FIRST BANCTRUST CORP
Form 10-Q
August 12, 2005

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

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2005

OR

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

FOR THE TRANSITION PERIOD FROM __________ TO __________

COMMISSION FILE NUMBER 0-32535

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

DELAWARE
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)

37-1406661
(IRS EMPLOYER IDENTIFICATION NO.)

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

61944
(ZIP CODE)

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

INDICATE BY CHECK MARK WHETHER THE REGISTRANT (1) HAS FILED ALL REPORTS REQUIRED TO BE FILED BY SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 DURING THE PRECEDING 12 MONTHS (OR FOR SUCH SHORTER PERIOD THAT THE REGISTRANT WAS REQUIRED TO FILE SUCH REPORTS), AND (2) HAS BEEN SUBJECT TO SUCH FILING REQUIREMENTS FOR THE PAST 90 DAYS. YES [X] NO [ ]

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

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

AS OF AUGUST 11, 2005 THE REGISTRANT HAD OUTSTANDING 2,406,950 SHARES OF COMMON STOCK.

Form 10-Q Quarterly Report

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

	JUNE 30, 2005 (unaudited)	DECEMBER 31, 2004
ASSETS		
Cash and due from banks	$ 5,704	$ 6,371
Interest-bearing demand deposits	3,343	2,742
Cash and cash equivalents	9,047	9,113
Available-for-sale securities	75,770	83,944
Held-to-maturity securities (fair value of $4,426 and $4,831)	4,472	4,778
Loans held for sale	750	138
Loans, net of allowance for loan losses of $2,357 and $2,300	128,526	117,448
Premises and equipment	3,402	3,088
Federal Home Loan Bank stock	4,372	4,256
Foreclosed assets held for sale, net	125	190

Interest receivable	1,693	2,179
Loan servicing rights, net of valuation allowance of $2 and $24	600	757
Cash surrender value of life insurance	4,613	4,523
Deferred income taxes	258	--
Other assets	461	510
Total assets	$ 234,089	$ 230,924
LIABILITIES AND STOCKHOLDERS' EQUITY		
Noninterest bearing deposits	$ 18,665	$ 17,885
Interest bearing deposits	140,648	141,586
Total deposits	159,313	159,471
Federal funds purchased	--	2,000
Federal Home Loan Bank advances	40,500	40,500
Junior subordinated debentures	6,186	--
Pass through payments received on loans sold	126	60
Advances from borrowers for taxes and insurance	179	138
Deferred income taxes	--	110
Interest payable	171	136
Other	1,004	962
Total liabilities	207,479	203,377
COMMITMENTS AND CONTINGENT LIABILITIES		
STOCKHOLDERS' EQUITY		
Preferred stock, $.01 par value; 1,000,000 shares authorized and unissued		
Common stock, $.005 par value, 5,000,000 shares authorized; 3,041,750 shares issued; 2,406,950 and 2,494,850 shares outstanding	15	15
Additional paid-in capital	14,901	14,803
Retained earnings	18,803	18,396
Unearned employee stock ownership plan shares - 114,106 and 129,310 shares	(659)	(747)
Unearned incentive plan shares - 78,274 and 85,126 shares	(646)	(702)
Accumulated other comprehensive income (loss)	(82)	415
Treasury stock, at cost - 634,800 and 546,900 shares	(5,722)	(4,633)
Total stockholders' equity	26,610	27,547
Total liabilities and stockholders' equity	$ 234,089	$ 230,924

See notes to condensed consolidated financial statements.

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

SIX MONTHS ENDED JUNE 30	2005	2004
INTEREST AND DIVIDEND INCOME		
Loans		
Taxable	$ 4,231	$ 3,960
Tax exempt	31	32
Securities		
Taxable	1,397	1,504
Tax exempt	221	187
Dividends on Federal Home Loan Bank stock	117	125
Deposits with financial institutions and other	53	19
Total interest and dividend income	6,050	5,827
INTEREST EXPENSE		
Deposits	1,500	1,462
Federal Home Loan Bank advances and other debt	803	726
Total interest expense	2,303	2,188
NET INTEREST INCOME	3,747	3,639
Provision for loan losses	188	262
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	3,559	3,377
NONINTEREST INCOME		
Customer service fees	415	419
Other service charges and fees	352	361
Net gains on loan sales	140	156
Net realized gains on sales of available-for-sale securities	111	37
Net loan servicing fees	258	255
Brokerage fees	34	35
Abstract and title fees	188	172
Other	154	165
Total noninterest income	1,652	1,600
NONINTEREST EXPENSE		
Salaries and employee benefits	2,303	2,322
Net occupancy expense	202	140
Equipment expense	411	360
Data processing fees	232	211
Professional fees	209	228
Foreclosed assets expense, net	39	46
Marketing expense	147	136
Printing and office supplies	81	80
Amortization of loan servicing rights	256	321
Recovery of impairment of loan servicing rights	(22)	(118)
Other expenses	426	418
Total noninterest expense	4,284	4,144

INCOME BEFORE INCOME TAX	$ 927	$ 833
Income tax expense	224	283
NET INCOME	$ 703	$ 550
BASIC EARNINGS PER SHARE	$ 0.31	$ 0.24
DILUTED EARNINGS PER SHARE	$ 0.29	$ 0.23
DIVIDENDS PER SHARE	$ 0.12	$ 0.11

See notes to condensed consolidated financial statements.

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

THREE MONTHS ENDED JUNE 30	2005	2004
INTEREST AND DIVIDEND INCOME		
Loans		
Taxable	$ 2,194	$ 1,988
Tax exempt	15	16
Securities		
Taxable	677	741
Tax exempt	117	94
Dividends on Federal Home Loan Bank stock	59	60
Deposits with financial institutions and other	29	8
Total interest and dividend income	3,091	2,907
INTEREST EXPENSE		
Deposits	769	701
Federal Home Loan Bank advances and other debt	414	363
Total interest expense	1,183	1,064
NET INTEREST INCOME	1,908	1,843
Provision for loan losses	94	112
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	1,814	1,731

NONINTEREST INCOME		
Customer service fees	223	233
Other service charges and fees	170	192
Net gains on loan sales	67	96
Net realized gains on sales of available-for-sale securities	79	--
Net loan servicing fees	118	124
Brokerage fees	19	27
Abstract and title fees	84	89
Other	82	92
Total noninterest income	842	853
NONINTEREST EXPENSE		
Salaries and employee benefits	1,120	1,153
Net occupancy expense	99	66
Equipment expense	206	214
Data processing fees	117	108
Professional fees	98	112
Foreclosed assets expense, net	24	18
Marketing expense	76	90
Printing and office supplies	37	32
Amortization of loan servicing rights	132	166
Recovery of impairment of loan servicing rights	(4)	(91)
Other expenses	222	229
Total noninterest expense	2,127	2,097

INCOME BEFORE INCOME TAX	$ 529	$ 487
Income tax expense	129	163
NET INCOME	$ 400	$ 324
BASIC EARNINGS PER SHARE	$ 0.18	$ 0.14
DILUTED EARNINGS PER SHARE	$ 0.17	$ 0.13
DIVIDENDS PER SHARE	$ 0.06	$ 0.06

See notes to condensed consolidated financial statements.

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

SIX MONTHS ENDED JUNE 30	2005	2004
OPERATING ACTIVITIES		
Net income	$ 703	$ 550
Items not requiring (providing) cash		
Depreciation and amortization	196	140
Provision for loan losses	188	262
Investment securities amortization, net	39	132
Amortization of loan servicing rights	256	321
Recovery of impairment of loan servicing rights	(22)	(118)
Deferred income taxes	(22)	--
Net realized gains on available-for-sale securities	(111)	(37)
Net loss on sales of foreclosed assets	4	4
Net loss on sale of premises and equipment	--	6
Net gains on loan sales	(140)	(156)
Loans originated for sale	(7,241)	(8,675)
Proceeds from sales of loans originated for sale	6,692	8,417
Federal Home Loan Bank stock dividends	(116)	(125)
Compensation expense related to employee stock ownership plan	185	194
Compensation expense related to incentive plan	55	55
Changes in		
Interest receivable	486	637
Cash surrender value of life insurance	(90)	(32)
Other assets	49	(120)
Interest payable	35	14
Other liabilities	42	(23)
Net cash provided by operating activities	1,188	1,446
INVESTING ACTIVITIES		
Purchases of available-for-sale securities	(6,466)	(11,993)
Proceeds from maturities of available-for-sale securities	12,917	17,876
Proceeds from maturities of held-to-maturity securities	312	--
Proceeds from sales of available-for-sale securities	945	135
Net change in loans	(11,384)	(5,146)
Proceeds from sales of foreclosed assets	179	209
Proceeds from sales of premises and equipment	--	10
Purchases of premises and equipment	(510)	(81)
Net cash provided by (used in) by investing activities	(4,007)	1,010

- 6 -

FINANCING ACTIVITIES		
Net increase (decrease) in demand deposits, money market, NOW and savings deposits	$ 2,639	$ (660)
Net decrease in certificates of deposit	(2,797)	(3,562)
Net decrease in federal funds purchased	(2,000)	--
Proceeds from the issuance of junior subordinated debentures	6,186	--
Pass through payments received on loans sold	66	(127)

Net increases in advances by borrowers for taxes and insurance	41	37
Proceeds from stock options exercised	22	--
Purchase of treasury stock	(1,108)	--
Dividends paid	(296)	(275)
Net cash provided by (used in) by financing activities	2,753	(4,587)
DECREASE IN CASH AND CASH EQUIVALENTS	(66)	(2,131)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	9,113	10,294
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 9,047	$ 8,163
SUPPLEMENTAL CASH FLOWS INFORMATION		
Real estate acquired in settlement of loans	$ 118	$ 275
Interest paid	$ 2,268	$ 2,174
Income tax paid	$ 240	$ 0

See notes to condensed consolidated financial statements.

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

Note 1 - Basis of Presentation

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

Interim statements are subject to possible adjustments in connection with the annual audit of the Company for the year ended December 31, 2005. In the opinion of management of the Company, the accompanying unaudited interim condensed consolidated financial statements reflect all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of the consolidated financial position and consolidated results of operations for the periods presented. The results of operations for the three and six months ended June 30, 2005 are not necessarily indicative of the results to be expected for the full year.

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

	Three Months Ended June 30, 2005	Three Months Ended June 30, 2004	Six Months Ended June 30, 2005	Six Mon Ende June 30,
Net income, as reported	$ 400	$ 324	$ 703	$ 55
Less: Total stock-based employee compensation cost determined under the fair value based method, net of income taxes	(33)	(33)	(66)	(6
Pro forma net income	$ 367	$ 291	$ 637	$ 48
EARNINGS PER SHARE:				
Basic - as reported	$0.18	$0.14	$0.31	$0.2
Basic - pro forma	$0.16	$0.13	$0.28	$0.2
Diluted - as reported	$0.17	$0.13	$0.29	$0.2
Diluted - pro forma	$0.15	$0.12	$0.26	$0.2

Note 2 - Junior Subordinated Debentures

Junior subordinated debentures of $6.2 million in capital securities were issued June 15, 2005 by a statutory business trust, FBTC Statutory Trust I. The Company owns 100% of the common equity of the trust, which is a wholly-owned subsidiary of the Company. The $6.0 million in proceeds from the trust preferred issuance and an additional $186,000 for the Company's investment in the common equity of the Trust, a total of $6,186,000 was invested in the junior subordinated debentures of the Company. As required by FIN 46R, the Company has not consolidated the investment in the Trust. The trust was formed with the purpose of issuing trust preferred securities and investing the proceeds from the sale of such trust preferred securities in the debentures. The debentures held by the trust are the sole assets of the trust. Distributions of the trust preferred securities are payable at a variable rate of interest, which is equal to the interest rate being earned by the trust on the debentures, and are recorded as interest expense by the Company. The trust preferred securities are subject to mandatory redemption, in whole or in part, upon repayment of the debentures.

The debentures are included as Tier I capital for regulatory capital purposes. On March 1, 2005, the Federal Reserve Board adopted a final rule that allows the continued limited inclusion of trust preferred securities in the calculation of Tier 1 capital for regulatory purposes. The final rule provides a five-year transition period, ending March 31, 2009, for application of the quantitative limits to have an impact on its calculation of Tier 1 capital for regulatory purposes or its classification as well-capitalized. The debentures issued are first redeemable, in whole or part, by the Company, on June 15, 2010, and mature on June 15, 2035. The funds will be used for the acquisition of the common stock of Rantoul First Bank and for the repurchase of First BancTrust Corporation common stock. Interest is fixed at a rate of 5.80% for a period of five years, and then converts to a floating rate. Interest payments will be made quarterly beginning in September, 2005.

Note 3 - Employee Stock Ownership Plan

The Company has an Employee Stock Ownership Plan ("ESOP") for the benefit of its employees. The ESOP purchased required shares in the open market with funds borrowed from the Company. The ESOP expense was $93,000 and $98,000 for the three-month periods ended June 30, 2005 and 2004 and $185,000 and $194,000 for the six-month periods ended June 30, 2005 and 2004.

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

Note 4 - Earnings per Share

Basic earnings per share have been computed based upon the weighted average common shares outstanding for the three month and six month periods ended June 30, 2005 and 2004. Diluted earnings per share reflect the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the Company.

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

	Income	Weighted Average Shares	Per Share Amount
FOR THE SIX MONTHS ENDED JUNE 30, 2005:			
Basic Earnings Per Share:			
Income available to common stockholders	$ 703	2,273,433	$ 0.31
Effect of Dilutive Securities:			
Unearned recognition and retention plan shares		90,581	
Stock Options		47,748	
Diluted Earnings per Share:			
Income available to common stockholders and assumed conversions	$ 703	2,411,762	$ 0.29
FOR THE SIX MONTHS ENDED JUNE 30, 2004:			
Basic Earnings Per Share:			
Income available to common stockholders	$ 550	2,254,770	$ 0.24
Effect of Dilutive Securities:			
Unearned recognition and retention plan shares		106,596	
Stock Options		52,099	

Diluted Earnings per Share:			
Income available to common stockholders and assumed conversions	$ 550	2,413,465	$ 0.23
FOR THE THREE MONTHS ENDED JUNE 30, 2005:			
Basic Earnings Per Share:			
Income available to common stockholders	$ 400	2,257,630	$ 0.18
Effect of Dilutive Securities:			
Unearned recognition and retention plan shares		88,683	
Stock Options		47,916	
Diluted Earnings per Share:			
Income available to common stockholders and assumed conversions	$ 400	2,394,229	$ 0.17
FOR THE THREE MONTHS ENDED JUNE 30, 2004:			
Basic Earnings Per Share:			
Income available to common stockholders	$ 324	2,260,285	$ 0.14
Effect of Dilutive Securities:			
Unearned recognition and retention plan shares		105,085	
Stock options		59,059	
Diluted Earnings per Share:			
Income available to common stockholders and assumed conversions	$ 324	2,424,429	$ 0.13

Note 5 - Comprehensive Income (Loss)

Comprehensive income (loss) for the for the three month and six month periods ended June 30, 2005 and 2004 is listed as follows:

	SIX MONTHS ENDED J	
	2005	20
NET INCOME	$ 703	$
OTHER COMPREHENSIVE INCOME		
Unrealized depreciation on available-for-sale securities	(424)	
Less: Reclassification adjustment for realized gains included in net income	73	
	(497)	

COMPREHENSIVE INCOME (LOSS)	$ 206	$

	THREE MONTHS ENDED	
	2005	2
NET INCOME	$ 400	$
OTHER COMPREHENSIVE INCOME (LOSS)		
Unrealized appreciation (depreciation) on available-for-sale securities	112	
Less: Reclassification adjustment for realized gains included in net income	52	
	60	
COMPREHENSIVE INCOME (LOSS)	$ 460	$

Note 6 - Stock Split

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

Note 7 - Authorized Share Repurchase Program

On May 13, 2004, the Board of Directors authorized the open-market stock repurchases of up to 100,000 shares of the Company's outstanding stock over the one-year period ending May 13, 2005. When this plan expired on May 13, 2005, the Company had repurchased 25,600 shares under this repurchase plan. On April 18, 2005, the Board of Directors authorized the open-market

stock repurchase of up to 5%, or 124,850 shares of the Company's outstanding stock over the next one-year period ending April 18, 2006 as, in the opinion of managements, market conditions warrant. As of June 30, 2005, the Company had repurchased 70,100 shares, leaving 54,750 shares available to be repurchased under this program. Previously, the Company had completed four other repurchase programs for stock repurchases of 541,300 shares. The Company issued 2,200 shares of treasury stock for the redemption of stock options in February, 2005. As of August 11, 2005, the Company owned a cumulative total of 634,800 shares in treasury stock. The repurchased shares are held as treasury stock and are available for general corporate purposes.

Note 8 - Commitments

The Company entered into a property exchange agreement with the City of Paris, Illinois ("City") on May 10, 2005. As of June 30, 2005, the ownership of the properties has not been transferred. The Company will acquire City property currently housing City Hall, which is adjacent to Company property housing the Operations Center of First Bank & Trust, and in return, the City will acquire

Company property which currently is the site of the main office of First Bank & Trust. The City will pay cash for the difference between the appraisals to the Bank. The City will also demolish the existing City Hall prior to the exchange providing an acceptable, larger site for new construction. The Company has agreed to provide financing for the city hall renovations if requested at a market rate at the time of the request. The exchange of ownership is expected to occur in the third or fourth quarter of this year. At that time, the economic value of this transaction will be recognized on the Company's financial statements upon transfer of the properties.

Under this agreement, the Company will move its main office to the current Operations Center by renovating and enlarging the existing building to approximately 30,000 square feet on three levels. In addition, there will be a free-standing drive up facility at the enlarged site with at least six lanes that will accommodate more vehicles. This expansion will allow the Company to relocate the main office of the Bank to this site, which will then house all First Bank employees currently working in Paris at a single, convenient location.

The Company selected a contractor to design and construct the new facility for an amount not to exceed $5.6 million. The project is scheduled to be completed by the fourth quarter of 2006. The project is in the initial phase of construction, with the survey and excavation portions nearly completed.

Note 9 - Acquisition

On April 18, 2005, the Company entered into an Agreement and Plan of Merger with Rantoul First Bank, S.B., ("Rantoul") an Illinois chartered savings bank whereby the Company will acquire all of the outstanding shares of common stock of Rantoul First Bank. Shareholders of Rantoul will receive $22.10 per share in cash for each share of common stock held. Rantoul shareholders approved this transaction at a shareholder meeting on July 22, 2005. The transaction is subject to approval by regulatory authorities and is expected to close in the fourth quarter of 2005.

Note 10 - Recent Accounting

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

Emerging Issues Task Force (EITF) Issue 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments." EITF 03-1 provides guidance for determining when an investment is considered impaired, whether impairment is other-than-temporary, and measurement of an impairment loss. An investment is considered impaired if the fair value of the investment is less than its cost. Generally, an impairment is considered other-than-temporary unless: (i) the investor has the ability and intent to hold an investment for a reasonable period of time sufficient for an anticipated recovery of fair value up to (or beyond) the cost of the investment; and (ii) evidence indicating that the cost of the investment is recoverable within a reasonable period of time outweighs evidence to the contrary. If impairment is determined to be other-than-temporary, then an impairment loss should be recognized equal to the difference between the investment's cost and its fair value. Certain disclosure requirements of EITF 03-1 were adopted in 2003 and the Company began presenting the new disclosure requirements in its consolidated financial statements for the year ended December 31, 2003. The recognition and measurement provisions were initially effective for other-than-temporary impairment evaluations in reporting periods beginning after June 15, 2004. However, in September 2004, the effective date of these provisions was delayed until the finalization of FASB Staff Position (FSP) 03-1-a to provide additional implementation guidance. On June 29, 2005, the Financial Accounting Standards Board gave direction that the proposed FSP Issue 03-1-a be issued as final thus nullifying paragraphs 10-18 of EITF 03-1. The measurement, disclosure, and subsequent accounting for debt securities guidance, as well as the evaluation of whether a cost method investment (as defined in Issue 03-1) is impaired, would remain in effect. Management continues to closely monitor and evaluate how the provisions of EITF 03-1 and proposed FSP Issue 03-1-a will affect the Company.

American Institute of Certified Public Accountants (AICPA) Statement of Position (SOP) No. 03-3, "Accounting for Certain Loans or Debt Securities Acquired in a Transfer." SOP 03-3 addresses accounting for differences between the contractual cash flows of certain loans and debt securities and the cash flows expected to be collected when loans or debt securities are acquired in a transfer and those cash flow differences are attributable, at least in part, to credit quality. As such, SOP 03-3 applies to loans and debt securities acquired individually, in pools or as part of a business combination and does not apply to originated loans. The application of SOP 03-3 limits the interest income, including accretion of purchase price discounts, that may be recognized for certain loans and debt securities. Additionally, SOP 03-3 does not allow the excess of contractual cash flows over cash flows expected to be collected to be recognized as an adjustment of yield, loss accrual or valuation allowance, such as the allowance for possible loan losses. SOP 03-3

- 13 -

requires that increases in expected cash flows subsequent to the initial investment be recognized prospectively through adjustment of the yield on the loan or debt security over its remaining life. Decreases in expected cash flows should be recognized as impairment. In the case of loans acquired in a business combination where the loans show signs of credit deterioration, SOP 03-3 represents a significant change from current purchase accounting practice whereby the acquiree's allowance for loan losses is typically added to the acquirer's allowance for loan losses. SOP 03-3 is effective for loans and debt securities acquired by the Company beginning January 1, 2005. The adoption of this new standard did not have a material impact on the Company's financial statements.

- 14 -

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

SAFE HARBOR STATEMENT UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

This report contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. The Company intends such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995 as amended, and is including this statement for purposes of these safe harbor provisions. Forward-looking statements, which are based on certain assumptions and describe future plans, strategies and expectations of the Company, are generally identifiable by use of the words "believe," "expect," "intend," "anticipate," "estimate," "project," or similar expressions. The Company's ability to predict results or the actual effect of future plans or strategies is inherently uncertain. Factors which could have a material adverse affect on the operations and future prospects of the Company and its wholly-owned subsidiaries include, but are not limited to, changes in: interest rates; general economic conditions; legislative/regulatory provisions; monetary and fiscal policies of the U.S. Government, including policies of the U.S. Treasury and the Federal Reserve Board; the quality of composition of the loan or investment portfolios; demand for loan products; deposit flows; competition; demand for financial services in the Company's market area; and accounting principles, policies, and guidelines. These risks and uncertainties should be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements. Further information concerning the Company and its business, including additional factors that could materially affect the Company's financial results, is included in the Company's filings with the Securities and Exchange Commission.

The following discussion compares the financial condition of First BancTrust Corporation (Company), First Bank & Trust, s.b. (Bank), First Charter Service Corporation, and ECS Service Corporation at June 30, 2005 to its financial condition at December 31, 2004 and the results of operations for the three-month and six-month periods ending June 30, 2005 to the same periods in 2004. In May 2005, the Bank's wholly owned subsidiary, Community Finance Center, Inc., was dissolved as a corporation, and this activity was transferred to operate as a division of the Bank. In prior years, First Charter Service Corporation provided retail sales of uninsured investment products to customers of First Bank & Trust. In late 2004, First Bank & Trust entered into an agreement with First Advisors Financial Group LLC ("First Advisors") whereby First Advisors will provide investment advisory and asset management services to Bank customers in 2005. First Advisors rents office space from the Bank, and pays a percentage of fees generated from transactions with Bank customers to the Bank. As a result, First Charter Service Corporation has become inactive for 2005. This discussion should be read in conjunction with the interim financial statements and notes included herein.

FINANCIAL CONDITION

Total assets of the Company increased by $3.2 million or 1.4%, to $234.1 million at June 30, 2005 from $230.9 million at December 31, 2004. The increase in assets was primarily due to an increase

in loans, net of allowance for loan losses of $11.1 million, partially offset by a decrease in available-for-sale securities of $8.2 million. The increase in assets resulted primarily from the issuance of junior subordinated debentures.

The Company's cash and cash equivalents decreased by $66,000 from $9.1 million at December 31, 2005 to $9.0 million at June 30, 2005. Cash and due from banks decreased by $667,000 or 10.5% to $5.7 million at June 30, 2005 from $6.4 million at December 31, 2004. This decrease was partially offset by an increase in interest-bearing demand deposits of $601,000 or 21.9% to $3.3 million at June 30, 2005 compared to $2.7 million at December 31, 2004.

Available-for-sale investment securities amounted to $75.8 million at June 30, 2005 compared to $84.0 million at December 31, 2004, an $8.2 million decrease. The decrease primarily resulted from $12.9 million in investment calls and maturities, primarily from payments on mortgage-backed securities and maturities of a Federal Home Loan Bank ("FHLB") agency bond and a municipal bond, sales of equity securities of $834,000 and an $842,000 decrease in the market valuation of the available-for-sale portfolio, partially offset by investment purchases of $6.5 million. Held-to-maturity securities decreased by $306,000 from $4.8 million at December 31, 2004 to $4.5 million at June 30, 2005, due to principal payments on mortgage-backed securities.

Loans held for sale increased by $612,000 from $138,000 at December 31, 2004 to $750,000 at December 31, 2005. Single family residential loans for qualified borrowers are originated and sold to Federal Home Mortgage Corporation ("FHLMC") and to the Illinois Housing Development Authority ("IHDA"). Loans held for sale at June 30, 2005 consisted of seven single-family residential loans to be sold to IHDA.

The Company's net loan portfolio increased by $11.1 million to $128.5 million at June 30, 2005 from $117.4 million at December 31, 2004. Gross loans increased by $11.1 million while the allowance for loan losses increased by $57,000. Commercial nonresidential real estate loans increased by $6.1 million primarily a result of loan originations generated in the Savoy area. Loans secured by 1-4 family residences increased by $1.7 million, primarily due to an increase in home equity loans, and agricultural production loans increased by $2.3 million, primarily due to seasonal fluctuations.

At June 30, 2005, the allowance for loan losses was $2.4 million or 1.80% of the total loan portfolio compared to the allowance for loan losses at December 31, 2004 of $2.3 million or 1.92% of the total loan portfolio. During the first six months of 2005, the Company charged off $173,000 of loan losses, $121,000 of which were consumer loans, and $52,000 of which pertained to five loans secured by 1-4 family residential properties. The chargeoffs of $173,000 were partially offset by $42,000 in recoveries on consumer loans, primarily vehicle loans. The net chargeoffs of $131,000 for the first six months of 2005 decreased by $54,000 when compared to net chargeoffs of $185,000 for the first six months of 2004. The Company's nonperforming loans and troubled debt restructurings increased from $1.6 million or 1.31% of total loans at December 31, 2004 compared to $2.2 million or 1.68% as a percentage of total loans at June 30, 2005. This increase was primarily a result of increased delinquencies 90 days and over from $443,000 at December 31, 2004 compared to $607,000 at June 30, 2005, and the addition of a $494,000 commercial real estate loan to restructured loans. The Company's troubled debt restructurings of $1.6 million at

June 30, 2005 consist primarily of restructured commercial and agricultural loans. Included in the $1.6 million of troubled debt restructurings are restructured agricultural loans of $870,000 which are 90% guaranteed for $783,000 by the Farmers Home Administration, thereby limiting the Company's exposure on those loans. Management reviews the adequacy of the allowance for loan losses quarterly, and believes that its allowance is adequate; however, the Company cannot assure that future chargeoffs and/or provisions will not be necessary.

Premises and equipment have increased by $314,000 from $3.1 million at December 31, 2004 to $3.4 million at June 30, 2005, primarily due to expenditures related to the major renovation and expansion project of the current Operations Center which will result in an enlarged facility to house the main office of the Bank.

Net foreclosed assets held for sale, totaling $125,000 at June 30, 2005 decreased $65,000, or 34.2%, compared to $190,000 at December 31, 2004. As of June 30, 2005, the Company had real estate properties totaling $86,000 consisting of three single-family residential properties and other repossessed assets of $39,000. Foreclosed assets are carried at lower of cost or net realizable value.

Interest receivable declined by $486,000 or 22.3% from $2.2 million to $1.7 million primarily due to annual payments received on agricultural loans. Federal Home Loan Bank stock increased by $116,000 due to the receipt of dividends in the form of stock.

Loan servicing rights declined by $157,000 from $757,000 at December 31, 2004 to $600,000 at June 30, 2005. Gross loan servicing rights decreased by $179,000 from $781,000 at December 31, 2004 to $602,000 at June 30, 2005 due to amortization of loan servicing rights of $256,000 offset by newly capitalized assets of $77,000. The valuation allowance decreased from $24,000 at December 31, 2004 to $2,000 at June 30, 2005, a $22,000 recovery of a previous impairment as a result of current valuations.

Adjustments to deferred income taxes for the tax effect of the decrease in market value of investment securities available for sale resulted in a deferred tax asset of $258,000 at June 30, 2005 compared to a deferred tax liability of $110,000 at December 31, 2004. Other assets decreased by $49,000 from $510,000 at December 31, 2004 to $461,000 at June 30, 2005.

The Company's total deposits amounted to $159.3 million at June 30, 2005 compared to $159.5 million at December 31, 2004, a decrease of $158,000. The 0.1% decrease in total deposits was due to a $938,000 decrease in interest bearing deposits, partially offset by a $780,000 increase in non-interest bearing deposits. The decrease in interest bearing deposits was a result of a $2.8 million decrease in certificates of deposit, offset by an increase of $1.8 million in interest-bearing checking accounts and a $55,000 increase in savings accounts. The reduction of $2.8 million in certificates of deposits was primarily due to the maturing of some significant certificates of deposits, mostly brokered funds.

Federal funds purchased decreased by $2.0 million from a balance of $2.0 million at December 31, 2004 to zero at June 30, 2005. Federal Home Loan Bank advances remained constant at

$40.5 million at December 31, 2004 and June 30, 2005. The total average rate of all advances was 3.54% as of June 30, 2005.

Junior subordinated debentures of $6.2 million in capital securities were issued June 15, 2005 by a statutory business trust, FBTC Statutory Trust I. The Company owns 100% of the common equity of the trust, which is a wholly-owned subsidiary of the Company. The $6.0 million in proceeds from the trust preferred issuance and an additional $186,000 for the Company's investment in the common equity of the Trust, a total of $6,186,000 was invested in the junior subordinated debentures of the Company. As required by FIN 46R, the Company has not consolidated the investment in the Trust. The trust was formed with the purpose of issuing trust preferred securities and investing the proceeds from the sale of such trust preferred securities in the debentures. The debentures held by the trust are the sole assets of the trust. Distributions of the trust preferred securities are payable at a variable rate of interest, which is equal to the interest rate being earned by the trust on the debentures, and are recorded as interest expense by the Company. The trust preferred securities are subject to mandatory redemption, in whole or in part, upon repayment of the debentures.

The debentures are included as Tier I capital for regulatory capital purposes. On March 1, 2005, the Federal Reserve Board adopted a final rule that allows the continued limited inclusion of trust preferred securities in the calculation of Tier 1 capital for regulatory purposes. The final rule provides a five-year transition period, ending March 31, 2009, for application of the quantitative limits to have an impact on its calculation of Tier 1 capital for regulatory purposes or its classification as well-capitalized. The debentures issued are first redeemable, in whole or part, by the Company, on June 15, 2010, and mature on June 15, 2035. The funds will be used for the acquisition of the common stock of Rantoul First Bank and for the repurchase of First BancTrust Corporation common stock. Interest is fixed at a rate of 5.80% for a period of five years, and then converts to a floating rate. Interest payments will be made quarterly beginning in September, 2005.

Pass through payments received on loans sold increased by $66,000 from $60,000 at December 31, 2004 to $126,000 at June 30, 2005. Advances from borrowers for taxes and insurance increased by $41,000 from $138,000 at December 31, 2004 to $179,000 at June 30, 2005. Interest payable increased by $35,000 from $136,000 at December 31, 2004 to $179,000 at June 30, 2005. Other liabilities increased by $42,000 from $962,000 at December 31, 2004 to $1.0 million at June 30, 2005, primarily due to an increase in accounts payable.

Stockholders' equity at June 30, 2005 was $26.6 million compared to $27.5 million at December 31, 2004, a decrease of $937,000. Treasury stock increased by $1.1 million from $4.6 million at December 31, 2004 to $5.7 million at June 30, 2005, due to the repurchase of 90,100 shares. Accumulated comprehensive income (loss) decreased by $497,000 due to a decrease in the fair value of securities available for sale, net of related tax effect. Retained earnings increased by the amount of net income or $703,000, partially offset by $296,000 in dividends declared and paid. As shares from the employee stock ownership plan vested to participants from December 31, 2004 to June 30, 2005, stockholders' equity increased by $185,000, and as shares from the incentive plan were earned by participants for the same period, stockholders' equity increased by $55,000.

RESULTS OF OPERATIONS

COMPARISON OF SIX MONTH PERIODS ENDED JUNE 30, 2005 AND 2004

Net income for the six months ended June 30, 2005 increased by $153,000 or 27.8% from $550,000 for the six months ended June 30, 2004 to $703,000 for the six months ended June 30, 2005. The increase in net income is primarily due to increases in net interest income and noninterest income, and decreases in provision for loan losses and income tax expense, partially offset by an increase in noninterest expense.

Net interest income increased $108,000 or 3.0% from $3.6 million for the six months ended June 30, 2004 to $3.7 million for the six months ended June 30, 2005. The primary reasons for the increase in net interest income was an increase in total interest and dividend income of $223,000 partially offset by an increase of $115,000 in interest expense. The Company's net interest margin was 3.46% and 3.47% during the six months ended June 30, 2005 and 2004, respectively. Although net interest income increased by $108,000, the net interest margin remained stable as a result of an increase in the average balance of net interest-bearing assets. Interest spread, which is the average interest rate earned on interest-bearing assets less the average interest rate charged on interest-bearing liabilities, decreased slightly from 3.16% for the six months ended June 30, 2004 to 3.07% for the six months ended June 30, 2005. The decrease in interest spread was primarily a result of a slight increase in interest rates charged on interest-bearing liabilities.

Total interest and dividend income increased by $223,000 or 3.8% from $5.8 million for the six months ended June 30, 2004 to $6.1 million for the six months ended June 30, 2005. The increase of $223,000 was primarily due to increases in loan interest income and interest income from deposits with financial institutions partially offset by decreased interest and dividend income from securities. The increase of $270,000 in loan interest income was primarily due to an increase in the average loan balance, partially offset by a decrease in the average loan rate of 36 basis points. Interest and dividend income from securities decreased by $73,000 primarily due to a decrease in the average balance of available for sale investments, partially offset by an increase in average interest rate of 10 basis points. Interest income from deposits with financial institutions increased by $34,000 primarily due to an increase in average rate of 176 basis points, partially offset by a decrease in the average balance of deposits with financial institutions.

Interest expense increased by $115,000 or 5.3% from $2.2 million for the six months ended June 30, 2004 to $2.3 million for the six months ended June 30, 2005. This increase was primarily due to an increase of $38,000 in interest on deposits, and by a $77,000 increase in interest on Federal Home Loan Bank advances and other debt. The $38,000 increase in interest expense on deposits was primarily due to an increase in the average rate paid on deposits. The $77,000 increase in interest on Federal Home Loan Bank advances and other debt was due to an increase in the average balance, partially offset by a decrease in the average rate.

For the six months ended June 30, 2005 and 2004, the provision for losses on loans was $188,000 and $262,000, respectively. The provision for the six months ended June 30, 2005

was based on the Company's analysis of the allowance for loan losses. Management meets on a quarterly basis to review the adequacy of the allowance for loan losses by classifying loans in compliance with regulatory classifications. Classified loans are individually reviewed to arrive at specific reserve levels for those loans. Once the specific portion for each loan is calculated, management calculates a historical portion for each category based on a combination of loss history, current economic conditions, and trends in the portfolio. While the Company cannot assure that future chargeoffs and/or provisions will not be necessary, the Company's management believes that, as of June 30, 2005, its allowance for loan losses was adequate.

Noninterest income increased $52,000 or 3.3% from $1.60 million for the six months ended June 30, 2004 to $1.65 million for the six months ended June 30, 2005. The increase was primarily a result of increases in net realized gains on sales of available-for-securities and abstract and title fees, partially offset by decreases in net gains on loan sales and other income. Net realized gains on sales of sales of available-for-sale securities increased by $74,000 from $37,000 for the six months ended June 30, 2004 to $111,000 for the six months ended June 30, 2005, due to equity security sales of $945,000. Abstracting and title fees increased by $16,000 from $172,000 for the six months ended June 30, 2004 to $188,000 for the six months ended June 30, 2005, due to an increase in commissions from the sale of title insurance and to increased abstracting fees. Net gains on loan sales decreased by $16,000 from $156,000 for the six months ended June 30, 2004 to $140,000 for the six months ended June 30, 2005. This decrease occurred primarily due to decreases in the amount of capitalized servicing fees and in the recognized gain on loan sales. Proceeds from loans sold in the first six months of 2005 totaled $6.7 million, compared to $8.4 million in proceeds from loan sales in the same period for 2004. Other income decreased $11,000 from $165,000 for the six months ended June 30, 2004 to $154,000 for the six months ended June 30, 2004.

Total noninterest expenses were $4.28 million for the six months ended June 30, 2005 as compared to $4.14 million for the six months ended June 30, 2004. The primary reasons for the $140,000 increase were increases in net occupancy expense, equipment expense, data processing expense, and a reduction in the amount of recovery of the previous impairment of loan servicing rights, partially offset by reductions in the amortization of loan servicing rights, salaries and employee benefits expense and professional fees. Salaries and employee benefits decreased by $19,000 from $2.32 million for the six months ended June 30, 2004 to $2.30 million for the six months ended June 30, 2005, primarily due to reduced ESOP expense. ESOP expense decreased as a result of a decrease in the average share price for the six months ended June 30, 2005 compared to the six month period ended June 30, 2004. The monthly expense for the ESOP is determined by the average share price in the open market for the month, and as the monthly average share price from 2004 to 2005 decreased, the ESOP expense decreased accordingly.

Net occupancy expense increased by $62,000 from $140,000 for the six months ended June 30, 2004 compared to $202,000 for the six months ended June 30, 2005. This increase can be attributed to the Savoy branch which moved into a permanent facility in August, 2004. Equipment expense increased by $51,000 from $360,000 for the six months ended June 30, 2004 to $411,000 for the six months ended June 30, 2005. The $51,000 increase is primarily due to an increase in lease expense resulting from the origination of several operating leases in 2004 for

furniture and office equipment for the Savoy branch, upgrading check imaging equipment, and for updating computer networks and operating systems.

Data processing fees increased by $21,000 from $211,000 for the six months ended June 30, 2004 to $232,000 for the six months ended June 30, 2005, due to an increase in fees accessed by both the ATM processor and the core processor service bureaus. Professional fees decreased by $19,000 from $228,000 for the six months ended June 30, 2004 to $209,000 for the six months ended June 30, 2005 due to a reduction in consulting fees. Amortization of loan servicing rights decreased by $65,000 from $321,000 for the six months ended June 30, 2004 to $256,000 for the six months ended June 30, 2005, as a result of a decrease in loan prepayments. The recovery of impairment of loan servicing rights was $118,000 for the six months ended June 30, 2004 compared to $22,000 for the six months ended June 30, 2005. The amount of the recovery or impairment is determined by comparing the book value of the loan servicing rights to an independent valuation based on a discounted cash flow methodology, utilizing current prepayment speeds and discount rates.

Income tax expense was $224,000 for the six months ended June 30, 2005 as compared to $283,000 for the six months ended June 30, 2004. The decrease of $59,000 in income tax expense was due to an increase in permanent tax differences.

COMPARISON OF THREE MONTH PERIODS ENDED JUNE 30, 2005 AND 2004

Net income for the three months ended June 30, 2005 increased by $76,000 or 23.5% from $324,000 for the three months ended June 30, 2004 to $400,000 for the three months ended June 30, 2005. The increase in net income is primarily due to an increase in net interest income, and decreases in the provision for loan losses and income tax expense, partially offset by a slight decrease in noninterest income and an increase in noninterest expense.

Net interest income increased $65,000 or 3.5% from $1.84 million for the three months ended June 30, 2004 to $1.91 million for the three months ended June 30, 2005. The primary reasons for the increase in net interest income was an increase in total interest and dividend income of $184,000 partially offset by an increase of $119,000 in interest expense. The Company's net interest margin was 3.41% and 3.47% during the three months ended June 30, 2005 and 2004, respectively. The net interest margin decreased slightly as a result of an increase in the average balance of interest-bearing assets, while the interest spread decreased by 16 basis points from 3.11% for the three months ended June 30, 2004 to 2.95% for the three months ended June 30, 2005.

Total interest and dividend income increased by $184,000 or 6.3% from $2.9 million for the three months ended June 30, 2004 to $3.1 million for the three months ended June 30, 2005. The increase of $184,000 was primarily due to increases in loan interest income and interest income from deposits with financial institutions partially offset by decreased interest and dividend income from securities. The increase of $205,000 in loan interest income was primarily due to a $15.4 million increase in the average loan balance, partially offset by a decrease in the average loan rate of 23 basis points. Interest and dividend income from securities decreased by $41,000 primarily due to a decrease of $5.1 million in the average balance of investments. Interest

income from deposits with financial institutions increased by $21,000 primarily due to an increase in average rate of 176 basis points, as well as an increase in the average balance of deposits with financial institutions.

Interest expense increased by $119,000 or 11.2% from $1.1 million for the three months ended June 30, 2004 to $1.2 million for the three months ended June 30, 2005. This increase was primarily due to an increase of $68,000 in interest on deposits, and by a $51,000 increase in interest on Federal Home Loan Bank advances and other debt. The $68,000 increase in interest expense on deposits was primarily due to an increase in the average rate paid on deposits, partially offset by a decrease in the average balance of deposits. The $51,000 increase in interest on Federal Home Loan Bank advances and other debt was due to an increase in the average balance, partially offset by a slight reduction in interest rate.

For the three months ended June 30, 2005 and 2004, the provision for losses on loans was $94,000 and $112,000, respectively. The provision for the three months ended June 30, 2005 was based on the Company's analysis of the allowance for loan losses. Management meets on a quarterly basis to review the adequacy of the allowance for loan losses by classifying loans in compliance with regulatory classifications. Classified loans are individually reviewed to arrive at specific reserve levels for those loans. Once the specific portion for each loan is calculated, management calculates a historical portion for each category based on a combination of loss history, current economic conditions, and trends in the portfolio. While the Company cannot assure that future chargeoffs and/or provisions will not be necessary, the Company's management believes that, as of June 30, 2005, its allowance for loan losses was adequate.

Noninterest income decreased $11,000 or 1.3% from $853,000 for the three months ended June 30, 2004 to $842,000 for the three months ended June 30, 2005. The decrease was primarily a result of decreases in customer service fees, other service fees and charges, net gains on loan sales, and other income, partially offset by an increase in net realized gain on sales of available for sale securities. Customer service fees decreased by $10,000 from $233,000 for the three months ended June 30, 2004 to $223,000 for the three months ended June 30, 2005, primarily due to reduced NSF and overdraft fees. Other service charges and fees decreased by $22,000 from $192,000 for the three months ended June 30, 2004 to $170,000 for the three months ended June 30, 2005, primarily due to a decrease in loan related fees, as a result from reduced loan sales in the secondary market. Net gains on loan sales decreased by $29,000 from $96,000 for the three months ended June 30, 2004 to $67,000 for the three months ended June 30, 2005. This decrease also occurred due to a decrease in volume of loans sold in the secondary market. In the three months ended June 30, 2005 proceeds from loan sales totaled $4.1 million compared to $5.5 million proceeds for the same period in 2004. Net realized gains on sales of available-for-sale securities increased to $79,000 from $670,000 in proceeds generated from the sales of equity securities for the three months ended June 30, 2005. There were no sales of securities in the three months ended June 30, 2004. Other income decreased by $10,000 from $92,000 for the three months ended June 30, 2004 to $82,000 for the three months ended June 30, 2005, primarily as a result of a reduced amount of fees generated from the trust department.

Total noninterest expenses were $2.13 million for the three months ended June 30, 2005 as compared to $2.10 million for the three months ended March 31, 2004. The primary reasons for

- 22 -

the $30,000 increase were increases in net occupancy expense and reduced amount of recovery of a previously identified impairment of loan servicing rights, partially offset by reductions in salaries and employee benefits, professional fees, marketing expense, and amortization of loan servicing rights. Salaries and employee benefits decreased by $33,000 from $1.15 million for the three months ended June 30, 2004 to $1.12 million for the three months ended June 30, 2005, as a result of a slight reduction in salaries and FICA expense, and a reduction in health insurance expense due to a change in medical coverage offered to employees. Net occupancy expense increased by $33,000 from $66,000 for the three months ended June 30, 2004 compared to $99,000 for the three months ended June 30, 2005. This increase can be attributed to the Savoy branch which moved into a permanent facility in August, 2004.

Professional fees decreased by $14,000 from $112,000 for the three months ended June 30, 2004 to $98,000 for the three months ended June 30, 2005, primarily due to reduced consulting fees in 2005. Marketing expense decreased by $14,000 from $90,000 for the three months ended June 30, 2004 to $76,000 for the three months ended June 30, 2005, due to a reduction of general advertising. Amortization of loan servicing rights decreased by $34,000 from $166,000 for the three months ended June 30, 2004 to $132,000 for the three months ended June 30, 2005, as a result of a decrease in loan prepayments. The recovery of impairment of loan servicing rights was $91,000 for the three months ended June 30, 2004 compared to $4,000 for the three months ended June 30, 2005. The amount of the recovery or impairment is determined by comparing the book value of the loan servicing rights to an independent valuation based on a discounted cash flow methodology, utilizing current prepayment speeds and discount rates. Other expenses decreased by $7,000 from $229,000 for the three months ended June 30, 2004 to $222,000 for the three months ended June 30, 2005.

Income tax expense was $129,000 for the three months ended June 30, 2005 as compared to $163,000 for the three months ended June 30, 2004. The decrease of $34,000 in income tax expense was due to an increase in permanent tax differences.

CRITICAL ACCOUNTING POLICIES

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

Allowance for loan losses

The allowance for loan losses is a significant estimate that can and does change based on management's assumptions about specific borrowers and current general economic and business conditions, among other factors. Management reviews the adequacy of the allowance for loan

losses on at least a quarterly basis. The evaluation by management includes consideration of past loss experience, changes in the composition of the loan portfolio, the current condition and amount of loans outstanding, identified problem loans and the probability of collecting all amounts due.

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

Loan Servicing Rights

The Company recognizes the rights to service loans as separate assets on the consolidated balance sheet. The total cost of loans when sold is allocated between loans and loan servicing rights based on the relative fair values of each. Loan servicing rights are subsequently carried at the lower of the initial carrying value, adjusted for amortization, or fair value. Loan servicing rights are evaluated for impairment based on the fair value of those rights. Factors included in the calculation of fair value of the loan servicing rights include estimating the present value of future net cash flows, market loan prepayment speeds for similar loans, discount rates, servicing costs, and other economic factors. Servicing rights are amortized over the estimated period of net servicing revenue. It is likely that these economic factors will change over the life of the loan servicing rights, resulting in different valuations of the loan servicing rights. The differing valuations will affect the carrying value of the loan servicing rights on the consolidated balance sheet, as well as the income recorded from loan servicing in the income statement. As of June 30, 2005 and December 31, 2004, loan servicing rights had carrying values of $600,000 and $757,000, respectively.

Foreclosed Assets Held for Sale

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

LIQUIDITY

At June 30, 2005, the Company had outstanding commitments to originate $4.5 million in loans, and $10.7 million available to be drawn upon for open-end lines of credit. For more information on the outstanding commitments, see the discussion below the caption "Off-Balance Sheet Arrangements and Contractual Commitments". As of June 30, 2005, the total amount of certificates scheduled to mature in the following 12 months was $43.9 million. The Company believes that it has adequate resources to fund all of its commitments. The Company's most liquid assets are cash and cash equivalents. The level of cash and cash equivalents is dependent on the Company's operating, financing, lending and investing activities during any given period.

The level of cash and cash equivalents at June 30, 2005 was $9.0 million. The Company's future short-term requirements for cash are not expected to significantly change. In the event that the Company should require funds beyond its capability to generate them internally, additional sources of funds are available such as Federal Home Loan Bank advances.

OFF-BALANCE SHEET ARRANGEMENTS AND CONTRACTUAL COMMITMENTS

At June 30, 2005, the Company had outstanding commitments to originate loans of $4.5 million. The commitments extended over varying periods of time with the majority being disbursed within a one-year period. Loan commitments at fixed rates of interest amounted to $3.3 million, with the remainder at floating rates. In addition, the Company had outstanding unused lines of credit to borrowers aggregating $6.5 million for commercial lines of credit, and $4.2 million for consumer lines of credit. Outstanding commitments for letters of credit at June 30, 2005 totaled $91,000. Since these commitments have fixed expiration dates, and some will expire without being drawn upon, the total commitment level may not necessarily represent future cash requirements.

The following table presents additional information about our unfunded commitments as of June 30, 2005, which by their terms have contractual maturity dates subsequent to June 30, 2005:

	Next 12 Months	13-36 Months	37-60 Months	More than 60 Months	Totals
	(Dollars in thousands)				
UNFUNDED COMMITMENTS:					
Letters of credit	$ 91	$ ---	$ ---	$ ---	$ 91
Lines of credit	7,763	70	235	2,606	10,674
Totals	$ 7,854	$ 70	$ 235	$ 2,606	$ 10,765

CAPITAL RESOURCES

The Bank is subject to capital-to-asset requirements in accordance with Federal bank regulations. The following table summarizes the Bank's regulatory capital requirements, versus actual capital as of June 30, 2005:

	ACTUAL		REQUIRED FOR ADEQUATE CAPITAL		TO BE WELL CAPITALIZED	
	Amount	%	Amount	%	Amount	%
JUNE 30, 2005			(Dollars in thousands)			

Total capital (to risk-weighted assets)	$27,350	20.73	$10,554	8.0	$13,192	10.0
Tier 1 capital (to risk-weighted assets)	25,693	19.48	5,277	4.0	7,915	6.0
Tier 1 capital (to average assets)	25,693	11.24	9,145	4.0	11.432	5.0

The Company's consolidated capital-to-asset requirements and actual capital as of June 30, 2005 are summarized in the following table:

	ACTUAL		REQUIRED FOR ADEQUATE CAPITAL		TO BE WELL CAPITALIZED	
	Amount	%	Amount	%	Amount	%
JUNE 30, 2005	(Dollars in thousands)					
Total capital (to risk-weighted assets)	$34,258	25.87	$10,594	8.0	---	N/A
Tier 1 capital (to risk-weighted assets)	32,594	24.61	5,298	4.0	---	N/A
Tier 1 capital (to average assets)	32,594	14.18	9,194	4.0	---	N/A

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Sources of market risk include interest rate risk, foreign currency exchange risk, commodity price risk and equity price risk. The Company is only subject to interest rate risk. The Company purchased no financial instruments for trading purposes during the three months ended June 30, 2005 and 2004.

The principal objectives of the Company's interest rate risk management function are: (i) to evaluate the interest rate risk included in certain balance sheet accounts; (ii) to determine the level of risk appropriate given the Company's business focus, operating environment, capital and liquidity requirements, and performance objectives; (iii) to establish asset concentration guidelines; and (iv) to manage the risk consistent with Board-approved guidelines. Through such management, the Company seeks to reduce the vulnerability of its operations to changes interest rates and to manage the ratio of interest rate sensitive assets to interest rate sensitive liabilities within specified maturity terms or repricing dates. The Company's Board of Directors has established an Asset/Liability Committee consisting of directors and senior management

officers, which is responsible for reviewing the Company's asset/liability policies and monitoring interest rate risk as such risk relates to its operating strategies. The committee usually meets on a quarterly basis, and at other times as dictated by market conditions, and reports to the Board of Directors. The committee is responsible for reviewing Company activities and strategies, and the effect of those strategies on the Company's net interest margin, the market value of the portfolio and the effect that changes in the interest will have on the Company's portfolio and exposure limits.

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

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

ITEM 4. CONTROLS AND PROCEDURES

The Company carried out an evaluation as of June 30, 2005, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective. There were no significant changes in the Company's internal controls or in other factors that could significantly affect these controls during the quarter ended June 30, 2005.

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

PART II -- OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

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

(c) The following table provides information about purchases of the Company's common stock by the Company during the quarter ended June 30, 2005.

ISSUER PURCHASES OF EQUITY SECURITIES

	(c) Total Number of Shares	(d) Maximum Number of Shares that May

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	Purchased as Part of Publicly Announced Plans or Programs	Yet Be Purchased Under the Plans or Programs
4/1/2005 to 4/30/2005	---	---	---	94,400
5/31/2005 to 5/31/2005	40,000	$12.29	40,000	104,850
6/1/2005 to 6/30/2005	50,100	$12.31	50,100	54,750
TOTAL	90,100	$12.30	90,100	

(1) Our board of directors approved the repurchase by us of 100,000 shares over the one year period ending May 13, 2005. The board of directors approved the repurchase by us of 124,850 shares over the one year period ending April 18, 2006.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

a. The Company's Annual Meeting of Shareholders was held on April 18, 2005.

b. Not applicable.

c. At such meeting, there were 2,497,050 shares of Common Stock entitled to be voted. The shareholders approved the following matters:

1. The election of the following individuals as Directors:

	Votes For	Votes Withheld	Term
Terry J. Howard	2,239,356	34,934	3 years
David W. Dick	2,176,990	97,300	3 years

The directors whose terms continued after the meeting were Vick N. Bowyer, Terry T. Hutchison, James D. Motley, Joseph R. Schroeder, and John W. Welborn.

2. The ratification of BKD, LLP as independent auditor of the Company for the fiscal year ending December 31, 2005, as reflected by 2,212,762 votes for, 34,304 votes against and

27,224 abstentions.

d. Not applicable.

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

(a) Exhibits

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

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

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

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

SIGNATURES

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

FIRST BANCTRUST CORPORATION

Date: August 12, 2005 /s/ Terry J. Howard

Terry J. Howard
President and Chief Executive Officer

Date: August 12, 2005 /s/ Ellen M. Litteral

Ellen M. Litteral
Treasurer and Chief Financial Officer