

EFC BANCORP INC  
Form 10-Q  
November 04, 2005

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

## FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2005

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 1-13605

### EFC BANCORP, INC.

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of incorporation or organization)

**36-4193304**

(I.R.S. Employer  
Identification No.)

**1695 Larkin Avenue, Elgin, Illinois**  
(Address of principal executive offices)

**60123**  
(Zip Code)

**(847) 741-3900**

(Registrant's telephone number, including area code)

**Not Applicable**

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes  No

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 4,838,372 shares of common stock, par value \$0.01 per share, were outstanding as of November 1, 2005.

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EFC Bancorp, Inc.

Form 10-Q

For the Quarter Ended September 30, 2005

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## PART I. FINANCIAL INFORMATION

## EFC BANCORP, INC.

Item 1. Financial Statements.

## EFC BANCORP, INC.

## AND SUBSIDIARIES

Consolidated Balance Sheets (unaudited)

September 30, 2005 and December 31, 2004

	September 30, 2005	December 31, 2004
<b>Assets</b>		
Cash and cash equivalents:		
On hand and in banks	\$ 6,358,577	5,327,541
Interest bearing deposits with financial institutions	37,335,443	25,582,585
Total cash and cash equivalents	43,694,020	30,910,126
Loans receivable, net	835,718,587	807,833,561
Mortgage-backed securities available-for-sale, at fair value	9,333,391	9,976,804
Investment securities available-for-sale, at fair value	95,811,275	92,846,891
Stock in Federal Home Loan Bank of Chicago, at cost	12,505,400	12,023,700
Accrued interest receivable	4,501,863	3,996,974
Office properties and equipment, net	24,143,783	24,302,624
Real estate held for development		1,544,818
Bank owned life insurance	19,695,250	19,149,802
Other assets	2,055,515	1,329,898
Total assets	\$ 1,047,459,084	1,003,915,198
<b>Liabilities and Stockholders Equity</b>		
Liabilities:		
Deposits	\$ 724,826,270	671,035,878
Borrowed money	219,000,000	237,000,000
Accrued expenses, income taxes payable and other liabilities	16,161,240	10,344,521
Total liabilities	959,987,510	918,380,399
Stockholders Equity:		
Preferred stock, par value \$.01 per share, authorized 2,000,000 shares; no shares issued		
Common stock, par value \$.01 per share, authorized 25,000,000 shares; issued 7,491,434 shares	74,914	74,914
Additional paid-in capital	73,988,968	73,237,074
Retained earnings, substantially restricted	50,790,600	50,823,162
Treasury stock, at cost, 2,653,062 and 2,746,921 shares at September 30, 2005 and December 31, 2004, respectively	(33,090,445)	(34,131,491)
Unearned employee stock ownership plan (ESOP), 289,670 and 319,636 shares at September 30, 2005 and December 31, 2004, respectively	(4,331,294)	(4,779,359)
	(38,429)	(46,747)

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Unearned stock award plan, 3,454 and 4,202 shares at September 30, 2005 and December 31, 2004, respectively

Accumulated other comprehensive income	77,260	357,246
Total stockholders' equity	87,471,574	85,534,799
Commitments and contingencies		
Total liabilities and stockholders' equity	\$ 1,047,459,084	1,003,915,198

See accompanying notes to unaudited consolidated financial statements.



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**EFC BANCORP, INC.**

**AND SUBSIDIARIES**

Consolidated Statements of Income (unaudited)

For the three and nine months ended September 30, 2005 and 2004

	Three months ended September 30,		Nine months ended September 30,	
	2005	2004	2005	2004
<b>Interest income:</b>				
Loans secured by real estate	\$ 7,670,446	7,608,786	22,790,979	23,220,232
Other loans	4,386,140	2,865,066	12,088,856	7,311,046
Mortgage-backed securities available-for-sale	95,644	98,318	301,290	301,435
Investment securities available-for-sale and interest bearing deposits with financial institutions	1,418,980	1,266,227	4,073,950	3,685,013
<b>Total interest income</b>	<b>13,571,210</b>	<b>11,838,397</b>	<b>39,255,075</b>	<b>34,517,726</b>
<b>Interest expense:</b>				
Deposits	4,595,320	3,391,593	12,355,434	9,433,012
Borrowed money	2,450,752	2,612,469	7,534,212	7,370,052
<b>Total interest expense</b>	<b>7,046,072</b>	<b>6,004,062</b>	<b>19,889,646</b>	<b>16,803,064</b>
<b>Net interest income before provision for loan losses</b>	<b>6,525,138</b>	<b>5,834,335</b>	<b>19,365,429</b>	<b>17,714,662</b>
Provision for loan losses	225,000	210,000	670,000	550,000
<b>Net interest income after provision for loan losses</b>	<b>6,300,138</b>	<b>5,624,335</b>	<b>18,695,429</b>	<b>17,164,662</b>
<b>Noninterest income:</b>				
Service fees	970,631	795,295	2,548,724	2,080,527
Insurance and brokerage commissions	88,737	151,396	472,217	493,325
Information technology sales and service income, net	15,062	75,519	198,822	311,048
Gain (loss) on sale of property	(2,130)		49,086	149,396
Gain on sale of securities			208,969	249,418
Gain on sale of loans	76,865	16,348	171,583	277,972
Bank owned life insurance	222,571	207,735	653,980	654,061
Other	36,623	43,944	91,174	151,449
<b>Total noninterest income</b>	<b>1,408,359</b>	<b>1,290,237</b>	<b>4,394,555</b>	<b>4,367,196</b>
<b>Noninterest expense:</b>				
Compensation and benefits	6,522,957	2,713,958	12,985,238	8,336,106
Merger related expenses	455,991		455,991	
Office building, net	762,239	747,492	2,277,770	2,140,727
Federal insurance premiums	23,137	23,125	70,973	68,528
Advertising	176,838	250,712	643,427	761,724
Data processing	319,098	285,555	896,263	860,877
NOW/checking account expenses	245,307	189,290	541,217	460,247
Other	820,842	1,125,105	2,369,232	2,444,359
<b>Total noninterest expense</b>	<b>9,326,409</b>	<b>5,335,237</b>	<b>20,240,111</b>	<b>15,072,568</b>
<b>Income (loss) before income taxes and minority interest</b>	<b>(1,617,912)</b>	<b>1,579,335</b>	<b>2,849,873</b>	<b>6,459,290</b>

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Income tax expense (benefit)	(584,178)	350,856	699,912	1,728,192
Income (loss) before minority interest	(1,033,734)	1,228,479	2,149,961	4,731,098
Minority interest		(10,103)		
Net income (loss)	\$ (1,033,734)	1,218,376	2,149,961	4,731,098
Earnings (loss) per share:				
Basic	\$ (0.23)	0.28	0.48	1.10
Diluted	(0.22)	0.27	0.46	1.04

See accompanying notes to unaudited consolidated financial statements.

**EFC BANCORP, INC.****AND SUBSIDIARIES**

## Consolidated Statements of Cash Flows (unaudited)

For the nine months ended September 30, 2005 and 2004

	2005	2004
<b>Cash flows from operating activities:</b>		
Net income	\$ 2,149,961	4,731,098
<b>Adjustment to reconcile net income to net cash provided by operating activities:</b>		
Amortization of premiums and discounts, net	54,645	79,945
Provision for loan losses	670,000	550,000
FHLB of Chicago stock dividends	(481,700)	(888,500)
Stock award plan shares allocated	8,318	25,031
ESOP shares committed to be released	448,064	448,064
Change in fair value of ESOP shares	751,894	639,191
Depreciation of office properties and equipment	1,151,706	933,366
Gain on sale of securities	(208,969)	(249,418)
Gain on sale of loans receivable	(171,583)	(277,972)
Change in minority interest in subsidiary		158,666
Increase in bank owned life insurance	(545,448)	(555,823)
Intangible amortization	147,716	
(Increase) decrease in accrued interest receivable and other assets, net	(1,196,647)	1,837,399
Increase in income taxes payable, accrued expenses and other liabilities, net	5,801,472	816,962
<b>Net cash provided by operating activities</b>	<b>8,579,429</b>	<b>8,248,009</b>
<b>Cash flows from investing activities:</b>		
Net increase in loans receivable	(34,653,302)	(47,907,447)
Purchases of loans receivable	(14,307,807)	(70,023,873)
Proceeds from the sale of loans receivable	20,577,664	40,528,222
Decrease (increase) in real estate held for development	1,544,818	(731,059)
Purchases of mortgage-backed securities available-for-sale	(1,991,712)	(4,035,625)
Principal payments on mortgage-backed securities available-for-sale	2,516,224	3,231,485
Maturities of investment securities available-for-sale	2,579,219	23,331,922
Purchases of investment securities available-for-sale	(8,714,246)	(32,276,933)
Proceeds from the sale of investment securities	2,984,877	3,747,338
Purchases of office properties and equipment	(992,866)	(6,993,235)
Investment in bank owned life insurance		(425,000)
<b>Net cash used in investing activities</b>	<b>(30,457,131)</b>	<b>(91,554,205)</b>
<b>Cash flows from financing activities:</b>		
Net increase in deposits	53,790,392	75,896,317
Proceeds from borrowed money	111,000,000	119,000,785
Repayments on borrowed money	(129,000,000)	(98,789,536)
Purchase of treasury stock		(268,963)
Stock options exercised	1,041,046	1,126,375
Cash dividends paid	(2,169,842)	(1,910,044)
<b>Net cash provided by financing activities</b>	<b>34,661,596</b>	<b>95,054,934</b>

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Net increase in cash and cash equivalents	12,783,894	11,748,738
Cash and cash equivalents at beginning of period	30,910,126	21,875,988
Cash and cash equivalents at end of period	\$ 43,694,020	33,624,726
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	\$ 19,832,099	16,680,058
Income taxes	2,750,000	2,005,000

See accompanying notes to unaudited consolidated financial statements.

**EFC BANCORP, INC.**

**Notes to Unaudited Consolidated Financial Statements**

Note 1: BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements include the accounts of EFC Bancorp, Inc. (the Company), its wholly-owned subsidiaries, Computer Dynamics Group, Inc. (CDGI), EFS Bank (the Bank) and its wholly-owned subsidiary, EFS Service Corporation of Elgin. The Company operates as a single segment.

In the opinion of the management of the Company, the accompanying consolidated financial statements include all normal recurring adjustments necessary for a fair presentation of the financial position and results of operations for the periods presented. All significant intercompany transactions have been eliminated in consolidation. These interim financial statements have been prepared according to the rules and regulations of the Securities and Exchange Commission and therefore certain information and footnote disclosures normally included in annual financial statements presented in accordance with U.S. generally accepted accounting principles have been condensed or omitted. The preparation of financial statements in conformity with U.S. GAAP requires the use of estimates and assumptions that affect amounts and disclosures. Actual results could differ from those estimates. The results of operations for the interim periods are not necessarily indicative of the results to be expected for the full year. It is suggested that the accompanying unaudited consolidated financial statements be read in conjunction with the Company's 2004 Annual Report on Form 10-K. Currently, other than investing in various securities, the Company does not directly transact any material business other than through the Bank. Accordingly, the discussion herein addresses the operations of the Company as they are conducted through the Bank.

Note 2: COMPREHENSIVE INCOME

The Company's comprehensive income for the three and nine month periods ended September 30, 2005 and 2004 are as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2005	2004	2005	2004
Net income (loss)	\$ (1,033,734)	1,218,376	2,149,961	4,731,098
Other comprehensive income, net of tax:				
Unrealized holding gains/(losses) on securities arising during the period, net of tax effect	(483,537)	2,123,059	(279,985)	37,896
Reclassification adjustment for net gain on sales of securities realized in net income, net of tax			(131,650)	(157,133)
Comprehensive income (loss)	\$ (1,517,271)	3,341,435	1,738,326	4,611,861

For the three months ended September 30, 2005 there were no sales of securities. For the nine months ended September 30, 2005 the sale of securities resulted in gains of \$208,969 (\$131,650 net of tax effect). For the three months ended September 30, 2004 there were no sales of securities. For the nine months ended September 30, 2004 the sale of securities resulted in gains of \$249,418 (\$157,133 net of tax effect).

Note 3: COMPUTATION OF PER SHARE EARNINGS

Basic earnings per share is calculated by dividing net income by the weighted average number of common shares outstanding. Diluted earnings per share is calculated by dividing net income by the weighted average number of common shares outstanding adjusted for the dilutive effect of outstanding stock options. ESOP shares are only considered outstanding for earnings per share calculations when they are released or committed to be released.

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Presented below are the calculations for the basic and diluted earnings per share:

	Three months ended September 30,		Nine months ended September 30,	
	2005	2004	2005	2004
<b>Basic:</b>				
Net income (loss)	\$ (1,033,734)	1,218,376	2,149,961	4,731,098
Weighted average shares outstanding	4,535,906	4,340,546	4,492,602	4,287,395
Basic earnings (loss) per share	\$ (0.23)	0.28	0.48	1.10
<b>Diluted:</b>				
Net income (loss)	\$ (1,033,734)	1,218,376	2,149,961	4,731,098
Weighted average shares outstanding	4,535,906	4,340,546	4,492,602	4,287,395
Effect of dilutive stock options outstanding	240,045	247,455	197,804	252,164
Diluted weighted average shares outstanding	4,775,591	4,588,001	4,690,406	4,539,559
Diluted earnings (loss) per share	\$ (0.22)	0.27	0.46	1.04

Note 4: STOCK OPTION PLANS

The Company accounts for stock-based compensation plans under APB Opinion No. 25. For the stock option program, no compensation cost is recognized in connection with the granting of stock options with an exercise price equal to the fair market value of the stock on the date of the grant. For the stock award plan, the Company uses the fixed method of accounting and records compensation expense, over the vesting period of the grant, based upon the fair market value of the stock at the date of grant. In accordance with the disclosure requirements of SFAS No. 123, as amended by SFAS No. 148, the following table provides the pro forma effect on net income and earnings per share if the fair value method of accounting for stock-based compensation had been used for all awards:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2005	2004	2005	2004
Net income (loss) as reported	\$ (1,033,734)	1,218,376	2,149,961	4,731,098
Add: Stock-based compensation, net of tax, included in the determination of net income, as reported	2,773	8,344	8,319	25,032
Deduct: Stock-based compensation, net of tax, that would have been reported if the fair value based method had been applied to all awards	(36,875)	(27,831)	(110,626)	(80,394)
Pro forma net income (loss)	\$ (1,067,836)	1,198,889	2,047,654	4,675,736
Basic earnings (loss) per share				
As reported	\$ (0.23)	0.28	0.48	1.10
Pro forma	(0.24)	0.28	0.46	1.09
Diluted earnings (loss) per share				
As reported	\$ (0.22)	0.27	0.46	1.04
Pro forma	(0.22)	0.26	0.44	1.03





Note 5: MERGER AGREEMENT WITH MAF BANCORP, INC.

On June 29, 2005, the Company entered into an Agreement and Plan of Reorganization ( Merger Agreement ) with MAF Bancorp, Inc. ( MAF ) pursuant to which the Company and the Bank will be merged with and into MAF and a subsidiary of MAF (the Merger ). Subject to the terms and conditions of the Merger Agreement, each outstanding share of the Company s common stock will be converted into the right to receive either .8082 shares of MAF common stock for each share of Company common stock they hold, or cash in the amount of \$34.69 without interest, for each such share, or a combination thereof, subject to the election and allocation procedures detailed in the Merger Agreement. Approximately 60% of the total consideration will be paid in MAF common stock and approximately 40% will be paid in cash. The transaction is currently expected to be completed in January 2006, subject to customary closing conditions, regulatory approvals and approval by the holders of a majority of the Company s common stock. In the event the merger is not consummated under certain circumstances, the Company has agreed to pay MAF a termination fee of \$9.0 million.

The Merger Agreement includes terms and conditions which affect the conduct of the Company s business until the Merger is completed or the Merger Agreement is terminated. Among other items, the Merger Agreement generally requires the Company to carry on business in its ordinary course consistent with past practice and in accordance with sound banking practices, and to observe in all material respects its legal and contractual obligations. The Merger Agreement generally restricts the ability of the Company to make material changes in any aspect of the conduct of its business without the consent of MAF including significant capital expenditures, new material lines of business or the disposition of assets or incurring of obligations outside of the ordinary course of business. The Company believes that it is in compliance with the obligations under the Merger Agreement in all material respects.

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations.

On June 30, 2005, MAF and the Company announced that they had agreed to a transaction whereby MAF will acquire the Company in a stock and cash transaction valued at approximately \$177.5 million. The respective boards of directors of MAF and the Company approved the Merger Agreement to effectuate the Merger of the two institutions, with MAF to be the surviving corporation. Under the terms of the agreement, shareholders of the Company will be entitled to elect to receive either .8082 shares of MAF stock for each share of Company common stock they hold, or cash in the amount of \$34.69, without interest, for each such share, or a combination thereof, subject to the election and allocation procedures detailed in the Merger Agreement. Approximately 60% of the total consideration will be paid in MAF stock and approximately 40% will be paid in cash. Based on this structure and the current outstanding shares of Company common stock, the aggregate merger consideration will include approximately \$70.0 million in cash and approximately 2.3 million shares of MAF stock (excluding stock options). The transaction is currently expected to be completed in January 2006, subject to customary closing conditions, regulatory approvals and approval by the holders of a majority of the Company s common stock. In the event the merger is not consummated under certain circumstances, the Company has agreed to pay MAF a termination fee of \$9.0

million.

Set forth below are highlights and significant items for the third quarter of 2005:

The Company recognized \$3.7 million in merger related expenses for the quarter;

Diluted earnings (loss) per share were \$(0.22) for the quarter and \$0.27 for the comparable prior year period;

Net income (loss) was \$(1.0 million) for the quarter and \$1.2 million for the comparable prior year period;  
and

Return (loss) on average equity was (4.64%) for the quarter and 5.99% for the comparable prior year period.

The following analysis discusses changes in the financial condition at September 30, 2005 and results of operations for the three and nine months ended September 30, 2005, and should be read in conjunction with the Company's Unaudited Consolidated Financial Statements and the notes thereto, appearing in Part I, Item 1 of this document.

**Critical Accounting Policy**

The allowance for loan and lease losses is considered by management to be a critical accounting policy. The allowance for loan losses is maintained through provisions for loan losses based on management's on-going evaluation of the risks in its loan portfolio in consideration of the trends in its loan portfolio, the national and regional economies and the real estate market in the Bank's primary lending area. The allowance for loan losses is maintained at an amount management considers adequate to cover probable losses in its portfolio, based on information currently known to management. The Bank's loan loss allowance determination also incorporates factors and analyses which consider the probable principal loss associated with the loans, costs of acquiring the property and securing the loan through foreclosure or deed in lieu of foreclosure. While management estimates loan losses using the best available information, no assurance can be given that future additions to the allowance will not be necessary based on changes in economic and real estate market conditions, further information obtained regarding problem loans, identification of additional problem loans and other factors, both within and outside of management's control.

### **Forward-Looking Statements**

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 identified by use of the words believe, expect, intend, anticipate, estimate, project, or similar expressions. The Company's ability to predict results or the actual effect of future plans or strategies is inherently uncertain. Factors which could have a material adverse effect on the operations of the

Company and its subsidiaries include, but are not limited to, changes in: interest rates, general economic conditions, legislative/regulatory changes, 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, deposit flows, competition, demand for financial services in the Company's market area and accounting principles 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 SEC, including its 2004 Annual Report on Form 10-K.

Forward-looking statements also include, with limitation, those statements relating the anticipated effects of the Company's proposed merger with MAF Bancorp, Inc. The following factors, among others, could cause the actual results of the merger to differ materially from expectations: the ability of the companies to obtain the required shareholder or regulatory approvals of the merger; the imposition of any regulatory conditions or requirements on the merger; the ability of the companies to consummate the merger; the ability to successfully integrate the companies following the merger, including integration of data processing systems and retention of key personnel; a materially adverse change in the financial condition, operations, or projected or actual earnings of either company; the ability to fully realize the expected cost savings and revenues; the ability to realize the expected cost savings and revenues on a timely basis; and any material change in the local markets in which each company operates.

The Company does not undertake - and specifically disclaims any obligation - to publicly release the result of any revisions which may be made to any forward-looking statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events.

#### **Comparison of Financial Condition at September 30, 2005 and December 31, 2004**

Total assets at September 30, 2005 were \$1.047 billion, which represented an increase of \$43.5 million, or 4.3%, compared to \$1.004 billion at December 31, 2004. The increase in total assets was primarily a result of an increase in net loans receivable of \$27.9 million, or 3.5%, to \$835.7 million at September 30, 2005 from \$807.8 million at December 31, 2004. The increase in loans was the result of increases of \$23.1 million in one-to-four family loans, \$16.4 million in construction and land loans and \$3.7 million in home equity loans, the effect of which was partially offset by a \$7.1 million decrease in commercial business loans and a \$9.5 million decrease in commercial real estate loans. This growth is consistent with management's overall strategy for the Bank, which includes branch expansion and competitive pricing of deposit accounts in its local market area. In addition, investment securities increased \$3.0 million, or 3.2%, to \$95.8 million at September 30, 2005 from \$92.8 million at December 31, 2004 and cash and cash equivalents increased \$12.8 million, or 41.4%, to \$43.7 million at September 30, 2005 from \$30.9 million at December 31, 2004. These increases were partially offset by a decrease in real estate owned for development of \$1.5 million at December 31, 2004 to zero at September 30, 2005. This decrease is primarily due to the sale of the remaining single-family residences in a subdivision developed by the Bank's wholly-owned subsidiary EFS Service Corporation. The

loan growth was funded by increases in deposits. Deposits increased \$53.8 million, or 8.0%, to \$724.8 million at September 30, 2005 from \$671.0 million at December 31, 2004. Borrowed money, representing FHLB advances, decreased \$18.0 million to \$219.0 million at September 30, 2005 from \$237.0 million at December 31, 2004. Stockholders' equity increased \$2.0 million to \$87.5 million at September 30, 2005 from \$85.5 million at December 31, 2004. The increase in stockholders' equity was primarily the result of a decrease in treasury stock held by the Company, which was the result of employees exercising approximately 96,000 stock options and the Company's net income for the nine months ended September 30, 2005, which was partially offset by dividends paid of \$2.2 million and a decrease of \$280,000 in the Company's accumulated other comprehensive income relating to the change in fair value of its available-for-sale investment portfolio.

#### **Comparison of Operating Results For the Three Months Ended September 30, 2005 and 2004**

**General.** The Company's net income decreased \$2.3 million, or 184.9%, to (\$1.0 million) for the three months ended September 30, 2005 as compared to the prior year period.

**Interest Income.** Interest income increased \$1.7 million, or 14.6%, to \$13.6 million for the three months ended September 30, 2005, compared to the same period in 2004. This increase resulted from an increase in the average balance of interest-earning assets and an increase in the average rate earned on interest-earning assets. The average yield on interest-earning assets increased by 40 basis points to 5.57% for the three months ended September 30, 2005 from 5.17% for the three months ended September 30, 2004. The average balance of interest-earning assets increased by \$57.7 million, or 6.2%, to \$989.1 million for the three months ended September 30, 2005 from \$931.4 million for the comparable period in 2004. This increase resulted primarily from an increase in the average balance of loans receivable of \$40.7 million from \$791.2 million for the three months ended September 30, 2004 to \$831.9 million for the three months ended September 30, 2005. In addition, the average balance on short-term deposits increased \$13.7 million from \$25.8 million for the three months ended September 30, 2004 to \$39.5 million for the three months ended September 30, 2005 and the average balance on investment securities increased \$4.0 million from \$91.7 million for the three months ended September 30, 2004 to \$95.7 million for the three months ended September 30, 2005.

Mortgage loan interest income increased by \$62,000 for the three months ended September 30, 2005 compared with the same period in 2004. The average balance of mortgage loans decreased \$19.7 million to \$559.8 million and the mortgage loan yield increased by 23 basis points from 5.25% to 5.48%. Interest income from other loans increased \$1.5 million for the three months ended September 30, 2005. This increase resulted from a combination of an increase in average balance of \$60.4 million to \$272.1 million, and a 104 basis point increase in yield from 5.42% for the three months ended September 30, 2004 to 6.46% for the three months ended September 30, 2005. Interest income from investment securities including stock in the Federal Home Loan Bank of Chicago ( FHLBC ), mortgage-backed securities and short-term deposits increased \$150,000 to \$1.5 million for the three months ended September 30, 2005, compared with the same period in 2004. The average balance increased \$17.0 million and the yield decreased 14 basis points from 4.49% for the three months ended September 30, 2004 to

4.35% for the three months ended September 30, 2005. The decrease in yield is primarily due to a lower dividend yield on the stock in the FHLBC. The average yields are reported on a tax equivalent basis.

**Interest Expense.** Interest expense increased by \$1.0 million, or 17.4%, to \$7.0 million for the three months ended September 30, 2005, compared to the same period in 2004. This increase resulted from a combination of an increase in the average balance of interest-bearing liabilities, and an increase in the average rate paid on those interest-bearing liabilities. The average balance of interest-bearing liabilities increased by \$50.3 million, or 6.0%, to \$895.2 million for the three months ended September 30, 2005 from \$844.9 million for the three months ended September 30, 2004. This increase is partially due to deposit growth resulting from the opening of the Company's ninth full service branch in September 2004. The increase in interest-bearing liabilities reflects a \$56.7 million increase in deposit accounts, which is attributable to a \$5.9 million increase in passbook savings accounts, a \$73.2 million increase in certificates of deposit and a \$10.9 million increase in NOW accounts. These increases were partially offset by a decrease of \$33.3 million in money market accounts. In addition, borrowings decreased \$6.3 million to \$219.0 million for the three months ended September 30, 2005 from \$225.3 million for the comparable period in 2004. The average rate paid on deposits increased by 53 basis points to 2.72% for the three months ended September 30, 2005 from 2.19% for the comparable prior year period. The average rate paid on borrowed money decreased by 16 basis points to 4.48% for the three months ended September 30, 2005 from 4.64% for the three months ended September 30, 2004. This decrease is primarily due to the repayment of higher rate FHLB advances.

**Net Interest Income Before Provision for Loan Losses.** Net interest income before provision for loan losses increased \$691,000, or 11.8%, to \$6.5 million for the three months ended September 30, 2005 from \$5.8 million for the comparable period in 2004. The average balance of interest-earning assets increased \$57.7 million for the three months ended September 30, 2005 compared to the comparable prior year period. The increase in interest-earning assets was primarily the result of increases in the average balance of other loans of \$60.4 million, cash and cash equivalents of \$13.7 million and a \$4.0 million increase in investment securities. These increases were partially offset by a \$19.7 million decrease in mortgage loans. The tax equivalent net interest margin as a percent of interest-earning assets increased by 12 basis points to 2.72% for the three months ended September 30, 2005 from 2.60% for the comparable period in 2004. Increasing the net interest margin is dependent on the Bank's ability to generate higher-yielding assets and lower-cost deposits. While the net interest margin has expanded in the three and nine month periods ended September 30, 2005 as compared to the prior year periods, management continues to closely monitor the net interest margin.

**Provision for Loan Losses.** The provision for loan losses increased by \$15,000, to \$225,000 for the three months ended September 30, 2005 from \$210,000 in the comparable prior year period. The increase in the provision for loan losses is primarily due to the growth and increased risk in the loan portfolio based on a greater emphasis placed on commercial real estate and construction and land loans, which involves a higher degree of risk. Commercial real estate loans increased \$1.6 million, or 1.3%, to \$121.5 million at September 30, 2005 from \$119.9 million at September 30, 2004. In addition, construction and land loans increased \$16.5 million,

or 37.4%, to \$60.5 million at September 30, 2005 from \$44.1 million at September 30, 2004. At September 30, 2005, December 31, 2004 and September 30, 2004, non-performing loans totaled \$3.3 million, \$2.9 million and \$2.5 million, respectively. At September 30, 2005, the ratio of the allowance for loan losses to non-performing loans was 151.2% compared to 153.5% at December 31, 2004 and 168.2% at September 30, 2004. The ratio of the allowance to total loans was 0.60%, 0.56% and 0.54%, at September 30, 2005, December 31, 2004 and September 30, 2004, respectively. Net charge-offs for the three months ended September 30, 2005 totaled \$51,000. Net charge-offs for the three months ended September 30, 2004 totaled \$3,000. Management periodically performs an allowance sufficiency analysis based upon the portfolio composition, asset classifications, loan-to-value ratios, probable impairments in the loan portfolio, and other factors.

**Noninterest Income.** Noninterest income totaled \$1.4 million and \$1.3 million for the three months ended September 30, 2005 and 2004, respectively. The increase in noninterest income is primarily attributable to increases of \$175,000 in service fees, \$61,000 in gain on sale of loans, and \$6,000 in gain on sale of property. These increases were partially offset by decreases of \$60,000 in revenues generated by CDGI and \$63,000 in insurance and brokerage commissions. The decrease in income generated by CDGI is largely due to a decrease in sales related to a weaker demand for CDGI's services. It is management's intention to phase out of CDGI by the end of the year. The increase in service fees is primarily due to the growth in the number of deposit accounts.

**Noninterest Expense.** Noninterest expense increased \$4.0 million, to \$9.3 million for the three months ended September 30, 2005 from \$5.3 million for the comparable period in 2004. This increase is primarily due to \$3.7 million of merger related expenses incurred in connection with the Company's previously announced intention to merge with MAF Bancorp, Inc. These expenses consist of legal, investment banking and other payments. These other payments, recorded as compensation expense, are required to be made under certain agreements with directors and officers of the Company. These agreements require payments totaling \$8.1 million to be made to the directors and officers provided they remain with the Company through the expected effective time of the merger (on or around January 6, 2006) and are not contingent upon the consummation of the merger. At the time the agreements were signed the Company had an existing liability of \$1.3 million. Consequently, the total expense to be recognized for these payments is \$6.8 million. Expense recognized in the third quarter was \$3.3 million representing the portion of these payments earned during the quarter. The remaining expense of \$3.4 million will be recognized in the fourth quarter. In addition, there were increases of \$520,000 in compensation and benefits, \$34,000 in data processing, \$56,000 in checking account expenses and \$62,000 impairment charge related to an intangible asset recorded by CDGI. These increases were partially offset by decreases of \$74,000 in advertising expenses and \$366,000 in other expenses. The decrease in other expenses consists of a non-recurring charge of \$424,000 related to the Company's majority-owned subsidiary CDGI for the three months ended September 30, 2004 offset partially by an increase of \$46,000 relating to professional audit and outsourced internal audit fees for the three months ended September 30, 2005. The increase in these audit fees is directly related to the Company's compliance with Section 404 of the Sarbanes-Oxley Act of 2002 for the fiscal year ending December 31, 2005. The increase in compensation and benefits is primarily due to a combination of annual salary increases and the addition of staff.

The additional staff is related to the new branch office opened in September 2004 and the expansion of the commercial loan department. Management continues to emphasize the importance of expense management and control while continuing to provide expanded banking services to a growing market base.

**Income Tax Expense.** Income tax expense (benefit) totaled (\$584,000) and \$351,000 for the three months ended September 30, 2005 and 2004, respectively. The effective tax rate was 36.1% and 22.2% for the three months ended September 30, 2005 and 2004, respectively. The decrease in income tax expense was primarily the result of a decrease in income before income taxes of \$3.2 million to a loss of \$1.6 million for three months ended September 30, 2005 from \$1.6 million for the comparable prior year period.

#### **Comparison of Operating Results For the Nine Months Ended September 30, 2005 and 2004**

**General.** The Company's net income decreased \$2.6 million, or 54.6%, to \$2.1 million for the nine months ended September 30, 2005 as compared to the prior year period.

**Interest Income.** Interest income increased \$4.7 million, or 13.7%, to \$39.3 million for the nine months ended September 30, 2005, compared to the same period in 2004. This increase resulted from an increase in the average balance of interest-earning assets and an increase in the average yield earned on interest-earning assets. The average yield on interest-earning assets increased by 25 basis points to 5.47% for the nine months ended September 30, 2005 from 5.22% for the nine months ended September 30, 2004. The average balance of interest-earning assets increased by \$78.8 million, or 8.8%, to \$971.4 million for the nine months ended September 30, 2005 from \$892.6 million for the comparable period in 2004. This increase resulted primarily from an increase in the average balance of loans receivable of \$70.0 million from \$755.7 million for the nine months ended September 30, 2004 to \$825.7 million for the nine months ended September 30, 2005. In addition, the average balance on investment securities increased \$10.7 million from \$87.1 million for the nine months ended September 30, 2004 to \$97.8 million for the nine months ended September 30, 2005.

Mortgage loan interest income decreased by \$429,000 for the nine months ended September 30, 2005 compared with the same period in 2004. The average balance of mortgage loans decreased \$6.7 million to \$564.4 million and the mortgage loan yield decreased by 4 basis points from 5.42% to 5.38%. Interest income from other loans increased \$4.8 million for the nine months ended September 30, 2005. This increase resulted from a combination of an increase in average balance of \$76.7 million to \$261.3 million, and an 89 basis point increase in yield from 5.28% for the nine months ended September 30, 2004 to 6.17% for the nine months ended September 30, 2005. Interest income from investment securities including stock in the Federal Home Loan Bank of Chicago, mortgage-backed securities and short-term deposits increased \$389,000 to \$4.4 million for the nine months ended September 30, 2005, compared with the same period in 2004. The average balance increased \$8.8 million and the yield increased 29 basis points from 4.28% for the nine months ended September 30, 2004 to 4.57% for the nine months ended September 30, 2005. The average yields are reported on a tax equivalent basis.



**Interest Expense.** Interest expense increased by \$3.1 million, or 18.4%, to \$19.9 million for the nine months ended September 30, 2005, compared to the same period in 2004. This increase resulted from a combination of an increase in the average balance of interest-bearing liabilities, and an increase in the average rate paid on those interest-bearing liabilities. The average balance of interest-bearing liabilities increased by \$73.5 million, or 9.1%, to \$879.8 million for the nine months ended September 30, 2005 from \$806.3 million for the nine months ended September 30, 2004. The increase in interest-bearing liabilities reflects a \$58.0 million increase in deposit accounts, which is attributable to a \$12.1 million increase in passbook savings accounts, a \$73.1 million increase in certificates of deposit and a \$6.9 million increase in NOW accounts. This increase is partially due to the opening of the Company's ninth full service branch in September 2004. These increases were offset by a decrease of \$34.1 million in money market accounts. In addition, borrowings increased \$15.5 million to \$225.4 million for the nine months ended September 30, 2005 from \$209.9 million for the comparable period in 2004. The average rate paid on deposits increased by 41 basis points to 2.52% for the nine months ended September 30, 2005 from 2.11% for the comparable prior year period. The average rate paid on borrowed money decreased by 22 basis points to 4.46% for the nine months ended September 30, 2005 from 4.68% for the nine months ended September 30, 2004. The lower rate paid on borrowed money was partially due to a greater use of overnight borrowings during the nine months ended September 30, 2005, which bear a lower rate of interest than FHLB advances.

**Net Interest Income Before Provision for Loan Losses.** Net interest income before provision for loan losses increased \$1.7 million, or 9.3%, to \$19.4 million for the nine months ended September 30, 2005 from \$17.7 million for the comparable period in 2004. The average balance of interest-earning assets increased \$78.8 million for the nine months ended September 30, 2005 compared to the comparable prior year period. The increase in interest-earning assets was primarily the result of increases in the average balance of other loans of \$76.7 million and investment securities of \$10.7 million. These increases were partially offset by a \$2.4 million decrease in cash and cash equivalents. The tax equivalent net interest margin as a percent of interest-earning assets increased by 3 basis points to 2.74% for the nine months ended September 30, 2005 from 2.71% for the comparable period in 2004.

**Provision for Loan Losses.** The provision for loan losses increased by \$120,000, to \$670,000 for the nine months ended September 30, 2005 from \$550,000 in the comparable prior year period. The increase in the provision for loan losses is primarily due to the growth and increased risk in the loan portfolio based on a greater emphasis placed on commercial real estate and construction and land loans, which involves a higher degree of risk. Commercial real estate loans increased \$1.6 million, or 1.3%, to \$121.5 million at September 30, 2005 from \$119.9 million at September 30, 2004. In addition, construction and land loans increased \$16.5 million, or 37.4%, to \$60.5 million at September 30, 2005 from \$44.1 million at September 30, 2004. At September 30, 2005, December 31, 2004 and September 30, 2004, non-performing loans totaled \$3.3 million, \$2.9 million and \$2.5 million, respectively. At September 30, 2005, the ratio of the allowance for loan losses to non-performing loans was 151.2% compared to 153.5% at December 31, 2004 and 168.2% at September 30, 2004. The ratio of the allowance to total loans was 0.60%, 0.56% and 0.54%, at September 30, 2005, December 31, 2004 and September 30, 2004, respectively. Net charge-offs for the nine months ended September 30, 2005 totaled \$111,000. Net charge-offs for the nine months ended September 30, 2004 totaled \$18,000. Management

periodically performs an allowance sufficiency analysis based upon the portfolio composition, asset classifications, loan-to-value ratios, probable impairments in the loan portfolio, and other factors.

**Noninterest Income.** Noninterest income totaled \$4.4 million for both the nine month periods ended September 30, 2005 and 2004, respectively. Service fees increased \$468,000. This increase was partially offset by decreases of \$112,000 in revenues generated by CDGI, \$106,000 in gain on sale of loans, \$92,000 in gain on sale of property and \$40,000 in gain on sale of securities. The decrease in income generated by CDGI is largely due to a decrease in sales related to a weaker demand for CDGI's services. It is management's intention to phase out of CDGI by the end of the year. The increase in service fees is primarily due to the growth in the number of deposit accounts.

**Noninterest Expense.** Noninterest expense increased \$5.1 million, to \$20.2 million for the nine months ended September 30, 2005 from \$15.1 million for the comparable period in 2004. Of this increase, \$3.7 million is directly related to merger costs associated with the purchase of the Company by MAF Bancorp, Inc. as mentioned above. In addition, there were increases of \$1.4 million in compensation and benefits, \$137,000 resulting from the costs related to a new branch office placed in service in September 2004, \$81,000 in checking account expenses and a \$62,000 impairment charge discussed above in addition to the regular amortization of \$37,000 and \$35,000 in data processing expenses. These increases were partially offset by decreases of \$118,000 in advertising and \$174,000 in other expenses. The decrease in other expenses consists of a non-recurring charge of \$424,000 related to the Company's majority-owned subsidiary CDGI for the nine months ended September 30, 2004 offset partially by an increase of \$122,000 relating to professional audit and outsourced internal audit fees for the nine months ended September 30, 2005. The increase in these audit fees is directly related to the Company's compliance with Section 404 of the Sarbanes-Oxley Act of 2002 for the fiscal year ending December 31, 2005. The increase in compensation and benefits is primarily due to a combination of annual salary increases and the addition of staff. The additional staff is related to the new branch office opened in September 2004 and the expansion of the commercial loan department. Management continues to emphasize the importance of expense management and control while continuing to provide expanded banking services to a growing market base.

**Income Tax Expense.** Income tax expense totaled \$700,000 and \$1.7 million for the nine months ended September 30, 2005 and 2004, respectively. The effective tax rate was 24.6% and 26.8% for the nine months ended September 30, 2005 and 2004, respectively. The decrease in the effective tax rate is primarily due to a reduction in the Company's income before income taxes without a corresponding decrease in non-taxable income. The decrease in income tax expense was primarily the result of a decrease in income before income taxes of \$3.7 million to \$2.8 million for nine months ended September 30, 2005 from \$6.5 million for the comparable prior year period.

## Liquidity and Capital Resources

The Company's primary source of funding for dividends and periodic stock repurchases have been dividends from the Bank. The Bank's ability to pay dividends and other capital distributions to the Company is generally limited by the Office of Thrift Supervision's regulations. Additionally, the Merger Agreement includes a covenant that prohibits the Company from paying any cash dividends exceeding \$0.1625 per share, and from paying a dividend for a quarter when Company shareholders receiving MAF stock in the Merger would also receive a dividend payment from MAF on the MAF shares received in the Merger.

The Bank's primary sources of funds are savings deposits, proceeds from the principal and interest payments on loans, proceeds from the maturity of securities and borrowings from the FHLB-Chicago. While maturities and scheduled amortization of loans and securities are predictable sources of funds, deposit outflows and mortgage prepayments are greatly influenced by general interest rates, economic conditions and competition.

The primary investing activities of the Bank are the origination and purchase of primarily residential one-to-four-family loans, the purchase of mortgage-backed securities and, to a lesser extent, multi-family and commercial real estate, construction and land, commercial and consumer loans. In addition, the Bank purchases loans, secured by single-family, multi-family and commercial real estate. Deposit flows are affected by the level of interest rates, the interest rates and products offered by the local competitors and other factors.

In addition to the primary investing activities of the Bank, the Company has repurchased shares of its common stock from time to time in the open market. As of September 30, 2005, the Company repurchased a total of 3,087,081 shares of the Company's common stock at an average price per share of \$12.11 since becoming a public company in 1998. There currently is no formal repurchase plan in place and there were no shares repurchased during the nine months ended September 30, 2005.

The Bank's most liquid assets are cash and interest-bearing deposits with financial institutions. The levels of these assets are dependent on the Bank's operating, financing, lending and investing activities during any given period. At September 30, 2005, cash and interest-bearing deposits with financial institutions totaled \$43.7 million, or 4.2% of total assets.

See the Consolidated Statements of Cash Flows in the Unaudited Consolidated Financial Statements included in this Form 10-Q for the sources and uses of cash flows for operating, investing and financing activities for the nine months ended September 30, 2005 and 2004.

At September 30, 2005, the Bank exceeded all of its regulatory capital requirements. The following is a summary of the Bank's regulatory capital ratios at September 30, 2005:

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	Actual		For capital adequacy purposes		To be well capitalized under prompt corrective action	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
September 30, 2005:						
Total capital (to risk weighted assets)	\$ 80,370,000	10.61%	\$ 60,590,000	8.0%	\$ 75,737,000	10.0%
Tier I capital (to risk weighted assets)	78,957,000	10.41%	30,346,000	4.0	45,518,000	6.0
Tier I capital (to average assets)	78,957,000	7.52%	42,024,000	4.0	52,530,000	5.0

At September 30, 2005, the Company had a Total Capital to Total Assets ratio of 8.35%.

On September 21, 2005, the Company announced its third quarter dividend of \$0.1625 per share. The dividend was paid on October 11, 2005 to stockholders of record on September 30, 2005.

**Financial Instruments with Off-Balance Sheet Risk**

The Bank is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. Those financial instruments primarily include commitments to extend credit. Commitments to extend credit are agreements to lend to a customer so long as there is no violation of any condition established in the contract. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained is based on management's credit evaluation of the customer. The Bank's exposure to credit loss in the event of nonperformance by the customer is represented by the contractual amount of those financial instruments. The commitments to originate first mortgage loans represent amounts which the Bank plans to fund within a period of 30 to 90 days.

The Bank's approved, but unused lines of credit are based on underwriting standards that allow total borrowings, including the equity line of credit to exceed 80% of the current appraised value of the customer's residence. The Bank charges a 1% higher interest rate on home equity lines of credit up to 90% of the home's current appraised value.

The Bank's standby letters of credit are conditional commitments issued by the Bank to guarantee performance of a customer to a third party. The credit risk involved in these transactions is essentially the same as that involved in extending a loan to a customer in the normal course of business. Standby letters of credit are collateralized by mortgages, savings accounts or liens on business assets. The fair value of standby letters of credit approximates the amount of recorded related fees. The maximum risk of accounting loss for these items, which is represented by the total commitment outstanding, totaled \$14.5 million at September 30, 2005.

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At September 30, 2005 and December 31, 2004, the bank had the following commitments to extend credit:

	September 30 2005	December 31, 2004
First mortgage loans	\$ 5,230,000	\$ 8,303,000
Construction loans	265,000	804,000
Unused lines of credit	57,831,000	61,381,000
Standby letters of credit	14,527,000	11,476,000

### Contractual Obligations

The Bank has certain obligations and commitments to make future payments under contract. There has been no material change in contractual obligations from December 31, 2004.

### Recent Accounting Pronouncements

In March 2004, the Emerging Issues Task Force ( EITF ) reached a consensus on issue 03-1, The Meaning of Other-Than-Temporary Impairment and its Application to Certain Investments. The EITF reached a consensus on an other-than-temporary impairment model for debt and equity securities accounted for under SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities, and cost method investments. The new guidance prescribes a three-step process to identify impairment of investment securities, classify impairment as either temporary or other-than-temporary, and recognize loss in the case of other-than-temporary impairment of investment securities. In September 2004, FASB issued a proposed FASB Staff Position, FSP EITF Issue 03-1-a, Implementation Guidance for the Application of Paragraph 16 of EITF Issue No. 03-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments. The proposed FSP would provide implementation guidance with respect to debt securities that are impaired solely due to interest rates and/or sector spreads and analyzed for other-than-temporary impairment under paragraph 16 of Issue 03-1. FASB has delayed the effective date for the measurement and recognition guidance contained in paragraphs 10 through 20 of Issue 03-1. This delay does not suspend the requirement to recognize other-than-temporary impairments as required by existing authoritative literature. The delay of the effective date for paragraphs 10 through 20 of Issue 03-1 will be superceded concurrent with the final issuance of FSP EITF Issue 03-1-a. The disclosure guidance in paragraph 21 and 22 of Issue 03-1 remains effective. The amount of any other-than-temporary impairment that may need to be recognized in the future will be dependent on market conditions, the occurrence of certain events or changes in circumstances relative to an investee, and the Corporation's intent to hold the impaired investments at the time of valuation.

In December 2004, the FASB issued SFAS No. 123 (Revised 2004) (123R), Share Based Payment, an amendment of FASB Statements No. 123 and 95. SFAS No. 123R will require compensation cost relating to share-based payment transactions be recognized in consolidated financial statements. In April 2005, the SEC delayed the effective date of 123R to the Company's fiscal year beginning January 1, 2006. The Company has not yet completed its evaluation of the standard, but anticipates that it will not have a material impact on earnings and

earnings per share beginning with the first quarter of 2006.

In March 2005, the SEC staff issued Staff Accounting Bulletin No. 107 ( SAB 107 ) regarding the interaction between SFAS No. 123R and certain SEC rules and regulations and provides the staff's views regarding the valuation of share-based payment arrangements for public companies. SAB 107 provides guidance related to valuation methods (including assumptions such as expected volatility and expected term), accounting for certain redeemable financial instruments issued under share-based payment arrangements, the classification of compensation expense, non-GAAP financial measures, capitalization of compensation cost related to share-based payment arrangements, the accounting for income tax effects of share-based payment arrangements upon adoption of Statement 123R, the modification of employee share options prior to adoption of Statement 123R and disclosures in Management's Discussion and Analysis of Financial Condition and results of Operations subsequent to adoption of Statement 123R.

In May 2005, the FASB issued SFAS No. 154, Accounting Changes and Error Corrections. SFAS No. 154 changes the accounting for, and reporting of, a change in accounting principle and requires the prospective application to prior period's financial statements of voluntary changes in accounting principle and changes required by new accounting standards when the standard does not include specific transition provisions unless it is impracticable to do so. SFAS No. 154 is effective for accounting changes and corrections of errors in fiscal years beginning after December 15, 2005. Adoption of this Statement is not expected to have a material impact on the Company's consolidated financial statements.

**Average Balance Sheet**

The following tables set forth certain information relating to the Bank for the three and nine months ended September 30, 2005 and 2004, respectively. The average yields and costs are derived by dividing income or expense by the average balance of interest-earning assets or interest-bearing liabilities, respectively, for the periods shown and reflect annualized yields and costs. Average balances are derived from average monthly balances. The yields and costs include fees, which are considered adjustments to yields. Tax exempt income has been calculated on a tax equivalent basis using a tax rate of 34% and amounted to \$202,000 and \$211,000 for the three months ended September 30, 2005 and 2004 and \$631,000 and \$413,000 for the nine months ended September 30, 2005 and 2004, respectively.

(in thousands)	Three Months Ended September 30, 2005			Three Months Ended September 30, 2004		
	Average Balance	Interest	Yield/Cost	Average Balance	Interest	Yield/Cost
<b>Assets:</b>						
Interest earning assets:						
Short-term deposits and FHLB						
stock	\$ 51,994	347	2.67%	37,386	223	2.39%
Investment securities	95,672	1,267	5.30%	91,653	1,253	5.47%
Mortgage-backed securities	9,555	96	4.00%	11,209	98	3.50%
Mortgage loans	559,824	7,670	5.48%	579,520	7,609	5.25%
Other loans	272,079	4,393	6.46%	211,637	2,866	5.42%
Total interest earning assets	989,124	13,773	5.57%	931,405	12,049	5.17%
Noninterest earning assets	66,338			58,224		
Total assets	\$ 1,055,462			989,629		
<b>Liabilities and stockholders equity</b>						
Interest-bearing liabilities						
Deposits:						
Money market accounts	\$ 98,540	510	2.07%	131,786	547	1.66%
Passbook savings accounts	135,832	673	1.98%	129,961	467	1.44%
NOW Accounts	49,762	122	0.98%	38,890	48	0.49%
Certificates of deposit	392,092	3,290	3.36%	318,903	2,330	2.92%
Total deposits	676,226	4,595	2.72%	619,540	3,392	2.19%
FHLB Advances	219,000	2,451	4.48%	225,333	2,612	4.64%
Total interest-bearing liabilities	895,226	7,046	3.15%	844,873	6,004	2.84%
Noninterest-bearing liabilities	71,133			63,426		
Total liabilities	966,359			908,299		
Total stockholders equity	89,103			81,330		
Total liabilities and stockholders equity	\$ 1,055,462			989,629		
Net interest income before provision for loan losses						
		6,727			6,045	
Interest rate spread			2.42%			2.33%
Net interest margin as a percent of interest earning assets			2.72%			2.60%
Ratio of interest-earning assets to interest-bearing liabilities			110.49%			110.24%



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(in thousands)	Nine Months Ended September 30, 2005			Nine Months Ended September 30, 2004		
	Average Balance	Interest	Yield/Cost	Average Balance	Interest	Yield/Cost
<b>Assets:</b>						
Interest earning assets:						
Short-term deposits and FHLB						
stock	\$ 37,421	762	2.72%	38,806	633	2.17%
Investment securities	97,781	3,933	5.36%	87,121	3,463	5.30%
Mortgage-backed securities	10,493	301	3.83%	11,001	302	3.66%
Mortgage loans	564,422	22,791	5.38%	571,123	23,220	5.42%
Other loans	261,264	12,099	6.17%	184,574	7,313	5.28%
Total interest earning assets	971,381	39,886	5.47%	892,625	34,931	5.22%
Noninterest earning assets	64,374			54,947		
Total assets	\$ 1,035,755			947,572		
Liabilities and stockholders equity						
Interest-bearing liabilities						
Deposits:						
Money market accounts	\$ 104,249	1,519	1.94%	138,394	1,675	1.61%
Passbook savings accounts	143,163	1,976	1.84%	131,075	1,370	1.39%
NOW Accounts	46,271	273	0.79%	39,393	145	0.49%
Certificates of deposit	360,700	8,587	3.17%	287,563	6,243	2.89%
Total deposits	654,383	12,355	2.52%	596,425	9,433	2.11%
FHLB Advances	225,445	7,534	4.46%	209,900	7,370	4.68%
Total interest-bearing liabilities	879,828	19,889	3.01%	806,325	16,803	2.78%
Noninterest-bearing liabilities	68,261			60,523		
Total liabilities	948,089			866,848		
Total stockholders equity	87,666			80,724		
Total liabilities and stockholders equity	\$ 1,035,755			947,572		
Net interest income before provision for loan losses						
Interest rate spread		19,997	2.46%		18,128	2.44%
Net interest margin as a percent of interest earning assets			2.74%			2.71%
Ratio of interest-earning assets to interest-bearing liabilities			110.41%			110.70%

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

The Bank's interest rate sensitivity is monitored by management through the use of a Net Portfolio Value Model which generates estimates of the change in the Bank's net portfolio value ( NPV ) over a range of interest rate scenarios. NPV is the present value of expected cash flows from assets, liabilities, and off-balance sheet contracts. The NPV ratio, under any interest rate scenario, is defined as the NPV in that scenario divided by the market value of assets in the same scenario. The model assumes estimated prepayment rates, reinvestment rates and deposit decay rates. The Sensitivity Measure is the decline in the NPV ratio, in basis points, caused by a 3% increase or 2% decrease in rates, whichever produces a larger decline. The higher the institution's Sensitivity Ratio, the greater its exposure to interest rate risk is considered to be. The following NPV Table sets forth the Bank's NPV as of September 30, 2005. These results are not materially different from the results as of December 31, 2004.

Change in Interest Rates in Basis Points (Rate Shock)	Amount	Net Portfolio Value		% Change	NPV as % of Portfolio Value of Assets	
		(In thousands)	\$ Change		NPV Ratio	% Change
+300	\$ 55,954	\$	(42,491)	(43.16)%	5.78%	(38.58)%
+200	67,366		(31,079)	(31.57)	6.80	(27.74)
+100	80,968		(17,477)	(17.75)	7.97	(15.30)
Static	98,445				9.41	
-100	108,480		10,035	10.19	10.16	7.97
-200	109,355		10,910	11.08	10.11	7.44

Certain shortcomings are inherent in the methodology used in the above interest rate risk measurements. Modeling changes in NPV requires management to make certain assumptions which may or may not reflect the manner in which actual yields and costs respond to changes in market interest rates. In this regard, the NPV Table presented assumes that the composition of the Bank's interest sensitive assets and liabilities existing at the beginning of a period remains constant over the period being measured and also assumes that a particular change in interest rates is reflected uniformly across the yield curve regardless of the duration to maturity or repricing of specific assets and liabilities. Accordingly, although the NPV Table provides an indication of the Bank's interest rate risk exposure at a particular point in time, such measurements are not intended to and do not provide a precise forecast of the effect of changes in market interest rates on the Bank's net interest income and may differ from actual results.

Item 4. Controls and Procedures

The Company's management, including the Company's principal executive officer and principal financial officer, have evaluated the effectiveness of the Company's disclosure controls and procedures, as such term is defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended, (the Exchange Act ). Based upon their

evaluation, the principal executive officer and principal financial officer concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures were effective for the purpose of ensuring that the information required to be disclosed in the reports that the Company files or submits under the Exchange Act with the Securities and Exchange Commission (the "SEC") (1) is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and (2) is accumulated and communicated to the Company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. In addition, based on that evaluation, no change in the Company's internal control over financial reporting occurred during the quarter ended September 30, 2005 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

**PART II. OTHER INFORMATION**

Item 1. Legal Proceedings.

The Company is not involved in any pending legal proceedings other than routine legal proceedings occurring in the ordinary course of business. Such routine legal proceedings, in the aggregate, are believed by management to be immaterial to the Company's financial condition, results of operations and cash flows.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None.

Item 3. Defaults Upon Senior Securities.

None.

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

None.

Item 5. Other Information.

None.

Item 6. Exhibits

(a)	Exhibits	
	2.1	Agreement and Plan of Reorganization, dated June 29, 2005, by and between MAF Bancorp, Inc. and EFC Bancorp, Inc. (1)
	3.1	Certificate of Incorporation of EFC Bancorp, Inc. (2)
	3.2	Bylaws of EFC Bancorp, Inc. (2)
	4.0	Specimen Stock Certificate of EFC Bancorp, Inc. (2)
	11.0	Statement re: Computation of Per Share Earnings Incorporated herein by reference to Note 3 to the unaudited consolidated financial statements.
	31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer
	31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer
	32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350

(1) Incorporated by reference to the Exhibits filed with the Current Report on Form 8-K, and any amendments thereto, filed with the SEC on July 1, 2005.

(2) Incorporated herein by reference from the Exhibits filed with the Registration Statement on Form S-1 and any amendments thereto. Initially filed with the Securities and Exchange Commission ( SEC ) on October 24, 1997.

**SIGNATURES**

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

EFC BANCORP, INC.

Dated: November 4, 2005

By: /s/ Barrett J. O Connor  
Barrett J. O Connor  
Chief Executive Officer  
(Principal executive officer)

Dated: November 4, 2005

By: /s/ Eric J. Wedeen  
Eric J. Wedeen  
Senior Vice President and Chief  
Financial Officer  
(Principal financial and accounting officer)