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First Security Fed

FINANCIAL, INC.

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2002
 Annual Report

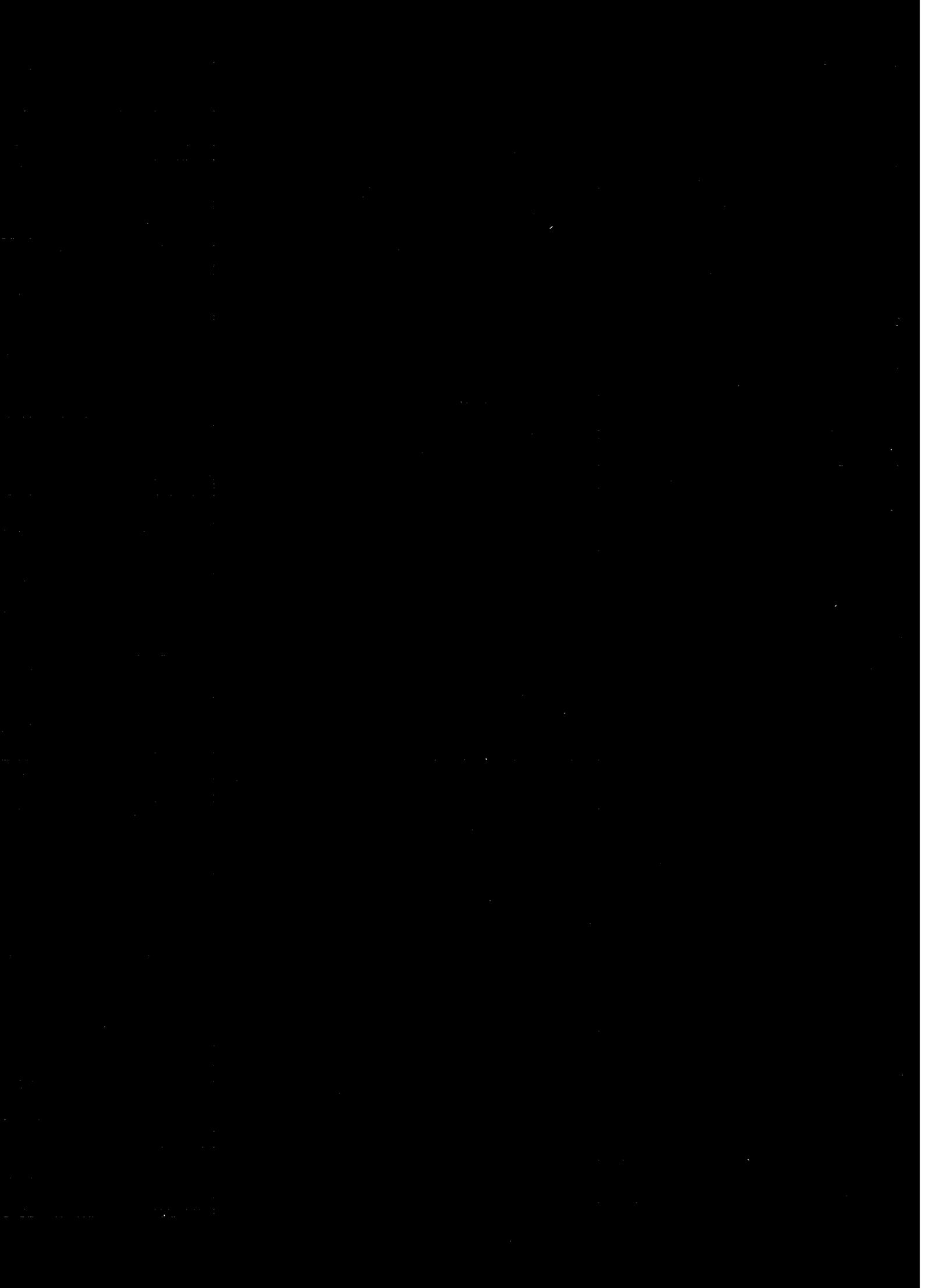
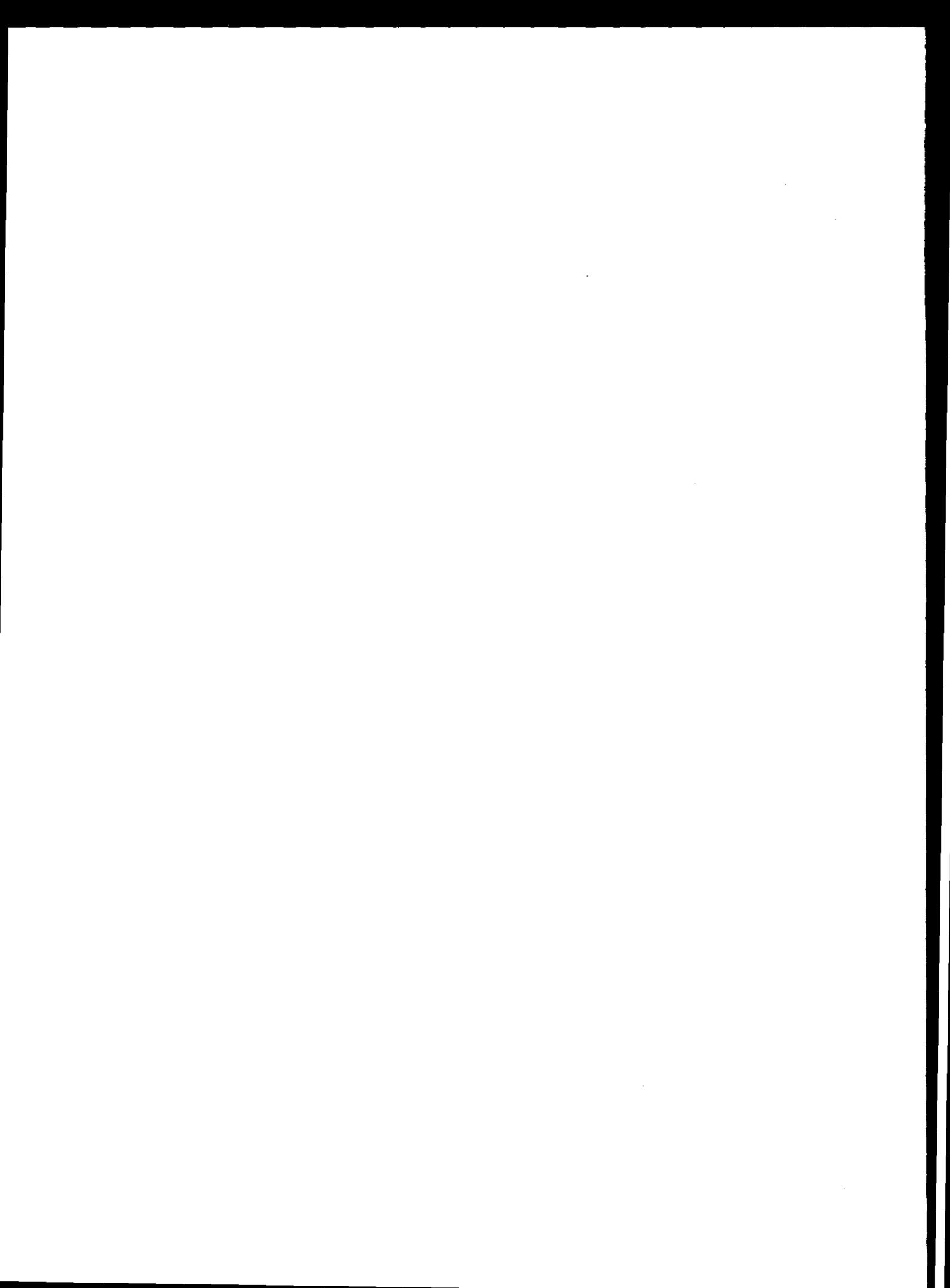


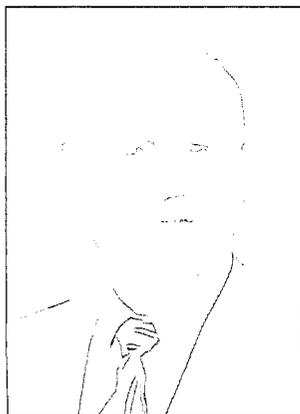
TABLE OF CONTENTS

President's Message	1
Selected Consolidated Financial Information	2
Management's Discussion and Analysis of Financial Condition and Results of Operations	4
Consolidated Financial Statements	21
Shareholder Information	50
Corporate Information	51



FROM YOUR PRESIDENT

To Our Stockholders, Depositors and Friends,



I am very pleased to bring you this annual report for the year ended December 31, 2002 for First SecurityFed Financial, Inc. and its subsidiary First Security Federal Savings Bank. As you will note from the report, we had another banner year with record earnings.

Competition in the financial marketplace continues to intensify. Even though megabanks invaded the Chicagoland market, our Company's assets increased to \$464.3 million at December 31, 2002 compared to \$431.3 million at December 31, 2001, an increase of \$33.0 million or 7.65%. Consolidated net income for 2002 was a record \$8.0 million compared to net income of \$6.8 million for the year ended December 31, 2001. Basic earnings per share for the year ended December 31, 2002 increased to \$2.20 as compared to basic earnings per share of \$1.68 for the year ended December 31, 2001, an increase of 30.95%. The increase in basic earnings per share was attributable to higher net income and a decrease in the average shares outstanding. In 2002, the Company repurchased 185,936 shares in the open market at an average price of \$21.84 per share. The Company's return on equity increased to 10.77% in 2002, a substantial increase from 8.83% in 2001. I am also pleased to report that we maintained a low non-interest expense, which resulted in an efficiency ratio of 37%.

Our loan department had another strong year, having originated \$92.7 million in mortgage loans and disbursed \$24.8 million in construction loans. The year was also noted for record refinancing and substantial paydowns. Net loans receivable increased by \$14.1 million from \$287.5 million at December 31, 2001 to \$301.6 million at December 31, 2002. The increase in construction loans and lines of credit in this low interest rate environment should reduce our interest rate risk in the event of higher interest rates in the future. The level of non performing loans as a percentage of gross loans increased slightly from 0.63% in 2001 to 0.67% in 2002. The allowance for loan losses increased to \$2.9 million or 0.96% of loans and the Company had loan charge-offs of only \$4,000 during the year ended December 31, 2002.

Our vision for 2003 is to continue to do more of the same positive things we did in 2002. Loan production will continue to be a major focus. While we may not, in this highly competitive market, add substantially to our portfolio, we are geared to a healthy level of loan production and prepared to make loans for sale in the secondary market. In December 2002, we completed the construction of our new Branch at Plum Grove and Kirchoff Roads, in Palatine, Illinois. This one-acre corner facility with ample parking, drive-up lanes, 24-hour ATM service and night depository, which was opened to service the public in January 2003, will allow us to increase our market share in this northwest suburban area.

The market treated the Company well during the year. First SecurityFed Financial, Inc. (FSFF) entered the year by trading at \$20.00 or 87% of book value. By the end of 2002, the stock was trading at \$24.30 or 125% of book value. I believe the improvement in stock price is directly related to our continued, consistent and positive accomplishments noted above. It is my firm belief that if the Company continues to do well, as it has done over the last few years, there is reason to expect continued growth in shareholder value.

The Company remains committed to servicing the needs of our customers and our communities. Personal and efficient service has always been and shall always remain our primary mission. Our continued personal involvement in various community activities and the charitable donations made by the Company's non-for-profit affiliate, The Heritage Foundation of First Security Federal Savings Bank, to numerous charitable and civic organizations result in a priceless asset, and special bond with the loyalty of our communities.

In closing, I wish to express my thanks to our stockholders and customers for their continued support and enthusiasm. And, of course, as is always the case, my sincere thanks and continued gratitude to the Members of the Board, the Officers, and employees, whose dedication, ability, energy and competitive spirit have brought us to our level of success and will assure continued growth and excellence.

Sincerely,

Julian E. Kulas

President and Chief Executive Officer

SELECTED CONSOLIDATED FINANCIAL INFORMATION

Set forth below are selected financial and other data of First SecurityFed Financial, Inc. The financial data is derived in part from, and should be read in conjunction with, the Consolidated Financial Statements and Notes to the Consolidated Financial Statements presented elsewhere in this Annual Report.

	At December 31,				
	2002	2001	2000	1999	1998
	(In Thousands Except Per Share Data)				
<u>Selected Financial Condition Data:</u>					
Total assets	\$464,301	\$431,275	\$403,663	\$372,292	\$ 338,050
Cash and cash equivalents	27,817	9,421	6,102	6,257	24,830
Loans receivable, net ⁽¹⁾	301,642	287,450	275,454	241,168	218,311
Mortgage-backed securities:					
Held-to-maturity	11,880	17,880	5,424	7,577	11,587
Available-for-sale	12,780	5,996	7,602	9,410	12,410
Investment securities:					
Held-to-maturity	57,246	74,336	72,882	85,331	46,680
Available-for-sale	29,848	15,745	24,292	11,212	13,933
Deposits	290,612	268,857	252,662	238,123	220,495
Total borrowings	92,105	83,600	64,600	46,300	29,000
Shareholders equity	75,932	72,038	80,249	83,156	84,587

(1) The allowance for loan losses at December 31, 2002, 2001, 2000, 1999, and 1998, was \$2,937,000, \$2,806,000, \$2,561,000, \$2,315,000, and \$2,069,000, respectively.

	Year Ended December 31,				
	2002	2001	2,000	1999	1998
	(In Thousands Except Per Share Data)				
<u>Selected Operations Data:</u>					
Total interest income	\$30,900	\$30,437	\$29,000	\$25,285	\$24,059
Total interest expense	12,646	14,716	14,312	11,037	10,296
Net interest income	18,254	15,721	14,688	14,248	13,763
Provision for loan losses	127	144	246	246	246
Net interest income after provision for loan losses	18,127	15,577	14,442	14,002	13,517
Deposit service charges	491	364	372	368	416
Gain (loss) on sales of securities	53	81	(46)	12	40
Other non-interest income	405	690	311	430	356
Total non-interest income	949	1,135	637	810	812
Total non-interest expense	7,100	6,554	6,087	6,102	5,887
Income before taxes	11,976	10,158	8,992	8,710	8,442
Income tax provision	3,958	3,396	2,989	3,028	3,098
Net income	<u>\$8,018</u>	<u>\$6,762</u>	<u>\$6,003</u>	<u>\$5,682</u>	<u>\$ 5,344</u>
Basic earnings per share	2.20	1.68	1.28	1.14	0.93
Diluted earnings per share	2.15	1.67	1.28	1.14	0.93

Selected Financial Ratios and Other Data:	Year Ended December 31,				
	2002	2001	2000	1999	1998
Performance Ratios:					
Return on assets (ratio of net income to average total assets)	1.79%	1.63%	1.54%	1.61%	1.62%
Return on equity (ratio of net income to average equity)	10.77	8.83	7.34	6.82	5.97
Dividend payout ratio	25.52	32.89	42.16	35.08	7.62
Interest rate spread information:					
Average during period	3.81	3.25	2.94	3.31	3.28
Net interest margin ⁽¹⁾	4.48	4.13	4.04	4.36	4.37
Ratio of operating expense to average total assets	1.58	1.58	1.56	1.73	1.79
Efficiency ratio ⁽²⁾37	.39	.40	.40	.40
Ratio of average interest-earning assets to average interest-bearing liabilities	122.81	123.91	129.24	132.19	135.90
Quality Ratios:					
Non-performing assets to total assets at end of period .....	.44	.42	.39	.37	.30
Allowance for loan losses to non-performing loans at end of period	142.71	153.25	164.38	166.19	203.24
Allowance for loan losses to gross loans receivable at end of period .....	.96	.96	.93	.96	.93
Capital Ratios:					
Equity to total assets at end of period	16.35	16.70	19.88	22.34	25.03
Average equity to average assets	16.57	18.47	20.96	23.57	27.18

(1) Net interest income divided by average interest-earning assets.

(2) The efficiency ratio represents non-interest expense divided by the sum of net interest income and non-interest income.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

General

First SecurityFed Financial, Inc. (the "Company") became the holding company for First Security Federal Savings Bank (the "Bank" or "First Security") upon the completion of the conversion of the Bank from a federally chartered mutual savings bank to a federally chartered stock savings bank (the "Conversion") on October 30, 1997. The financial condition and operating results of the Company are primarily dependent upon the financial condition and operating results of the Bank. The Company's primary business activity to date has been limited to its ownership of the Bank and a portfolio of investment securities.

The Bank is a financial intermediary engaged primarily in attracting deposits from the general public and using such deposits to originate one-to-four family residential mortgages and, to a lesser extent, multi-family, commercial real estate, construction, home equity loans, consumer and other loans primarily in its market area. The Bank also uses these deposits to acquire mortgage backed and other securities. The Bank's revenues are derived principally from interest earned on loans and mortgage-backed and other securities. The operations of the Bank are influenced significantly by general economic conditions and by policies of financial institution regulatory agencies, including the Office of Thrift Supervision (OTS) and the Federal Deposit Insurance Corporation (FDIC). The Bank's cost of funds is influenced by interest rates on competing investments and general market interest rates. Lending activities are affected by the demand for financing of real estate and other types of loans, which in turn is affected by the interest rates at which such financings may be offered.

The Bank's net interest income is dependent primarily upon the difference or spread between the average yield earned on loans receivable and securities, and the average rate paid on deposits and Federal Home Loan Bank (FHLB) advances, as well as the relative amounts of such assets and liabilities. The Bank, like other thrift institutions, is subject to interest rate risk to the degree that its interest-bearing liabilities mature or reprice at different times, or on a different basis, than its interest-earning assets.

Business Strategy

The Bank seeks to obtain a competitive advantage in its deposit gathering and lending operations by maintaining a high level of community involvement and by offering a high level of personal service.

In its deposit gathering operations, the Bank uses community outreach and customer service in an attempt to build and maintain passbook and other non-certificate accounts. These accounts generally carry lower costs than certificate accounts and are believed to represent primarily "core" deposits that are less vulnerable to interest rate changes (and competition from other financial products) than certificate accounts.

In its lending operations, the Bank seeks to obtain high quality residential and, to a lesser extent, other loans by maintaining a high level of local visibility, offering a high level of customer

service and limiting its secondary market activities. In recent years, as a result of these efforts, the Bank's outstanding loan balances have increased. At the same time, asset quality has remained high.

Comparison of Financial Condition at December 31, 2002 and December 31, 2001

Total assets at December 31, 2002 were \$464.3 million compared to \$431.3 million at December 31, 2001, an increase of \$33.0 million or 7.65%. The increase in total assets was due primarily to increases of \$18.4 million in cash and cash equivalents, \$14.1 million in loan receivable and \$2.6 million in FHLB stock, partially offset by a decrease of \$2.2 million in securities.

Net loans receivable increased by \$14.1 million from \$287.5 million at December 31, 2001 to \$301.6 million at December 31, 2002. The increase was primarily due to the disbursement of \$24.8 million to fund construction loans, as well as the disbursement of \$92.7 million to fund mortgage loans and a net increase in equity line of credit loans of \$9.5 million partially offset by \$16.4 million in paydowns on construction loans and \$96.6 million in paydowns on mortgage loans. The net increase in loans receivable was largely a result of a low interest rate environment and a strong local real estate market. Due to this low interest rate environment, \$23.4 million of the Bank's mortgage loans were refinanced during the past year. The refinancings contributed to the decrease of 30 basis points in the average rate earned on loans receivable.

Cash and cash equivalents increased by \$18.4 million due to the inflow of funds from the calls of securities, increased paydowns on mortgage-backed securities, and the net increase in deposits accounts and Federal Home Loan Bank advances. The funds were deposited in overnight federal funds and interest-bearing accounts with other financial institutions awaiting redeployment into mortgage loans and agency, municipal and mortgage backed-securities.

Federal Home Loan Bank stock increased by \$2.6 million primarily due to stock purchases by the Bank. Also contributing to this increase in stock were stock dividends received from the Federal Home Loan Bank. The stock issued by the Federal Home Loan Bank is liquid and pays a competitive quarterly dividend.

Premises and equipment increased by \$1.1 million primarily due to the purchase and remodeling of a building in Palatine, Illinois for the Bank's relocated northwest suburban office. The remodeled office is located in very close proximity to the Bank's current Rolling Meadows branch, but is a much larger, free standing facility.

Securities decreased by \$2.2 million from \$114.0 million at December 31, 2001 to \$111.8 million at December 31, 2002. The decrease was primarily due to the maturity and call of \$28.1 million in agency securities, the sale of \$3.2 million in municipal and mortgage-backed securities and paydowns of \$9.6 million on mortgage-backed securities, partially offset by the purchase of \$23.1 million in agency securities, \$8.9 million in mortgage-backed securities, \$5.4 million in municipal securities and an increase of \$913,000 in the fair market value of available-for-sale securities.

Total liabilities at December 31, 2002 were \$388.4 million compared to \$359.2 million at December 31, 2001, an increase of \$29.2 million. The increase in liabilities was due primarily to

increases of \$21.7 million in deposits, \$8.5 million in Federal Home Loan Bank advances partially offset by a decrease of \$1.1 million in accrued interest payable and other liabilities.

Accrued interest payable and other liabilities decreased primarily due to the lower rates being paid on the various types of deposit products offered by the Bank. The lower rates resulted in lower interest expense resulting in lower accrued interest payable.

Deposits increased due to a special 13 month certificate being offered by the Bank, increased marketing efforts and due to the less volatile and less risky nature of deposit accounts in comparison to other types of consumer investment vehicles. The Bank utilized additional Federal Home Loan Bank advances due to low rates being charged on these types of borrowings. The proceeds were then used to fund a portion of the loan growth described above.

Shareholders' equity at December 31, 2002 was \$75.9 million compared to \$72.0 million at December 31, 2001, an increase of \$3.9 million. The increase in equity was due primarily to net income of \$8.0 million for the period partially offset by the Company's repurchase of outstanding common stock of \$4.1 million. Equity at December 31, 2002 was also impacted by dividends on the Company's common stock. Four cash dividends totaling \$2.0 million were declared during the year ended December 31, 2002. The dividends were paid to stockholders in April, July, and October 2002, and January 2003.

Comparison of Operating Results for the Years Ended December 31, 2002 and December 31, 2001

General. Net income for the year ended December 31, 2002 was \$8.0 million compared to net income of \$6.8 million for the year ended December 31, 2001, an increase of \$1.2 million. The increase in net income was attributable primarily to an increase in net interest income partially offset by a decrease in noninterest income and increases in noninterest expense and income tax expense. Basic earnings per share for the year ended December 31, 2002 increased to \$2.20 as compared to basic earnings per share of \$1.68 for the year ended December 31, 2001, an increase of 30.95%. Diluted earnings per share for the year ended December 31, 2002 increased to \$2.15 as compared to diluted earnings per share of \$1.67 for the year ended December 31, 2001, an increase of 28.74%. The increase in basic and diluted earnings per share was attributable to higher net income and a decrease in the average shares outstanding as a result of the Company's repurchasing 185,936 shares of its common stock in the open market during 2002.

Interest Income. Interest income for the year ended December 31, 2002 was \$30.9 million compared to \$30.4 million for the year ended December 31, 2001, an increase of \$500,000. The increase in interest income was primarily due to an increase in the average balance of interest earning assets from \$399.5 million for the year ended December 31, 2001 to \$429.2 million for the year ended December 31, 2002 due to the investment of funds in loans, mortgage-backed, municipal and agency securities and Federal Home Loan Bank stock. Interest income on loans increased by \$465,000 primarily due to an increase in the volume of loans receivable. Even though there was an increase of 5.9% in the average balance of outstanding loans receivable for the year ended December 31, 2002, as compared to the year ended December 31, 2001, the increase in interest income on loans

was significantly offset by the declining interest rate environment existing during the past year resulting in a 30 basis point decrease in the average rate earned on loans receivable. Interest income on mortgage-backed securities increased by \$244,000 due to increases in the outstanding balances of mortgage-backed securities. Interest income on taxable securities decreased by \$691,000 due primarily to decreases in the average interest rates paid by the issuers on these securities resulting in a 71 basis point decrease in the average rate earned on federal agency securities and a 129 basis point decrease in the average rate earned on mutual funds. Also contributing to the decrease in interest income on securities was a decrease in the average outstanding balances of the Company's taxable securities portfolio resulting from calls of these securities by the issuing agencies. Interest income on tax-exempt securities increased by \$374,000 primarily due to increases in the average balances of these securities. Interest income from Federal Home Loan Bank dividends increased by \$294,000 due primarily to increases in the average balances of Federal Home Loan Bank stock. Interest income on federal funds sold and other interest earning assets decreased by \$223,000 due to decreases in the average balances of federal funds sold and interest-bearing deposits with other financial institutions. Also contributing to the decrease in interest income on federal funds sold and other interest earning assets were decreases in the average interest rates paid on these deposits resulting in a 209 basis point decrease in the average rate earned on interest-bearing deposit accounts in other financial institutions and a 193 basis point decrease in federal funds sold.

Interest Expense. Interest expense for the year ended December 31, 2002 was \$12.6 million compared to \$14.7 million for the year ended December 31, 2001, a decrease of \$2.1 million. The decrease in interest expense was due primarily to a decrease in the average interest rate paid on interest-bearing liabilities. Contributing to the decrease in interest expense was the maturity of customer's certificates of deposit during the year and the reinvestment of those funds into certificates paying lower rates of interest. This decrease in interest expense due to lower rates of interest was partially offset by a \$27.1 million increase in the average balance of interest-bearing liabilities from \$322.4 for the year ended December 31, 2001 to \$349.5 million for the year ended December 31, 2002.

Interest expense on deposits decreased by \$3.0 million due to a decrease in the weighted average cost of deposits, reflecting lower market rates of interest. Interest expense on Federal Home Loan Bank advances increased by \$912,000 due to increases in the balances of Federal Home Loan Bank advances, which were used to fund loan growth. Even though the balances of both deposits and Federal Home Loan Bank advances increased, the impact on interest expense was moderated by the falling interest rate environment during 2002 resulting in a lower cost of funds for the Bank. The average cost of funds decreased 94 basis points from 4.56% for the year ended December 31, 2001 to 3.62% for the year ended December 31, 2002.

Net Interest Income. Net interest income for the year ended December 31, 2002 was \$18.3 million, which represented an increase of \$2.6 million from net interest income of \$15.7 million for the year ended December 31, 2001. The ratio of average interest earning assets to average interest bearing liabilities decreased slightly to 122.81% in 2002 from 123.91% in 2001. However, the interest spread increased to 3.81% in 2002 from 3.25% in 2001.

Provision for Loan Losses. The provision for loan losses for the year ended December 31, 2002 was \$127,000 compared to \$144,000 for the year ended December 31, 2001, a decrease of

\$17,000. Non-performing assets at December 31, 2002 totaled \$2.1 million or 0.44% of assets. The loan loss allowance as of December 31, 2002 was \$2.9 million or 0.96% of gross loans, compared with \$2.8 million at December 31, 2001 or 0.96% of gross loans.

On a quarterly basis, management of the Bank meets to review the adequacy of the allowance for loan losses. Management classifies commercial real estate and construction loans in compliance with regulatory classifications. Classified loans are individually reviewed to arrive at specific reserves for those loans. Once the specific portion of the allowance is calculated, management calculates a historical portion for each loan category based on loan loss history, peer data, current economic conditions and trends in portfolio, including delinquencies and impairments and real estate values in the Bank's market area as well as changes in the composition of the loan portfolio. In addition, various regulatory agencies, as an integral part of their examination processes, periodically review the Bank's allowance for losses on loans. Such agencies may require the Bank to provide additions to the allowance based upon judgements which differ from those of management. Additions were made to the loan loss provision due to increases in nonperforming assets and in the outstanding balances of commercial real estate and construction loans. The outstanding balance of commercial real estate loans increased by \$19.7 million and the outstanding balance of construction loans increased by \$9.1 million. Since these types of loans expose the Bank to a higher degree of risk, additional loan loss provisions were made. Although management believes the allowance for loan losses reflected probable incurred losses on existing loans at December 31, 2002, there can be no assurance that such losses will not exceed estimated amounts.

Noninterest Income. Noninterest income for the year ended December 31, 2002 was \$949,000 compared to \$1,135,000 for the year ended December 31, 2001, a decrease of \$186,000. The decrease in noninterest income was due primarily to a \$286,000 net gain on the sale of real estate held for expansion that had been recorded in 2001 partially offset by an increase of \$127,000 in deposit service charges in 2002. The increase in deposit service charges is due primarily to changes made effective in January 2002 relative to non-sufficient fund, research, account maintenance and other service fees charges by the Bank. Also contributing to the decrease in noninterest income was a \$28,000 decrease in the net gain on sales and calls of securities.

Noninterest Expense. Noninterest expense for the year ended December 31, 2002 was \$7.1 million compared to noninterest expense of \$6.6 million for the year ended December 31, 2001, an increase of \$546,000. Compensation and benefits expense increased by \$410,000 partially due to an increase in ESOP expense resulting from an increase in the Company's stock price, the hiring of additional bank personnel as a result of the continuing growth of the Bank and normal annual salary adjustments for existing Bank personnel. Other expense increased by \$113,000 partially due to a \$78,000 write-off of obsolete computer equipment made necessary by a company-wide replacement of all computers.

Income taxes. Income taxes were \$4.0 million for the year ended December 31, 2002 compared to \$3.4 million for the year ended December 31, 2001, an increase of \$562,000. The increase in provision for income taxes was due primarily to an increase of \$1.8 million in pretax earnings. The effective tax rate on income for the year ended December 31, 2002 was 33.1% compared to an effective tax rate of 33.4% for the year ended December 31, 2001.

Comparison of Financial Condition at December 31, 2001 and December 31, 2000

Total assets at December 31, 2001 were \$431.3 million compared to \$403.7 million at December 31, 2000, an increase of \$27.6 million or 6.84%. The increase in total assets was due primarily to increases of \$3.3 million in cash and cash equivalents, \$3.8 million in securities, \$12.0 million in loans receivable and \$8.9 million in Federal Home Loan Bank (FHLB) stock, partially offset by a decrease of \$300,000 in premises and equipment.

Net loans receivable increased by \$12.0 million from \$275.5 million at December 31, 2000 to \$287.5 million at December 31, 2001. The increase was due to the disbursement of \$17.4 million to fund construction loans, as well as the disbursement of \$97.0 million to fund mortgage loans and a net increase in equity line of credit loans of \$4.2 million offset by \$12.6 million in paydowns on construction loans and \$94.2 million in paydowns on mortgage and other loans. The net increase in loans receivable was largely a result of a low interest rate environment and a strong local real estate market.

Securities increased by \$3.8 million from \$110.2 million at December 31, 2000 to \$114.0 million at December 31, 2001. The increase in securities was due primarily to the purchase of \$42.7 million in municipal and agency securities and \$17.8 million in mortgage backed securities partially offset by the maturity and call of \$50.1 million in agency securities, the sale of \$1.0 million in securities and paydowns of \$5.6 million on mortgage backed securities. Management believes that the securities were redeemed due to the falling interest rate environment existing during the year. Cash and cash equivalents increased by \$3.3 million primarily due to the inflow of funds from the calls of securities and paydowns on mortgages along with increases in deposit accounts. The funds were deposited in interest-bearing accounts with other financial institutions and overnight federal funds awaiting redeployment into mortgage loans, agency and municipal securities and mortgage backed securities. Federal Home Loan Bank stock increased by \$8.9 million primarily due to stock purchases by the Bank. The stock issued by the Federal Home Loan Bank is liquid and pays a competitive quarterly dividend. Premises and equipment decreased by \$300,000 partially due to the sale of real estate held for future expansion and due to depreciation booked on the Company's fixed assets.

Total liabilities at December 31, 2001 were \$359.2 million compared to \$323.4 million at December 31, 2000, an increase of \$35.8 million. The increase in liabilities was due primarily to increases of \$16.2 million in deposits, \$19.0 million in Federal Home Loan Bank advances and \$1.0 million in accrued interest payable and other liabilities partially offset by a decrease of \$400,000 in advance payments by borrowers for taxes and insurance.

Deposits increased due to the less volatile and less risky nature of these accounts in comparison to other types of consumer investment vehicles. Federal Home Loan Bank advances increased due to low rates being charged on these types of borrowings. The advances were then redeployed into higher yielding mortgage loan products.

Shareholders' equity at December 31, 2001 was \$72.0 million compared to \$80.2 million at December 31, 2000, a decrease of \$8.2 million. The decrease in equity was due primarily to the Company's repurchase of outstanding common stock of \$14.2 million partially offset by net income

of \$6.8 million for the period. Equity at December 31, 2001 was also impacted by dividends on the Company's common stock. Four cash dividends totaling \$2.2 million were declared during the year ended December 31, 2001. The dividends were paid to stockholders in April, July and October 2001, and January 2002.

Comparison of Operating Results for the Years Ended December 31, 2001 and December 31, 2000

General. Net income for the year ended December 31, 2001 was \$6.8 million compared to net income of \$6.0 million for the year ended December 31, 2000, an increase of \$759,000. The increase in net income was attributable to increases in net interest income and noninterest income partially offset by increases in noninterest expense and income tax expense. Basic earnings per share for the year ended December 31, 2001 increased to \$1.68 as compared to earnings per share of \$1.28 for the year ended December 31, 2000, an increase of 31.25%. The increase in earnings per share is attributable to higher net income and a decrease in the average shares outstanding as the Company continued to repurchase its common stock in the open market during 2001.

Interest Income. Interest income for the year ended December 31, 2001 was \$30.4 million compared to \$29.0 million for the year ended December 31, 2000, an increase of \$1.4 million. The increase in interest income was due primarily to an increase in the average balance of interest earning assets from \$379.9 million for the year ended December 31, 2000 to \$399.5 million for the year ended December 31, 2001 due to the investment of funds in loans, overnight federal funds and Federal Home Loan Bank stock. Interest income on loans increased by \$1.9 million primarily due to an increase in the average loan balance. Interest income on taxable securities decreased by \$1.1 million due primarily to decreases in the average outstanding balances of the Company's taxable securities portfolio resulting from calls of these securities by the issuing agencies. Interest income on tax-exempt securities increased by \$221,000 due primarily to increases in the average balances of these securities. Interest income on other interest earning assets increased by \$444,000 due to increases in the average balances of Federal Home Loan Bank stock, interest-bearing accounts with the Federal Home Loan Bank and funds invested in overnight federal funds.

Interest Expense. Interest expense for the year ended December 31, 2001 was \$14.7 million compared to \$14.3 million for the year ended December 31, 2000, an increase of \$404,000. The increase in interest expense was due to a \$28.5 million increase in the average balance of interest-bearing liabilities from \$293.9 million for the year ended December 31, 2000 to \$322.4 million for the year ended December 31, 2001. Interest expense on deposits increased by \$99,000 due primarily to increases in average deposit balances. Interest expense on Federal Home Loan Bank advances increased by \$305,000 due to increases in the balances of Federal Home Loan Bank advances which were used to fund loan growth and to purchase securities. Even though the balances of both deposits and Federal Home Loan Bank advances increased, the impact on interest expense was moderated by the falling interest rate environment during 2001 resulting in a lower cost of funds for the Bank. The average cost of funds decreased 31 basis points from 4.87% for the year ended December 31, 2000 to 4.56% for the year ended December 31, 2001 due to the lower interest rate environment.

Net Interest Income. Net interest income for the year ended December 31, 2001 was \$15.7 million which represented an increase of \$1.0 million from net interest income of \$14.7 million for the year ended December 31, 2000. The ratio of average interest earning assets to average interest bearing liabilities decreased to 123.91% in 2001 from 129.24% in 2000. However, the interest spread increased to 3.25% in 2001 from 2.94% in 2000. The primary reason for the decrease in the ratio of interest earning assets to interest bearing liabilities was the Company's repurchase of outstanding common stock. Even though the stock repurchases decreased the ratio of interest earning assets to interest bearing liabilities, they were accretive to book value per share since all the stock was purchased at prices that were below book value.

Provision for Loan Losses. The provision for loan losses for the year ended December 31, 2001 was \$144,000 compared to \$246,000 for the year ended December 31, 2000, a decrease of \$102,000. The change was due in part to a recovery of \$143,000, which the Company received in August 2001, from the liquidation of Allied Fidelity Insurance Company, which had guaranteed the principal and interest payments on a loan previously charged off in which the Bank owned a participation interest.

On a quarterly basis, management of the Bank meets to review the adequacy of the allowance for loan losses. Management classifies loans in compliance with regulatory classifications. Classified loans are individually reviewed to arrive at specific reserves for those loans. Once the specific portion of the allowance is calculated, management calculates a historical portion for each loan category based on loan loss history, peer data, current economic conditions and trends in portfolio, including delinquencies and impairments and real estate values in the Bank's market area as well as changes in the composition of the loan portfolio. In addition, various regulatory agencies, as an integral part of their examination processes, periodically review the Bank's allowance for losses on loans. Such agencies may require the Bank to provide additions to the allowance based upon judgements which differ from those of management. Although management believes the allowance for loan losses was at a level adequate to absorb probable incurred losses on existing loans at December 31, 2001, there can be no assurance that such losses will not exceed estimated amounts.

Noninterest Income. Noninterest income for the year ended December 31, 2001 was \$1.1 million compared to \$637,000 for the year ended December 31, 2000, an increase of \$498,000. The increase in noninterest income was due primarily to a \$286,000 gain on the sale of real estate held for future expansion along with a net increase in the gain on the sale of securities of \$127,000. Also contributing to the increase in noninterest income was an increase in other income of \$139,000 primarily due to an increase in mortgage modification fee income, which was partially offset by a decrease of \$41,000 in the gain on sale of real estate owned.

Noninterest Expense. Noninterest expense for the year ended December 31, 2001 was \$6.6 million compared to noninterest expense of \$6.1 million for the year ended December 31, 2000, an increase of \$467,000. Compensation and benefits expense increased by \$245,000 partially due to an increase in ESOP expense resulting from an increase in the Company's stock price, the hiring of additional bank personnel as a result of the continuing growth of the Bank and due to normal annual salary adjustments for existing Bank personnel. Occupancy and equipment expense increased by \$36,000 due to increases in natural gas and other utility prices and due to increases in building maintenance such as snow plowing and snow removal in early 2001. Data processing expense

increased by \$90,000 due to the temporary use of information technology specialists to assist the Bank in upgrading its data processing systems and due to an annual contractual adjustment by the Bank's data processing service provider in the cost of on-line data processing services. Data processing expense was also affected by fees incurred by the Bank for the performance of information technology security audits on its computer network. Other expense increased by \$91,000 due to increases in appraisal fees as a result of increases in mortgage loan and construction loan volume. Also contributing to the increase in other expense were increases in service fees charged to the Company and the Bank by its correspondent banks.

Income taxes. Income taxes were \$3.4 million for the year ended December 31, 2001 compared to \$3.0 million for the year ended December 31, 2000, an increase of \$407,000. The increase in provision for income taxes was primarily due to an increase of \$1.2 million in pretax earnings.

The following schedule presents the dollar amount of changes in interest income and interest expense for major components of interest-earning assets and interest-bearing liabilities. It distinguishes between the changes related to outstanding balances and those due to the changes in interest rates. For each category of interest-earning assets and interest-bearing liabilities, information is provided on changes attributable to (i) changes in volume (i.e., changes in volume multiplied by old rate) and (ii) changes in rate (i.e., changes in rate multiplied by old volume). For purposes of this table, changes attributable to both rate and volume, which cannot be segregated, have been allocated proportionately to the change due to volume and the change due to rate.

	Year Ended December 31,											
	2001 vs. 2002				2000 vs. 2001				1999 vs. 2000			
	Increase		Total		Increase		Total		Increase		Total	
	(Decrease)	Rate	(Decrease)	Increase	(Decrease)	Rate	(Decrease)	Increase	(Decrease)	Rate	(Decrease)	
Volume	Due to	Volume	Due to	Volume	Due to	Volume	Due to	Volume	Due to	Volume	Due to	
(Dollars in Thousands)												
Interest-earning assets:												
Loans receivable	\$1,349	\$ (884)	\$465	\$1,813	\$ 99	\$1,912	\$2,681	\$274	\$2,955			
Mortgage-backed securities & CMO's	413	(169)	244	16	(52)	(36)	(344)	95	(249)			
Mutual funds	—	(41)	(41)	—	4	4	—	(9)	(9)			
Agencies and other	(290)	(360)	(650)	(1,165)	57	(1,108)	774	85	859			
Municipal securities	560	5	565	360	(25)	335	496	(20)	476			
Federal funds sold	(57)	(88)	(145)	206	—	206	(100)	(22)	(122)			
Deposits with other institutions	(34)	(44)	(78)	62	(17)	45	(129)	23	(106)			
FHLB stock	356	(62)	294	228	(35)	193	51	22	73			
Total interest-earning assets	2,297	(1,643)	654	1,520	31	1,551	3,429	448	3,877			
Interest-bearing liabilities:												
Money market	23	(30)	(7)	18	(3)	15	(15)	6	(9)			
NOW	6	(53)	(47)	20	(79)	(59)	18	1	19			
Passbook Savings	265	83	348	72	(239)	(167)	10	(41)	(31)			
Certificates of deposit	(138)	(3,138)	(3,276)	713	(403)	310	803	949	1,752			
Advances	1,010	(98)	912	644	(339)	305	1,306	238	1,544			
Total interest bearing liabilities	1,166	(3,236)	(2,070)	1,467	(1,063)	404	2,122	1,153	3,275			
Net interest/spread	\$ 1,131	\$ 1,593	\$2,724	\$ 53	\$1,094	\$1,147	\$1,307	\$ (705)	\$602			

Quantitative and Qualitative Disclosures About Market Risk

In an attempt to manage its exposure to changes in interest rates, management monitors the Company's interest rate risk. The Board of Directors reviews at least quarterly the Company's interest rate risk position and profitability. The Board of Directors also reviews the Company's portfolio, formulates investment strategies and oversees the timing and implementation of transactions to assure attainment of the Company's objectives in the most effective manner. In addition, the Board reviews on a quarterly basis the Company's asset/liability position, including simulations of the effect of various interest rate scenarios on the Company's capital.

In managing its asset/liability mix, the Company, depending on the relationship between long- and short-term interest rates, market conditions and consumer preference, often places more emphasis on managing short term net interest margin than on better matching the interest rate sensitivity of its assets and liabilities in an effort to enhance net interest income. Management believes that the increased net interest income resulting from a mismatch in the maturity of its asset and liability portfolios can, during periods of declining or stable interest rates, provide high enough returns to justify the increased exposure to sudden and unexpected increases in interest rates.

The Board has taken a number of steps to manage the Company's vulnerability to changes in interest rates. First, the Company has long used community outreach, customer service and marketing efforts to increase the Company's passbook and other non-certificate accounts. At December 31, 2002, \$131.6 million or 45.29% of the Company's deposits consisted of passbook, NOW and money market accounts. The Company believes that these accounts represent "core" deposits which are generally somewhat less interest rate sensitive than other types of deposit accounts. Second, while the Company continues to originate 30-year fixed-rate residential loans for portfolio as a result of consumer demand, an increasing proportion of the Company's residential loans have terms of 15 years or less or carry adjustable interest rates. Therefore, the Company may consider selling loans into the secondary market and retaining the servicing rights. Third, the Company continues to use FHLB advances, to extend the term to repricing of its liabilities. At December 31, 2002, the Company had \$65.3 million of fixed rate advances with a remaining term to maturity of three years or more. The average term to maturity or call of the Company's fixed rate advances, was 3.9 years at December 31, 2002. Finally, the Company has recently increased its holdings of construction, multi-family, commercial real estate and consumer loans. These loans generally have shorter terms to maturity than one-to-four family residential loans.

Management utilizes the net portfolio value (NPV) analysis to quantify interest rate risk. In essence, this approach calculates the difference between the present value of liabilities, expected cash flows from assets and cash flows from off-balance sheet contracts. The analysis estimates how the Bank's net portfolio value responds to changes in interest rates. The current interest rate scenarios used in the NPV analysis assume an instantaneous and sustained parallel shift in the Treasury yield curve of plus and minus 100, 200, and 300 basis points in 100 basis point increments.

At December 31, 2002 and 2001, the yield on the three month Treasury bill was below 2.00%. As a result, the net portfolio value analysis was unable to produce results for the minus 200 and minus 300 basis point scenarios for the quarters ending December 31, 2002 and 2001.

Presented below, as of December 31, 2002 and December 31, 2001, is an analysis of the Bank's estimated interest rate risk as measured by changes in NPV for instantaneous and sustained parallel shifts in interest rates up 300 basis points and down 100 basis points, in 100 point increments.

2002

<u>Assumed Change in Interest Rates</u> (Basis Points)	<u>\$ Amount</u> (Dollars in Thousands)	<u>\$ Change in NPV</u>	<u>% Change in NPV</u>
+300	\$66,597	\$<15,159>	<19>%
+200	73,833	<7,923>	<10>
+100	79,531	<2,225>	<3>
—	81,756	—	—
-100	82,521	765	1
-200	—	—	—
-300	—	—	—

2001

<u>Assumed Change in Interest Rates</u> (Basis Points)	<u>\$ Amount</u> (Dollars in Thousands)	<u>\$ Change in NPV</u>	<u>% Change in NPV</u>
+300	\$65,973	\$<30,323>	<31>%
+200	75,768	<20,528>	<21>
+100	86,167	<10,129>	<11>
—	96,296	—	—
-100	102,825	6,529	7
-200	—	—	—
-300	—	—	—

Certain assumptions utilized in assessing the interest rate risk of thrift institutions were employed in preparing the preceding table. These assumptions relate to interest rates, loan prepayment rates, deposit decay rates, and the market values of certain assets under the various interest rate scenarios. It was also assumed that delinquency rates will not change as a result of changes in interest rates although there can be no assurance that this will be the case. Even if interest rates change in the designated amounts, there can be no assurance that the Company's assets and liabilities would perform as set forth above. In addition, a change in U.S. Treasury rates in the designated amounts accompanied by a change in the shape of the Treasury yield curve would cause significantly different changes to the NPV than indicated above.

Liquidity and Capital Resources

The Company's primary sources of funds are deposits and proceeds from principal and interest payments on loans and mortgage-backed securities. While maturities and scheduled amortization of loans and securities are predictable sources of funds, deposit flows and mortgage prepayments are greatly influenced by general interest rates, economic conditions and competition. First Security generally manages the pricing of its deposits to be competitive and to increase core deposit relationships.

Liquidity management is both a daily and long-term responsibility of management. First Security adjusts its investments in liquid assets based upon management's assessment of (i) expected loan demand, (ii) expected deposit flows, (iii) yields available on interest-earning deposits and investment securities, and (iv) the objectives of its asset/liability management program. Excess liquid assets are invested generally in interest-earning overnight deposits and short- and intermediate-term U.S. Government and agency obligations and mortgage-backed securities of short duration. If First Security requires funds beyond its ability to generate them internally, it has additional borrowing capacity with the FHLB of Chicago. Additional borrowings with the FHLB may require additional collateral to be pledged to the FHLB.

The Company's cash flows are comprised of three primary classifications: cash flows from operating activities, investing activities and financing activities. Cash flows provided by operating activities were \$8.7 million, \$9.0 million, and \$8.3 million for the years ended December 31, 2002, 2001, and 2000, respectively. Net cash used in investing activities consisted primarily of disbursements for loan originations, the purchase of investments and mortgage-backed securities and property and equipment expenditures on the Company's new Palatine branch. The cash used in investing activities was offset by principal collections on loans, proceeds from maturation and sales of securities and paydowns on mortgage-backed securities. Net cash from financing activities consisted primarily from increases in net deposits and advances from FHLB of Chicago partially offset by repurchases of Company common stock and the payment of dividends.

The Company's most liquid assets are cash and cash equivalents. The levels of these assets are dependent on the Company's operating, financing, lending and investing activities during any given period. At December 31, 2002, cash and short-term investments totaled \$27.8 million. The Company has other sources of liquidity if a need for additional funds arises, including securities maturing within one year and the repayment of loans. The Company may also utilize the sale of securities available-for-sale and FHLB advances as sources of funds.

Commitments

At December 31, 2002 the Company had outstanding commitments to originate mortgage loans of \$9.8 million, \$9.0 million of which had fixed interest rates. As of the same date, the Company also had construction loans in process of \$10.2 million, all of which had floating interest rates based on prime rate and \$14.9 million in unused lines of credit for home equity loans. Finally, as of December 31, 2002, the Company had \$5.9 million in commitments to fund construction loans. These loans are to be secured by properties located in its market area. The Company anticipates that

it will have sufficient funds available to meet its current loan commitments. Loan commitments have, in recent periods, been funded through liquidity or through FHLB advances.

Certificates of deposit which are scheduled to mature in one year or less from December 31, 2002 totaled \$128.1 million. Management believes, based on past experience, that a significant portion of such deposits will remain with the Company. Based on the foregoing, in addition to the Company's high level of core deposits and capital, the Company considers its liquidity and capital resources sufficient to meet its outstanding short-term and long-term needs. During the third quarter of 2002, the Bank implemented a secured letter of credit program. The outstanding letters of credit are fully secured by customers' deposit accounts at the Bank. At December 31, 2002, the Bank had outstanding secured letters of credit of \$137,490.

The following tables disclose contractual obligations and commercial commitments of the Company as of December 31, 2002:

	<u>Total</u>	<u>Less Than 1 Year</u>	<u>1 - 3 Years</u>	<u>4 - 5 Years</u>	<u>After 5 Years</u>
FHLB Advances	<u>\$92,105</u>	<u>—</u>	<u>\$26,800</u>	<u>\$39,305</u>	<u>\$26,000</u>
Total contractual obligations	\$92,105	—	\$26,800	\$39,305	\$26,000

	<u>Total Amounts Committed</u>	<u>Less Than 1 Year</u>	<u>1 - 3 Years</u>	<u>4 - 5 Years</u>	<u>After 5 Years</u>
Lines of credit	\$14,905	\$664	\$4,736	\$9,505	—
Mortgage Loans	9,794	9,794	—	—	—
Construction Loans in Process	10,227	10,227	—	—	—
Letters of Credit	137	137	—	—	—
Commitments to Fund Construction Loans	<u>5,892</u>	<u>5,892</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total commercial commitments	\$ 40,955	\$ 26,714	\$ 4,736	\$ 9,505	—

First Security is subject to various regulatory capital requirements imposed by the OTS. At December 31, 2002, First Security was in compliance with all applicable capital requirements. See Note 10 of the Notes to Consolidated Financial Statements.

Impact of Inflation and Changing Prices

The consolidated financial statements and related data herein have been prepared in accordance with accounting principles generally accepted in the United States of America, which require the measurement of financial position and results of operations in terms of historical dollars, without considering changes in the relative purchasing power of money over time due to inflation. Unlike most industrial companies, virtually all of the assets and liabilities of the Company are monetary in nature. Therefore, interest rates have a more significant impact on a financial institution's performance than the effects of general levels of inflation. Interest rates do not necessarily move in the same direction or in the same magnitude as the prices of goods and services. In the current interest rate environment, the liquidity and maturity structure and quality of the Company's assets and liabilities are critical to the maintenance of acceptable performance levels.

Safe Harbor Statement

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, 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 that could have a material adverse effect on the operations and future prospects of the Company and the subsidiaries include, but are not limited to, changes in: interest rates, general economic conditions, the legislative/regulatory situation, monetary and fiscal policies of the U.S. Government, including policies of the U.S. Treasury and the Federal Reserve Board, the quality or composition of the loan or investment portfolios, demand for loan products, prevailing real estate values, demographic changes, 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.

New Accounting Pronouncements

FASB Statements (FAS) 148, Accounting for Stock-Based Compensation-Transition and Disclosure was issued in December 2002. Management is currently studying the requirements of FAS 148. It applies to annual financial statements for interim periods beginning after December 15, 2002. The statement requires more prominent disclosure of how an entity's accounting policy for compensation affects net income; amends FAS 123 to provide three choices regarding how to adopt

FAS 123; and amends APB 28 Interim Financial Reporting, to require companies still using APB Opinion 25 for stock based compensation to provide tabular disclosure in interim financial statements of the effects that using FAS 123 would have on compensation expense, net income, and earnings per share.



CROWE CHIZEK

REPORT OF INDEPENDENT AUDITORS

Board of Directors
First SecurityFed Financial, Inc.
Chicago, Illinois

We have audited the accompanying consolidated balance sheets of First SecurityFed Financial, Inc. as of December 31, 2002 and 2001, and the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2002. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of First SecurityFed Financial, Inc. at December 31, 2002 and 2001, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the consolidated financial statements, the Company changed its method of accounting for derivative instruments on January 1, 2000 to conform with Statement of Financial Accounting Standards No. 133.


Crowe, Chizek and Company LLP

Oak Brook, Illinois
January 31, 2003

FIRST SECURITYFED FINANCIAL, INC.
CONSOLIDATED BALANCE SHEETS
December 31, 2002 and 2001
(Dollars in thousands, except share data)

	<u>2002</u>	<u>2001</u>
ASSETS		
Cash and due from banks	\$ 16,557	\$ 7,070
Interest-bearing deposit accounts in other financial institutions	5,631	1,423
Federal funds sold	<u>5,629</u>	<u>928</u>
Total cash and cash equivalents	27,817	9,421
Securities available-for-sale	42,628	21,741
Securities held-to-maturity (fair value: \$72,362 in 2002 and \$92,579 in 2001)	69,126	92,216
Loans receivable, net	301,642	287,450
Federal Home Loan Bank stock, at cost	14,788	12,162
Premises and equipment, net	4,349	3,204
Accrued interest receivable	3,319	3,177
Other assets	<u>632</u>	<u>1,904</u>
Total assets	<u>\$ 464,301</u>	<u>\$ 431,275</u>
LIABILITIES		
Deposits		
Non-interest-bearing	\$ 9,601	\$ 10,069
Interest-bearing	<u>281,011</u>	<u>258,788</u>
Total deposits	290,612	268,857
Advance payments by borrowers for taxes and insurance	2,832	2,880
Advances from Federal Home Loan Bank	92,105	83,600
Accrued interest payable and other liabilities	<u>2,820</u>	<u>3,900</u>
Total liabilities	388,369	359,237
SHAREHOLDERS' EQUITY		
Preferred stock, \$0.01 par value per share, 500,000 shares authorized, no shares issued and outstanding	-	-
Common stock, \$0.01 par value per share, 8,000,000 shares authorized, 6,408,000 shares issued	64	64
Additional paid-in capital	63,269	62,922
Unearned ESOP shares	(3,269)	(3,581)
Unearned stock awards	(1,007)	(1,774)
Treasury stock, at cost 2,455,246 shares in 2002 and 2,269,310 shares in 2001	(37,750)	(33,689)
Retained earnings	53,896	47,924
Accumulated other comprehensive income	<u>729</u>	<u>172</u>
Total shareholders' equity	<u>75,932</u>	<u>72,038</u>
Total liabilities and shareholders' equity	<u>\$ 464,301</u>	<u>\$ 431,275</u>

See accompanying notes to consolidated financial statements.

FIRST SECURITYFED FINANCIAL, INC.
CONSOLIDATED STATEMENTS OF INCOME
Years ended December 31, 2002, 2001, and 2000
(Dollars in thousands, except per share data)

	<u>2002</u>	<u>2001</u>	<u>2000</u>
Interest and dividend income			
Loans	\$ 23,974	\$ 23,509	\$ 21,597
Securities			
Taxable	2,979	3,670	4,774
Tax-exempt	1,884	1,510	1,289
Mortgage-backed securities	1,254	1,010	1,046
Federal Home Loan Bank dividends	705	411	218
Federal funds sold and other interest earning assets	<u>104</u>	<u>327</u>	<u>76</u>
	30,900	30,437	29,000
Interest expense			
NOW and money market	265	319	363
Passbook savings	2,500	2,152	2,319
Certificates of deposit	5,249	8,525	8,215
Federal Home Loan Bank advances	<u>4,632</u>	<u>3,720</u>	<u>3,415</u>
	<u>12,646</u>	<u>14,716</u>	<u>14,312</u>
Net interest income	18,254	15,721	14,688
Provision for loan losses	<u>127</u>	<u>144</u>	<u>246</u>
Net interest income after provision for loan losses	18,127	15,577	14,442
Noninterest income			
Deposit service charges	491	364	372
Insurance commissions	86	44	49
Net gain (loss) on sales and calls of securities	53	81	(46)
Gain on sale of real estate held for expansion	-	286	-
Net gain on sale of real estate owned	-	-	41
Other income	<u>319</u>	<u>360</u>	<u>221</u>
	949	1,135	637
Noninterest expense			
Compensation and benefits	4,471	4,061	3,816
Occupancy and equipment	743	731	695
Data processing	397	396	306
Federal insurance premiums	144	134	129
Other expense	<u>1,345</u>	<u>1,232</u>	<u>1,141</u>
	<u>7,100</u>	<u>6,554</u>	<u>6,087</u>
Income before income taxes	11,976	10,158	8,992
Income tax expense	<u>3,958</u>	<u>3,396</u>	<u>2,989</u>
Net income	<u>\$ 8,018</u>	<u>\$ 6,762</u>	<u>\$ 6,003</u>
Earnings per share			
Basic	<u>\$ 2.20</u>	<u>\$ 1.68</u>	<u>\$ 1.28</u>
Diluted	<u>\$ 2.15</u>	<u>\$ 1.67</u>	<u>\$ 1.28</u>

See accompanying notes to consolidated financial statements.

FIRST SECURITYFED FINANCIAL, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Years ended December 31, 2002, 2001, and 2000
(Dollars in thousands, except per share data)

	<u>2002</u>	<u>2001</u>	<u>2000</u>
Net income	\$ 8,018	\$ 6,762	\$ 6,003
Other comprehensive income			
Unrealized holding gains and losses on securities available-for-sale	966	281	1,248
Change in unrealized gains/losses on securities resulting from the reclassification of securities from held-to-maturity to available-for-sale	-	-	(220)
Reclassification adjustments for (gains) and losses recognized in income	<u>(53)</u>	<u>(81)</u>	<u>46</u>
Net unrealized gains and losses	913	200	1,074
Tax effect	<u>(356)</u>	<u>(78)</u>	<u>(419)</u>
	<u>557</u>	<u>122</u>	<u>655</u>
Comprehensive income	<u>\$ 8,575</u>	<u>\$ 6,884</u>	<u>\$ 6,658</u>

See accompanying notes to consolidated financial statements.

FIRST SECURITYFED FINANCIAL, INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
Years ended December 31, 2002, 2001, and 2000
(Dollars in thousands, except share data)

	Common Stock	Additional Paid-in Capital	Unearned ESOP Shares	Unearned Stock Awards	Treasury Stock	Retained Earnings	Accumulated Other Com- prehensive Income (Loss)	Total Share- holders' Equity
Balance at January 1, 2000	\$ 64	\$ 64,324	\$ (4,239)	\$ (3,075)	\$ (13,227)	\$ 39,914	\$ (605)	\$ 83,156
Net income	-	-	-	-	-	6,003	-	6,003
ESOP shares earned	-	87	333	-	-	-	-	420
Stock awards earned	-	-	-	722	-	-	-	722
Issuance of stock to Foundation, net of related tax benefit	-	(1,766)	-	-	1,957	-	-	191
Purchase of 499,005 shares of treasury stock	-	-	-	-	(8,367)	-	-	(8,367)
Dividends declared (\$.51 per share)	-	-	-	-	-	(2,531)	-	(2,531)
Change in unrealized gains/losses on securities resulting from the reclassification of securities from held-to-maturity to available-for-sale, net of tax effects	-	-	-	-	-	-	(134)	(134)
Change in fair value of securities, net of reclass- ification and tax effects	-	-	-	-	-	-	789	789
Balance at December 31, 2000	64	62,645	(3,906)	(2,353)	(19,637)	43,386	50	80,249
ESOP shares earned	-	246	325	-	-	-	-	571
Issuance of stock awards	-	31	-	(142)	111	-	-	-
Stock awards earned	-	-	-	721	-	-	-	721
Net income	-	-	-	-	-	6,762	-	6,762
Purchase of 790,945 shares of treasury stock	-	-	-	-	(14,163)	-	-	(14,163)
Dividends declared (\$.52 per share)	-	-	-	-	-	(2,224)	-	(2,224)
Change in fair value of securities, net of income taxes and reclassification effects	-	-	-	-	-	-	122	122
Balance at December 31, 2001	<u>\$ 64</u>	<u>\$ 62,922</u>	<u>\$ (3,581)</u>	<u>\$ (1,774)</u>	<u>\$ (33,689)</u>	<u>\$ 47,924</u>	<u>\$ 172</u>	<u>\$ 72,038</u>

(Continued)

FIRST SECURITYFED FINANCIAL, INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
Years ended December 31, 2001, 2000, and 1999
(Dollars in thousands, except share data)

	Common Stock	Additional Paid-in Capital	Unearned ESOP Shares	Unearned Stock Awards	Treasury Stock	Retained Earnings	Accumulated Other Com- prehensive Income (Loss)	Total Share- holders' Equity
Balance at January 1, 2002	\$ 64	\$ 62,922	\$ (3,581)	\$ (1,774)	\$ (33,689)	\$ 47,924	\$ 172	\$ 72,038
ESOP shares earned	-	347	312	-	-	-	-	659
Stock awards earned	-	-	-	767	-	-	-	767
Net income	-	-	-	-	-	8,018	-	8,018
Purchase of 185,936 shares of treasury stock	-	-	-	-	(4,061)	-	-	(4,061)
Dividends declared (\$.52 per share)	-	-	-	-	-	(2,046)	-	(2,046)
Change in fair value of securities, net of income taxes and reclassification effects	-	-	-	-	-	-	557	557
Balance at December 31, 2002	<u>\$ 64</u>	<u>\$ 63,269</u>	<u>\$ (3,269)</u>	<u>\$ (1,007)</u>	<u>\$ (37,750)</u>	<u>\$ 53,896</u>	<u>\$ 729</u>	<u>\$ 75,932</u>

See accompanying notes to consolidated financial statements.

FIRST SECURITYFED FINANCIAL, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended December 31, 2002, 2001, and 2000
(Dollars in thousands)

	<u>2002</u>	<u>2001</u>	<u>2000</u>
Cash flows from operating activities			
Net income	\$ 8,018	\$ 6,762	\$ 6,003
Adjustments to reconcile net income to net cash from operating activities			
Depreciation and amortization of intangibles	349	320	326
Net amortization of securities	(286)	(32)	83
Net (gain) loss on sales and calls of securities	(53)	(81)	46
Provision for loan losses	127	144	246
Net gain on real estate owned	-	-	(41)
Net gain on sale of real estate held for expansion	-	(286)	-
Deferred loan origination fees	131	188	303
Provision for deferred income taxes	405	90	(94)
Federal Home Loan Bank stock dividend	(705)	(332)	(151)
ESOP compensation expense	659	571	420
Stock award compensation expense	767	721	722
Net change in			
Accrued interest receivable	(142)	169	(370)
Other assets	480	(391)	421
Accrued interest payable and other liabilities	<u>(1,065)</u>	<u>1,110</u>	<u>365</u>
Net cash from operating activities	8,685	8,953	8,279
Cash flows from investing activities			
Purchase of securities available-for-sale	(32,377)	(2,759)	(4,642)
Purchase of securities held-to-maturity	(5,025)	(60,143)	(500)
Proceeds from sales of securities available-for-sale	3,189	3,558	3,408
Proceeds from calls and maturities of securities	28,115	50,065	2,480
Proceeds from sale of real estate owned	-	-	108
Net loan originations	(14,450)	(12,328)	(34,835)
Principal payments on mortgage-backed and related securities	9,553	5,835	3,527
Purchase of Federal Home Loan Bank stock	(1,921)	(8,500)	(864)
Proceeds from sale of real estate held for expansion	-	415	-
Property and equipment expenditures	<u>(1,463)</u>	<u>(103)</u>	<u>(131)</u>
Net cash from investing activities	(14,379)	(23,960)	(31,449)
Cash flows from financing activities			
Net change in deposits	21,755	16,195	14,539
Net change in advance payments by borrowers for taxes and insurance	(48)	(375)	444
Change in advances from Federal Home Loan Bank	8,505	19,000	18,300
Dividends paid	(2,061)	(2,331)	(1,901)
Purchase of treasury stock	<u>(4,061)</u>	<u>(14,163)</u>	<u>(8,367)</u>
Net cash from financing activities	<u>24,090</u>	<u>18,326</u>	<u>23,015</u>

(Continued)

FIRST SECURITYFED FINANCIAL, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended December 31, 2002, 2001, and 2000
(Dollars in thousands)

	<u>2002</u>	<u>2001</u>	<u>2000</u>
Net change in cash and cash equivalents	\$ 18,396	\$ 3,319	\$ (155)
Cash and cash equivalents at beginning of year	<u>9,421</u>	<u>6,102</u>	<u>6,257</u>
Cash and cash equivalents at end of year	<u>\$ 27,817</u>	<u>\$ 9,421</u>	<u>\$ 6,102</u>
Supplemental disclosures of cash flow information:			
Cash paid during the year for			
Interest	\$ 12,814	\$ 14,741	\$ 14,110
Income taxes	3,703	3,095	2,933
Supplemental noncash disclosures:			
Noncash transfer of securities from held-to-maturity to available-for-sale upon adoption of SFAS No. 133	-	-	15,606

See accompanying notes to consolidated financial statements.

FIRST SECURITYFED FINANCIAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2002, 2001, and 2000
(Table amounts in thousands, except per share data)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation and Nature of Business: The consolidated financial statements include the accounts of First SecurityFed Financial, Inc. (the Company) and its wholly owned subsidiary, First Security Federal Savings Bank (the Bank), and the Bank's wholly owned subsidiary, Western Security Service Corporation. Significant intercompany accounts and transactions have been eliminated. The only business of the Company is the ownership of the Bank. The Bank's revenues primarily arise from interest income from real estate loans and securities, with operations conducted through its main office and three branches located in Cook County, Illinois and one branch located in Philadelphia, Pennsylvania. Other financial instruments, which potentially represent concentrations of credit risk, include deposit accounts in other financial institutions and federal funds sold.

Use of Estimates: In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management must make estimates and assumptions. These estimates and assumptions affect the amounts reported for assets, liabilities, income, and expenses, as well as affecting the disclosures provided. Actual results could differ from the current estimates. The collectibility of loans, allowance for loan losses, fair values of financial instruments, and status of contingencies are particularly subject to change.

Securities: Securities are classified as held-to-maturity when the Company has the positive intent and ability to hold those securities to maturity. Accordingly, they are stated at cost, adjusted for amortization of premiums and accretion of discounts. All other securities are classified as available-for-sale since the Company may decide to sell those securities in response to changes in market interest rates, liquidity needs, changes in yields or alternative investments, and for other reasons. These securities are carried at fair value with unrealized holding gains and losses, net of tax, reported as other comprehensive income. Realized gains and losses on disposition are based on the net proceeds and the adjusted carrying amounts of the securities sold, using the specific identification method. Other securities such as Federal Home Loan Bank stock are carried at cost.

Loans: Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the principal balance outstanding, net of unearned interest, deferred loan fees and costs, and an allowance for loan losses. Loans held for sale are reported at the lower of cost or market, on an aggregate basis.

Interest income is reported on the interest method and includes amortization of net deferred loan fees and costs over the loan term. Interest income is not reported when full loan repayment is in doubt, typically when the loan is impaired or payments are over 90 days past due unless the credit is well-secured and in process of collection. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not received for loans placed on nonaccrual is reversed against interest income. Interest received on such loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

(Continued)

FIRST SECURITIZED FINANCIAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2002, 2001, and 2000
(Table amounts in thousands, except per share data)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Loan Losses: The allowance for loan losses is a valuation allowance for probable incurred credit losses, increased by the provision for loan losses and decreased by charge-offs less recoveries. Management estimates the allowance balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged off. Loan losses are charged against the allowance when management believes that the uncollectibility of a loan balance is confirmed.

A loan is impaired when full payment under the loan terms is not expected. Construction and commercial real estate loans are individually evaluated for impairment. If a loan is impaired, a portion of the allowance is allocated so that the loan is reported, net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral. Large groups of smaller balance homogeneous loans, such as consumer and residential real estate loans, are collectively evaluated for impairment, and accordingly, they are not separately identified for impairment disclosures.

Real Estate Owned: Real estate owned represents property obtained through foreclosure or in settlement of debt obligations and is carried at the lower of cost (fair value at date of foreclosure) or fair value less estimated selling expenses. Valuation allowances are recognized when the fair value less selling expenses is less than the cost of the asset. Changes in the valuation allowance are charged or credited to income.

Premises and Equipment: Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation. Buildings and related components are depreciated using the straight-line method with useful lives ranging from 30 to 50 years. Furniture, fixtures and equipment are depreciated using the straight-line (or accelerated) method with useful lives ranging from 3 to 20 years.

Long-Term Assets: Premises and equipment and other long-term assets are reviewed for impairment when events indicate that their carrying amount may not be recoverable from future undiscounted cash flows. If impaired, the assets are recorded at fair value.

Income Taxes: The provision for income taxes is based on an asset and liability approach, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. A valuation allowance, if necessary, reduces deferred tax assets to the amount expected to be realized.

Employee Stock Ownership Plan: The cost of shares issued to the ESOP but not yet allocated to participants is presented in the consolidated balance sheet as a reduction of shareholders' equity. Compensation expense is recorded based on the market price of the shares as they are committed to be released for allocation to participant accounts. The difference between the market price and the costs of shares committed to be released is recorded as an adjustment to paid-in capital.

(Continued)

FIRST SECURITYFED FINANCIAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2002, 2001, and 2000
(Table amounts in thousands, except per share data)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Shares are considered outstanding for earnings per share calculations as they are committed to be released; unallocated shares are not considered outstanding.

Stock Compensation: Employee compensation expense under stock options is reported using the intrinsic value method. No stock-based compensation cost is reflected in net income, as all options granted had an exercise price equal to or greater than the market price of the underlying common stock at date of grant. The following table illustrates the effect on net income and earnings per share if expense was measured using the fair value recognition provisions of FASB Statement No. 123, *Accounting for Stock-Based Compensation*.

	<u>2002</u>	<u>2001</u>	<u>2000</u>
Net income as reported	\$ 8,018	\$ 6,762	\$ 6,003
Deduct: Stock-based compensation expense determined under fair value based method	<u>427</u>	<u>419</u>	<u>412</u>
Pro forma net income	7,591	6,343	5,591
Basic earnings per share as reported	2.20	1.68	1.28
Pro forma basic earnings per share	2.08	1.57	1.19
Diluted earnings per share as reported	2.15	1.67	1.28
Pro forma diluted earning per share	2.04	1.56	1.19

The \$4.86 per share fair value of options granted in 2001 was estimated at the date of grant using the Black-Scholes option pricing model using the following assumptions: expected volatility factor of the expected market price of the Company's common stock of 20.32%, risk-free interest rate of 5.22%, expected option term of ten years, and a dividend yield of 2.90%.

The Black-Scholes option pricing valuation model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its stock options.

Off-Balance-Sheet Financial Instruments: Financial instruments include off-balance-sheet credit instruments, such as commitments to make loans and standby letters of credit, issued to meet customer financing needs. The face amount for these items represents the exposure to loss, before considering customer collateral or ability to repay. Such financial instruments are recorded when they are funded.

(Continued)

FIRST SECURITYFED FINANCIAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2002, 2001, and 2000
(Table amounts in thousands, except per share data)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Statement of Cash Flows: Cash and cash equivalents include cash on hand, amounts due from banks, and daily federal funds sold. The Company reports net cash flows for customer loan transactions, deposit transactions, and time deposits in other financial institutions.

Earnings Per Share: Basic earnings per share is computed by dividing net income available to common shareholders by the weighted average number of shares outstanding during the period. ESOP shares are considered outstanding for this calculation unless unearned. Diluted earnings per share is computed using the weighted number of shares determined for the basic computation plus the number of shares of common stock that would be issued assuming all contingently issuable shares having a dilutive effect on earnings per share were outstanding during the period.

Comprehensive Income (Loss): Comprehensive income (loss) consists of net income and other comprehensive income (loss). Other comprehensive income (loss) includes unrealized gains and losses on securities available-for-sale, net of tax, which are also recognized as separate components of equity.

Fair Value of Financial Instruments: Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in a separate note. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect the estimates.

Operating Segments: While the chief decision-makers monitor the revenue streams of the various products and services, the identifiable segments are not material and operations are managed and financial performance is evaluated on a company-wide basis. Accordingly, all of the financial service operations are considered by management to be aggregated in one reportable operating segment.

Newly Issued But Not Yet Effective Accounting Standards: New accounting standards on asset retirement obligations, restructuring activities and exit costs, operating leases, and early extinguishment of debt were issued in 2002. Management determined that when the new accounting standards are adopted in 2003, they will not have a material impact on the Company's financial condition or results of operations.

Reclassifications: Some items in the prior year financial statements were reclassified to conform to the current presentation.

(Continued)

FIRST SECURITYFED FINANCIAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2002, 2001, and 2000
(Table amounts in thousands, except per share data)

NOTE 2 - SECURITIES

The Company's securities at year end are as follows:

	----- 2002 -----			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available-for-sale				
U.S. Treasury	\$ 258	\$ 103	\$ -	\$ 361
U.S. government agencies	14,753	232	(3)	14,982
Municipal	10,385	684	(5)	11,064
Corporate				
Mutual funds	3,157	137	-	3,294
Other equity securities	<u>119</u>	<u>28</u>	<u>-</u>	<u>147</u>
	28,672	1,184	(8)	29,848
Mortgage-backed securities				
Federal Home Loan Mortgage Corporation	2,978	4	(62)	2,920
Government National Mortgage Association	846	11	(1)	856
Federal National Mortgage Association	<u>8,937</u>	<u>83</u>	<u>(16)</u>	<u>9,004</u>
	<u>12,761</u>	<u>98</u>	<u>(79)</u>	<u>12,780</u>
	<u>\$ 41,433</u>	<u>\$ 1,282</u>	<u>\$ (87)</u>	<u>\$ 42,628</u>
Securities held-to-maturity				
U.S. government agencies	\$ 28,474	\$ 1,061	\$ (1)	\$ 29,534
Municipal	<u>28,772</u>	<u>1,795</u>	<u>(9)</u>	<u>30,558</u>
	57,246	2,856	(10)	60,092
Mortgage-backed securities				
Federal Home Loan Mortgage Corporation	2,836	85	(14)	2,907
Government National Mortgage Association	8,043	275	-	8,318
Federal National Mortgage Association	<u>1,001</u>	<u>44</u>	<u>-</u>	<u>1,045</u>
	<u>11,880</u>	<u>404</u>	<u>(14)</u>	<u>12,270</u>
	<u>\$ 69,126</u>	<u>\$ 3,260</u>	<u>\$ (24)</u>	<u>\$ 72,362</u>

(Continued)

FIRST SECURITYFED FINANCIAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2002, 2001, and 2000
(Table amounts in thousands, except per share data)

NOTE 2 - SECURITIES (Continued)

	----- 2001 -----			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available-for-sale				
U.S. Treasury	\$ 258	\$ 90	\$ -	\$ 348
U.S. government agencies	3,000	78	-	3,078
Municipal	8,640	133	(36)	8,737
Corporate	250	10	-	260
Mutual funds	3,172	26	(16)	3,182
Other equity securities	<u>119</u>	<u>21</u>	<u>-</u>	<u>140</u>
	15,439	358	(52)	15,745
Mortgage-backed securities				
Federal Home Loan Mortgage Corporation	2,976	24	(62)	2,938
Government National Mortgage Association	774	23	(3)	794
Federal National Mortgage Association	<u>2,270</u>	<u>4</u>	<u>(10)</u>	<u>2,264</u>
	<u>6,020</u>	<u>51</u>	<u>(75)</u>	<u>5,996</u>
	<u>\$ 21,459</u>	<u>\$ 409</u>	<u>\$ (127)</u>	<u>\$ 21,741</u>
Securities held-to-maturity				
U.S. government agencies	\$ 46,223	\$ 556	\$ (72)	\$ 46,707
Municipal	<u>28,113</u>	<u>412</u>	<u>(553)</u>	<u>27,972</u>
	74,336	968	(625)	74,679
Mortgage-backed securities				
Federal Home Loan Mortgage Corporation	2,708	21	(13)	2,716
Government National Mortgage Association	13,285	113	(121)	13,277
Federal National Mortgage Association	1,716	21	(1)	1,736
Collateralized mortgage obligations	<u>171</u>	<u>1</u>	<u>(1)</u>	<u>171</u>
	<u>17,880</u>	<u>156</u>	<u>(136)</u>	<u>17,900</u>
	<u>\$ 92,216</u>	<u>\$ 1,124</u>	<u>\$ (761)</u>	<u>\$ 92,579</u>

Sales of securities are summarized as follows:

	<u>2002</u>	<u>2001</u>	<u>2000</u>
Proceeds	\$ 3,189	\$ 3,558	\$ 3,408
Gross realized gains	56	81	3
Gross realized losses	3	-	49

The carrying values and fair values of debt securities as of December 31, 2002, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

(Continued)

FIRST SECURITYFED FINANCIAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2002, 2001, and 2000
(Table amounts in thousands, except per share data)

NOTE 2 - SECURITIES (Continued)

	Amortized Cost	Fair Value
Securities available-for-sale		
Due in one year or less	\$ -	\$ -
Due after one year through five years	3,725	3,812
Due after five years through ten years	9,061	9,268
Due after ten years	<u>12,610</u>	<u>13,327</u>
	25,396	26,407
Mutual funds	3,157	3,294
Other equity securities	119	147
Mortgage-backed securities	<u>12,761</u>	<u>12,780</u>
	<u>16,037</u>	<u>16,221</u>
	<u>\$ 41,433</u>	<u>\$ 42,628</u>
Securities held-to-maturity		
Due in one year or less	\$ -	\$ -
Due after one year through five years	3,740	3,899
Due after five years through ten years	25,231	26,453
Due after ten years	<u>28,275</u>	<u>29,740</u>
	57,246	60,092
Mortgage-backed securities and collateralized mortgage obligations	<u>11,880</u>	<u>12,270</u>
	<u>\$ 69,126</u>	<u>\$ 72,362</u>

Securities in the amount of \$12,015,000 and \$21,996,000 were pledged to secure government deposits at December 31, 2002 and 2001, respectively.

Effective January 1, 2000, the Company adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 133, *Accounting for Derivative Instruments and Hedging Activities*. As permitted by SFAS No. 133, the Company reclassified a portion of its securities held-to-maturity to securities available-for-sale. The securities that were reclassified had an amortized cost of \$15,606,000 and a fair value of \$15,386,000 at January 1, 2000. The Company did not engage in hedging activities in 2002, 2001, or 2000.

(Continued)

FIRST SECURITIZED FINANCIAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2002, 2001, and 2000
(Table amounts in thousands, except per share data)

NOTE 3 - LOANS RECEIVABLE

Loans receivable consisted of the following:

	<u>2002</u>	<u>2001</u>
First mortgage loans		
One-to-four-family residences	\$ 188,449	\$ 207,067
Multifamily residences	33,464	28,659
Commercial real estate	52,208	32,477
Construction loans	<u>32,486</u>	<u>23,371</u>
	306,607	291,574
Home equity loans	8,704	8,847
Net deferred loan origination fees	(2,122)	(1,991)
Construction loans in process	<u>(10,227)</u>	<u>(9,576)</u>
Total mortgage loans	302,962	288,854
Consumer and other loans	1,617	1,402
Allowance for loan losses	<u>(2,937)</u>	<u>(2,806)</u>
	<u>\$ 301,642</u>	<u>\$ 287,450</u>

The principal balance of loans on nonaccrual status at December 31, 2002 and 2001 approximated \$1,095,000 and \$639,000. Loans greater than 90 days past due and still accruing interest approximated \$963,000 and \$1,192,000 at December 31, 2002 and 2001.

NOTE 4 - ALLOWANCE FOR LOAN LOSSES

Activity in the allowance for loan losses is summarized as follows:

	<u>2002</u>	<u>2001</u>	<u>2000</u>
Balance, beginning of year	\$ 2,806	\$ 2,561	\$ 2,315
Provision for loan losses	127	144	246
Recoveries	8	143	-
Charge-offs	<u>(4)</u>	<u>(42)</u>	<u>-</u>
Balance, end of year	<u>\$ 2,937</u>	<u>\$ 2,806</u>	<u>\$ 2,561</u>

Impaired loans totaled \$296,000 at December 31, 2002 and \$546,000 at December 31, 2001. The average balance of impaired loans and the interest income that would have been recognized are not material for any period presented. There was no allowance allocated for impaired loans at December 31, 2002 or 2001.

(Continued)

FIRST SECURITYFED FINANCIAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2002, 2001, and 2000
(Table amounts in thousands, except per share data)

NOTE 5 - PREMISES AND EQUIPMENT

Premises and equipment consisted of the following:

	<u>2002</u>	<u>2001</u>
Land	\$ 545	\$ 545
Buildings and improvements	3,745	3,701
Furniture and equipment	2,769	2,702
Real estate acquired for future expansion	248	280
Construction in progress	<u>1,160</u>	<u>-</u>
Total cost	8,467	7,228
Less accumulated depreciation	<u>(4,118)</u>	<u>(4,024)</u>
	<u>\$ 4,349</u>	<u>\$ 3,204</u>

NOTE 6 - DEPOSITS

Certificate of deposit accounts with balances of \$100,000 or more totaled approximately \$54,350,000 and \$56,740,000 at December 31, 2002 and 2001, respectively.

At December 31, 2002, the scheduled maturities of certificates of deposit are as follows:

2003	\$ 128,108
2004	10,427
2005	5,924
2006	1,251
2007	<u>13,320</u>
	<u>\$ 159,030</u>

NOTE 7 - ADVANCES FROM FEDERAL HOME LOAN BANK

Advances from the Federal Home Loan Bank of Chicago at year end were as follows:

	December 31,	
<u>Description</u>	<u>2002</u>	<u>2001</u>
Floating, matures October 2002; 6.00% interest rate	\$ -	\$ 1,500
Floating, matures November 2002; 5.75% interest rate	-	2,500
Floating, matures October 2005; 5.25% interest rate	2,000	2,000
Floating, matures July 2008; 5.18% interest rate	2,000	2,000
Fixed terms; matures February 2002 through November 2011; range of rates 3.62% to 6.18%; averaging 5.11%	-	75,600
Fixed terms; matures September 2004 through November 2011; range of rates 3.20% to 6.18%; averaging 4.94%	<u>88,105</u>	<u>-</u>
	<u>\$ 92,105</u>	<u>\$ 83,600</u>

(Continued)

FIRST SECURITYFED FINANCIAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2002, 2001, and 2000
(Table amounts in thousands, except per share data)

NOTE 7 - ADVANCES FROM FEDERAL HOME LOAN BANK (Continued)

Scheduled repayments and maturities of the Federal Home Loan Bank of Chicago advances at December 31, 2002 are as follows:

2004	\$ 10,000
2005	16,800
2006	22,500
2007	16,805
Thereafter	<u>26,000</u>
	<u>\$ 92,105</u>

The Company maintains a collateral pledge agreement covering advances whereby the Company has agreed to at all times keep on hand, free of all other pledges, liens, and encumbrances, whole first mortgage loans on improved residential property not more than 90 days delinquent, aggregating no less than 167% of the outstanding advances from the Federal Home Loan Bank of Chicago. At December 31, 2002, \$25,000,000 of Federal Home Loan Bank advances had various call provisions with an average term to call date of 3.4 months.

NOTE 8 - INCOME TAXES

Income tax expense is as follows:

	<u>2002</u>	<u>2001</u>	<u>2000</u>
Current			
Federal	\$ 2,909	\$ 2,701	\$ 2,633
State	644	605	450
Deferred	465	210	(94)
Change in valuation allowance	<u>(60)</u>	<u>(120)</u>	<u>-</u>
	<u>\$ 3,958</u>	<u>\$ 3,396</u>	<u>\$ 2,989</u>

A reconciliation of income tax expense and amounts computed by applying the statutory federal income tax rate to income before taxes follows:

	<u>2002</u>		<u>2001</u>		<u>2000</u>	
Income taxes computed at statutory rate of 34%	\$ 4,072	34.0%	\$ 3,454	34.0%	\$ 3,057	34.0%
Tax-exempt income	(584)	(4.9)	(456)	(4.5)	(395)	(4.4)
State income taxes, net of federal income tax benefit	457	3.8	455	4.5	364	4.0
Change in valuation allowance	(60)	(.5)	(120)	(1.2)	-	-
Other	<u>73</u>	<u>.6</u>	<u>63</u>	<u>.6</u>	<u>(37)</u>	<u>(.4)</u>
	<u>\$ 3,958</u>	<u>33.0%</u>	<u>\$ 3,396</u>	<u>33.4%</u>	<u>\$ 2,989</u>	<u>33.2%</u>

(Continued)

FIRST SECURITYFED FINANCIAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2002, 2001, and 2000
(Table amounts in thousands, except per share data)

NOTE 8 - INCOME TAXES (Continued)

The net deferred tax asset included in the accompanying consolidated balance sheets consists of the following:

	<u>2002</u>	<u>2001</u>
Deferred tax assets		
Allowance for loan losses	\$ 1,001	\$ 857
Amortization of intangible assets	57	43
Contribution carryforward	248	630
Other	<u>369</u>	<u>427</u>
	1,675	1,957
Deferred tax liabilities		
Depreciation	(40)	(85)
Federal Home Loan Bank stock dividends	(581)	(308)
Loan fees	(232)	(277)
Unrealized gain on securities available-for-sale	<u>(466)</u>	<u>(110)</u>
	(1,319)	(780)
Valuation allowance on deferred tax assets	<u>-</u>	<u>(60)</u>
Total net deferred tax asset	<u>\$ 356</u>	<u>\$ 1,117</u>

The Company has qualified under provisions of the Internal Revenue Code which permit it to deduct from taxable income a provision for bad debts that differs from the provision charged to income in the financial statements. Retained earnings at December 31, 2002 include approximately \$2,023,000 for which no deferred federal income tax liability has been recorded.

NOTE 9 - COMMITMENTS AND CONTINGENCIES

The Company is party to financial instruments with off-balance-sheet risk in the normal course of business to meet financing needs of its customers. These financial instruments include commitments to fund loans and previously approved unused lines of credit. The Company's exposure to credit loss in the event of nonperformance by the parties to these financial instruments is represented by the contractual amount of the instruments. The Company uses the same credit policy for commitments as it uses for on-balance-sheet items. The contract amount of these financial instruments is summarized as follows:

(Continued)

FIRST SECURITYFED FINANCIAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2002, 2001, and 2000
(Table amounts in thousands, except per share data)

NOTE 9 - COMMITMENTS AND CONTINGENCIES (Continued)

	<u>2002</u>	<u>2001</u>
Commitments to extend credit	\$ 15,686	\$ 10,127
Unused lines of credit, including commitments on construction loans	25,132	14,851
Letters of credit	137	-

At December 31, 2002, commitments to extend credit consist primarily of fixed-rate loan commitments with rates ranging from 5.88% to 9.50%. These commitments are due to expire within 60 days of issuance. Since many commitments expire without being used, the amounts above do not necessarily represent future cash commitments. Collateral may be obtained upon exercise of a commitment. The amount of collateral is determined by management and may include commercial and residential real estate and other business and consumer assets.

The Company's principal loan customers are located in Chicago, Illinois and Philadelphia, Pennsylvania. Most loans are secured by specific collateral, including residential and commercial real estate.

NOTE 10 - REGULATORY MATTERS

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

As of December 31, 2002, the most recent notification from the Office of Thrift Supervision categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier I risk-based, and Tier I leverage ratios as set forth in the following table. There are no conditions or events since that notification that management believes have changed the Bank's category.

(Continued)

FIRST SECURITYFED FINANCIAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2002, 2001, and 2000
(Table amounts in thousands, except per share data)

NOTE 10 - REGULATORY MATTERS (Continued)

The Bank's actual capital amounts and ratios are presented in the following table.

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2002:						
Total capital (to risk-weighted assets)	\$ 68,856	26.7%	\$ 20,642	8.0%	\$ 25,802	10.0%
Tier I capital (to risk-weighted assets)	65,919	25.5	10,321	4.0	15,481	6.0
Tier I (core) capital (to adjusted total assets)	65,919	14.4	18,266	4.0	22,833	5.0
As of December 31, 2001:						
Total capital (to risk-weighted assets)	\$ 76,138	31.6%	\$ 19,266	8.0%	\$ 24,082	10.0%
Tier I capital (to risk-weighted assets)	73,332	30.5	9,633	4.0	14,449	6.0
Tier I (core) capital (to adjusted total assets)	73,332	16.8	17,468	4.0	21,835	5.0

The Company may not declare or pay cash dividends on or repurchase any of its shares of capital stock if the effect thereof would cause its net worth to be reduced below applicable regulatory requirements or the amount of the liquidation account if such a declaration and payment would otherwise violate regulatory requirements.

NOTE 11 - EARNINGS PER COMMON SHARE

A reconciliation of the numerator and denominator of the earnings per common share computation for the years ended December 31, 2002, 2001, and 2000 is presented below.

	2002	2001	2000
Basic earnings per common share			
Net income	\$ <u>8,018</u>	\$ <u>6,762</u>	\$ <u>6,003</u>
Weighted average common shares outstanding	3,641	4,034	4,682
Basic earnings per share	\$ <u>2.20</u>	\$ <u>1.68</u>	\$ <u>1.28</u>
Diluted			
Net income	\$ <u>8,018</u>	\$ <u>6,762</u>	\$ <u>6,003</u>

(Continued)

FIRST SECURITYFED FINANCIAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2002, 2001, and 2000
(Table amounts in thousands, except per share data)

NOTE 11 - EARNINGS PER COMMON SHARE (Continued)

	<u>2002</u>	<u>2001</u>	<u>2000</u>
Weighted average common shares outstanding for basic earnings per common share	3,641	4,034	4,682
Add: Dilutive effects of assumed exercises of stock options	82	23	-
Add: Dilutive effects of assumed exercise of stock awards	<u>5</u>	<u>3</u>	<u>-</u>
Average shares and dilutive potential common shares	<u>3,728</u>	<u>4,060</u>	<u>4,682</u>
Diluted earnings per common share	<u>\$ 2.15</u>	<u>\$ 1.67</u>	<u>\$ 1.28</u>

The Company's outstanding stock options and stock awards were not considered in the computations of diluted earnings per share in 2000 because the effects of assumed exercise would have been antidilutive.

NOTE 12 - RELATED PARTY TRANSACTIONS

The Company has lending transactions with directors, executive officers, and their associates. Activity in these accounts is summarized as follows for the year ended December 31, 2002.

Balance at beginning of year	\$ 373
Loans disbursed	393
Principal repayments	<u>(410)</u>
Balance at end of year	<u>\$ 356</u>

Certain employees of the Company sit on the Board of Directors of the Heritage Foundation (the Foundation), a non-for profit affiliate of the Bank, which makes grants to community organizations. Included in accrued interest and other liabilities is an account payable to the Foundation in the amount of \$900,000. The Foundation also has deposits with the Bank totaling \$669,000 and stock in the Company.

NOTE 13 - STOCK-BASED COMPENSATION PLANS

As part of the conversion transaction, the Company established an employee stock ownership plan (ESOP) for the benefit of substantially all employees. The ESOP borrowed \$5,126,400 from the Company and used those funds to acquire 512,640 shares of the Company's stock at \$10 per share.

(Continued)

FIRST SECURITYFED FINANCIAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2002, 2001, and 2000
(Table amounts in thousands, except per share data)

NOTE 13 - STOCK-BASED COMPENSATION PLANS (Continued)

Shares issued to the ESOP are allocated to ESOP participants based on principal and interest repayments made by the ESOP on the loan from the Company. The loan is secured by shares purchased with the loan 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 a twenty-year period. However, in the event the Company's contributions exceed the minimum debt service requirements, additional principal payments will be made.

Information regarding shares released and shares held by the ESOP at December 31 is as follows:

	<u>2002</u>	<u>2001</u>	<u>2000</u>
Shares released	31	32	30
Average fair value of shares released	\$ 21.14	\$ 17.59	\$ 12.62
Compensation expense	659	571	420
Allocated shares	182	151	119
Unallocated shares	<u>331</u>	<u>362</u>	<u>394</u>
Total ESOP shares	<u>513</u>	<u>513</u>	<u>513</u>
Fair value of unallocated shares	<u>\$ 8,035</u>	<u>\$ 7,227</u>	<u>\$ 5,846</u>

During 1998, the Company adopted a stock option plan under the terms of which shares of the Company's common stock were reserved for issuance. The options became exercisable on a cumulative basis in equal installments over a five-year period from the date of grant. The options expire 10 years from the date of grant.

A summary of the status of the Company's stock option plan and changes during the years are presented below:

	<u>-----2002-----</u>		<u>-----2001-----</u>		<u>-----2000-----</u>	
	<u>Shares</u>	<u>Weighted Average Exercise Price</u>	<u>Shares</u>	<u>Weighted Average Exercise Price</u>	<u>Shares</u>	<u>Weighted Average Exercise Price</u>
Outstanding at beginning of year	544	\$ 16.79	519	\$ 16.69	519	\$ 16.69
Granted	<u>-</u>	<u>-</u>	<u>25</u>	<u>18.90</u>	<u>-</u>	<u>-</u>
Outstanding at end of year	<u>544</u>	<u>\$ 16.79</u>	<u>544</u>	<u>\$ 16.79</u>	<u>519</u>	<u>\$ 16.69</u>
Options exercisable at end of year	420		311		208	
Weighted-average fair value of options granted during year	\$ -		\$ 4.86		\$ -	

(Continued)

FIRST SECURITYFED FINANCIAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2002, 2001, and 2000
(Table amounts in thousands, except per share data)

NOTE 13 - STOCK-BASED COMPENSATION PLANS (Continued)

These options are not fully vested. The exercise price equals the market value at the date the options were granted. Options outstanding at year-end 2002 were as follows:

<u>Prices</u>	<u>Number</u>	<u>Weighted Average Remaining Contractual Life in Years</u>
\$16.69	519	5.3
\$18.90	<u>25</u>	<u>8.5</u>
Outstanding at year end	<u>544</u>	<u>5.5</u>

In connection with the conversion to stock ownership, the Company adopted a Management Recognition and Retention Plan (MRP). In 1998, the Company contributed \$4.3 million allowing the MRP to acquire 256,320 shares of common stock of the Company, at an average cost of \$16.69 per share, to be awarded to directors and key employees. The Company awarded 216,166 shares during 1998 and 7,500 shares during 2001. These shares generally vest over a five-year period. The unamortized cost of shares not yet earned (vested) is reported as a reduction of shareholders' equity. MRP compensation expense totaled \$767,000, \$721,000, and \$722,000 for the years ended December 31, 2002, 2001, and 2000.

NOTE 14 - FAIR VALUES OF FINANCIAL INSTRUMENTS

The carrying amount and estimated fair value of financial instruments as of December 31 are as follows:

	-----2002-----		-----2001-----	
	<u>Carrying Amount</u>	<u>Estimated Fair Value</u>	<u>Carrying Amount</u>	<u>Estimated Fair Value</u>
Financial assets				
Cash and cash equivalents	\$ 27,817	\$ 27,817	\$ 9,421	\$ 9,421
Securities available-for-sale	42,628	42,628	21,741	21,741
Securities held-to-maturity	69,126	73,362	92,216	92,579
Federal Home Loan Bank stock	14,788	14,788	12,162	12,162
Loans, net of allowance for loan losses	301,642	304,057	287,450	291,949
Accrued interest receivable	3,319	3,319	3,177	3,177
Financial liabilities				
Deposits	(290,612)	(293,095)	(268,857)	(270,971)
Advance payments by borrowers for taxes and insurance	(2,832)	(2,832)	(2,880)	(2,880)
Advances from Federal Home Loan Bank	(92,105)	(97,497)	(83,600)	(83,007)
Accrued interest payable	(647)	(647)	(815)	(815)

(Continued)

FIRST SECURITYFED FINANCIAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2002, 2001, and 2000
(Table amounts in thousands, except per share data)

NOTE 14 - FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

The methods and assumptions used to estimate fair value are described as follows:

Carrying amount is the estimated fair value for cash and cash equivalents, short-term borrowings, Federal Home Loan Bank stock, accrued interest receivable and payable, demand deposits, short-term debt, and variable rate loans or deposits that reprice frequently and fully. Security fair values are based on market prices or dealer quotes and, if no such information is available, on the rate and term of the security and information about the issuer. For fixed rate loans or deposits and for variable rate loans or deposits with infrequent repricing or repricing limits, fair value is based on discounted cash flows using current market rates applied to the estimated life and credit risk. Fair values for impaired loans are estimated using discounted cash flow analysis or underlying collateral values. The fair value of debt is based on current rates for similar financing. The fair value of off-balance-sheet items is based on the current fees or costs that would be charged to enter into or terminate such arrangements, which are not material.

Other assets and liabilities of the Company not defined as financial instruments, such as property and equipment, are not included in the above disclosures. Also not included are nonfinancial instruments typically not recognized in financial statements such as the value of core deposits, customer goodwill, and similar items.

While the above estimates are based on judgments of the most appropriate factors, there is no assurance that if the Company disposed of these items, the fair value would have been achieved, because the market value may differ depending on the circumstances. The fair values at year end should not necessarily be considered to apply at subsequent dates.

(Continued)

FIRST SECURITYFED FINANCIAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2002, 2001, and 2000
(Table amounts in thousands, except per share data)

NOTE 15 - PARENT COMPANY FINANCIAL STATEMENTS

Presented below are the condensed balance sheets, statements of income, and statements of cash flows for First SecurityFed Financial, Inc.

CONDENSED BALANCE SHEETS
December 31, 2002 and 2001

	<u>2002</u>	<u>2001</u>
ASSETS		
Cash and cash equivalents	\$ 766	\$ 1,020
Securities available-for-sale	7,466	7,949
ESOP loan	3,588	3,845
Investment in bank subsidiary	66,362	74,354
Accrued interest receivable and other assets	<u>438</u>	<u>995</u>
	<u>\$ 78,620</u>	<u>\$ 88,163</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Note payable to bank subsidiary	\$ 2,180	\$ 15,591
Accrued expenses and other liabilities	508	534
Shareholders' equity	<u>75,932</u>	<u>72,038</u>
	<u>\$ 78,620</u>	<u>\$ 88,163</u>

(Continued)

FIRST SECURITYFED FINANCIAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2002, 2001, and 2000
(Table amounts in thousands, except per share data)

NOTE 15 - PARENT COMPANY FINANCIAL STATEMENTS (Continued)

CONDENSED STATEMENTS OF INCOME
For the years ended December 31, 2002, 2001, and 2000

	<u>2002</u>	<u>2001</u>	<u>2000</u>
Income			
Dividend from subsidiary	\$ 17,500	\$ -	\$ 10,501
Interest on securities	398	456	465
Interest on ESOP loan	264	274	295
Gain (loss) on sale of securities	20	81	(16)
Other income	<u>-</u>	<u>-</u>	<u>-</u>
Total income	18,182	811	11,245
Expenses			
Interest expense on note payable	263	283	-
Other operating expenses	<u>356</u>	<u>305</u>	<u>134</u>
	<u>619</u>	<u>588</u>	<u>134</u>
Income before income taxes and equity in undistributed earnings of bank subsidiary	17,563	223	11,111
Income tax expense (benefit)	<u>(99)</u>	<u>(63)</u>	<u>91</u>
Income before equity in undistributed earnings of bank subsidiary	17,662	286	11,020
Equity in undistributed earnings (distributions in excess of earnings) of bank subsidiary	<u>(9,644)</u>	<u>6,476</u>	<u>(5,017)</u>
Net income	<u>\$ 8,018</u>	<u>\$ 6,762</u>	<u>\$ 6,003</u>

(Continued)

FIRST SECURITYFED FINANCIAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2002, 2001, and 2000
(Table amounts in thousands, except per share data)

NOTE 15 - PARENT COMPANY FINANCIAL STATEMENTS (Continued)

CONDENSED STATEMENTS OF CASH FLOWS
For the years ended December 31, 2002, 2001, and 2000

	<u>2002</u>	<u>2001</u>	<u>2000</u>
Operating activities			
Net income	\$ 8,018	\$ 6,762	\$ 6,003
Adjustments to reconcile net income to net cash provided by operating activities			
(Equity in undistributed earnings) distribution in excess of earnings of bank subsidiary	9,644	(6,476)	5,017
Net accretion	(100)	(112)	(3)
(Gain) loss on sales of securities	(20)	(81)	16
Change in			
Other assets	459	743	(658)
Other liabilities	<u>(13,535)</u>	<u>14,961</u>	<u>23</u>
Net cash from operating activities	4,466	15,797	10,398
Investing activities			
Purchase of securities available-for-sale	(2,075)	(2,759)	(925)
Proceeds from maturities and calls	250	-	-
Proceeds from sales of securities	2,970	3,558	848
Payment received on loan to ESOP	<u>257</u>	<u>256</u>	<u>256</u>
Net cash from investing activities	1,402	1,055	179
Financing activities			
Dividends paid	(2,061)	(2,331)	(1,901)
Purchase of treasury stock	<u>(4,061)</u>	<u>(14,163)</u>	<u>(8,367)</u>
Net cash from financing activities	<u>(6,122)</u>	<u>(16,494)</u>	<u>(10,268)</u>
Net change in cash and cash equivalents	(254)	358	309
Cash and cash equivalents at beginning of year	<u>1,020</u>	<u>662</u>	<u>353</u>
Cash and cash equivalents at end of year	<u>\$ 766</u>	<u>\$ 1,020</u>	<u>\$ 662</u>

(Continued)

FIRST SECURITYFED FINANCIAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2002, 2001, and 2000
(Table amounts in thousands, except per share data)

NOTE 16 - QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

	<u>Interest Income</u>	<u>Net Interest Income</u>	<u>Net Income</u>	<u>Earnings Per Share</u>	
				<u>Basic</u>	<u>Diluted</u>
2002					
First quarter	\$ 7,632	\$ 4,420	\$ 1,907	\$.52	\$.51
Second quarter	7,587	4,418	1,976	.53	.52
Third quarter	7,788	4,592	2,065	.57	.56
Fourth quarter	7,893	4,824	2,070	.58	.56
2001					
First quarter	\$ 7,542	\$ 3,735	\$ 1,675	\$.39	\$.39
Second quarter	7,554	3,788	1,545	.38	.37
Third quarter	7,591	3,917	1,620	.42	.41
Fourth quarter	7,750	4,281	1,922	.51	.50

**FIRST SECURITYFED FINANCIAL, INC.
SHAREHOLDER INFORMATION**

ANNUAL MEETING

The Annual Meeting of Shareholders will be held at 4:30 p.m., local time on April 24, 2003 at the Main Office of the Company, located at 936 N. Western Avenue, Chicago, Illinois 60622.

STOCK LISTING

First SecurityFed Financial, Inc. common stock is traded on the Nasdaq Stock Market under the symbol "FSFF."

PRICE RANGE OF COMMON STOCK

As of February 28, 2003 there were approximately 695 shareholders of record and 3,952,754 outstanding shares of common stock.

The following table sets forth the high and low sales prices and dividends paid per share of common stock during the periods indicated. The stock price information was provided by the NASD, Inc.

<u>Quarter Ended</u>	<u>High</u>	<u>Low</u>	<u>Dividend Declared</u>
March 31, 2001	15.75	14.63	.12¢
June 30, 2001	19.34	15.63	.13¢
September 30, 2001	20.49	17.25	.13¢
December 31, 2001	20.00	16.91	.13¢
March 31, 2002	20.75	19.00	.13¢
June 30, 2002	22.22	19.51	.13¢
September 30, 2002	22.45	20.97	.13¢
December 31, 2002	24.30	21.44	.13¢

The payment of cash dividends is dependent on the results of operations and financial condition of the Company, tax considerations, industry standards, economic conditions, general business practices and other factors. Dividend payments decisions are made with consideration of a variety of factors including earnings, financial condition, market considerations and regulatory restrictions.

TRANSFER AGENT

Registrar and Transfer Co.
10 Commerce Drive
Cranford, NJ 07016

SHAREHOLDERS AND GENERAL INQUIRIES

Peter Ilnyckyj
First SecurityFed Financial, Inc.
936 North Western Avenue
Chicago, Illinois 60622-4695
(773) 772-4500

SPECIAL COUNSEL

Gardner Carton & Douglas LLC
1301 K Street, N. W.
Suite 900 East
Washington, DC 20005

INDEPENDENT AUDITORS

Crowe, Chizek and Company LLP
One Mid America Plaza
P.O. Box 3697
Oak Brook, Illinois 60522-3697

ANNUAL AND OTHER REPORTS

A copy of First SecurityFed Financial, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2002, as filed with the Securities and Exchange Commission, may be obtained without charge by contacting Peter Ilnyckyj, First SecurityFed Financial, Inc., 936 North Western Avenue, Chicago, Illinois 60622-4695

**FIRST SECURITYFED FINANCIAL, INC.
CORPORATE INFORMATION**

COMPANY AND BANK ADDRESS

936 North Western Avenue
Chicago, Illinois 60622-4695

Telephone: (773) 772-4500
Fax: (773) 772-0487

DIRECTORS OF THE BOARD

Steve Babyk

*Director of Fleet Leasing
Union Tank Car Company*

Julian Kulas

*President and Chief Executive Officer
First Security Federal Savings Bank*

Lila Maria Bodnar

Accountant, MBA

Paul Nadzikewycz

Self-Employed Real Estate Investor

Myron Dobrowolsky

*Civil Engineer
Dames and Moore*

Jaroslav H. Sydorenko

*Financial Services Manager
Wesco Distribution*

Terry Gawryk

Attorney

Chrysta Wereszczak

Co-owner, B&B Formica

George Kawka

*Senior Architectural/Engineering
Project Manager
CH2M Hill*

CORPORATE OFFICERS

Julian Kulas
President and Chief Executive Officer

Harry I. Kucewicz
Treasurer and Chief Financial Officer

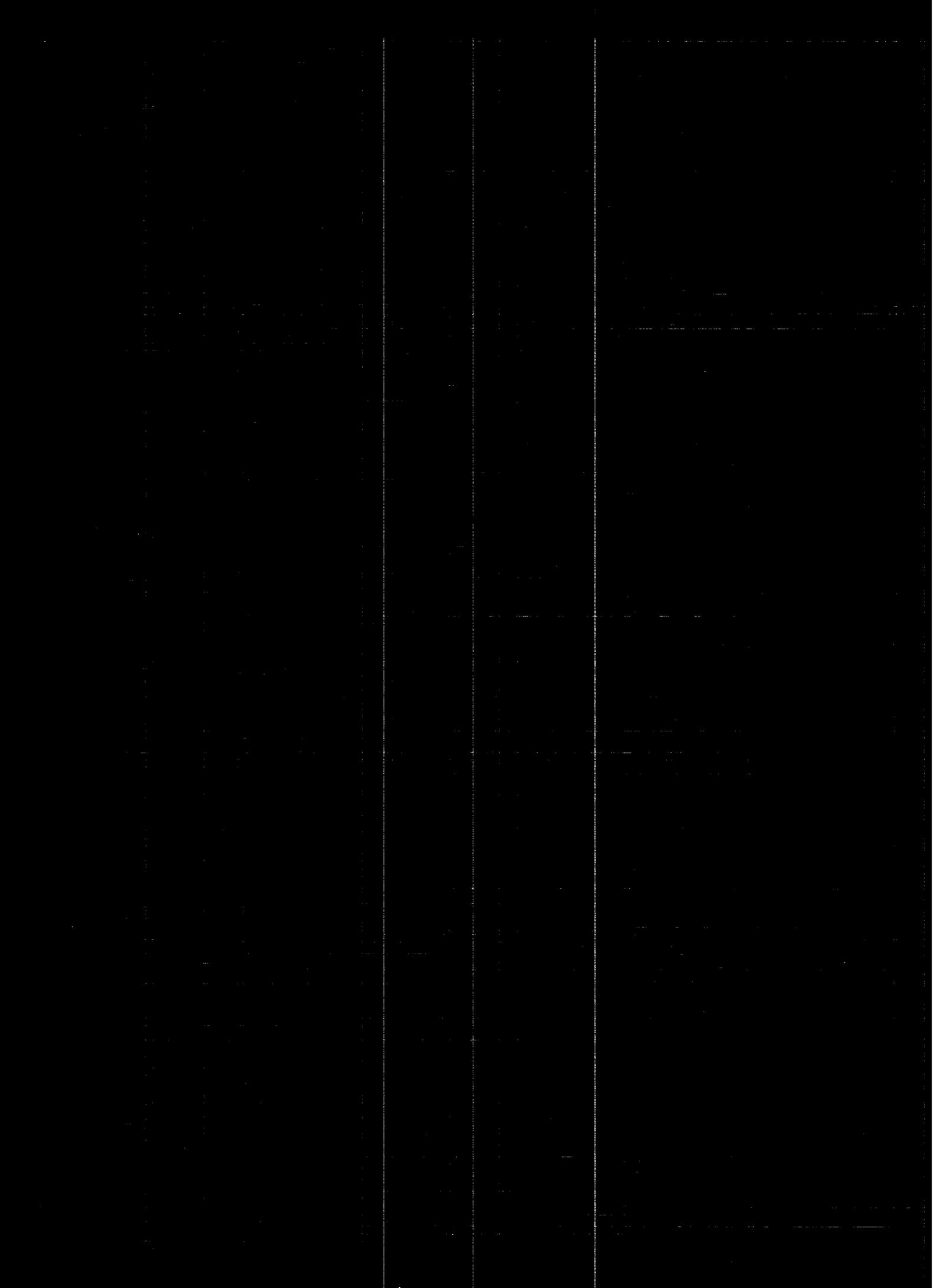
Mary H. Korb
Vice President-Lending

Irene S. Subota
Vice President - Savings

Adrian Hawryliw
*Vice President - Philadelphia
Branch Manager*

Paul T. Bandriwsky
*Vice President and Chief Operating
Officer*

Peter Ilnyckyj
Vice President-Investor Relations



First Security Fed

FINANCIAL, INC.