KANKAKEE BANCORP INC
Form 10-Q
May 13, 2002

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

[X] Quarterly Report Under Section 13 or 15(d) of the Securities Exchange Act of 1934 For the Quarterly Period Ended March 31, 2002.

or

[_] Transition Report Under Section 13 or 15(d) of the Securities Exchange Act of 1934 For the Transition Period From __________ to__________.

Commission File Number 1-13676

KANKAKEE BANCORP, INC.

(Exact Name of Registrant as Specified in its Charter)

Delaware	36-3846489
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)

310 South Schuyler Avenue, Kankakee, Illinois	60901
(Address of Principal Executive Offices)	(Zip Code)

(815) 937-4440

(Registrant's telephone number, including area code)

Check whether the Issuer (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No

As of May 8, 2002, there were 1,217,976 issued and outstanding shares of the Issuer's common stock (exclusive of 532,024 shares of the Issuer's common stock held as treasury stock).

KANKAKEE BANCORP, INC.

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

	March 31, 2002	D
Assets		
Cash and due from banks	$ 15,230,379	

Federal funds sold	7,142,264
Money market funds	3,924,056
Cash and cash equivalents	26,296,699
Certificates of deposit	50,000
Securities:	
Investment securities:	
Available-for-sale, at fair value	36,319,360
Held-to-maturity, at cost (fair value: March 31, 2002 - $1,473,129; December 31, 2001 - $1,483,946)	1,464,757
Total investment securities	37,784,117
Mortgage-backed securities:	
Available-for-sale, at fair value	40,898,541
Held-to-maturity, at cost (fair value: March 31, 2002 - $32,439; December 31, 2001 - $38,003)	32,118
Total mortgage-backed securities	40,930,659
Non-marketable equity securities	1,000
Loans, net of allowance for losses on loans ($2,727,592 at March 31, 2002; $2,582,234 at December 31, 2001)	395,905,044
Loans held for sale	387,200
Real estate held for sale	523,391
Federal Home Loan Bank stock, at cost	2,478,700
Office properties and equipment	8,690,183
Accrued interest receivable	2,908,552
Prepaid expenses and other assets	11,213,280
Intangible assets	4,385,084
Total assets	$531,553,909

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

	March 31, 2002
Liabilities and stockholders' equity	
Liabilities:	
Deposits	
Noninterest bearing	$ 29,665,437
Interest bearing	392,821,016
Other borrowings	62,600,000
Advance payments by borrowers for taxes and insurance	3,084,716
Other liabilities	2,066,379

Total liabilities	490,237,548
Stockholders' equity	
Preferred stock, $.01 par value; authorized, 500,000 shares; none outstanding	-
Common stock, $.01 par value; authorized, 3,500,000 shares; issued 1,750,000	17,500
Additional paid-in capital	15,106,564
Retained income, partially restricted	37,710,135
Treasury stock (526,243 shares at March 31, 2002; 533,642 shares at December 31, 2001)	(11,756,340)
Accumulated other comprehensive income	238,502
Total stockholders' equity	41,316,361
Total liabilities and stockholders' equity	$531,553,909

See notes to consolidated financial statements (unaudited)

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

	Three Months Ended March 31,	
	2002	2001
Interest income:		
Loans	$ 6,980,330	$ 6,855,666
Investment securities and other	588,562	1,057,244
Mortgage-backed securities	210,880	281,830
Total interest income	7,779,772	8,194,740
Interest expense:		
Deposits	3,571,121	4,487,054
Borrowed funds	361,949	362,402
Total interest expense	3,933,070	4,849,456
Net interest income	3,846,702	3,345,284
Provision for losses on loans	147,968	15,000
Net interest income after provision for losses on loans	3,698,734	3,330,284
Other income:		
Net gain on sales of real estate held for sale	10,209	10,383
Net gain on sales of loans held for sale	237,918	-

Fee income	590,416	472,903
Insurance commissions	10,793	26,627
Other	110,125	87,652
Total other income	959,461	597,565
Other expenses:		
Compensation and benefits	1,802,732	1,555,156
Occupancy	297,744	304,019
Furniture and equipment	148,876	184,021
Federal deposit insurance premiums	18,267	18,327
Advertising	67,923	68,518
Provision for losses on foreclosed assets	6,000	16,700
Data processing services	115,043	100,702
Telephone and postage	136,052	101,980
Amortization of intangible assets	46,017	93,687
Other general and administrative	741,508	536,436
Total other expenses	3,380,162	2,979,546
Income before income taxes	1,278,033	948,303
Income taxes	384,846	317,300
Net income	$ 893,187	$ 631,003
Net income	$ 893,187	$ 631,003
Other comprehensive income:		
Unrealized gains (losses) on available-for-sale securities, net of related income taxes	(366,576)	473,642
Comprehensive income	$ 526,611	$ 1,104,645
Basic earnings per share	$ 0.73	$ 0.51
Diluted earnings per share	$ 0.72	$ 0.50

See notes to consolidated financial statements (unaudited)

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

	Three Months Ended March 31,	
	2002	2001
Cash flows from operating activities:		
Net income	$ 893,187	$ 631,003
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for losses on loans	147,968	15,000
Provisions for losses on real estate held for sale	6,000	16,700
Depreciation and amortization	259,185	341,464

Amortization of investment premiums and discounts, net	8,709	(8,811)
Accretion of loan fees and discounts	(35,116)	13,391
Deferred income tax provision (benefit)	-	23,858
Originations of loans held for sale	(15,892,028)	(1,741,425)
Proceeds from sales of loans	16,571,356	1,741,425
(Increase) decrease in interest receivable	(85,462)	369,276
Increase in interest payable on deposits	44,484	72,663
Net gain on sales of loans	(237,918)	-
Net gain on sales of real estate held for sale	(10,209)	(10,383)
Federal Home Loan Bank of Chicago, stock dividend	(35,400)	(42,000)
Other, net	(169,531)	(790,184)
Net cash from operating activities	1,465,225	631,977
Cash flows from investing activities:		
Investment securities		
Available-for sale:		
Purchases	($ 4,005,781)	($ 2,008,944)
Proceeds from calls and maturities	2,000,000	20,070,000
Mortgage-backed securities:		
Available-for-sale:		
Purchases	(30,607,096)	(300,890)
Proceeds from maturities and pay downs	1,221,649	1,276,429
Held-to-maturity:		
Proceeds from maturities and pay downs	5,509	7,522
Proceeds from sales of real estate	-	58,484
Deferred loan fees and costs, net	(2,124)	57,174
Loans originated	(37,481,976)	(39,458,334)
Loans purchased	(1,400,000)	-
Principal collected on loans	36,575,893	28,014,035
Purchases of office properties and equipment, net	(506,178)	(237,640)
Purchase of bank owned life insurance	(8,000,000)	-
Net cash from investing activities	(42,200,104)	7,477,836

See notes to consolidated financial statements (unaudited).

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

	Three Months End
	2002
Cash flows from financing activities	
Net increase in non-certificate of deposit accounts	$ 2,640,828
Net increase in certificate of deposit accounts	4,334,305
Net increase in advance payments by borrowers for taxes and insurance	1,194,882
Proceeds from short-term borrowings	-
Repayments of short-term borrowings	-
Proceeds from other borrowings	37,600,000
Repayments of other borrowings	(5,000,000)

Proceeds from exercise of stock options	433,685
Dividends paid	(147,384)
Purchase of treasury stock	(687,452)
Net cash from financing activities	40,368,864
Increase (decrease) in cash and cash equivalents	(366,015)
Cash and cash equivalents:	
Beginning of period	26,662,714
End of period	$ 26,296,699
Supplemental disclosures of cash flow information	
Cash paid during the period for:	
Interest on deposits	$ 3,526,600
Interest on borrowed funds	$ 334,800
Income taxes	$ -
Supplemental disclosures of non-cash investing activities:	
Real estate acquired through foreclosure	$ 63,306
Increase (decrease) in unrealized gains on securities available-for-sale	($551,242)
Increase in deferred taxes attributable to the unrealized gains on securities available-for-sale	$ 184,666

See notes to consolidated financial statements (unaudited).

KANKAKEE BANCORP, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

March 31, 2002

Note 1 - Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with instructions to Form 10-Q. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. The statement of condition at December 31, 2001 has been derived from the audited financial statements at that date, but does not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. Operating results for the three-month period ended March 31, 2002 are not necessarily indicative of the results that may be expected for the year ending December 31, 2002. For further information, refer to the consolidated financial statements and footnotes thereto included in the annual report for Kankakee Bancorp, Inc. (the "Company") on Form 10-K for the year ended December 31, 2001.

Note 2 - Earnings Per Share

Basic earnings per share of common stock have been determined by dividing net income for the period by the average number of shares of common stock outstanding of 1,228,689. Diluted earnings per share of common stock have been determined by dividing net income for the period by the average number of shares of common stock and common stock equivalents outstanding. Common stock equivalents, totaling 13,587, assume exercise of stock options, and the calculation assumes purchase of treasury stock with the option proceeds at the average market price for the period (when dilutive). The Company has an incentive stock option plan for the benefit of directors, officers and employees. Diluted earnings per share have been determined considering the stock options granted, net of stock options which have been exercised.

Note 3 - Accounting for Certain Investments in Debt and Equity Securities

At March 31, 2002, stockholders' equity included a positive $239,000, which represents the amount by which the market value of the available-for-sale securities and the available-for-sale mortgage-backed securities exceeded the book value, net of income tax of $123,000. An increase in market interest rates during the three months ended March 31, 2002 resulted in a $366,000 decrease in the market value, net of income tax effect, of the available-for-sale securities and the available-for-sale mortgage-backed securities. At the end of 2001, the market value of the available-for-sale securities portfolio exceeded the book value by $605,000, net of income tax benefit.

Note 4 - Accounting Change

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

	Three months ended March 31, 2002	2001
Reported net income	$893,187	$631,003
Add goodwill amortization	-	31,462
Adjusted net income	$893,187	$662,465
Basic earnings per share:		
Reported net income	$ 0.73	$ 0.51
Goodwill amortization	-	$ 0.03
Adjusted net income	$ 0.73	$ 0.54
Diluted earnings per share:		
Reported net income	$ 0.70	$ 0.50
Goodwill amortization	-	$ 0.03

Adjusted net income	$ 0.70	$ 0.53

During the second quarter of 2002, the Company will perform the first of the impairment tests required under FASB Statement No. 142. However, based on information currently available, the Company does not believe that the results of this first test will have a material effect on either the earnings or financial position of the Company.

KANKAKEE BANCORP, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

GENERAL

The Company is a Delaware company formed in 1992 for the purpose of becoming the savings and loan holding company of Kankakee Federal Savings Bank (the "Bank"), the Company's principal subsidiary. The Bank was originally chartered in 1885 as an Illinois savings and loan association and was converted to a federally chartered thrift institution in 1937.

The Company serves the financial needs of families and local businesses in its primary market areas through its main office at 310 South Schuyler Avenue, Kankakee, Illinois and fourteen branch offices located in the communities of Ashkum, Bourbonnais, Bradley, Braidwood, Champaign, Coal City (2), Diamond, Dwight, Herscher, Hoopeston, Manteno, Momence and Urbana, Illinois. The Company's business involves attracting deposits from the general public and using such deposits to originate residential mortgage loans and, to a lesser extent, commercial real estate, consumer, commercial business, multi-family and construction loans in its market areas. The Company also invests in investment securities, mortgage-backed securities and various types of short term liquid assets.

ECONOMIC CLIMATE

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

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

During the first quarter of 2002, the FOMC held target interest rates at the same levels they were at December 31, 2001 while maintaining a cautionary posture on the state of the economy. While some economic indicators are pointing toward a recovery, others are still weak, indicating that the economy remains

slow. If the economy does move into a full recovery, then the next FOMC interest rate move would likely be an increase in its target rates.

Rising interest rates, because of the Company's current structure of assets and liabilities, could have a detrimental effect on the Company's interest rate spread and results of operations. Since the Company had, at December 31, 2001, a negative cumulative one-year gap of 5.0%, an increase in market interest rates might negatively affect net interest income and the results of operations. This is due to liabilities maturing, and repricing, from their current rates to higher rates, more quickly than assets will mature and reprice to higher rates. Management believes that the Company's current level of interest rate sensitivity is reasonable, in light of the current market rates and the possibility of increasing market rates. However, significant fluctuations in interest rates may have an adverse effect on the Company's financial condition and results of operations.

BUSINESS DEVELOPMENTS

During the late 1990s, the Company experienced significant growth and improvement in its office facilities and a widening of its market areas. This was accomplished through the acquisition of a bank, the opening of several new offices and the replacement of an outdated office building. There were also significant changes and improvements in products and services brought about through the use of technology.

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

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

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

It was recognized that such a strategy would:

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

In response to rapidly falling interest rates during 2001, the Company modified its growth strategy and, once again, began to sell its fixed-rate mortgage originations in the secondary market.

During the last half of 2001, the Company began reviewing the potential benefits of Bank Owned Life Insurance, (commonly referred to as "BOLI"), which is variable rate, single premium whole life insurance on the lives of key employees of the Company. The Company is the beneficiary of the policies, and the policies build cash value. Neither the increase in cash value, which is included in other income, nor the death benefits are taxable to the Company. This provides a significant enhancement to earnings, which will be used to offset increases in the cost of employee benefits such as health insurance. The Bank completed the BOLI purchase, totaling $8.0 million, in the last half of March 2002, and therefore, the effects of the transaction on first quarter results were minimal.

In late March, Kankakee Federal Savings Bank reimplemented a capital utilization strategy, which involved the purchase of $30.0 million of adjustable-rate, mortgage-backed securities, using borrowed funds. The securities are the collateral for the borrowed funds, and there is a positive spread in the transaction which enhances net interest income, net income and earnings per share. The Company has evaluated the program, and it is comfortable with potential earnings volatility that may result from interest rate fluctuation. The effects of this transaction on the results for the first quarter were also minimal.

The Company engaged an independent third party to evaluate its existing branch network and other service delivery systems, focusing on locations, market areas, physical layouts, accessibility and market potentials. This evaluation also included a review of other potential market areas suggested by both management and the third party. During March of this year the preliminary reports were received and are in the process of review. No decisions have yet been made as to the result of these evaluations. However, they will likely precipitate some changes in the organization, with a view toward increased earnings and an enhancement of long-term stockholder value.

During the quarter, the Company committed to the issuance of $10.0 million in trust preferred securities as part of a large pool of such securities. These securities, which carry a variable rate of interest, are includable, within specified limits, in regulatory capital. The proceeds from the issuance of these securities, which were received in the second week of April 2002, could be used to repurchase stock, fund an accretive acquisition, purchase securities as part of a leveraging strategy or for other general corporate uses. Interest payments on these securities are deductible for income tax purposes.

FINANCIAL CONDITION

Total assets of the Company increased by $41.3 million, or 8.4%, to $531.6 million at March 31, 2002 from $490.3 million at December 31, 2001.

Cash and cash equivalents decreased by $366,000, or 1.4%, from $26.7 million at December 31, 2001 to $26.3 million at March 31, 2002. The decrease was primarily attributable to increases in investment and mortgage-backed securities available-for-sale, loans and other assets. The majority of the funding for these increases was provided by increases in deposits and borrowed money.

During the three-month period ended March 31, 2002, net loans receivable increased by $2.1 million, or 0.5%, from $393.8 million to $395.9 million. This was primarily the result of the origination of $23.7 million of real estate loans, the purchase of $1.4 million of real estate loans and the origination of

$13.8 million of consumer and commercial business loans, offset by loan repayments which totaled $36.6 million.

Loans held for sale decreased by $441,000, or 53.3%, from $828,000 at December 31, 2001 to $387,000 at March 31, 2002. This was the result of the sale of $16.6 million of loans held for sale, at a net gain of $238,000, which was partially offset by the origination of $15.9 million of such loans.

Securities available-for-sale increased by $1.6 million, or 4.5%, to $36.3 million at March 31, 2002 from $34.8 million at December 31, 2001 as the result of the purchase of $4.0 million of securities, which was partially offset by the exercise of call options by issuers on $2.0 million of securities, and by the net change in market value adjustment.

Mortgage-backed securities available-for-sale increased by $29.3 million, or 251.5%, to $40.9 million at March 31, 2002 from $11.6 million at December 31, 2001. The increase resulted from the purchase of $30.6 million of securities, which was partially offset by the maturity of $1.2 of securities, and by the net change in market value adjustments.

Deposits increased by $7.0 million, or 1.7%, from $415.5 million at December 31, 2001 to $422.5 million at March 31, 2002. During the three month period, there was a $4.3 million increase in certificate of deposit accounts and a $2.7 million increase in passbook, checking and money market accounts.

Total borrowings increased by $32.6 million, or 108.7%, from $30.0 million at December 31, 2001 to $62.6 million at March 31, 2002. The increase was the result of $37.6 million in new borrowings, which were partially offset by repayments of $5.0 million. Borrowings at March 31, 2002 consisted of $35.0 million in advances

from the Federal Home Loan Bank of Chicago and $27.6 million in funds from securities sold under agreement to repurchase.

ASSET/LIABILITY MANAGEMENT

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

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

In managing its asset/liability mix, the Company, at times, depending on

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

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

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

The Company currently does not enter into derivative financial instruments including futures, forwards, interest rate risk swaps, option contracts, or other financial instruments with similar characteristics. However, the Company is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers such as commitments to extend credit and letters of credit.

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NON-PERFORMING ASSETS AND ALLOWANCE FOR LOSSES ON LOANS

The Company's non-performing assets increased to $5.7 million, or 1.07%, of total assets at March 31, 2002 from $2.2 million, or 0.45% of total assets at December 31, 2001. During the three month period ended March 31, 2002, non-performing construction and development loans, non-performing commercial real estate loans and non-performing commercial business loans increased by $2.1 million, $179,000 and $1.2 million, respectively. These increases were slightly offset by a decrease in non-performing consumer loans of $67,000. In addition, foreclosed assets increased by $52,000 and restructured troubled debts decreased by $9,000.

Non-performing assets increased by approximately $3.5 million. The increase was primarily due to previously classified loans to three of the Company's long-term borrowers that became non-performing during the first quarter of 2002. Many financial institutions, such as the Company, have experienced an increase in non-performing assets during this difficult economic period, as even well-established business borrowers have developed cash flow and other business

related problems. It is management's belief that the allowance for losses on loans at March 31, 2002, remains adequate, even in light of the first quarter movement of these loans from classified to non-performing. However, there can be no assurance that the allowance for losses on loans will be adequate to cover all losses.

The ratio of the allowance for losses on loans to non-performing loans decreased to 59.7% as of March 31, 2002 compared to 230.3% as of December 31, 2001. The decrease in this ratio, which excludes foreclosed assets and restructured troubled debt, was the result of the increase of $3.5 million in non-performing assets.

The Company classified $1.4 million of its assets as Special Mention, $8.7 million as Substandard and $98,000 as Loss as of March 31, 2002. No assets were classified as Doubtful at March 31, 2002. This represents a decrease of $156,000 in the Special Mention category and a net increase of $1.5 million in the other categories from the December 31, 2001 totals for classified assets. The ratio of classified assets to total assets (including items classified as Special Mention) was 1.91% at March 31, 2002 as compared to 1.80% at December 31, 2001. The ratio of the allowance for losses on loans to classified assets decreased to 26.9% as of March 31, 2002 compared to 29.3% as of December 31, 2001.

The allowance for losses on loans is established through a provision for losses on loans based on management's evaluation of the risk inherent in the loan portfolio and changes in the nature and volume of its loan activity. Such evaluation, which includes a review of all loans with respect to which full collectibility may not be reasonably assured, considers the fair value of the underlying collateral, economic conditions, historical loan loss experience, level of classified loans and other factors that warrant recognition in providing for an adequate allowance for losses on loans.

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

RESULTS OF OPERATIONS
THREE MONTHS ENDED MARCH 31, 2002 AND 2001

Net income for the quarter ended March 31, 2002 was $893,000 compared to $631,000 for the same period in 2001. This represented a $262,000, or 41.1%, increase. The increase in net income resulted from increases of $501,000 in net interest income and $362,000 in other income, which were partially offset by

Basic earnings per share were $.73 for the quarter ended March 31, 2002 compared to $.51 for the 2001 period. Diluted earnings per share were $.72 for the quarter ended March 31, 2002 compared to $.50 for the comparable 2001 period, representing an increase of 44.0%.

Net interest income increased $501,000, or 15.0%, during the quarter ended March 31, 2002, compared to the quarter ended March 31, 2001.

The table presented on page 21 ("Table I"), sets forth an analysis of the Company's net interest income for the three-month periods ended March 31, 2002 and 2001.

As Table I indicates, interest income decreased $416,000, or 5.1%, to $7.8

million for the three-month period ended March 31, 2002 from $8.2 million for the same period in 2001. The decrease in interest income was the result of a decrease in the yield earned on interest-earning assets to 6.71% during the 2002 period from 7.73% during the 2001 period, which was partially offset by an increase in the average balance of interest-earning assets to $470.4 million during the 2002 period from $429.7 million during the 2001 period. The increase in the average balance of interest-earning assets was due to increases in balances of loans, mortgage-backed securities, FHLB stock and other interest-earning assets during the quarter, which were partially offset by a decrease in the balance of investment securities. The decrease in the yield earned on interest-earning assets was the result of decreasing market interest rates during 2001, which resulted in lower yields on short term assets and a lower yield on both the reinvestment of principal repayments on loans and newly originated loans. The increase in average loans was primarily the result of an aggressive lending program during 2001 and the first quarter of 2002.

Interest expense decreased $917,000, or 18.9%, to $3.9 million during the first quarter from $4.8 million in the same period in 2001. The decrease in interest expense was the result of a decrease in the average yield on interest-bearing liabilities to 3.50% during the 2002 period from 4.73% during the 2001 period, which was partially offset by an increase in the average outstanding balance of interest-bearing liabilities to $455.8 million during the 2002 period from $415.5 million during the 2001 period. The increase in average interest-bearing liabilities resulted primarily from a more aggressive pricing policy, an increase in the use of borrowed funds, and the continuing movement to a sales oriented operation. The decrease in the average yield on interest-bearing liabilities resulted from market rates moving significantly lower during 2001.

The provision for losses on loans totaled $148,000 during the first quarter of 2002 compared to $15,000 during the first quarter of 2001. The increase in the provision for losses on loans during the first quarter of 2002 compared to the first quarter of 2001 was the result of several factors, including the increase in the total loan portfolio and an increase in non-performing assets.

Other income for the three-month period ended March 31, 2002 increased $362,000, or 60.6%, to $959,000 compared to $598,000 for the same period in 2001. The increase was attributable to increases of $117,000 in fee income, $238,000 in gain on the sale of loans held for sale and $22,000 in other income. These increases were partially offset by a decrease of $16,000 in insurance commissions. The 24.8% increase in fee income was primarily the result of an increase in checking accounts subject to fees. The increase in gain on the sale of loans held for sale was the result of the resumption in sales during the second quarter of 2001 of most originated fixed-rate mortgages. The $16,000 decrease in insurance commissions resulted primarily from a corresponding decrease in sales of annuity products during the first quarter of 2002 compared to the same period in 2001.

General and administrative expenses for the first quarter of 2002 increased $401,000 or 13.4%, to $3.4 million from $3.0 million for the first quarter of 2001. There were increases of $248,000 (15.9%) in compensation and benefits, $205,000 (38.2%) in other expenses, $14,000 (14.2%) in data processing services and $34,000 (33.4%) in telephone and postage costs. These increases were partially offset by decreases of $6,000 (2.1%) in occupancy costs, $35,000 (19.1%) in furniture and equipment expense, $11,000 (64.1%) in

provision for losses on foreclosed assets, $48,000 (50.9%) in amortization of intangible assets and several other small decreases. The major reason for the

increase in other expenses, and a significant reason for the overall increase in general and administrative expenses, was additional costs in preparation for the annual meeting. During the quarter the Company incurred additional costs, necessitated by a proxy contest, which totaled approximately $190,000. After the effect of income taxes, net income was reduced by approximately $125,000 and diluted earnings per share were reduced by approximately $1.0 per share, as a direct result of the proxy contest.

Federal income taxes increased $66,000 to $385,000 for the three-month period ended March 31, 2002, compared to $317,000 for the same period in 2001. The primary reason for this increase was the increase in pre-tax income.

LIQUIDITY AND CAPITAL RESOURCES

The Company maintains a certain level of cash and other liquid assets to fund normal volumes of loan commitments, deposit withdrawals and other obligations. The Office of Thrift Supervision (the "OTS") regulations currently require each savings association to maintain sufficient liquidity to ensure its safe and sound operation.

The Company's primary sources of funds are deposits and proceeds from payments of principal and interest on loans and the sale or maturity of investment securities and mortgage-backed securities. Management considers current liquidity and additional sources of funds adequate to meet outstanding liquidity needs.

Federally insured savings banks, such as the Bank, are required by federal law and OTS regulations to maintain minimum levels of regulatory capital. The OTS has established the following minimum capital requirements: a risk-based capital ratio, a core capital ratio and a tangible capital ratio. In addition to these minimum regulatory capital requirements, another provision of federal law grants the OTS broad power to take prompt corrective action to resolve the problems of undercapitalized institutions. The OTS regulations implementing this statutory authority (the "prompt corrective action regulations") establish other capital thresholds which determine whether an institution will be deemed to be "well capitalized", "adequately capitalized", "undercapitalized", "significantly undercapitalized" or "critically undercapitalized". The capital category to which an institution is assigned in turn determines the actions the OTS may take to address the institution's undercapitalization. The capital regulations of the OTS exclude the effect of accumulated other comprehensive income for the purpose of calculating regulatory capital.

The capital regulations currently require tangible capital of at least 1.5% of adjusted total assets (as defined by regulation). Under the prompt corrective action regulations, however, an institution with a ratio of tangible capital to total assets below 2.0% is deemed to be "critically undercapitalized" and, as such, will be subject to a variety of sanctions under the prompt corrective action regulations, including, without limitation, limits on asset growth, restrictions on activities and, ultimately, the appointment of a receiver. Tangible capital generally includes common stockholders' equity and retained income and certain non-cumulative perpetual preferred stock and related income less intangible assets (other than specified amounts of mortgage servicing rights) and certain non-includable investments in subsidiaries.

The capital regulations also currently require core capital equal to at least 3.0% of adjusted total assets (as defined by regulation). Under the prompt corrective action regulations, however, an institution with a ratio of core capital to adjusted total assets of 3.0% will be deemed to be "adequately capitalized" only if the institution also has a composite rating of "1" under the Uniform Financial Institutions Rating System ("UFIRS"). All other institutions must maintain a minimum ratio of core capital to adjusted total assets of 4.0% in order to be deemed to be "adequately capitalized", and an

institution, regardless of its UFIRS rating, will be deemed to be "well capitalized" only if it maintains a ratio of core capital to adjusted total assets of at least 5.0%. If an

institution fails to remain at least "adequately capitalized", the OTS may impose one or more of a variety of sanctions on the institution to address its undercapitalized condition, including, without limitation, requiring the submission of a capital plan, restricting growth and restricting the payment of capital distributions (such as dividends). Core capital generally consists of tangible capital plus specified amounts of certain intangible assets.

The OTS risk-based requirement currently requires associations to have total capital of at least 8.0% of risk-weighted assets. In order to be considered "well capitalized" under the prompt corrective action regulations, however, an institution must maintain a ratio of total capital to total risk-weighted assets of at least 10.0% and a ratio of core capital to total risk-weighted assets of at least 6.0%. Total capital consists of core capital plus supplementary capital, which consists of, among other things, maturing capital instruments, such as subordinated debt and mandatorily redeemable preferred stock, and a portion of the Bank's general allowance for losses on loans.

As of March 31, 2002, the Bank exceeded all current minimum regulatory capital standards and was deemed to be "well capitalized" for purposes of the OTS's prompt corrective action regulations. At March 31, 2002, the Bank's tangible capital was $34.7 million, or 6.6%, of adjusted total assets, which exceeded the 1.5% requirement by $26.8 million and exceeded the 2.0% "critically undercapitalized" threshold by $24.1 million. In addition, at March 31, 2002, the Bank had core capital of $34.7 million, or 6.6%, of adjusted total assets, which exceeded the 4.0% requirement by $13.6 million and exceeded the 5.0% "well capitalized" threshold by $8.4 million. The Bank had risk-based capital of $37.3 million at March 31, 2002, or 11.1%, of risk-adjusted assets, which exceeded the minimum risk-based capital requirement by $10.4 million and exceeded the 10.0% "well capitalized" threshold by $3.6 million. Additionally, the Bank's $34.7 million of core capital equaled 10.3% of total risk-weighted assets, which exceeded the 6.0% "well capitalized" threshold by $14.4 million.

RECENT REGULATORY DEVELOPMENTS

On October 26, 2001, President Bush signed into law the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the "USA PATRIOT Act"). Among its other provisions, the USA PATRIOT Act requires each financial institution: (i) to establish an anti-money laundering program; (ii) to establish due diligence policies, procedures and controls with respect to its private banking accounts and correspondent banking accounts involving foreign individuals and certain foreign banks; and (iii) to avoid establishing, maintaining, administering, or managing correspondent accounts in the United States for, or on behalf of, foreign banks that do not have a physical presence in any country. The USA PATRIOT Act also requires the Secretary of the Treasury to prescribe, by regulations to be issued jointly with the federal banking regulators and certain other agencies, minimum standards that financial institutions must follow to verify the identify of customers, both foreign and domestic, when a customer opens an account. In addition, the USA PATRIOT Act contains a provision encouraging cooperation among financial institutions, regulatory authorities and law enforcement authorities with respect to individuals, entities and organizations suspected of engaging in terrorist acts or money laundering activities.

During the first quarter of 2002, the Financial Crimes Enforcement Network (FinCEN), a bureau of the Department of the Treasury, issued proposed and interim regulations as mandated by the USA PATRIOT Act that would: (i) prohibit certain financial institutions from providing correspondent accounts to foreign shell banks; (ii) require such financial institutions to take reasonable steps to ensure that correspondent accounts provided to foreign banks are not being used to indirectly provide banking services to foreign shell banks; (iii) require certain financial institutions that provide correspondent accounts to foreign banks to maintain records of the ownership of such foreign banks and their agents in the United States; (iv) require the termination of correspondent accounts of foreign banks that fail to turnover their account records in response to a lawful request from the Secretary of the Treasury or the Attorney General; and (v) encourage information sharing among financial institutions and federal law enforcement agencies to identify, prevent, deter and report money

laundering and terrorist activity. To date, it has not been possible to predict the impact the USA PATRIOT Act and its implementing regulations may have on the Company or the Bank in the future.

On April 11, 2002, the OTS announced the implementation of a restructuring plan designed to achieve greater operating efficiencies and consistency of regulation for the thrift industry. Under the plan, the OTS consolidated and realigned its regional structure into four supervisory regions by eliminating the Central Region (formerly located in Chicago, Illinois) and apportioning supervisory responsibilities for the institutions in the states that made up that region among other regions. Although the OTS will continue to maintain a Chicago office with a substantial supervisory presence, under the realignment, the Southeast Region (located in Atlanta, Georgia) assumed oversight of thrifts in Michigan, Illinois, Indiana and Kentucky, the Midwest Region (located in Dallas, Texas) assumed oversight of thrifts in Wisconsin and Tennessee and Ohio became part of the Northeast Region (located in Jersey City, New Jersey). In addition, North and South Dakota, Colorado and New Mexico were transferred to the West Region (located in San Francisco, California) from the Midwest region.

STOCK REPURCHASE

During the quarter ended March 31, 2002, the Company repurchased 18,036 shares of common stock at a total cost of $687,000 under its current stock repurchase program. Through March 31, 2002, a total of 687,543 shares of common stock of the Company had been purchased under the current and previous repurchase programs at a total cost of $15.0 million. As of March 31, 2002, the Company held 526,243 shares of its common stock as treasury stock. During the period from March 31, 2002 through May 8, 2002, an additional 13,481 shares of common stock were repurchased at a total cost of $511,000.

STOCK OPTIONS

During the first quarter of 2002, options on 25,435 shares of common stock were exercised. Between March 31, 2002 and May 8, 2002, options on 7,700 shares of common stock were exercised. Through May 8, 2002, no notice was received from the one remaining holder of options of the intention to exercise options.

DIVIDENDS

On April 9, 2002, a cash dividend of $.15 per share was declared, payable on May 31, 2002 to stockholders of record as of May 15, 2002. This represents a 25% increase in the dividend from the amount paid during the first quarter of

2002, and was the result of the Company's continuing strong earnings performance. The Company has paid a dividend every quarter since the dividend program was instituted in the first quarter of 1995. Future dividends will depend primarily upon earnings, financial condition and need for funds, as well as restrictions imposed by regulatory authorities regarding dividend payments and capital requirements.

SPECIAL NOTE CONCERNING FORWARD-LOOKING STATEMENTS

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

The Company's ability to predict results or the actual effect of future plans or strategies is inherently uncertain. Factors which could have a material adverse effect on the operations and future prospects of the Company and its subsidiaries include, but are not limited to, the following:

- The strength of the United States economy in general and the strength of the local economies in which the Company conducts its operations which may be less favorable than expected and may result in, among other things, a deterioration in the credit quality and value of the Company's assets.

- The economic impact of the terrorist attacks that occurred on September 11th, as well as any future threats and attacks, and the response of the United States to any such threats and attacks.

- The effects of, and changes in, federal, state and local laws, regulations and policies affecting banking, securities, insurance and monetary and financial matters.

- The effects of changes in interest rates (including the effects of changes in the rate of prepayments of the Company's assets) and the policies of the Board of Governors of the Federal Reserve System.

- The ability of the Company to compete with other financial institutions as effectively as the Company currently intends due to increases in competitive pressures in the financial services sector.

- The inability of the Company to obtain new customers and to retain existing customers.

- The timely development and acceptance of products and services,

including products and services offered through alternative delivery channels such as the Internet.

- Technological changes implemented by the Company and by other parties, including third party vendors, which may be more difficult or more expensive than anticipated or which may have unforeseen consequences to the Company and its customers.

- The ability of the Company to develop and maintain secure and reliable electronic systems.

- The ability of the Company to retain key executives and employees and the difficulty that the Company may experience in replacing key executives and employees in an effective manner.

- Consumer spending and saving habits which may change in a manner that affects the Company's business adversely.

- Business combinations and the integration of acquired businesses which may be more difficult or expensive than expected.

- The costs, effects and outcomes of existing or future litigation.

- Changes in accounting policies and practices, as may be adopted by state and federal regulatory agencies and the Financial Accounting Standards Board.

The ability of the Company to manage the risks associated with the foregoing as well as anticipated. These risks and uncertainties should be considered in evaluating forward-looking

statements and undue reliance should not be placed on such statements. Additional information concerning the Company and its business, including other factors that could materially affect the Company's financial results, is included in the Company's filings with the Securities and Exchange Commission.

TABLE I
NET INTEREST INCOME ANALYSIS (
KANKAKEE BANCORP, INC. AND S

Three Months Ended Mar			
2002			
Average Outstanding Balance	Interest Earned/Paid	Yield/ Rate	Average Outstanding Balance
(Dollars in Thousands)			

Interest-earning assets:				
Loans receivable (1)	$393,954	$6,980	7.19%	$343,504
Mortgage-backed securities (2)	18,902	211	4.53%	15,721
Investments securities (3)	35,674	458	5.21%	50,728
Other interest-earning assets	19,415	99	2.07%	17,589
FHLB stock	2,470	31	5.09%	2,144
Total interest-earning assets	470,415	7,779	6.71%	429,686
Other assets	31,405			28,976
Total assets	$501,820			$458,662
Interest-bearing liabilities:				
Certificate accounts	$250,953	2,844	4.60%	$246,581
Savings deposits	69,755	356	2.07%	57,080
Demand and NOW deposits	96,961	371	1.55%	85,622
Borrowings	38,150	362	3.85%	26,250
Total interest-bearing liabilities	455,819	3,933	3.50%	415,533
Other liabilities	4,445			4,062
Total liabilities	460,264			419,595
Stockholders' equity	41,556			39,067
Total liabilities and stockholders' equity	$501,820			$458,662
Net interest income		$3,846		
Net interest rate spread			3.21%	
Net earning assets	$ 14,596			$14,153
Net yield on average interest-earning assets (net interest margin)			3.32%	
Average interest-earning assets to average interest-bearing liabilities		103.20%		

(1) Calculated including loans held for sale, and net of deferred loan fees, loan discounts, loans in process and the allowance for losses on loans.

(2) Calculated including mortgage-backed securities available-for-sale.

(3) Calculated including investment securities available-for-sale and certificates of deposit.

KANKAKEE BANCORP, INC.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings - There are no material pending legal proceedings to which the Company or the Bank is a party other than ordinary routine litigation incidental to their respective businesses.

Item 2. Changes in Securities - None

Item 3. Defaults Upon Senior Securities - None

Item 4. Submission of Matters to a Vote of Security Holders - The Meeting of Stockholders of the Company was held on April 26, 2002. At the meeting, stockholders voted to elect two nominees to the board of directors and to ratify the appointment of McGladrey & Pullen, LLP, as the Company's independent auditors for 2002. Because of the contested nature of the annual meeting, the Company hired IVS Associates, Inc. to act as the independent inspectors of election. IVS Associates has certified that William Cheffer and Michael A. Stanfa were elected to serve as directors with terms expiring in 2005. The matters approved by stockholders at the meeting and the number of votes cast for, against or withheld (as well as the number of abstentions) as to each matter are set forth below:

a. The election of directors for a three year term expiring in 2005.

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

b. The ratification of McGladrey & Pullen, LLP, as the auditors for the year ending December 31, 2002.

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

Item 5. Other Information - None

Item 6. Exhibits and Reports on Form 8-K

a. Exhibits - None

b. Reports on Form 8-K

On February 1, 2002, the Company filed a report on Form 8-K stating under Item 5 that the Company had, on February 1, 2002, issued a news release announcing its earnings for the quarter ending December 31, 2001, its payment of a quarterly dividend to its stockholders and the date of its annual meeting of stockholders.

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

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

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

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

KANKAKEE BANCORP, INC.

SIGNATURES

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

KANKAKEE BANCORP, INC.
Registrant

Date: May 13, 2002

/s/ LARRY D. HUFFMAN
President and CEO

Date: May 13, 2002

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