy of the Champaign/Urbana market area includes several major medical centers and agricultural and industrial businesses. Major employers in the Champaign/Urbana area include Carle Clinic Association, Carle Foundation Hospital, Provena Covenant Medical Center, Parkland College, Kraft Foods, Inc., SuperValu Champaign Distribution Center, Rantoul Products, Champaign Unit School District 4, Champaign County and Caradco.

Hoopeston is located approximately 60 miles southeast of Kankakee in Vermilion County, Illinois. The local economy includes a mix of agriculture and manufacturing. Other than agriculture, major employers are Silgan Containers, Inc., Hoopeston Food's, Inc., Food Machinery Corp. (FMC), Hoopeston Community Memorial Hospital and Schumachers.

Coal City is located approximately 30 miles northwest of Kankakee in Grundy County, Illinois. Braidwood is located approximately 25 miles northwest of Kankakee in Will County, Illinois. Coal City, Braidwood and their surrounding communities have a population of 12,000 residents. As bedroom communities of the south Chicago suburbs, the economy in this region is a mix of agricultural, industrial and service-based businesses. Large corporate employers such as ComEd, with its Braidwood and Dresden nuclear power plants and Collins Station, Amoco, Equistar Chemicals, Reichhold Chemicals, Mobil and Caterpillar are within short driving distances.

Lending Activities

General. The principal lending activity of the Company is originating first mortgage loans secured by owner occupied one-to-four family residential properties located in its primary market areas. In addition, in order to increase the yield and interest rate sensitivity of its portfolio and in order to provide more comprehensive financial services to families and community businesses in the Company's market areas, the Company also originates commercial real estate, consumer, commercial business, multi-family and construction loans. From time to time, the Company has also utilized loan purchases to supplement loan originations.

Loan and Mortgage-Backed Securities Portfolio Composition. The following table provides information concerning the composition of the Company's loan and mortgage-backed securities portfolios in dollar amounts and in percentages (before deductions for loans in process, deferred fees and discounts and allowances for losses) as of the dates indicated. Loans held for sale are included primarily in one-to-four family real estate loans.

	2000	1999	

	Amount	Percent	Amount	Percent	Amoun
Real Estate Loans			(Dollars in thousands)		
One-to-four family.....	$211,891	58.73%	$165,089	56.61%	$159,9
Multi-family.....	11,608	3.22	8,923	3.06	5,5
Commercial.....	39,564	10.97	28,869	9.90	21,2
Construction or development.....	17,797	4.93	14,235	4.88	13,9
Mortgage-backed securities and participation certificates.....	16,118	4.47	17,600	6.03	18,7
Total real estate loans and mortgage-backed securities.....	296,978	82.32	234,716	80.48	219,4
Other Loans:					
Consumer Loans:					
Deposit account.....	786	0.22	788	0.27	8
Student.....	---	---	151	0.05	2

	1997		1996	
	Amount	Percent	Amount	Percent
Real Estate Loans				
One-to-four family.....	$157,764	58.22%	$149,544	54.74%
Multi-family.....	7,480	2.76	14,172	5.19
Commercial.....	20,881	7.71	28,721	10.51
Construction or development.....	9,004	3.32	5,525	2.02
Mortgage-backed securities and participation certificates.....	28,503	10.52	34,713	12.71

Total real estate loans and mortgage-backed securities	223,632	82.53	232,675	85.17
Other Loans:				
Consumer Loans:				
Deposit account	820	0.30	588	0.21
Student	825	0.30	918	0.34

	2000		1999	
	Amount	Percent	Amount	Percent
Automobile	7,281	2.02	5,541	1.90
Home equity	17,815	4.94	17,028	5.84
Home improvement	---	---	2	0.00
Mobile home	1,734	0.48	2,158	0.74
Credit cards	1,286	0.36	1,286	0.44
Personal	11,133	3.08	7,946	2.73
Total consumer loans	40,035	11.10	34,900	11.97
Commercial business loans	23,750	6.58	22,013	7.55
Total other loans	63,785	17.68	56,913	19.52
Total loans and mortgage-backed securities receivable	360,763	100.00%	291,629	100.00%
Less:				
Loans in process	3,341		1,394	
Deferred fees and discounts	192		104	

Allowance for losses on loans..	2,156	2,171
Total loans and mortgage-backed securities receivable, net.....	$355,074	$287,960

	1997		1996	
	Amount	Percent	Amount	Percent
Automobile.....	4,476	1.65	4,033	1.48
Home equity.....	16,795	6.20	14,166	5.19
Home improvement.....	13	0.00	56	0.02
Mobile home.....	3,293	1.22	3,161	1.16
Credit cards.....	1,534	0.57	1,705	0.62
Personal.....	7,407	2.73	5,942	2.17
Total consumer loans.....	35,163	12.97	30,569	11.19
Commercial business loans.....	12,185	4.50	9,943	3.64
Total other loans.....	47,348	17.47	40,512	14.83
Total loans and mortgage-backed securities receivable.....	270,980	100.00%	273,187	100.00%
Less:				
Loans in process.....	1,121		1,726	
Deferred fees and discounts...	176		425	
Allowance for losses on loans.....	2,130		2,360	
Total loans and mortgage-backed securities receivable, net.....	$267,553		$268,676	

The following table shows the composition of the Company's loan and mortgage-backed securities portfolios by fixed and adjustable rate at the dates indicated. Loans held for sale are included primarily as fixed-rate one-to-four family residential loans.

	December 31,						
	2000		1999		1998		
	Amount	Percent	Amount	Percent	Amount	Percent	A
Fixed-Rate Loans and Mortgage-Back Securities	(Dollars in thousands)						
Real estate:							
One-to-four family	$132,847	36.82%	$ 83,407	28.60%	$ 75,352	27.90%	$
Multi-family	3,206	0.89	693	0.24	390	0.14	
Commercial	11,015	3.06	7,664	2.63	2,076	0.77	
Construction or development	2,579	0.71	2,380	0.82	2,708	1.00	
Mortgage-backed securities	11,813	3.28	11,731	4.02	9,296	3.44	
Total real estate loans and mortgage-backed securities	161,460	44.76	105,875	36.31	89,822	33.25	
Consumer	24,092	6.68	18,826	6.46	19,087	7.07	
Commercial business	12,709	3.52	11,215	3.85	8,020	2.97	
Total fixed-rate loans and mortgage-backed securities	198,261	54.96	135,916	46.62	116,929	43.29	
Adjustable-Rate Loans and Mortgage-Backed Securities							
Real estate:							
One-to-four family	79,044	21.91	81,682	28.01	84,604	31.33	1

	December 31,

	2000		1999		1998		
	Amount	Percent	Amount	Percent	Amount	Percent	A
Multi-family	8,402	2.33	8,230	2.82	5,166	1.92	
Commercial	28,549	7.91	21,205	7.27	19,215	7.11	
Construction or development	15,218	4.22	11,855	4.06	11,230	4.16	
Mortgage-backed securities	4,305	1.19	5,869	2.01	9,450	3.50	
Total real estate loans and mortgage-backed securities	135,518	37.56	128,841	44.17	129,665	48.02	1
Consumer	15,943	4.42	16,074	5.51	14,125	5.23	
Commercial business	11,041	3.06	10,798	3.70	9,345	3.46	
Total adjustable-rate loans and mortgage-backed securities	162,502	45.04	155,713	53.38	153,135	56.71	1
Total loans and mortgage-backed securities	360,763	100.00%	291,629	100.00%	270,064	100.00%	2
Less:							
Loans in process	3,341		1,394		1,671		
Deferred fees and discounts	192		104		129		
Allowance for losses on loans	2,156		2,171		2,375		
Total loans and mortgage-backed securities receivable, net	$355,074		$287,960		$265,889		$2

The following schedule illustrates the interest rate sensitivity of the Company's loan and mortgage-backed securities portfolio at December 31, 2000. Loans that have adjustable or renegotiable interest rates are shown as maturing in the period during which the contract matures. The schedule does not reflect the effects of possible prepayments or enforcement of due-on-sale clauses.

	Real Estate					
	One-to-four family and Mortgage-Backed Securities		Multi-family and Commercial		Construction or Development	
	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighte Average Rate
Due During Twelve Month Periods Ending December 31,	(Dollars in thousands)					
2001(1).....	$ 479	8.30%	$ 9,898	9.95%	$ 14,744	9.4
2002 and 2003.....	1,726	8.24	6,470	8.64	955	9.8
2004 and 2005.....	1,575	8.05	3,410	9.27	229	9.3
2006 and 2010.....	24,452	7.19	6,322	8.84	450	8.4
2011 and 2025.....	109,842	7.27	22,981	8.55	1,419	7.5
2026 and following...	89,935	7.66	2,091	8.62	--	-
Total.....	$228,009		$ 51,172		$ 17,797	

	Commercial Business		Total	
	Amount	Weighted Average Rate	Amount	Weighted Average Rate
Due During Twelve Month Periods Ending December 31,	(Dollars in thousands)			
2001(1).....	$ 14,303	9.62%	$ 44,453	9.82%
2002 and 2003.....	3,741	8.56	21,627	9.00
2004 and 2005.....	3,786	8.64	26,423	8.87
2006 and 2010.....	1,103	9.14	40,712	8.03
2011 and 2025.....	817	7.70	135,522	7.50
2026 and following...	--	--	92,026	7.68

Total.....	$ 23,750	$360,763

(1) Includes demand loans and loans having no stated maturity.

As of December 31, 2000, the total amount of loans and mortgage-backed securities due after December 31, 2001, which had predetermined interest rates was $187.4 million, while the total amount of loans and mortgage-backed and related securities due after such date which had floating or adjustable interest rates was $128.9 million.

Under the Financial Institutions Reform, Recovery and Enforcement Act of 1989, the aggregate amount of loans that the Bank is permitted to make to any one borrower is generally limited to 15% of unimpaired capital and surplus (25% if the security for such loan has a "readily ascertainable" market value or 30% for certain residential development loans). At December 31, 2000, the Bank's regulatory loan-to-one borrower limit was $5.0 million. On the same date, the Bank's largest total of loans to one borrower was $4.9 million.

All of the Company's lending activities are conducted in accordance with policies adopted by its board of directors. The Company is an equal opportunity lender. Decisions on loan applications are made on the basis of detailed applications and property valuations (consistent with the Company's written appraisal policy) prepared by qualified appraisers. The loan applications are designed primarily to determine the borrower's ability to repay and the more significant items on the application are verified through use of credit reports, financial statements, tax returns and/or third-party confirmations.

The Company requires evidence of marketable title and lien position as well as appropriate title and other insurance on all loans secured by real property in amounts at least equal to the principal amount of the loan or the value of improvements on the property, depending on the type of loan.

One-to-Four Family Residential Real Estate Lending. The cornerstone of the Company's lending program is the origination of loans secured by mortgages on owner-occupied one-to-four family residences. At December 31, 2000, $211.9 million, or 58.7% of the Company's loan and mortgage-backed securities portfolio, consisted of loans secured by one-to-four family residences. At that date, the average outstanding residential loan balance was approximately $60,000 and the largest outstanding residential loan had a book value of $833,000. Substantially all of the residential loans originated by the Company are secured by properties located in the Company's primary market areas.

In order to reduce its exposure to changes in interest rates, the Company originates Adjustable Rate Mortgages ("ARM"), subject to market conditions and consumer preference. The Company continues to originate long term fixed-rate residential loans. Through the end of 1999, the Company sold substantially all of such loans in the secondary market, except its fixed-rate residential loans having terms of 20 years or less, and which met predetermined minimum interest rates, as was consistent with its asset/liability management objectives. During 2000, the Company began retaining virtually all fixed-rate one-to-four family residential loans it originated, except for Federal Housing Administration and Veterans= Administration loans.

Most of the Company's fixed-rate loans are originated with terms which conform to secondary market standards (i.e., Freddie Mac standards). Most of the Company's fixed-rate residential loans have contractual terms to maturity of 15 to 30 years. Under the Company's current policy, the Company retains most of the fixed-rate loans that it originates. Through the end of 1999, the Company sold, with servicing retained, most of the fixed-rate loans it originated, except for loans with terms of 20 years or less which met, or exceeded, certain predetermined minimum interest rates. The predetermined minimum interest rate was evaluated on a regular basis and adjusted, as necessary. At December 31, 2000, the Company had $68.0 million of 15 year fixed-rate residential loans and $64.8 million of 30 year fixed-rate residential loans in its portfolio.

The Company offers ARM loans at rates, terms and fees determined in accordance with market and competitive factors. The Company's current one-to-four family residential ARMs are fully amortizing loans with contractual maturities of up to 30 years. The interest rates on the ARMs originated by the Company are subject to adjustment at stated intervals based on a margin over a specified index and are subject to annual as well as lifetime adjustment limits. The Company's current ARMs do not permit negative amortization of principal and carry no prepayment penalty. At December 31, 2000, the Company had $34.0 million, $4.3 million and $40.7 million of one-year, three-year and five-year ARMs, respectively.

The Company's delinquency experience on its ARMs has generally been similar to that on fixed-rate residential loans. Of the $1.4 million of one-to-four family loans delinquent 60 days or more at December 31, 2000, $487,000 (or 0.2% of one-to-four family loans) consisted of ARMs and $875,000 (or 0.4% of the Company's one-to-four family loans) represented fixed-rate loans.

The Company evaluates both the borrower's ability to make principal, interest and escrow payments and the value of the property that will secure the loan. The Company originates residential mortgage loans with loan-to-value ratios generally up to 95% except for a program applicable to first time home buyers where this ratio can go up to 97% with private mortgage insurance and/or other collateral. On any mortgage loan exceeding an 80% loan-to-value ratio at the time of origination, the Company generally requires private mortgage insurance in an amount intended to reduce the Company's exposure to 80% or less of the appraised value of the underlying property. During 2000, the Company began offering 100% financing on the purchase of single-family, owner occupied homes. All loans originated under this program are required to have private mortgage insurance covering the top 35% of the loan balance, and can be either fixed rate or adjustable rate.

In 1999, the Company announced a $30,000 grant program to assist qualified first-time home buyers in purchasing owner-occupied single-family homes in the Company's market areas. The program provides one-time grants of up to $1,000 to assist qualified applicants who meet low-to-moderate income guidelines. Through 2000, $20,000 of the funds in the grant program had been used to assist qualified first-time home buyers.

The Company, on occasion, originates loans in excess of $252,700 (the Freddie Mac maximum during 2000). As of December 31, 2000, the Company had 35 residential mortgage loans having an aggregate balance of $10.8 million with original balances in excess of $252,700 ("jumbo loans"). The Company's historical delinquency experience on its jumbo loans has been excellent.

The Company is an approved one-to-four family lender for both the Federal Housing Administration ("FHA") and the Veterans' Administration ("VA"). The

Company sells, with servicing released, all FHA and VA loans it originates to other investors. During 2000, however, there were no FHA or VA loans originated by the Company. Borrowers are notified at the time of application that their loan will be sold to, and serviced by, a party other than the Company.

Multi-Family and Commercial Real Estate Lending. The Company also makes multi-family and commercial real estate loans in its primary market areas. At December 31, 2000, the Company had $51.2 million in multi-family and commercial real estate loans, representing 14.2% of the Company's total loan and mortgage-backed securities portfolio. At December 31, 2000, there were no participation interests in multi-family and commercial real estate loans which were purchased from other lenders.

The Company's multi-family portfolio includes loans secured by residential buildings (including university student housing) located primarily in the Company's primary market areas. The Company's commercial real estate portfolio consists of loans on a variety of non-residential properties including nursing homes, churches and other commercial buildings.

The Company has originated both adjustable and fixed-rate multi-family and commercial real estate loans. Rates on the Company's adjustable-rate multi-family and commercial real estate loans generally adjust in a manner consistent with the Company's ARMs. Multi-family and commercial real estate loans are generally underwritten in amounts of up to 75% of the appraised value of the underlying property.

The table below sets forth by type of property taken as collateral, the number, loan amount and outstanding balance of the Company's multi-family and commercial real estate loans (including purchased loan participations) at December 31, 2000 and the amounts of such loans which were non-performing or "of concern" at December 31, 2000. The amounts shown do not reflect allowances for losses.

	Number of Loans	Original Loan Amount	Outstanding Principal Balance	N o
		(Dollars in thousands)		
Multi-family residential	30	$13,147	$11,608	
Improved real estate	13	10,296	4,200	
Churches	21	4,918	3,915	
Agricultural related	22	1,790	1,568	
Industrial and warehouse	71	17,153	13,927	
Retail	41	8,346	5,155	
Office	14	3,030	2,007	
Other	66	9,421	8,792	
Total	278	$68,101	$51,172	

Multi-family residential and commercial real estate loans generally present a higher level of risk than loans secured by one-to-four family residences. This greater risk is due to several factors, including the concentration of principal in a limited number of loans and borrowers, the effects of general economic

conditions on income producing properties and the increased difficulty of evaluating and monitoring these types of loans.

Purchased Loan Participations. In order to supplement lending activities during periods of low loan volume, the Company has from time to time purchased participation interests in multi-family and commercial real estate loans originated and serviced by other lenders. Prior to purchase, the Company reviews each participation to ensure that the underlying loan complies with the Company's lending policy as in effect at the time of purchase. At December 31, 2000, the Bank had $399,000 of purchased loans and participation interests in one-to-four family loans.

The purchase of loan participations involves the same risks as the origination of the same type of loans as well as additional risks related to the purchaser's lower level of control over the origination and subsequent administration of the loan. Also, some of the loan participations currently on the Company's books are on real estate located out-of-state. Out-of-state investments are considered to carry a higher degree of risk due to the difficulty of monitoring such investments.

Commercial Business Lending. Federally chartered savings institutions, such as the Bank, are authorized to make secured or unsecured loans and issue letters of credit for commercial, corporate, business and agricultural purposes and to engage in commercial leasing activities, up to a maximum of 20% of total assets. However, any amount exceeding 10% of total assets must represent small business loans as defined by the OTS.

In order to increase the proportion of interest rate sensitive and relatively high yielding loans in its portfolio, and as a part of its effort to provide more comprehensive financial services in the communities serviced by its offices, the Company originates secured and unsecured commercial loans to local businesses. Currently, the Company's commercial business lending activities encompass loans with a broad variety of purposes including working capital, accounts

receivable, inventory, equipment and agriculture. The Company does not have any energy or foreign loans.

At December 31, 2000, the Company had $23.8 million in commercial business loans outstanding (representing 6.6% of the Company's total loan and mortgage-backed securities portfolio) with additional commercial business loan commitments totaling $8.4 million, most of which were undrawn lines of credit. In addition, at December 31, 2000, the Company had sixteen letters of credit outstanding, in an aggregate amount of $841,000. Most of the Company's commercial business loans have terms to maturity of five years or less and adjustable or floating interest rates. At December 31, 2000, the Company had eighteen commercial business loans with balances of $250,000 or more, in an aggregate amount of $9.4 million.

The Company recognizes the generally increased risks associated with commercial business lending. The Company's commercial business lending policy emphasizes credit file documentation and analysis of the borrower's character, management capabilities, capacity to repay the loan, the adequacy of the borrower's capital and collateral as well as an evaluation of the industry conditions affecting the borrower. Analysis of the borrower's past, present and future cash flows is also an important aspect of the Company's credit analysis.

The following table sets forth information regarding the number and amount of the Company's commercial business loans and the amounts of such loans which were non-performing and "of concern" as of December 31, 2000.

	Number of Loans	Total Loan Commitment	Outstanding Principal Balance
		(Dollars in thousands)	
Secured Loans:			
Accounts receivable	12	$4,405	$2,065
Inventory	2	29	20
Equipment	67	4,383	2,824
Other business assets	41	5,630	3,646
Stocks and bonds	14	1,393	1,350
Heavy duty vehicles	129	8,082	6,258
Other motor vehicles	36	699	570
Crops	9	3,589	1,323
Stand-by letters of credit	7	578	---
Beneficial interest in real estate trust	22	5,219	3,735
Unsecured loans	70	2,917	1,959
Unsecured stand-by letters of credit	9	263	---
Total commercial business loans	418	$37,187	$23,750

Consumer Lending. Management believes that offering consumer loan products helps to expand the Company's customer base and to create stronger ties to its existing customer base. In addition, because consumer loans generally have shorter terms to maturity and/or adjustable-rates and carry higher rates of interest than do residential mortgage loans, they can be valuable asset/liability management tools. The Company currently originates substantially all of its

consumer loans in its market areas. At December 31, 2000, the Company's consumer loans totaled $40.0 million or 11.1% of the Company's loan and mortgage-backed securities portfolio.

The Company offers a variety of secured consumer loans, including home equity and home improvement loans, loans secured by savings deposits, mobile home and automobile loans. Although the Company primarily originates consumer loans secured by real estate, deposits or other collateral, the Company also makes unsecured personal loans. In addition, the Company offers unsecured consumer loans through its Visa and MasterCard credit card programs.

The Company offers mobile home loans in order to provide affordable housing. All of the Company's mobile home loans have been originated with fixed-rates of interest and are generally made in amounts of up to a maximum of 90% of the buyer's cost. As of December 31, 2000, mobile home loans totaled $1.7 million or approximately 0.5% of the Company's gross loan and mortgage-backed securities portfolio.

Historically, the Company also offered student loans in compliance with the guidelines established by the Federal Family Education Loan Program. Due to a

series of changes in the student loan programs, the Company no longer originates student loans or retains them for its portfolio. Its role in student loans has been limited to providing forms for those interested in applying for student loans. As of December 31, 2000, the Company had no student loans on its books.

Unsecured personal loans are made to borrowers for a variety of personal needs and are usually limited to a maximum of $3,000, with a minimum loan amount of $1,000. Lines of credit extended through the Company's Visa and MasterCard credit card programs are generally limited to $5,000. Underwriting standards for the Company's credit card program are substantially the same as for personal loans.

Consumer loans may entail greater risk than residential mortgage loans, particularly in the case of consumer loans which are unsecured or secured by rapidly depreciable assets such as automobiles. The greater risk inherent in consumer loans has been emphasized by recent nationwide increases in personal bankruptcies. Although the level of delinquencies in the Company's consumer loan portfolio has generally been low (at December 31, 2000, $156,000, or approximately 0.4% of the consumer loan portfolio was 90 days or more delinquent), there can be no assurance that delinquencies will not increase in the future.

Construction Lending. Historically, construction lending was a relatively
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minor part of the Company's business activities. However, in light of the economic recovery in its principal market areas and in order to increase the yield on, and the proportion of, interest rate sensitive loans in its portfolio and to provide more comprehensive financial services to families and community businesses within its market areas, the Company expanded its construction lending. At December 31, 2000, the Company had $5.7 million of residential construction loans and

$563,000 of lot loans to borrowers intending to live in the properties upon completion of construction.

On occasion, the Company also originates construction loans to builders and developers for the construction of one-to-four family residences, multi-family residences and commercial real estate and the acquisition and development of one-to-four family lots in the Company's primary market areas. Construction loans to builders of one-to-four family residences generally carry terms of up to one year and may provide for the payment of interest and loan fees from loan proceeds. At December 31, 2000, the Bank had approximately $5.1 million in loans to builders of residences, and $2.5 million in loans on commercial construction. In addition, on the same date, the Company had $4.0 million of subdivision loans to developers for the development of one-to-four family lots.

Most of the Company's construction loans have been originated with fixed rates and terms of 12 months or less. Construction loans to owner occupants are generally made in amounts of up to a maximum loan-to-value ratio of 80% (75% in the case of commercial real estate). The Company's construction loans to persons other than owner occupants generally involve larger principal balances than do its one-to-four family residential loans. At December 31, 2000, only 7 of the Company's construction loans had a principal balance in excess of $500,000. The total principal balances of these loans was $7.8 million.

The table below sets forth the number and amount of the Company's construction loans at December 31, 2000, by type of security property.

	Number of Loans	Total Loan Commitment	Outstanding Principal Balance
		(Dollars in thousands)	
One-to-four family residential.....	39	$10,937	$8,644
Multi-family residential.....	1	659	651
Land acquisition and development.....	49	13,541	7,111
Retail and Industrial.....	3	1,513	1,391
Total.....	92	$26,650	$17,797

Construction lending to persons other than owner occupants is generally considered to involve a higher level of credit risk than one-to-four family residential lending due to the concentration of principal in a limited number of loans and borrowers and the effects of general economic conditions on construction projects, real estate developers and managers. In addition, the nature of these loans is such that they are more difficult to evaluate and monitor.

Originations, Purchases and Sales of Loans. The Company originates real estate and other loans through employees located at each of the Company's offices. Walk-in customers and referrals from real estate brokers and builders are also important sources of loan originations. The Company does not generally utilize the services of mortgage brokers.

From time to time, in order to supplement its loan production, particularly during periods of low loan demand, the Company purchases residential and other loans from third parties. Under its loan purchase policies, prior to purchase, the Company reviews each loan to assure that it complies with the Company's normal underwriting standards. While the Company will continue to evaluate loan purchase opportunities as they arise, the Company currently anticipates limiting its future purchases of out-of-area non-residential loans.

Through the end of 1999, the Company sold a majority of its 30-year, fixed-rate loan production in the secondary market. In addition, the Company sold a portion of its newly originated conventional 15-year, fixed-rate residential mortgage loans and conventional 20-year, fixed-rate residential mortgage loans bearing an interest rate of less than a periodically evaluated and adjusted level, with servicing retained. During 2000, the Company began retaining initially all fixed-rate loans it originated. The Company's sales during recent years have been made through sales contracts entered into after the Company has committed to fund the loan. When loans are designated for sale, the Company attempts to limit interest rate risk created by forward commitments by limiting the number of days between the commitment and closing, charging fees for commitments and limiting the amounts of its uncovered commitments outstanding at any one time.

When loans have been sold, the Company virtually always retains the responsibility for servicing such loans. At December 31, 2000, excluding mortgage-backed securities, approximately $639,000 of the Company's loan portfolio consisting of purchased loans and purchased participations serviced by others and the Company serviced $63.1 million of loans for others. During the year ended December 31, 2000, the Company received fee income of $169,000 in connection with loans serviced for others.

The following table shows the loan origination, purchase and repayment activities of the Company for the periods indicated.

	Year Ended December 31,		
	2000	1999	1998
	(Dollars in thousands)		
Originations By Type:			
Adjustable-Rate:			
Real estate - one-to-four family	$ 15,802	$ 15,318	$ 17,315
- multi-family	---	---	99
- commercial	31,577	23,884	17,434
Non-real estate - consumer	11,176	12,976	12,930
- commercial business	14,191	16,304	12,531
Total adjustable-rate	72,746	68,482	60,309
Fixed-Rate:			
Real estate - one-to-four family	61,096	29,516	62,295
- multi-family	---	---	---
- commercial	11,192	6,104	3,204
Non-real estate - consumer	17,776	14,600	9,672
- commercial business	12,665	14,806	7,244
Total fixed-rate	102,729	65,026	82,415
Total loans originated	175,475	133,508	142,724
Purchases:			
Real estate - one-to-four family	---	---	---
- commercial	---	1,366	---
Non-real estate - consumer	---	---	---
- commercial business	---	---	300
Loans acquired with CCNB	---	---	17,958
Total loans	---	1,366	18,258
Mortgage-backed securities	1,963	6,992	8,772
Mortgage-backed securities acquired with CCNB	---	---	286
Total purchased	1,963	8,358	27,316
Sales and Repayments:			
Sales:			
Real estate - one-to-four family	77	9,587	35,654
- commercial	---	1,050	191
Non-real estate - consumer	251	365	1,089
- commercial business	---	---	---
Total loans	328	11,002	36,934
Mortgage-backed securities	---	---	---

Total sales.....	328	11,002	36,934
Principal repayments.....	110,018	107,671	133,538
Total reductions.....	110,346	118,673	170,472
Increase (decrease) in other items, net.	2,042	(1,628)	(484)
Net increase (decrease).....	$ 69,134	$ 21,565	$ (916)

Delinquency Procedures. When a borrower fails to make a required payment on a loan, the Company attempts to cause the delinquency to be cured by contacting the borrower. In the event a real estate loan payment is past due for 90 days or more, the Company performs an in- depth review of the loan status, the condition of the property and the circumstances of the borrower. Based upon the results of its review, the Company may negotiate and accept a repayment program with the borrower, accept a voluntary deed in lieu of foreclosure or, when deemed necessary, initiate foreclosure proceedings.

Unsecured consumer loans are charged-off if they remain delinquent for 120 days. Secured consumer loans are liquidated and charged-off to the extent the debt exceeds the fair value of the collateral. The Company's procedures for repossession and sale of consumer collateral are subject to various requirements under Illinois consumer protection laws.

Delinquencies in the Company's commercial business loan portfolio are handled on a case-by-case basis under the direction of the chief lending officer. Generally, personal contact is made with the borrower when the loan is 15 days past due. Depending on the nature of the loan and the type of collateral, if any, securing the loan, the Company may negotiate and accept a modified payment program or take such other actions as the circumstances warrant.

Real estate acquired by the Company as a result of foreclosure or by deed in lieu of foreclosure is classified as real estate owned until it is sold. When property is acquired, it is recorded at its estimated fair value at the date of acquisition, and any write-down resulting therefrom is charged to the allowance for losses on loans. Upon acquisition, all costs incurred in maintaining the property are expensed. Costs relating to the development and improvement of the property, however, are capitalized to the extent of its fair value.

The following table sets forth the Company's loan delinquencies by type, by amount and by percentage of type at December 31, 2000.

Loans Delinquent For:						
60-89 Days			90 Days and Over			T
Number	Amount	Percent of Loan Category	Number	Amount	Percent of Loan Category	Num
(Dollars in thousands)						

Real Estate:							
One-to-four family....	16	$ 682	0.32%	15	$ 680	0.32%	
Multi-family.....	---	---	---	---	---	---	
Commercial.....	4	401	1.01	2	10	0.03	
Construction and development.....	---	---	---	1	900	5.06	
Consumer.....	12	67	0.17	18	156	0.39	
Commercial business.....	1	150	0.63	3	824	3.47	
Total.....	33	$ 1,300	0.38	39	$ 2,570	0.75	

The following table sets forth the Company's loan delinquencies by type, by amount and by percentage of type at December 31, 1999.

	Loans Delinquent For:						T
	60-89 Days			90 Days and Over			
	Number	Amount	Percent of Loan Category	Number	Amount	Percent of Loan Category	Num
	(Dollars in thousands)						
Real Estate:							
One-to-four family....	4	$ 157	0.10%	11	$ 473	0.29%	
Multi-family.....	---	---	---	---	---	---	
Commercial.....	---	---	---	4	887	3.07	
Construction and development.....	---	---	---	---	---	---	
Consumer.....	18	202	0.58	39	388	1.11	
Commercial business.....	---	---	---	---	---	---	
Total.....	22	$ 359	0.13	54	$ 1,748	0.64	

Classification of Assets. Federal regulations require that each savings institution classify its own assets on a regular basis. In addition, in connection with examinations of savings institutions, OTS and FDIC examiners have authority to identify problem assets and, if appropriate, require them to be classified. There are three classifications for problem assets: Substandard, Doubtful and Loss. The regulations have also created a Special Mention category, consisting of assets which do not currently expose a savings institution to a sufficient degree of risk to warrant classification, but do possess credit deficiencies or potential weaknesses deserving management's close attention. Assets classified as Substandard or Doubtful require the institution to establish prudent general allowances for losses on loans. If an asset or portion thereof is classified as Loss, the institution must either establish specific

allowances for losses on loans in the amount of 100% of the portion of the asset classified Loss, or charge off such amount. If an institution does not agree with an examiner's classification of an asset, it may appeal this determination to the Regional Director of the OTS. On the basis of management's review of its assets, at December 31, 2000, on a net basis, the Company had classified $3.6 million of its assets as Special Mention, $2.2 million as Substandard and $61,000 as Loss. No assets were classified as Doubtful at December 31, 2000. The Company's classified assets consist of the non-performing loans and loans and other assets of concern discussed herein.

Non-Performing Assets. The following table sets forth the amounts and categories of non-performing assets of the Company. Loans are reviewed quarterly and any loan whose collectibility is doubtful is placed on non-accrual status. Real estate loans are placed on non-accrual status when either principal or interest is 90 days or more past due, unless, in the judgment of management, collectibility is considered highly probable and collection efforts are in progress, in which case interest would continue to accrue. At December 31, 2000, there were 24 loans with outstanding principal balances totaling $1.9 million which were 90 days or more past due and continuing to accrue interest.

Interest accrued and unpaid at the time a consumer loan is placed on non-accrual status is charged against interest income. Subsequent payments are either applied to the outstanding principal balance or recorded as interest income, depending on the assessment of the ultimate collectibility of the loan. For all years presented, the Company had no troubled debt restructurings other than those included in the non-performing assets table. Foreclosed assets include assets acquired in settlement of loans. The loan and foreclosed asset amounts shown are stated net of the specific reserves which have been established against such assets.

	December 31,			
	2000	1999	1998	1997
	(Dollars in thousands)			
Non-accruing loans:				
One-to-four family(1)	$ 680	$ 473	$ 606	$ 659
Multi-family	---	---	---	---
Commercial	---	80	265	207
Construction and development	---	---	---	669
Consumer	---	---	---	---
Commercial business	---	---	90	---
Total	680	553	962	1,535
Accruing loans delinquent more than 90 days:				
One-to-four family(1)	---	---	---	---
Multi-family	---	---	---	556
Commercial	10	807	41	73
Construction and development	900	---	---	234
Consumer	156	388	438	399
Commercial business	824	---	40	19
Total	1,890	1,195	519	1,281

Foreclosed assets:				
One-to-four family	204	344	387	---
Multi-family	48	---	---	---
Commercial	175	157	1,489	1,317
Construction and development	---	---	---	---
Consumer	51	68	---	3
Commercial business	---	---	---	---
Total foreclosed assets	478	569	1,876	1,320
Troubled debt restructuring Real estate:				
One-to-four family	120	122	---	209
Commercial	319	342	---	---
Total troubled debt restructuring	439	464	---	209
Total non-performing assets	$3,487	$2,781	$3,357	$4,345
Total as a percentage of total assets	0.76%	0.69%	0.82%	1.27%

(1) Includes loans held for sale.

For the years ended December 31, 2000 and 1999, gross interest income which would have been recorded had the non-accruing loans been current in accordance with their original terms amounted to $32,000 and $32,000, respectively. The amount that was included in interest income on such loans was $33,000 and $26,000 for 2000 and 1999, respectively.

Analysis of Allowance for Losses on Loans. The following table sets forth an analysis of the Company's allowance for losses on loans.

	Year Ended December 31,			
	2000	1999	1998	19
	(Dollar in thousands)			
Balance at beginning of period.	$2,171	$2,375	$2,130	$2,
Charge-offs:				
One-to-four family	---	21	20	
Multi-family	---	---	---	
Commercial real estate	3	29	---	
Construction	---	---	---	
Consumer	124	114	160	
Commercial business	8	123	44	

	135	287	224	
Recoveries:				
One-to-four family	---	---	---	
Multi-family	---	---	---	
Commercial real estate	28	16	---	
Construction	---	---	---	
Consumer	27	42	71	
Commercial business	15	25	---	
	70	83	71	
Net charge-offs	(65)	(204)	(153)	(
Additions charged to operations	50	---	---	
Additions through acquisitions	---	---	398	
Balance at end of period	$2,156	$2,171	$2,375	$2,
Ratio of net charge-offs during the period to average loans outstanding during the period	0.02%	0.08%	0.06%	0
Ratio of net charge-offs during the period to average non- performing assets	2.75%	6.65%	3.97%	6

The balance in the allowance for losses on loans and the related amount charged to operations is based upon periodic evaluations of the loan portfolio by management. These evaluations consider several factors including, but not limited to, general economic conditions, loan portfolio composition, prior loan loss experience, and management's estimate of future potential losses.

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

December 31,						
2000		1999		1998		
Amount	Percent of Loans in Each Category to Total Loans	Amount	Percent of Loans in Each Category to Total Loans	Amount	Percent of Loans in Each Category to Total Loans	Amount

					(Dollars in thousands)		
One-to-four family	$ 209	61.48%	$ 313	60.24%	$ 415	63.65%	$ 521
Multi-family	24	3.37	66	3.26	83	2.21	172
Commercial real estate	825	11.48	611	10.54	469	8.47	444
Construction or development	350	5.16	208	5.19	301	5.55	150
Consumer	167	11.62	207	12.74	208	13.21	215
Commercial business	581	6.89	600	8.03	556	6.91	352
Unallocated	---	---	166	---	343	---	276
Total	$2,156	100.00%	$2,171	100.00%	$2,375	100.00%	$2,130

Investment Activities

The Company has traditionally invested in U.S. Government securities and agency obligations of both long and short terms to supplement its lending activities. During recent years, the Company has refocused its investment activities on short and medium term securities, although the Company has retained a number of longer term securities in its portfolio which are held for investment. In addition, from time to time, the Company has acquired securities for trading purposes. The Company's securities held for trading are recorded on the Company's books at market value. At December 31, 2000, the Bank did not own any securities of a single issuer which exceeded 10% of the Bank's stockholder's equity, other than U.S. Government or federal agency obligations.

In 2000, the Company was required by federal regulations to maintain a minimum amount of liquid assets that may be invested in specified securities and is also permitted to make certain other securities investments. Cash flow projections are regularly reviewed and updated to assure that adequate liquidity is provided. As of December 31, 2000, the Bank's liquidity ratio (liquid assets as a percentage of net withdrawable savings and current borrowings) was 13.8% as compared to the prior OTS requirement of 4.0%. This OTS requirement was eliminated effective March 15, 2001. (see "Supervision and Regulation--Recent Regulatory Developments").

The following table sets forth the composition of the Company's investment portfolio at the dates indicated.

December 31,

	2000		1999	
	Book Value	% of Total	Book Value	% of Total
			(Dollars in thousand	
Investment Securities (1):				
U.S. government securities	$ ---	---%	$ 13,449	19.8
Federal agency obligations	56,759	92.70	51,307	75.7
Municipal bonds	1,448	2.36	306	0.4
Non-marketable equity securities	501	0.82	501	0.7
Mutual fund shares	411	0.67	377	0.5
Subtotal	59,119	96.55	65,940	97.3
FHLB Stock	2,112	3.45	1,811	2.6
Total investment securities and FHLB stock	$ 61,231	100.00%	$ 67,751	100.0
Average remaining life or term to repricing of investment securities excluding FHLB stock and non-marketable securities	32 months		33 months	
Other Interest-Earning Assets:				
Federal funds sold	$ 1,330	9.71%	$ 6,322	37.6
Money market funds	5,110	37.30	4,653	27.7
FHLB overnight investments	7,211	52.63	5,759	34.3
Certificates of deposit	50	0.36	50	0.3
Total	$ 13,701	100.00%	$ 16,784	100.0

(1) Includes securities available-for-sale.

The composition and maturities of the investment securities portfolios, excluding Federal Home Loan Bank of Chicago ("FHLB of Chicago") stock and non-marketable equity securities at December 31, 2000, are indicated in the following table.

	At December 31, 2000			
	Less Than 1 Year	1 to 5 Years	5 to 10 Years	Over 10 Years
	Book Value	Book Value	Book Value	Book Value
	(Dollars in thousands)			
Securities available-for-sale:				
U.S. government securities	$ ---	$ ---	$ ---	$ ---

Federal agency obligations.....	8,005	44,821	3,933	---
Mutual fund shares.....	411	---	---	---
Total	$ 8,416	$ 44,821	$ 3,933	$ ---
Weighted average yield.....	5.96%	6.03%	6.54%	---%
Securities held-to-maturity:				
Municipal Bonds.....	$ 640	$ 580	$ 167	$ 61
Weighted average yield.....	4.88%	4.92%	4.63%	6.40%

Sources of Funds

General. Deposit accounts have traditionally been the principal source of the Company's funds for use in lending and for other general business purposes. In addition to deposits, the Company derives funds from loan repayments and cash flows generated from operations. Scheduled loan payments are a relatively stable source of funds, while deposit inflows and outflows and the related cost of such funds have varied. Other potential sources of funds available to the Bank include borrowings from the FHLB of Chicago and reverse repurchase agreements.

Deposits. The Company attracts both short-term and long-term deposits by offering a wide assortment of accounts and rates. The Company offers commercial demand, regular statement savings accounts, NOW accounts, money market accounts, fixed interest rate certificates of deposit with varying maturities and individual retirement accounts. Deposit account terms vary, according to the minimum balance required, the time period the funds must remain on deposit and

the interest rate, among other factors. The Company has not actively sought deposits outside of its primary market area.

The following table sets forth the savings flows at the Company during the periods indicated:

	Year Ended December 31,		
	2000	1999	1998
	(Dollars in thousands)		
Opening balance.....	$ 354,977	$ 346,803	$ 280,022
Deposits.....	1,188,101	955,019	872,751
Withdrawals.....	1,168,567	958,610	869,404
Purchased deposits.....	--	--	51,688
Increase (decrease) before interest credited.....	19,534	(3,591)	55,035
Interest credited.....	13,539	11,765	11,746

Ending balance.....	$ 388,050	$ 354,977	$ 346,803
Net increase.....	$ 33,073	$ 8,174	$ 66,781
Percent increase.....	9.32%	2.36%	23.85%

The following table sets forth the dollar amount of savings deposits in the various types of deposit programs offered by the Company at the dates indicated.

	December 31,				
	2000		1999		
	Amount	Percent of Total	Amount	Percent of Total	Amo
Transaction and Savings	(Dollars in thousands)				
Deposits(1):					
Commercial Demand 0%.....	$ 16,855	4.34%	$ 17,011	4.79%	$ 1
Savings Accounts 2.44%.....	56,198	14.48	60,699	17.10	6
NOW Accounts 2.70%.....	45,374	11.69	44,291	12.48	4
Money Market Accounts 2.92%....	24,306	6.27	14,566	4.10	1
Total Non-Certificates.....	142,733	36.78	136,567	38.47	13
Certificates:					
0.00 - 4.99%.....	7,127	1.84	67,699	19.07	2
5.00 - 5.49%.....	58,950	15.19	67,810	19.10	3
5.50 - 5.99%.....	32,052	8.26	48,156	13.57	11
6.00 - 7.99%.....	146,768	37.82	34,386	9.69	2
8.00 - over.....	7	0.00	6	0.00	
Total Certificates.....	244,904	63.11	218,057	61.43	21
Accrued Interest.....	413	0.11	353	0.10	
Total Deposits.....	$ 388,050	100.00%	$ 354,977	100.00%	$ 34

(1) Rates on transaction and savings deposits are those in effect on December 31, 2000.

The following table shows rate and maturity information for the Company's certificates of deposit as of December 31, 2000.

	0.00-4.99%	5.00-5.49%	5.50-5.99%	6.00-7.99%	8% and Over	To
	(Dollars in thousands)					
Certificate Accounts Maturing In Quarter Ending:						
March 31, 2001.....	$4,479	$22,126	$ 3,504	$ 24,260	$ 7	$ 54
June 30, 2001.....	1,849	21,299	7,532	16,629	---	47
September 30, 2001.....	315	3,602	11,360	31,208	---	46
December 31, 2001.....	136	3,115	1,118	23,226	---	27
March 31, 2002.....	199	2,511	2,134	15,596	---	20
June 30, 2002.....	112	1,411	1,886	9,663	---	13
September 30, 2002.....	32	162	522	14,671	---	15
December 31, 2002.....	---	395	172	4,460	---	5
March 31, 2003.....	---	441	795	92	---	1
June 30, 2003.....	5	278	577	---	---	
September 30, 2003.....	---	38	466	---	---	
December 31, 2003.....	---	145	1,096	---	---	1
Thereafter.....	---	3,427	890	6,963	---	11
Total.....	$7,127	$58,950	$32,052	$146,768	$ 7	$244
Percent of total.....	2.91%	24.07%	13.09%	59.93%	0.00%	

The following table indicates the amount of the Company's certificates of deposit and other deposits by time remaining until maturity as of December 31, 2000.

	Maturity				
	3 Months or Less	Over 3 to 6 Months	Over 6 to 12 Months	Over 12 months	Total
	(Dollars in thousands)				
Certificates of deposit less than $100,000 (1)	$ 47,961	$ 38,545	$ 65,787	$ 61,628	$213,921
Certificates of deposit of $100,000 or more (1)	3,612	3,452	5,707	6,166	18,937
Public funds (2)	2,803	5,312	2,586	1,345	12,046

Total certificates of deposit	$ 54,376	$ 47,309	$ 74,080	$ 69,139	$244,904

(1) Excluding public funds.
(2) Deposits from governmental and other public entities.

Borrowings. The Company utilizes borrowings primarily for two purposes. The first is to purchase mortgage-backed securities in order to generate additional net interest income and as a method of increasing the leverage on its capital. The second is as part of the management of short term cash requirements. The decision to borrow money to purchase mortgage-backed securities is based on several factors, including the current asset/liability mix, the regulatory capital position of the Bank and the adequacy of available interest rate spreads available in such transactions, subject to the limits on such transactions established by the board of directors. Borrowings for such purposes are derived from securities sold under agreements to repurchase and advances from the FHLB of Chicago. Borrowings related to short term cash management are in the form of advances from the FHLB of Chicago. As a member of the FHLB of Chicago, the Company is authorized to apply for advances from the FHLB of Chicago. Each FHLB of Chicago credit program has its own interest rate, which may be fixed or variable, and range of maturities. The FHLB of Chicago may prescribe the acceptable uses for these advances, as well as limitations on the size of the advances and repayment provisions. At December 31, 2000, borrowed money totaled $29.0 million, all of which was in advances from the FHLB of Chicago. Interest expense on borrowed money totaled $1.1 million during 2000 and $1.0 million during 1999.

Service Corporation

Federal savings associations generally may invest up to 2% of their assets in service corporations, plus an additional 1% of assets if used for community purposes. In addition, federal savings associations may invest up to 50% of their regulatory capital in conforming loans to their service corporations. In addition to investments in service corporations, federal associations are permitted to invest an unlimited amount in operating subsidiaries engaged solely in activities which a federal savings association may engage in directly.

KFS Service Corp. was organized by the Company to provide appraisal services to the Company and others. In addition, since 1983, KFS Service Corp. has offered, on an agency basis, brokerage services to the Company's customers utilizing the services of INVEST Financial Corporation, a registered broker-dealer. Finally, it has also invested in an insurance agency. At December 31, 2000, the Company's equity investment in KFS Service Corp. was approximately $844,000. During 2000, KFS Service Corp. recorded net consolidated income of $80,000. During 2000 and 1999, gross revenues related to securities and annuities brokerage, appraisal activities and insurance agency activities totaled $227,000, $159,000 and $77,000, and $195,000, $177,000 and $72,000, respectively.

Competition

The Company faces competition both in originating loans and in attracting deposits. Competition in originating loans comes primarily from other savings institutions, commercial banks, credit unions and mortgage bankers who also make loans secured by real estate located in the Company's primary market areas. The

Company competes for loans principally on the basis of the interest rates and loan fees it charges, the types of loans it originates and the quality of services it provides to borrowers.

The Company faces substantial competition in attracting deposits from other savings institutions, commercial banks, securities firms, money market and mutual funds, credit unions, insurance companies and other investment vehicles. The ability of the Company to attract and retain deposits depends on its ability to provide an investment opportunity that satisfies the requirements of investors as to rate of return, liquidity, risk, convenient locations and other factors. The Company competes for these deposits by offering a variety of deposit accounts at competitive rates, convenient business hours and a customer oriented staff. The Company estimates its market share of savings deposits in the Kankakee, Coal City, Hoopeston and Champaign/Urbana market areas to be 17.7%, 63.3%, 19.8% and 1.0%, respectively.

The authority to offer money market deposits, and the expanded lending and other powers authorized for savings institutions by federal legislation, has resulted in increased competition for both deposits and loans between savings institutions and other financial institutions such as commercial banks. Competition may increase further as a result of the continuing reduction of restrictions on the interstate operations of financial institutions.

Under the Gramm-Leach-Bliley Act of 1999, effective March 11, 2000, securities firms and insurance companies that elect to become financial holding companies may acquire banks and other financial institutions. The Gramm-Leach-Bliley Act may significantly change the competitive environment in which the Company and the Bank conduct business. The financial services industry is also likely to become more competitive as further technological advances enable more companies to provide financial services. These technological advances may diminish the importance of depository institutions and other financial intermediaries in the transfer of funds between parties.

Employees

As of December 31, 2000, the Company had 143 full-time employees and 39 part-time employees. The Company places a high priority on staff development which involves extensive training, including customer service and sales training. New employees are selected on the basis of both technical skills and customer service capabilities. None of the Company's employees are represented by any collective bargaining group. The Company offers a variety of employee benefits and management considers its relations with its employees to be excellent.

SUPERVISION AND REGULATION

General

Financial institutions and their holding companies are extensively regulated under federal and state law. As a result, the growth and earnings performance of the Company can be affected not only by management decisions and general economic conditions, but also by the requirements of applicable state and federal statutes and regulations and the policies of various governmental regulatory authorities, including the Office of Thrift Supervision (the "OTS") the Board of Governors of the Federal Reserve System (the "Federal Reserve"), the Federal Deposit Insurance Corporation (the "FDIC"), the Internal Revenue Service and state taxing authorities and the Securities and Exchange Commission (the "SEC"). The effect of applicable statutes, regulations and regulatory policies can be significant, and cannot be predicted with a high degree of

certainty.

Federal and state laws and regulations generally applicable to financial institutions, such as the Company and the Bank, regulate, among other things, the scope of business, investments, reserves against deposits, capital levels relative to operations, the nature and amount of collateral for loans, the establishment of branches, mergers, consolidations and dividends. The system of supervision and regulation applicable to the Company and the Bank establishes a comprehensive framework for their respective operations and is intended primarily for the protection of the FDIC's deposit insurance funds and the depositors, rather than the shareholders, of financial institutions.

The following is a summary of the material elements of the regulatory framework that applies to the Company and the Bank. It does not describe all of the statutes, regulations and regulatory policies that apply to the Company and the Bank, nor does it restate all of the requirements of the statutes, regulations and regulatory policies that are described. As such, the following is qualified in its entirety by reference to the applicable statutes, regulations and regulatory policies. Any change in applicable law, regulations or regulatory policies may have a material effect on the business of the Company and the Bank.

Recent Regulatory Developments

The OTS is currently proposing to require certain savings and loan holding companies to notify the OTS before engaging in or committing to engage in a limited set of debt transactions, transactions that reduce capital, certain asset acquisitions and other transactions. The proposal would generally exclude savings and loan holding companies whose subsidiary savings associations' assets represent a small percent of consolidated assets and holding companies that would have consolidated tangible capital of 10% or greater following the transaction. The OTS is also currently seeking comment on its proposal to codify its current practices for reviewing the capital adequacy of savings and loan holding companies and, when necessary, requiring additional capital on a case-by-case basis.

The OTS issued an interim final rule, effective March 15, 2001, eliminating the requirement that each savings association maintain an average daily balance of liquid assets of at least 4% of its liquidity base. The change was made to implement a recent change to the Home Owners' Loan Act. The rule would, nevertheless, require each savings association and service corporation to maintain sufficient liquidity to ensure its safe and sound operation.

The Company

General. The Company, as the sole shareholder of the Bank, is a savings and loan holding company. As a savings and loan holding company, the Company is registered with, and is subject to regulation by, the OTS under the Home Owners' Loan Act, as amended (the "HOLA"). Under the HOLA, the Company is subject to periodic examination by the OTS. The Company is also required to file with the OTS periodic reports of the Company's operations and such additional information regarding the Company and the Bank as the OTS may require.

Investments and Activities. The HOLA prohibits a savings and loan holding company, directly or indirectly, or through one or more subsidiaries from: (i) acquiring control of, or acquiring by merger or purchase of assets, another savings association or savings and loan holding company without the prior written approval of the OTS; (ii) subject to certain exceptions, acquiring more than 5% of the issued and outstanding shares of voting stock of a savings

association or savings and loan holding company except as part of an acquisition of control approved by the OTS; or (iii) acquiring or retaining control of a financial institution that is not FDIC-insured.

A savings and loan holding company may acquire savings associations located in more than one state in both supervisory transactions involving failing savings associations and nonsupervisory acquisitions of healthy institutions. Interstate acquisitions of healthy savings associations, however, are permitted only if the law of the state in which the savings association to be acquired is located specifically authorizes the proposed acquisition, by language to that effect and not merely by implication. State laws vary in the extent to which interstate acquisitions of savings associations and savings and loan holding companies are permitted. Illinois law presently permits savings and loan holding companies located in any state of the United States to acquire savings associations or savings and loan holding companies located in Illinois, subject to certain conditions, including the requirement that the laws of the state in which the acquiror is located permit savings and loan holding companies located in Illinois to acquire savings associations or savings and loan holding companies in the acquiror's state.

A savings and loan holding company that, like the Company, controls only one savings association subsidiary and either was a savings and loan holding company on or before May 4, 2000 or became a savings and loan holding company pursuant to an application pending before the OTS on or before May 4, 2000 (a "grandfathered company"), is generally not subject to any restrictions on the types of non-banking activities that the holding company may conduct either directly or through a non-banking subsidiary, so long as the holding company's savings association subsidiary constitutes a qualified thrift lender (see "--The Bank--Qualified Thrift Lender Test"). A savings and loan holding company that controls only one savings association subsidiary but is not a grandfathered company is subject to certain restrictions on the non-banking activities in which it may engage. In all cases, however, if, the OTS determines that there is reasonable cause to believe that the continuation by a savings and loan holding company of a particular activity constitutes a serious risk to the financial safety, soundness or stability of its savings association subsidiary, the OTS may require the holding company to cease engaging in the activity (or divest any subsidiary which engages in the activity) or may impose such restrictions on the holding company and the subsidiary savings association as the OTS deems necessary to address the risk. The restrictions the OTS may impose include limitations on (i) the payment of dividends by the savings association to the holding company; (ii) transactions between the savings association and its affiliates; and (iii) any activities of the savings association that might create a serious risk that liabilities of the holding company and its affiliates may be imposed on the savings association.

Federal law also prohibits any person or company from acquiring "control" of a savings association or a savings and loan holding company without prior notice to the appropriate federal bank regulator. "Control" is defined in certain cases as the acquisition of 10% or more of the outstanding shares of a savings association or savings and loan holding company.

Dividends. The Delaware General Corporation Law (the "DGCL") allows the Company to pay dividends only out of its surplus (as defined and computed in accordance with the provisions of the DGCL) or if the Company has no such surplus, out of its net profits for the fiscal year in which the dividend is declared and/or the preceding fiscal year. Additionally, OTS policies provide that a savings and loan holding company should not pay dividends that are not supportable

by the company's core earnings or that may be funded only by borrowings or by sales of assets. The OTS also possesses enforcement powers over savings and loan holding companies to prevent or remedy actions that represent unsafe or unsound practices or violations of applicable statutes and regulations. Among these powers is the ability to proscribe the payment of dividends by savings and loan holding companies.

Federal Securities Regulation. The Company's common stock is registered with the SEC under the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Consequently, the Company is subject to the information, proxy solicitation, insider trading and other restrictions and requirements of the SEC under the Exchange Act.

The Bank

General. The Bank is a federally chartered savings association, the deposits of which are insured by the FDIC's Savings Association Insurance Fund ("SAIF"). As a SAIF-insured, federally chartered savings association, the Bank is subject to the examination, supervision, reporting and enforcement requirements of the OTS, as the chartering authority for federal savings associations, and the FDIC as administrator of the SAIF. The Bank is also a member of the Federal Home Loan Bank System, which provides a central credit facility primarily for member institutions.

Deposit Insurance. As an FDIC-insured institution, the Bank is required to pay deposit insurance premium assessments to the FDIC. The FDIC has adopted a risk-based assessment system under which all insured depository institutions are placed into one of nine categories and assessed insurance premiums based upon their respective levels of capital and results of supervisory evaluations. Institutions classified as well-capitalized (as defined by the FDIC) and considered healthy pay the lowest premium while institutions that are less than adequately capitalized (as defined by the FDIC) and considered of substantial supervisory concern pay the highest premium. Risk classification of all insured institutions is made by the FDIC for each semi-annual assessment period.

During the year ended December 31, 2000, SAIF assessments ranged from 0% of deposits to 0.27% of deposits. For the semi-annual assessment period beginning January 1, 2001, SAIF assessment rates will continue to range from 0% of deposits to 0.27% of deposits.

The FDIC may terminate the deposit insurance of any insured depository institution if the FDIC determines, after a hearing, that the institution: (i) has engaged or is engaging in unsafe or unsound practices; (ii) is in an unsafe or unsound condition to continue operations; or (iii) has violated any applicable law, regulation, order or any condition imposed in writing by, or written agreement with, the FDIC. The FDIC may also suspend deposit insurance temporarily during the hearing process for a permanent termination of insurance if the institution has no tangible capital.

Management of the Bank is not aware of any activity or condition that could result in termination of the deposit insurance of the Bank.

FICO Assessments. Since 1987, a portion of the deposit insurance assessments paid by SAIF members has been used to cover interest payments due on the outstanding obligations of the Financing Corporation ("FICO"). FICO was created in 1987 to finance the recapitalization of the Federal Savings and Loan

Insurance Corporation, the SAIF's predecessor insurance fund. As a result of federal legislation enacted in 1996, beginning as of January 1, 1997, both SAIF members and members of the FDIC's Bank Insurance Fund ("BIF") became subject to assessments to cover the interest payments on outstanding FICO obligations. These FICO assessments are in addition to amounts assessed by the FDIC for deposit insurance. Between January 1, 2000, and the final maturity of the outstanding FICO obligations in 2019, BIF members and SAIF members will share the cost of the interest on the FICO bonds on a pro rata basis. During the year ended December 31, 2000, the FICO assessment rate for BIF and SAIF members was approximately 0.02% of deposits.

Supervisory Assessments. All Federal savings associations are required to pay supervisory assessments to the OTS to fund the operations of the OTS. The amount of the assessment is calculated using a formula which takes into account the institution's size, its supervisory condition (as determined by the composite rating assigned to the institution as a result of its most recent OTS examination) and the complexity of its operations. During the year ended December 31, 2000, the Bank paid supervisory assessments to the OTS totaling $82,000.

Capital Requirements. Pursuant to the HOLA and OTS regulations, savings associations, such as the Bank, are subject to the following minimum capital requirements: a core capital requirement, consisting of a minimum ratio of core capital to total assets of 3% for savings associations assigned a composite rating of 1 as of the association's most recent OTS examination, with a minimum core capital requirement of 4% of total assets for all other savings associations; a tangible capital requirement, consisting of a minimum ratio of tangible capital to total assets of 1.5%; and a risk-based capital requirement, consisting of a minimum ratio of total capital to total risk-weighted assets of 8%, at least one-half of which must consist of core capital. Core capital consists primarily of permanent stockholders' equity less (i) intangible assets other than certain supervisory goodwill, certain mortgage servicing rights and certain purchased credit card relationships and (ii) investments in subsidiaries engaged in activities not permitted for national banks. Tangible capital is substantially the same as core capital except that all intangible assets other than certain mortgage servicing rights must be deducted. Total capital consists primarily of core capital plus certain debt and equity instruments that do not qualify as core capital and a portion of the Bank's allowances for loan and leases losses.

The capital requirements described above are minimum requirements. Higher capital levels will be required if warranted by the particular circumstances or risk profiles of individual institutions. For example, the regulations of the OTS provide that additional capital may be

required to take adequate account of, among other things, interest rate risk, the risks posed by concentrations of credit or nontraditional activities.

During the year ended December 31, 2000, the Bank was not required by the OTS to increase its capital to an amount in excess of the minimum regulatory requirement. As of December 31, 2000, the Bank exceeded its minimum regulatory capital requirements with a core capital ratio of 6.93%, a tangible capital ratio of 6.93% and a risk-based capital ratio of 11.75%.

Federal law provides the federal banking regulators with broad power to take prompt corrective action to resolve the problems of undercapitalized institutions. The extent of the regulators' powers depends on whether the institution in question is "well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized" or "critically

undercapitalized," in each case as defined by regulation. Depending upon the capital category to which an institution is assigned, the regulators' corrective powers include: (i) requiring the institution to submit a capital restoration plan; (ii) limiting the institution's asset growth and restricting its activities; (iii) requiring the institution to issue additional capital stock (including additional voting stock) or to be acquired; (iv) restricting transactions between the institution and its affiliates; (v) restricting the interest rate the institution may pay on deposits; (vi) ordering a new election of directors of the institution; (vii) requiring that senior executive officers or directors be dismissed; (viii) prohibiting the institution from accepting deposits from correspondent banks; (ix) requiring the institution to divest certain subsidiaries; (x) prohibiting the payment of principal or interest on subordinated debt; and (xi) ultimately, appointing a receiver for the institution. As of December 31, 2000, the Bank was well capitalized, as defined by OTS regulations.

Dividends. OTS regulations require prior OTS approval for any capital distribution by a savings association that is not eligible for expedited processing under the OTS's application processing regulations. In order to qualify for expedited processing, a savings association must: (i) have a composite examination rating of 1 or 2; (ii) have a Community Reinvestment Act rating of satisfactory or better; (iii) have a compliance rating of 1 or 2; (iv) meet all applicable regulatory capital requirements; and (v) not have been notified by the OTS that it is a problem association or an association in troubled condition. Savings associations that qualify for expedited processing are not required to obtain OTS approval prior to making a capital distribution unless: (a) the amount of the proposed capital distribution, when aggregated with all other capital distributions during the same calendar year, will exceed an amount equal to the association's year-to-date net income plus its retained net income for the preceding two years; (b) after giving effect to the distribution, the association will not be at least "adequately capitalized" (as defined by OTS regulation); or (c) the distribution would violate a prohibition contained in an applicable statute, regulation or agreement with the OTS or the FDIC or violate a condition imposed in connection with an OTS-approved application or notice. The OTS must be given prior notice of certain types of capital distributions, including any capital distribution by a savings association that, like the Bank, is a subsidiary of a savings and loan holding company or by a savings association that, after giving effect to the distribution, would not be "well-capitalized" (as defined by OTS regulation).

The payment of dividends by any financial institution or its holding company is affected by the requirement to maintain adequate capital pursuant to applicable capital adequacy guidelines and regulations, and a financial institution generally is prohibited from paying any dividends if, following payment thereof, the institution would be undercapitalized. As described above, the Bank exceeded its minimum capital requirements under applicable guidelines as of December 31, 2000. Further, under applicable regulations of the OTS, the Bank may not pay dividends in an amount which would reduce its capital below the amount required for the liquidation account established in connection with the Bank's conversion from the mutual to the stock form of ownership in 1992. As of December 31, 2000, approximately $8.3 million was available to be paid as dividends to the Company by the Bank. Notwithstanding the availability of funds for dividends, however, the OTS may prohibit the payment of any dividends by the Bank if the OTS determines such payment would constitute an unsafe or unsound practice.

Insider Transactions. The Bank is subject to certain restrictions imposed by federal law on extensions of credit to the Company, on investments in the stock or other securities of the Company and the acceptance of the stock or

other securities of the Company as collateral for loans. Certain limitations and reporting requirements are also placed on extensions of credit by the Bank to its directors and officers, to directors and officers of the Company, to principal stockholders of the Company, and to "related interests" of such directors, officers and principal stockholders. In addition, federal law and regulations may affect the terms upon which any person becoming a director or officer of the Company or one of its subsidiaries or a principal stockholder of the Company may obtain credit from banks with which the Bank maintains a correspondent relationship.

Safety and Soundness Standards. The federal banking agencies have adopted guidelines which establish operational and managerial standards to promote the safety and soundness of federally insured depository institutions. The guidelines set forth standards for internal controls, information systems, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, compensation, fees and benefits, asset quality and earnings.

In general, the safety and soundness guidelines prescribe the goals to be achieved in each area, and each institution is responsible for establishing its own procedures to achieve those goals. If an institution fails to comply with any of the standards set forth in the guidelines, the institution's primary federal regulator may require the institution to submit a plan for achieving and maintaining compliance. If an institution fails to submit an acceptable compliance plan, or fails in any material respect to implement a compliance plan that has been accepted by its primary federal regulator, the regulator is required to issue an order directing the institution to cure the deficiency. Until the deficiency cited in the regulator's order is cured, the regulator may restrict the institution's rate of growth, require the institution to increase its capital, restrict the rates the institution pays on deposits or require the institution to take any action the regulator deems appropriate under the circumstances. Noncompliance with the standards established by the safety and soundness guidelines may also constitute grounds for other enforcement action by the federal banking regulators, including cease and desist orders and civil money penalty assessments.

Branching Authority. Federally chartered savings associations which qualify as "domestic building and loan associations," as defined in the Internal Revenue Code, or meet the qualified thrift lender test (see "-The Bank --Qualified Thrift Lender Test") have the authority, subject to receipt of OTS approval, to establish or acquire branch offices anywhere in the United States. If a federal savings association fails to qualify as a "domestic building and loan association," as defined in the Internal Revenue Code, and fails to meet the qualified thrift lender test the association may branch only to the extent permitted for national banks located in the savings association's home state. As of December 31, 2000, the Bank qualified as a "domestic building and loan association," as defined in the Internal Revenue Code and met the qualified thrift lender test.

Qualified Thrift Lender Test. The HOLA requires every savings association to satisfy a "qualified thrift lender" ("QTL") test. Under the HOLA, a savings association will be deemed to meet the QTL test if it either (i) maintains at least 65% of its "portfolio assets" in "qualified thrift investments" on a monthly basis in nine out of every 12 months or (ii) qualifies as a "domestic building and loan association," as defined in the Internal Revenue Code. For purposes of the QTL test, "qualified thrift investments" consist of mortgage loans, mortgage-backed securities, education loans, small business loans, credit card loans and certain other housing and consumer-related loans and investments. "Portfolio assets" consist of a savings association's total assets less goodwill

and other intangible assets, the association's business properties and a limited amount of the liquid assets maintained by the association pursuant to the prior liquidity requirements of the HOLA and OTS regulations (see "--The Bank--Liquidity Requirements"). A savings association that fails to meet the QTL test must either convert to a bank charter or operate under certain restrictions on its operations and activities. Additionally, within one year following the loss of QTL status, the holding company for the savings association will be required to register as, and will be deemed to be, a bank holding company. A savings association that fails the QTL test may requalify as a QTL but it may do so only once. As of December 31, 2000, the Bank satisfied the QTL test, with a ratio of qualified thrift investments to portfolio assets of 80.4%, and qualified as a "domestic building and loan association," as defined in the Internal Revenue Code.

Liquidity Requirements. In 2000, OTS regulations required each savings association to maintain, for each calendar quarter, an average daily balance of liquid assets (including cash, certain time deposits, bankers' acceptances, and specified United States Government, state or federal agency obligations) equal to at least 4% of either (i) its liquidity base (i.e., its net withdrawable accounts plus borrowings repayable in 12 months or less) as of the end of the preceding calendar quarter or (ii) the average daily balance of its liquidity base during the preceding calendar quarter. This liquidity requirement was changed from time to time by the OTS to an amount within a range of 4% to 10% of the liquidity base, depending upon economic conditions and the deposit flows of savings associations. The OTS also required each savings association to maintain a higher level of liquidity than the minimum 4% requirement if the OTS deemed it necessary to ensure the safe and sound operation of the association. Penalties could have been imposed for failure to meet liquidity ratio requirements. As of December 31, 2000,

the Bank was in compliance with OTS liquidity requirements, with a liquidity ratio of 13.8%. This OTS requirement was eliminated effective March 15, 2001. (see "Recent Regulatory Developments").

Federal Reserve System. Federal Reserve regulations, as presently in effect, require depository institutions to maintain non-interest earning reserves against their transaction accounts (primarily NOW and regular checking accounts), as follows: for transaction accounts aggregating $42.8 million or less, the reserve requirement is 3% of total transaction accounts; and for transaction accounts aggregating in excess of $42.8 million, the reserve requirement is $1.284 million plus 10% of the aggregate amount of total transaction accounts in excess of $42.8 million. The first $5.5 million of otherwise reservable balances are exempted from the reserve requirements. These reserve requirements are subject to annual adjustment by the Federal Reserve. The Bank is in compliance with the foregoing requirements. The balances used to meet the reserve requirements imposed by the Federal Reserve could have been used to satisfy liquidity requirements imposed by the OTS.

Federal and State Taxation

General. Prior to 1996, savings associations such as the Bank that met certain definitional tests relating to the composition of assets and income as defined in the Internal Revenue Code of 1986 were allowed to establish reserves for bad debts on "qualifying real property loans" based either upon a percentage of taxable income or the experience method, whichever resulted in a larger deduction. Reserves for bad debts on nonqualifying loans were based solely upon the experience method. The experience method reserve amount is calculated as a function of the actual bad debt experience sustained by the institution over a period of years, whereas the percentage of taxable income method is a strict

numeric calculation not dependent on actual loss experience.

The Small Business Job Protection Act of 1996 became law on August 20, 1996. One of the provisions in the new law repealed the special bad debt reserve methods that had existed for savings associations prior to 1996. The Bank is now required to compute reserves on all loans under the experience method. The new law freezes the reserves for bad debts that existed at the end of the last tax year beginning before January 1, 1988 and requires the Bank to recapture into taxable income over a six year period the "applicable excess reserve." For the Bank, the applicable excess reserve is approximately $648,000 which represents the difference between the reserve balance at December 31, 1995, and the balance of the reserve at end of the last tax year beginning before January 1, 1988. One-sixth of the applicable excess reserve ($108,000) has been recaptured into taxable income during each tax year from 1996 through 2000. Deferred taxes have previously been established on the applicable excess reserve.

Retained income of the Bank includes approximately $8,998,000 that represents tax provisions for losses on loans that have been deducted in excess of amounts that have been charged against income on the financial statements. No provision for federal income tax has been made

against this amount. If, in the future, the Bank ceases to qualify as a "bank" for federal income tax purposes or if these retained earnings are liquidated, federal income taxes may be imposed at the then-applicable rates. If federal income taxes had been provided, the deferred liability would have been approximately $3,059,000.

In addition to the regular income tax, corporations, including savings associations such as the Bank, generally are subject to a minimum tax. An alternative minimum tax is imposed at a minimum tax rate of 20% on alternative minimum taxable income, which is the sum of a corporation's regular taxable income (with certain adjustments) and tax preference items, less any available exemption. The alternative minimum tax is imposed to the extent it exceeds corporation's regular income tax. During the years ended December 31, 1998, 1999 and 2000, the Bank was not required to pay alternative minimum tax.

The Company, the Bank and its subsidiary file consolidated federal income tax returns on a calendar year basis using the accrual method of accounting.

The Bank and its consolidated subsidiaries have been audited by the IRS with respect to consolidated federal income tax returns through December 31, 1982. With respect to years examined by the IRS, all deficiencies have been satisfied. In the opinion of management, any examination of still open returns would not result in a deficiency which could have a material adverse effect on the financial condition of the Company and its consolidated subsidiaries.

EXECUTIVE OFFICERS OF THE COMPANY

The business experience during the past five years with respect to executive officers of the Company and the Bank who do not serve on the Company's board of directors is listed below. Each officer is elected annually to serve until his or her successor is elected and qualified, or until he or she is no longer employed by the Company or its subsidiaries or is removed by the board of directors. There are no arrangements or understandings between the persons named and any other person pursuant to which such officers were selected.

Ronald J. Walters, age 51, is Vice President, Treasurer and Chief Financial Officer of the Company and Senior Vice President, Treasurer and Chief Financial Officer of the Bank, positions he has held since August 1992 and January 1985,

respectively. As the Chief Financial Officer of the Bank, Mr. Walters is responsible for the establishment and supervision of the Bank's accounting, information technology, and buildings and grounds. Mr. Walters joined the Bank in 1984 as Controller and Chief Financial Officer, was named Vice President and Treasurer in 1985, and promoted to Senior Vice President in 1996. Mr. Walters is a certified public accountant.

David B. Cox, age 62, was elected President of the Bank in 1993, and a director of the Bank in 1995. Prior to his election as President, Mr. Cox had served as Vice President of Operations for the Bank since 1985. Mr. Cox is responsible for overseeing the day-to-day

operation of the Bank. Mr. Cox joined the Bank in 1956 and has held a variety of positions including Assistant Vice President, Branch Manager and Assistant Secretary. Mr. Cox has served as Vice President of the Company since 1992. Mr. Cox has announced that he will retire from his officer positions with the Company and its affiliates as of March 31, 2001. He will remain a director of the Bank.

Gerald C. Chantome, age 64, is a Senior Vice President and Chief Commercial Lending Officer of the Bank, a position he has held since 1995. Previously he was Vice President of Commercial and Consumer Lending for the Bank, a position he held since 1988. Mr. Chantome is responsible for oversight of the Bank's Commercial Lending Department. Prior to joining the Bank, from 1981 to 1988, Mr. Chantome served as Senior Vice President and director of City National Bank and Keystone Bancshares located in Kankakee, Illinois. Mr. Chantome was an employee and officer of City National since 1954.

Keith M. Roseland, age 51, is a Senior Vice President and Regional Commercial Lending Officer of the Bank, a position he was appointed to in 1999. Previously, Mr. Roseland was Regional Branch Manger responsible for the operation of the Coal City, Diamond and Braidwood, Illinois branches of the Bank since 1998. He had previously served as President, since 1986, of CCNB, which was acquired by the Bank in January, 1998. Mr. Roseland had been with CCNB since 1967.

Carol Hoekstra, age 45, was elected a Senior Vice President of the Bank in 1999. She is also an Assistant Secretary of the Company, a position she has held since 1992. Previously, she was a Vice President of the Bank since 1995. Mrs. Hoekstra is responsible for oversight of the Bank's retail mortgage and consumer lending operations. Mrs. Hoekstra first joined the Bank in 1977. She rejoined the Bank in 1991 as consumer loan manager, following her return to the area from Texas where she worked at a commercial bank in consumer lending.

Monte S. Crowl, age 36, has been Vice President of Marketing of the Bank since January 1993. He is responsible for the Marketing Department. Prior to joining the Bank in 1989, Mr. Crowl was employed by the Central Bank Corporation, Cincinnati, Ohio, as a marketing representative from August 1987 to August 1989.

Terry L. Ralston, age 51, was elected a Vice President of the Bank in 1998. He is also Information Technology Manager of the Bank, a position he was appointed to in 2000. Previously, since joining the Bank in February, 1996, he was Data Processing Manager. He is responsible for the day-to-day operation of the Bank's Data Processing Department and Deposit Services Center. He has over twenty-five years of experience in similar positions with financial institutions in northern Illinois and southern Wisconsin.

Item 2. Properties

Offices

The following table sets forth information concerning the main office and each branch office of the Bank at December 31, 2000. At December 31, 2000, the Company's premises had an aggregate net book value of approximately $6.8 million.

Location	Year Opened (1)	Owned or Leased	Lease Expiration Date	Net Book Value
				(In thousands)
Main Office				
310 S. Schuyler Avenue Kankakee, Illinois	1958	Owned	N/A	$2,001
Full Service Branches				
Main Street and U.S. 45 Ashkum, Illinois	1977	Owned	N/A	22
680 S. Main Street Bourbonnais, Illinois	1974	Owned	N/A	277
990 N. Kinzie Avenue Bradley, Illinois	1998	Leased	October 22, 2013 (2)	176
180 N. Front Street Braidwood, Illinois	1998	Leased	July 24, 2005 (3)	---
1001 S. Neil Street Champaign, Illinois	1992	Owned	N/A	754
100 S. Broadway Coal City, Illinois	1998	Leased	July 24, 2005 (3)	140
660 S. Broadway Coal City, Illinois	1998	Owned	N/A	712
1275 E. Division Street Diamond, Illinois	1998	Owned	N/A	373
302 W. Mazon Avenue Dwight, Illinois	1987	Owned	N/A	390
654 N. Park Road Herscher, Illinois	1998	Owned	N/A	594
323 E. Main Street Hoopeston, Illinois	1994	Owned	N/A	163
310 Section Line Road Manteno, Illinois	1975	Owned	N/A	263
200 W. Washington Street Momence, Illinois	1995	Owned	N/A	185

1708 S. Philo Road Urbana, Illinois	1998	Owned	N/A	739
				$6,789

(1) Year opened refers to the year in which the current facility opened or was acquired.
(2) The Bank has an option to cancel this lease at the end of the fifth and tenth year by providing notice consistent with the terms of the lease.
(3) The Bank has an option to renew this lease for two consecutive five year terms.

The Company believes that its current facilities are adequate to meet present and immediately foreseeable needs.

The Company maintains depositor and borrower customer files on an in-house system. The net book value of the data processing and computer equipment utilized by the Company at December 31, 2000 was $352,000.

Item 3. Legal Proceedings

The Company is involved as plaintiff or defendant in various legal actions current legal proceedings cannot be predicted with certainty, it is the opinion of management that the resolution of these legal actions should not have a material effect on the Company's consolidated financial position or results of operations.

Item 4. Submission of Matters to a Vote of Security Holders

No matter was submitted to a vote of security holders, through the solicitation of proxies or otherwise, during the quarter ended December 31, 2000.

PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters

Page 53 of the 2000 Annual Report to Stockholders is incorporated by reference.

Item 6. Selected Financial Data

Pages 7 and 8 of the 2000 Annual Report to Stockholders is incorporated by reference.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation

Pages 9 through 26 of the 2000 Annual Report to Stockholders are incorporated by reference.

Item 7a. Quantitative and Qualitative Disclosures About Market Risk

The Company's net income and net portfolio value ("NPV"), in the normal course of business, are exposed to interest rate risk, and can vary based on changes in the general level of interest rates. All financial products carry

some amount of interest rate risk, and substantial portions of both the Company's assets and liabilities are financial products. These include investment securities, asset-backed securities, loans, deposits and borrowed money. Off-balance

sheet items, such as loan commitments, letters of credit, commitments to buy or sell loans or securities, and derivative financial instruments, also carry some amount of interest rate risk.

The Bank's Asset/Liability Committee ("ALCO"), consisting of the president, certain vice presidents and the controller of the Bank, is responsible for developing methods and strategies for the Company to manage the sensitivity characteristics of its assets and liabilities, and for directing the implementation of these methods and strategies. ALCO meets on a monthly basis, and the boards of both the Bank and the Company review the Company's exposure to interest rate risk on at least a quarterly basis.

ALCO generally uses two types of analysis in measuring and reviewing the Company's interest rate sensitivity. These are the GAP analysis, which is discussed under the heading of Asset/Liability Management on page 9 of the Annual Report, and the NPV calculation. The NPV calculation uses information about the Company's assets, liabilities and off-balance sheet items, market interest rate levels and assumptions about the behavior of the assets and liabilities, to calculate the Company's NPV. The NPV is the market value of assets minus the market value of liabilities, adjusted for off-balance sheet items divided by the market value of assets. The NPV is then subjected to immediate and permanent changes of 300 basis points in market interest rate levels, in 100 basis point increments, both upward and downward. The resulting changes in NPV and net interest income at each increment are measured against pre-determined, minimum NPV ratios for each incremental rate change, as approved by the board in the interest rate risk policy.

The following table presents the Bank's NPV ratios for the various rate change levels at December 31, 2000:

Changes in Interest Rates	NPV Ratio
300 basis point rise	4.77%
200 basis point rise	6.16%
100 basis point rise	7.49%
Base rate scenario	8.66%
100 basis point decline	9.38%
200 basis point decline	10.20%
300 basis point decline	11.31%

The preceding table indicates that at December 31, 2000, in the event of an immediate and permanent increase in prevailing market interest rates, the Bank's NPV ratio, would be expected to decrease, and that in the event of an immediate and permanent decrease in prevailing market interest rates, the Bank's NPV ratio would be expected to increase. At December 31, 2000, the estimated changes in the Bank's NPV ratios were within the levels approved by the board of directors.

The NPV decreases in a rising rate scenario because the Company's interest-bearing liabilities generally reprice faster than its interest-earning assets. This effect is increased by periodic and lifetime limits on changes in rate on

most adjustable-rate, interest-earning assets. The NPV increases in a falling rate scenario because of the same mismatch between repricing of interest-bearing liabilities and interest-earning assets. The effect of the falling rate scenario is somewhat mitigated by several factors, including limits on the Company's ability to decrease rates on some of its deposit sources, such as money market accounts and NOW accounts, and by the ability of borrowers to repay loans ahead of schedule and refinance at lower rates.

The NPV ratio is calculated by the OTS on a quarterly basis utilizing information about the Company's assets, liabilities and off-balance sheet items. This information is provided by the Company. The calculation is designed to estimate the effects of hypothetical rate changes on the NPV, utilizing projected cash flows, and is based on numerous assumptions, including relative levels of market interest rates, loan prepayments speeds and deposit decay rates. Actual changes in the NPV, in the event of market interest rate changes of the type and magnitude used in the calculation, could differ significantly. Additionally, the calculation does not account for possible actions taken by ALCO to mitigate the adverse effects of changes in market interest rates.

Item 8. Financial Statements and Supplementary Data

Pages 28 through 51 of the 2000 Annual Report to Stockholders are incorporated by reference.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None

PART III

Item 10. Directors and Officers of the Registrant

Information concerning directors of the Company is incorporated by reference from the Company's definitive Proxy Statement for the Annual Meeting of Stockholders to be held in 2001 (the "2001 Proxy Statement"), a copy of which was filed with the Securities and Exchange Commission on March 16, 2001.

Executive Officers Who are Not Directors

Information regarding the business experience during the past five years with respect to the executive officers of the Company contained in Part I of this Form 10-K is incorporated by reference.

Compliance with Section 16(a) of the Exchange Act

Section 16(a) of the Securities Exchange Act of 1934 requires that the Company's executive officers and directors and persons who own more than 10% of the Company Common Stock file reports of ownership and changes in ownership with the SEC and with the exchange on which the Company's shares of Common Stock are traded. Such persons are also required to furnish the Company with copies of all Section 16(a) forms they file. Based solely on the Company's review of the copies of such forms furnished to the Company and, if appropriate, representations made to the Company by any such reporting person concerning whether a Form 5 was required to be filed for 2000, the Company is not aware that any of its directors and executive officers or 10% stockholders failed to comply with the filing requirements of Section 16(a) during 2000, with the exception of an initial filing indicating that Brenda L. Baird became a director, which was filed 24 days late.

Item 11. Executive Compensation

Information concerning executive compensation called for by Item 11 of this Form 10-K is incorporated by reference from the section in the Company's 2001 Proxy Statement entitled "Executive Compensation." The report of the Company's Compensation Committee is not incorporated into this Form 10-K.

Item 12. Security Ownership of Certain Beneficial Owners and Management

Information concerning security ownership of certain beneficial owners and management called for by Item 12 of this Form 10-K is incorporated by reference from the section in the Company's 2001 Proxy Statement entitled "Voting Securities and Principal Holders."

Item 13. Certain Relationships and Related Transactions

Information concerning certain relationships and related transactions called for by Item 13 of this Form 10-K is incorporated by reference from the section in the Company's 2001 Proxy Statement entitled "Certain Relationships and Related Transactions."

PART IV

Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K

(a)(1) Consolidated Financial Statements:

The following information appearing in the Registrant's 2000 Annual Report to Stockholders is incorporated by reference in this Annual Report on Form 10-K as Exhibit 13.

Annual Report Section	Pages in Annual Report
Selected Financial Data	7-8
Management's Discussion and Analysis of Financial Condition and Results of Operations	9-26
Report of Independent Auditors	27
Consolidated Statements of Financial Condition	28-29
Consolidated Statements of Income	30
Consolidated Statements of Stockholders' Equity	31
Consolidated Statements of Cash Flows	32-33
Notes to Consolidated Financial Statements	34-51
Quarterly Financial Information	51

With the exception of those sections specifically incorporated by reference, the Registrant's 2000 Annual Report to Stockholders is not deemed filed as part of this Annual Report on Form 10-K.

(a)(2) Financial Statement Schedules:

Financial statement schedules have been omitted as the required information is contained in the consolidated financial statements and notes thereto, or because such schedules are not required or applicable.

(a)(3) Exhibits:

Regulation S-K Exhibit Number	Document	Reference to Prior Filing or Exhibit Number Attached Hereto
3	Articles of Incorporation	(1)
3	Bylaws	(1)
4	Instruments defining the rights of security holders, including debentures	(1)
10	Executive Compensation Plans and Arrangements	
	a. Stock Option Plan	(2)
	b. Management Recognition Plan and Trusts	(2)
	c. Employee Stock Ownership Plan	
	d. Money Purchase Pension Plan	(1)
	e. 401(k) Plan	(1)
	f. Kankakee Bancorp, Inc. Bank Incentive (1)n and Trust	(3)
13	2000 Annual Report to Stockholders	13
21	Subsidiaries of Registrant	21
23	Consent of Independent Auditor	23
99.1	2001 Proxy Statement	99.1
99.2	Rights Agreement	(4)

(1) Filed on September 11, 1992, as exhibits to the Registrant's Registration Statement No. 33-51950 on Form S-1. Such previously filed documents are hereby incorporated herein by reference in accordance with Item 601 of Regulation S-K.

(2) Filed on March 29, 1993, as exhibits to the Registrant's Annual Report on

Form 10-K. Such previously filed documents are hereby incorporated herein by reference in accordance with Item 601 of Regulation S-K.

(3) Filed on March 30, 1994, as an exhibit to the Registrant's Annual Report on Form 10-K. Such previously filed documents are hereby incorporated herein by reference in accordance with Item 601 of Regulation S-K.

(4) Filed on May 21, 1999, as an exhibit to the Registrant's Form 8-K. Such previously filed document is hereby incorporated herein by reference in accordance with Item 601 of Regulation S-K.

(b) Reports on Form 8-K:

On October 24, 2000, the Company filed a report on Form 8-K stating under Item 5 that the Company had, on October 24, 2000, issued a news release announcing its earnings for the quarter ended September 30, 2000, and its payment of a quarterly dividend to its stockholders.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

KANKAKEE BANCORP, INC.

Date: March 22, 2001

By: /s/ William Cheffer
William Cheffer
Chief Executive Officer and Chairman of the Board

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

/s/ William Cheffer William Cheffer	3-22-01 Date	Chief Executive Officer and Chai of the Board (Principal Executiv Officer)
/s/ Ronald J. Walters Ronald J. Walters	3-22-01 Date	Vice President and Treasurer (Pr Financial and Accounting Officer
/s/ Brenda L. Baird Brenda L. Baird	3-22-01 Date	Director
/s/ Charles C. Huber Charles C. Huber	3-22-01 Date	Director
/s/ Wesley E. Walker Wesley E. Walker	3-22-01 Date	Director

/s/ Larry D. Huffman	3-22-01	Director
Larry D. Huffman	Date	
/s/ Thomas M. Schneider	3-22-01	Director
Thomas M. Schneider	Date	
/s/ Michael A. Stanfa	3-22-01	Director
Michael A. Stanfa	Date	

INDEX TO EXHIBITS

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