FORM 10QSB

Optional form for quarterly and transition reports of small business issuers under section 13 or 15(d)

Filing Date: **2002-05-14** | Period of Report: **2002-03-31**
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FILER

ADVANCE FINANCIAL BANCORP
CIK:**1023398**| IRS No.: **550753533** | State of Incorp.:**DE** | Fiscal Year End: **0630**
Type: **10QSB** | Act: **34** | File No.: **000-21885** | Film No.: **02645248**
SIC: **6035** Savings institution, federally chartered

Mailing Address
1015 COMMERCE STREET
WELLSBURG WV 26070

Business Address
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WELLSBURG WV 26070
3047373531

United States Securities and Exchange Commission
Washington, D.C. 20552
FORM 10QSB

{x} QUARTERLY REPORT UNDER SECTION 13 OF 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

{ } TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCAHANGE ACT

For the transition period from _________,_______to_________________

Commission file Number 0-21885

Advance Financial Bancorp

(Exact name of registrant as specified in its charter)

Delaware	55-0753533
(State or jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

1015 Commerce Street, Wellsburg, WV 26070
(Address of principal executive offices)

(304) 737-3531
(Registrant's telephone number, including area code)

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

State the number of shares outstanding for each of the issuer's classes of common equity as of the latest practicable date:

Class: Common Stock, par value $.10 per share
Outstanding at May 1, 2002: 932,285

Advance Financial Bancorp

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ADVANCE FINANCIAL BANCORP
CONSOLIDATED BALANCE SHEET (UNAUDITED)

<TABLE>
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	MARCH 31, 2002	JUNE 30, 2001
<S>	<C>	<C>
Assets		
Cash and cash equivalents:		
Cash and amounts due from banks	$ 1,513,338	$ 1,177,728
Interest bearing deposits with other institutions	11,943,791	7,375,450
Total cash and cash equivalents	13,457,129	8,553,178
Investment securities:		
Securities held to maturity (fair value of $ - and $742,057)	-	749,934
Securities available for sale	11,504,251	11,147,919
Total investment securities	11,504,251	11,897,853
Mortgaged-backed securities:		
Securities held to maturity (fair value of $1,553,415 and $1,601,960)	1,523,396	1,595,349
Securities available for sale	7,365,494	8,383,075
Total mortgage-backed securities	8,888,890	9,978,424
Loans held for sale	-	439,949
Loans receivable, (net of allowance for loan losses of $979,069 and $779,170)	164,781,814	129,595,542
Office properties and equipment, net	3,724,870	3,828,367
Federal Home Loan Bank Stock, at cost	1,000,000	1,075,000
Accrued interest receivable	1,184,529	1,017,024
Other assets	1,436,704	1,101,725
TOTAL ASSETS	$ 205,978,187	$ 167,487,062
Liabilities:		
Deposits	$ 167,408,254	$ 130,499,131
Advances from Federal Home Loan Bank	20,000,000	20,000,000
Advance payments by borrowers for taxes and insurance	274,819	146,095
Accrued interest payable and other liabilities	726,442	499,119
TOTAL LIABILITIES	188,409,515	151,144,345
Stockholders' Equity:		
Preferred stock, $.10 par value; 500,000 shares authorized, none issued	-	-
Common stock, $.10 par value; 2,000,000 shares authorized 1,084,450 shares issued	108,445	108,445
Additional paid in capital	10,365,320	10,339,790
Retained earnings - substantially restricted	9,864,196	8,806,639
Unallocated shares held by Employee Stock Ownership Plan (ESOP)	(359,084)	(424,154)
Unallocated shares held by Restricted Stock Plan (RSP)	(220,679)	(316,480)
Treasury Stock (152,165 shares at cost)	(2,233,265)	(2,233,265)
Accumulated other comprehensive income	43,739	61,742
TOTAL STOCKHOLDERS' EQUITY	17,568,672	16,342,717
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 205,978,187	$ 167,487,062

</TABLE>

See accompanying notes to the unaudited consolidated financial statements.

ADVANCE FINANCIAL BANCORP
CONSOLIDATED STATEMENT OF INCOME (UNAUDITED)

<TABLE>
<CAPTION>

	THREE MONTHS ENDED MARCH 31, 2002	THREE MONTHS ENDED MARCH 31, 2001
INTEREST AND DIVIDEND INCOME		
Loans	$ 3,062,999	$ 2,675,618
Investment securities	141,955	211,270
Interest-bearing deposits with other institutions	28,763	70,433
Mortgage-backed securities	141,908	145,273
Dividends on Federal Home Loan Bank Stock	11,494	17,892
Total interest and dividend income	3,387,119	3,120,486
INTEREST EXPENSE		
Deposits	1,444,517	1,539,014
Advances from Federal Home Loan Bank	286,374	306,432
Total interest expense	1,730,891	1,845,446
NET INTEREST INCOME	1,656,228	1,275,040
Provision for loan losses	55,500	48,300
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	1,600,728	1,226,740
NONINTEREST INCOME		
Service charges on deposit accounts	126,207	121,967
Gain on sale of loans	69,976	36,163
Loss on other real estate owned	(27,500)	--
Other income	123,164	87,299
Total noninterest income	291,847	245,429
NONINTEREST EXPENSE		
Compensation and employee benefits	600,390	527,848
Occupancy and equipment	222,668	192,027
Professional fees	25,188	24,583
Advertising	31,624	29,860
Data processing charges	84,728	68,432
Other expenses	334,360	250,460
Total noninterest expenses	1,298,958	1,093,210
Income before income taxes	593,617	378,959
Income taxes	163,940	131,379
Net Income	429,677	247,580
EARNINGS PER SHARE - NET INCOME		
Basic	$ .49	$ .29
Diluted	$ .49	$ .29

</TABLE>

See accompanying notes to the unaudited consolidated financial statements.

ADVANCE FINANCIAL BANCORP
CONSOLIDATED STATEMENT OF INCOME (UNAUDITED)

<TABLE>
<CAPTION>

	NINE MONTHS ENDED MARCH 31, 2002	NINE MONTHS ENDED MARCH 31, 2001

<S> <C> <C>

INTEREST AND DIVIDEND INCOME		
Loans	$ 9,093,916	$ 7,879,632
Investment securities	462,673	557,171
Interest-bearing deposits with other institutions	107,161	212,613
Mortgage-backed securities	445,558	302,764
Dividends on Federal Home Loan Bank Stock	49,895	47,982
Total interest and dividend income	10,159,203	9,000,162
INTEREST EXPENSE		
Deposits	4,558,717	4,482,580
Advances from Federal Home Loan Bank	874,299	713,432
Total interest expense	5,433,016	5,196,012
NET INTEREST INCOME	4,726,187	3,804,150
Provision for loan losses	204,600	119,100
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	4,521,587	3,685,050
NONINTEREST INCOME		
Service charges on deposit accounts	396,550	357,295
Gain on sale of loans	213,865	45,574
Loss on other real estate owned	(27,500)	(20,000)
Loss on sale of investments	-	(1,705)
Gain on sale of fixed assets	3,120	-
Other income	365,308	226,956
Total noninterest income	951,343	608,120
NONINTEREST EXPENSE		
Compensation and employee benefits	1,721,842	1,538,020
Occupancy and equipment	633,481	563,678
Professional fees	94,829	81,210
Advertising	92,434	83,089
Data processing charges	232,504	181,766
Other expenses	935,683	730,346
Total noninterest expenses	3,710,773	3,178,109
Income before income taxes	1,762,157	1,115,061
Income taxes	605,695	426,255
Income before extaordinary item	1,156,462	688,806
Extraordinary item- Excess over cost on net assets acquired in merger	201,206	-
Net Income	1,357,668	688,806
EARNINGS PER SHARE - INCOME BEFORE EXTRAORDINARY ITEM		
Basic	$ 1.31	$ .79
Diluted	$ 1.31	$ .79
EARNINGS PER SHARE - NET INCOME		
Basic	$ 1.54	$ .79
Diluted	$ 1.54	$ .79

</TABLE>

See accompanying notes to the unaudited consolidated financial statements.

ADVANCE FINANCIAL BANCORP
CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

<TABLE>
<CAPTION>

<S> <C> <C>

	NINE MONTHS ENDED MARCH 31, 2002	2001
OPERATING ACTIVITIES		
Net Income	1,357,668	688,806
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and accretion, net	424,122	454,991

Provision for loan losses	204,600	119,100
Loss on other real estate owned	27,500	20,000
Loss on sale of investments	-	1,705
Gain on sale of fixed assets	(3,120)	-
Extraordinary gain on net assets acquired in merger	(201,206)	-
Gain on sale of loans	(213,865)	(45,574)
Origination of loans held for sale	(17,889,988)	(4,437,165)
Proceeds from the sale of loans	18,543,802	3,717,968
Decrease (increase) in other assets and liabilities	391,996	(345,023)
Net cash provided by operating activities	2,641,509	174,808
INVESTING ACTIVITIES		
Investment securities held to maturity:		
Maturities and repayments	750,000	-
Investment securities available for sale:		
Purchases	(1,764,917)	(7,736,171)
Maturities and repayments	4,257,059	4,510,025
Mortgage-backed securities held to maturity:		
Maturities and repayments	398,682	343,965
Mortgage-backed securities available for sale:		
Purchases	(1,508,800)	(5,002,344)
Maturities and repayments	2,570,751	349,358
Purchase of Federal Home Loan Bank Stock	(115,000)	(275,000)
Sale of Federal Home Loan Bank Stock	635,900	-
Net increase in loans	(9,081,069)	(6,100,336)
Purchases of premises and equipment	(214,769)	(142,840)
Net cash used in investing activities	(4,072,163)	(14,053,343)
FINANCING ACTIVITIES		
Net increase in deposits	12,649,571	9,785,030
Net decrease in short term advances from FHLB	-	(2,500,000)
Net Proceeds from advances from the FHLB	-	12,000,000
Net change in advances for taxes and insurance	23,130	(62,543)
Net cash purchase of OSFS stock	(6,041,007)	-
Cash dividends paid	(297,089)	(257,464)
Net cash provided by financing activities	6,334,605	18,965,023
Increase in cash and cash equivalents	4,903,951	5,086,488
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	8,553,178	5,751,624
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 13,457,129	$ 10,838,112
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest on deposits and borrowings	$ 5,450,308	$ 5,321,267
Income taxes	$ 495,537	$ 448,332

</TABLE>

See accompanying notes to the unaudited consolidated financial statements.

ADVANCE FINANCIAL BANCORP
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - BASIS OF PRESENTATION

The consolidated financial statements of Advance Financial Bancorp (the "Company"), includes its wholly-owned subsidiary, Advance Financial Savings Bank (the "Bank"), and its wholly-owned subsidiary, Advance Financial Service Corporation of West Virginia. All significant intercompany balances and transactions have been eliminated.

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-QSB and, therefore, do not necessarily include all information that would be included in audited financial statements. The information furnished reflects all adjustments, which are, in the opinion of management, necessary for a fair statement of results of operations. All such adjustments are of a normal recurring nature. The results of operations for the interim periods are not necessarily indicative of the results to be expected for the fiscal year ended June 30, 2002 or any other interim period.

These statements should be read in conjunction with the consolidated statements of and for the year ended June 30, 2001 and related notes which are included on the Form 10-KSB (file no. 0-21885).

NOTE 2 - EARNINGS PER SHARE

There were no convertible securities, which would affect the numerator in calculating basic and diluted earnings per share; therefore, net income as presented on the Consolidated Statement of Income will be used as the numerator. The following table sets forth the composition of the weighted-average common shares (denominator) used in the basic and diluted earnings per share computation.

	Nine Months Ended March 31 2002	Nine Months Ended March 31 2001
Weighted-average common shares outstanding	1,084,450	1,084,450
Average treasury stock shares	(152,165)	(152,165)
Average unearned ESOP and RSP shares	(48,420)	(55,683)
Weighted-average common shares and common stock equivalents used to calculate basic earnings per share	883,865	876,602
Additional common stock equivalents (stock options) used to calculate diluted earnings per share	-	-
Weighted-average common shares and common stock equivalents used to calculate diluted earnings per share	883,865	876,602

NOTE 2 - EARNINGS PER SHARE (CONTINUED)

	Three Months Ended March 31 2002	Three Months Ended March 31 2001
Weighted-average common shares outstanding	1,084,450	1,084,450
Average treasury stock shares	(152,165)	(152,165)
Average unearned ESOP and RSP shares	(46,527)	(53,655)
Weighted -average common shares and common stock equivalents used to calculate basic earnings per share	885,758	878,630
Additional common stock equivalents (stock options) used to calculate diluted earnings per share	-	-
Weighted-average common shares and common stock equivalents used to calculate diluted earnings per share	885,758	878,630

NOTE 3 - COMPREHENSIVE INCOME

Other accumulated comprehensive income consists solely of net unrealized gains and losses on available for sale securities. For the three and nine months ended March 31, 2002, comprehensive income totaled $373,807 and $1,339,665, respectively. For the three and nine months ended March 31, 2001, comprehensive income totaled $369,318 and $1,115,494, respectively.

NOTE 4 - MERGER

As of the close of business September 7, 2001, the Company acquired all of the outstanding stock of Ohio State Financial Services "OSFS". The total cost of the acquisition by the Company was $7,861,147. The acquisition was a cash purchase of all outstanding stock of OSFS and was accounted for under the purchase method of accounting. The Consolidated Statements of Income for the three-and nine-month periods ended March 31, 2002, include the results of operation of the acquired institution from September 8, 2001.

OSFS was a bank holding company for Bridgeport Savings and Loan, which had branch offices in Bridgeport and Shadyside, Ohio. The merger was entered into to enhance the Company's return on equity by geographical diversification, more profitable deployment of excess capital and market area expansion.

The following are proforma Statements of Income for the three-and nine-month periods ended March 31, 2002 and 2001. The proforma statements are intended to present the business combination's effect on earnings per share for the comparable periods had both entities been combined at the start of each period.

NOTE 4 - MERGER (CONTINUED)

	PROFORMA NINE-MONTHS ENDED MARCH 31	
	2002	2001
Total Interest Income	$10,578,685	$10,765,386
Total Interest Expense	5,612,500	5,947,954
Net Interest Income	4,966,185	4,817,432
Provision for loan losses	235,515	119,100
Net Interest Income after Provision for Loan Losses	4,730,670	4,698,332
Noninterest Income	957,103	629,828
Noninterest Expense	3,911,380	3,950,953
Income before income taxes	1,776,393	1,377,207
Income taxes	606,084	519,446
Net Income	$ 1,170,309	$ 857,761
Earnings per share:		
Basic	$ 1.32	$ 0.98
Diluted	$ 1.32	$ 0.98

	PROFORMA THREE-MONTHS ENDED MARCH 31	
	2002	2001
Total Interest Income	$3,387,119	$3,699,420
Total Interest Expense	1,730,891	2,089,540
Net Interest Income	1,656,228	1,609,880
Provision for loan losses	55,500	48,300
Net Interest Income after Provision for Loan Losses	1,600,728	1,561,580
Noninterest Income	291,847	254,266
Noninterest Expense	1,298,958	1,364,966
Income before income taxes	593,617	450,880
Income taxes	163,940	157,004
Net Income	$ 429,677	$ 293,876
Earnings per share:		
Basic	$ 0.49	$ 0.33
Diluted	$ 0.49	$ 0.33

NOTE 5 - EXTRAORDINARY ITEM

As a result of the merger with OSFS, the fair market value of the net assets acquired by the Company from OSFS exceeded the amount paid by approximately $2,697,000. In accordance with FASB 141, all non-current and non-financial asset balances were reduced until the excess fair value was eliminated. The total non-current and non-financial assets created as a result of the merger was $2,496,000, therefore, since this total was less than the total excess fair value, these asset balances were reduced to zero in accordance with FASB 141. After eliminating these asset balances, approximately $201,000 ($2,697,000-$2,496,000) in excess fair value remained that could not be reduced. In accordance with APB Opinion 30, any excess that remains after reducing to zero the amounts that otherwise would have been assigned to those assets, the remaining excess shall be recognized as an extraordinary gain. The extraordinary gain shall be recognized in the period in which the business combination is completed. The remaining portion of the excess, $201,206, was recognized as an extraordinary gain for the period ended September 30, 2001.

NOTE 6 - BRANCH DEVELOPMENT

Effective March 8, 2002, the Company was granted permission to establish a de novo branch at the Hollywood Plaza in Steubenville, Ohio. The regulatory authorities have given the Company until March 8, 2003 to establish the branch facility. The company anticipates the completion of the de novo branch in the first quarter of the 2002-03 fiscal year.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Private Securities Litigation Reform Act of 1995 contains safe harbor provisions regarding forward-looking statements. When used in this discussion, the words "believes", "anticipates", "contemplates", "expects", and similar expressions are intended to identify forward-looking statements. Such statements are subject to certain risks and uncertainties, which could cause actual results to differ materially from those projected. Those risks and uncertainties include changes in interest rates, risks associated with the ability to control costs and expenses, and general economic conditions.

The Company conducts no significant business or operations of its own other than holding all of the outstanding stock of the Advance Financial Savings Bank (the "Bank"). As a result, references to the Company generally refer to the Bank unless the context indicates otherwise.

OVERVIEW

Effective March 8, 2002, the Company was granted permission to establish a de novo branch at the Hollywood Plaza in Steubenville, Ohio. The regulatory authorities have given the Company until March 8, 2003 to establish the branch facility. The company anticipates the completion of the de novo branch in the first quarter of the 2002-2003 fiscal year. The anticipated cost of the facility is expected to be approximately $500,000, which will primarily be capitalized.

On September 7, 2001, the Company's growth was bolstered by the completion of the acquisition of Ohio State Financial Services, Inc ("OSFS") and its wholly owned subsidiary Bridgeport Savings and Loan Association. The acquisition was accounted for under the purchase method of accounting in a cash transaction. As a result of the completion of the acquisition, the Company paid $7.8 million to the shareholders of OSFS. The transaction was funded with a $3.8 million short-term FHLB advance and $4 million dollars from the Company's overnight funds. The FHLB advance was repaid with proceeds from matured and called investment securities and redeemed FHLB stock after the date of the merger and prior to September 30, 2001. With the completion of the acquisition, the Company added two additional branches located in Bridgeport and Shadyside, Ohio bringing the total branch locations of the Company to five. The results of operations from September 8, 2001 include the operations of OSFS.

For the three and nine months ended March 31, 2002, net income totaled $430,000 and $1,358,000, respectively, compared to $248,000 and $689,000 for the same 2001 periods. The increase in net income for the current three and nine month periods is primarily the result of the low interest rate environment in which the Company had been active in the origination and sale of fixed rate residential mortgage loans. However, the increase in net income for the current nine-month period also reflects a $201,000 extraordinary gain from the acquisition of OSFS. This non-recurring gain was due to the fact that the Company purchased the net assets of OSFS at a discount of their fair market value. See "Note 5 - Extraordinary item" on page 10 to the Consolidated Financial Statements.

COMPARISON OF FINANCIAL CONDITION AT MARCH 31, 2001 AND JUNE 30, 2001

The Company's total assets increased by approximately $38,491,000 to $205,978,187 at March 31, 2002, from $167,487,062 at June 30, 2001 primarily as a result of the acquisition of OSFS which increased assets $24,935,000. In addition, net loans from operations and cash in the Company's overnight deposit account have increased $8,423,000 and $10,473,000, respectively for the nine-month period. These increases have been funded by an increase in core deposits and funds from matured investments securities that have not yet been reinvested.

Investment securities, including mortgage-backed securities decreased by approximately $1,483,000 to $20,393,141 at March 31, 2002 from $21,876,277 at June 30, 2001. The acquisition of OSFS contributed $3,265,000 to the investment portfolio. Net of the OSFS contribution, investment securities decreased approximately $4,748,000. This decrease is the result of the current interest rate environment in which the Company has not yet reinvested proceeds from called, matured and repaid investment securities over the nine month period ending March 31, 2002. The funds are currently in the Company's overnight deposit account invested at the current federal funds rate.

Loans receivable, net increased $35,186,000 to $164,781,814 at March 31, 2002 from $129,595,542 at June 30, 2001. The acquisition of OSFS contributed $26,763,000 to loans receivable, net, consisting primarily of $25,300,000 in 1-4 family and construction loans and $700,000 in automobile loans. The increase in net loans as a result of operations of $8,423,000 consist primarily of one-to-four family mortgages, non-residential mortgages and automobile loans which increased $5,623,000, $993,000, and $1,714,000, respectively, over the nine month period ended March 31, 2002.

Deposits increased $36,909,000 to $167,408,254 at March 31, 2002 from $130,499,131 at June 30, 2001. The acquisition of OSFS contributed approximately $24,349,000 to deposits, consisting primarily of $12,630,000 in core savings and NOW accounts and $11,719,000 in certificates of deposit. Deposits increased $12,650,000 as a result of operations. The increase is primarily the result of an increase in core savings and demand products of $6,518,000 and $5,050,000, respectively. These increases in core products is reflective of customer preferences toward short term liquid insured deposits due to the current low interest rate environment and other significant events over the nine month period ended March 31, 2002.

Stockholders' Equity increased approximately $1,226,000 to $17,568,672 at March 31, 2002 from $16,342,717 at June 30, 2001. This increase was the result of net income of $1,358,000 for the period, of which $201,000 relates to an extraordinary gain as a result of the merger, and the recognition of shares in the Employee Stock Ownership Plan and Restricted Stock Plan of $183,000. These increases were offset by a decrease in the net unrealized gain on securities of $18,000 and the payment of cash dividends of $297,000.

COMPARISON OF THE RESULTS OF OPERATIONS FOR THE THREE AND NINE MONTHS ENDED MARCH 31, 2002 AND 2001

Net interest income increased $381,000 or 29.90%, to $1,656,000 for the three months ended March 31, 2002 from $1,275,000 for the comparable period ended 2001. The increase in net interest income resulted primarily from an increase in the average volume of the underlying principle balances in interest earning assets and liabilities. The net interest spread for the three months ended March 31, 2002 increased to 3.08% from 2.80% for the comparable period ended 2001. The 28 basis point increase in the net interest rate spread for the current three month period was primarily due to a 134 basis point decline in average cost of funds which was offset by a 106 basis point decline in average yields on assets. See "Average Balance Sheet" for the three-month periods ended March 31, 2002 and 2001.

Net interest income increased $922,000 or 24.24%, to $4,726,000 for the nine-months ended March 31, 2002 from $3,804,000 for the comparable period ended 2001. The increase in net interest income resulted primarily from an increase in the average volume of the underlying principle balances in interest earning assets and liabilities. The net interest spread for the nine months ended March 31, 2002 increased to 3.06% from 2.96% for the comparable period ended 2001. The 10 basis point increase in the net interest rate spread for the current nine month period was primarily the result of a 88 basis point decline in average cost of funds which was offset by a 78 basis point decline in average yields on assets. See "Average Balance Sheet" for the nine-month periods ended March 31, 2002 and 2001.

The provision for loan losses increased $7,200 to $55,500 for the three months ended March 31, 2002 from $48,300 for the comparable period ended 2001. The provision increased $85,500 to $204,600 for the nine months ended March 31, 2002 from $119,100 for the comparable period ended 2001. The increase in the provision for loan losses for the nine-month period ended March 31, 2002 was precipitated by a $82,000 write-down of impaired loans prior to foreclosure. See "Risk Elements".

Noninterest income increased $46,000 or 18.91%, to $292,000 for the three months ended March 31, 2002 from $245,000 for the comparable period ended 2001. Noninterest income increased $343,000 or 56.49% to $951,000 for the nine-months ended March 31, 2002 from $608,000 for the comparable period ended 2001. For the three and nine month periods ended March 31, 2002, miscellaneous fees and fees on deposit accounts increased by $6,000 and $51,000, respectively, as a result of an increase in core customers and related activity. For the three and nine month periods ended March 31, 2002, gains on sales of fixed rate loans and related servicing rights increased $64,000 and $276,000, respectively due to the current fixed rate mortgage loan environment in comparison to the comparable period ended 2001. The gains of the sales of fixed rate loans and related servicing rights for the three month period ended March 31, 2002, are not necessarily indicative of anticipated trends for the remainder of the fiscal year ended June 30, 2002.

Noninterest expense increased $206,000 or 18.82%, to $1,299,000 for the three months ended March 31, 2002, from $1,093,000 for the comparable 2001 period. Noninterest expense increased $533,000 or 16.76%, to $3,711,000 for the nine months ended March 31, 2002 from $3,178,000 for the comparable period ended 2001. For the three and nine month periods ended March 31, 2002, compensation and employee benefits increased $72,000 and $184,000, respectively. The increase in compensation and employee benefits for the three and nine month periods ended March 31, 2002 includes increases in wages and benefits paid of $96,000 and $269,000, respectively, due to the hiring of thirteen (13) new employees to operate the two branches created by the merger with OSFS and an additional cost of living increase for other full time employees. This increase was offset by an increase of $24,000 and $85,000, respectively in deferred labor costs as a result of increased loan production. Occupancy and equipment, professional fees, marketing and data processing expenses have increased by $49,000 and $143,000 for the three and nine-month periods ended March 31, 2002, respectively. Such increases are primarily due to the operation of the two branches created by the merger with OSFS. For the three and nine month periods ended March 31, 2002, other expenses have increased $84,000 and $206,000, respectively. The increase in other expense is due to an increase in supplies, communications and postage of $20,000 and $64,000, in fees paid for ATM and consumer card usage of $4,000 and $25,000, and in fees paid to the Federal Reserve for item processing of $5,000 and $19,000, for the three and nine month periods, respectively. Each of these increases are primarily related to customer activity due to the increase in the Company's core customers. Board of directors fees and insurance expense have increased a combined $3,000 and $26,000 for the three and nine month periods, respectively due primarily to the creation of the advisory board made up of nonemployee directors of the former OSFS and the purchase of liability insurance for potential claims against the former OSFS. Expenses related to Other Real Estate and Repossessed assets have increase $11,000 and $13,000 for the three and nine month periods, respectively due to the increased activity in these areas. Also, state franchise taxes have increased $34,000 and $44,000 for the three and nine month periods, respectively due to the increase in the company's capital subject to Ohio Bank Franchise Tax.

LIQUIDITY AND CAPITAL RESOURCES

As of March 31, 2002, the Company had commitments to fund loans of approximately $2,635,871. These loan commitments are expected to be funded by April 30, 2002.

Management monitors both the Company's and the Bank's total risk-based, Tier I risk-based and Tier I leveraged capital ratios in order to assess compliance with regulatory guidelines. At March 31, 2002, both the Company and the Bank exceeded the minimum risk-based and leveraged capital ratio requirements. The Company's and the Bank's total risk-based, Tier I risk-based and Tier I leverage ratios are 13.43%, 12.70%, 8.30% and 12.20%, 11.47%, and 7.51%, respectively, at March 31, 2002.

Average Balance Sheet for the Three-Month Period ended March 31

The following table sets forth certain information relating to the Company's average balance sheet and reflects the average yield on assets and average cost of liabilities for the periods indicated and the average yields earned and rates paid. Such yields and costs are derived by dividing income or expense by the average balance of assets or liabilities, respectively, for the periods presented. Average balances are derived from month-end balances. Management does not believe that the use of month-end balances instead of daily average balances has caused any material differences in the information presented.

<TABLE>
<CAPTION>

	Period Ended March 31,					
	2002			2001		
	Average Balance	Interest	Average Yield/Cost	Average Balance	Interest	Average Yield/Cost
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Interest-earning assets:						
Loans receivable (1)	$164,617	$3,063	7.44%	$126,640	$2,676	8.45%
Investment securities (2)	19,498	182	3.74%	19,898	299	6.02%
Mortgage-backed securities	9,386	142	6.05%	8,305	145	7.00%
Total interest-earning assets	193,501	3,387	7.00%	154,843	3,120	8.06%
Non-interest-earning assets	7,988			7,182		
Total assets	$201,489			$162,025		
Interest-bearing liabilities:						
Interest-bearing demand deposits	$26,140	157	2.41%	$19,093	156	3.28%
Certificates of deposit	97,405	1,068	4.38%	83,298	1,262	6.06%
Savings deposits	33,189	220	2.65%	17,236	121	2.81%
FHLB borrowings	20,000	286	5.73%	20,750	306	5.91%
Total interest-bearing liabilities	176,734	1,731	3.92%	140,377	1,845	5.26%
Non-interest bearing liabilities	7,298			5,691		
Total liabilities	184,032			146,068		
Stockholders' equity	17,457			15,957		
Total liabilities and stockholders' equity	$201,489			$162,025		
Net interest income		$ 1,656			$ 1,275	
Interest rate spread (3)			3.08%			2.80%
Net Yield on interest-earning assets (4)			3.42%			3.29%
Ratio of average interest-earning assets to average interest-bearing liabilities			109.49%			110.31%

</TABLE>

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(1) Average balances include non-accrual loans.
(2) Includes interest-bearing deposits in other financial institutions and FHLB stock.
(3) Interest-rate spread represents the difference between the average yield on interest earning assets and the average cost of interest-bearing liabilities.
(4) Net yield on interest-earning assets represents net interest income as a percentage of average interest-earning assets.

Average Balance Sheet for the Nine-Month Period ended March 31

The following table sets forth certain information relating to the Company's average balance sheet and reflects the average yield on assets and average cost of liabilities for the periods indicated and the average yields earned and rates paid. Such yields and costs are derived by dividing income or expense by the average balance of assets or liabilities, respectively, for the periods presented. Average balances are derived from month-end balances. Management does not believe that the use of month-end balances instead of daily average balances has caused any material differences in the information presented.

<TABLE>
<CAPTION>

	Period Ended December 31,					
	2002			2001		
	Average Balance	Interest	Average Yield/Cost	Average Balance	Interest	Average Yield/Cost
<S>	<C>	<C>	<C>	<C>	<C>	<C>

Interest-earning assets:						
Loans receivable (1)	$153,968	$9,094	7.88%	$123,688	$7,879	8.49%
Investment securities (2)	18,920	620	4.37%	16,552	818	6.59%
Mortgage-backed securities	9,538	445	6.23%	5,932	303	6.80%
Total interest-earning assets	182,426	10,159	7.43%	146,172	9,000	8.21%
Non-interest-earning assets	7,695			7,123		
Total assets	$190,121			$153,295		
Interest-bearing liabilities:						
Interest-bearing demand deposits	$23,815	449	2.51%	$19,334	497	3.43%
Certificates of deposit	93,697	3,537	5.03%	79,929	3,619	6.04%
Savings deposits	28,134	573	2.72%	17,287	367	2.83%
FHLB borrowings	20,000	874	5.83%	15,417	713	6.17%
Total interest-bearing liabilities	165,646	5,433	4.37%	131,967	5,196	5.25%
Non-interest bearing liabilities	7,417			5,760		
Total liabilities	173,063			137,727		
Stockholders' equity	17,058			15,568		
Total liabilities and stockholders' equity	$190,121			$153,295		
Net interest income		$ 4,726			$ 3,804	
Interest rate spread (3)			3.06%			2.96%
Net Yield on interest-earning assets (4)			3.45%			3.47%
Ratio of average interest-earning assets to average interest-bearing liabilities			110.13%			110.76%

</TABLE>

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(1) Average balances include non-accrual loans.
(2) Includes interest-bearing deposits in other financial institutions and FHLB stock.
(3) Interest-rate spread represents the difference between the average yield on interest earning assets and the average cost of interest-bearing liabilities.
(4) Net yield on interest-earning assets represents net interest income as a percentage of average interest-earning assets.

RISK ELEMENTS

The table below presents information concerning nonperforming assets including nonaccrual loans, renegotiated loans, loans 90 days past due, other real estate loans and repossessed assets. A loan is classified as nonaccrual when, in the opinion of management, there are serious doubts about collectibility of interest and principal. At the time the accrual of interest is discontinued, future income is recognized only when cash is received. Renegotiated loans are those loans which terms have been renegotiated to provide a reduction or deferral of principal or interest as a result of the deterioration of the borrower.

	March 31, 2002	June 30, 2001
Loans on a nonaccrual basis	$ 744	$ 535
Loans past due 90 days or more and still accruing	1,477	668
Total nonperforming loans	2,221	1,203
Other real estate	659	355
Repossessed assets	42	13
Total nonperforming assets	$2,922	$1,571
Nonperforming loans as a percentage of total net loans	1.35%	0.92%

	======	======
Nonperforming assets as a percentage of total assets	1.42%	0.94%
	======	======
Allowance for loan losses to nonperforming loans	44.08%	64.77%
	======	======

Nonaccrual loans consist of $660,467 in one to four family residential mortgages, $42,000 in multi-family mortgages and $42,000 in non-residential real estate mortgages at March 31, 2002.

The Company considers a loan impaired when it is probable that the borrower will not repay the loan according to the original contractual terms of the loan agreement. Management has determined that first mortgage loans on one-to-four family properties and all consumer loans represent large groups of smaller-balance, homogenous loans that are to be collectively evaluated. Management considers an insignificant delay, which is defined as less than 90 days by the Company, will not cause a loan to be classified as impaired. A loan is not impaired during the period of delay in payment if the Company expects to collect all amounts due including interest accrued at the contractual interest rate during the period of delay. All loans identified as impaired are evaluated independently by management. The Company estimates credit losses on impaired loans through the allowance for loan losses by evaluating the recorded investment in the impaired loan to the estimated present value of the underlying collateral or the present value of expected cash flows.

As of March 31, 2002, the total investment in impaired loans was $892,274, and such amount was subject to a specific allowance for loan losses of $45,685. The average investment in the impaired loans for the nine-month period ended March 31, 2002 was $910,790. The interest income potential based upon the original terms of the contracts of these impaired loans was $65,256 for the nine-month period ended March 31, 2002. A total of $65,256 of interest income has been recognized for the nine month period ended March 31, 2002.

During the quarter ended December 2001, the company foreclosed upon loan balances of $438,509 that were classified as impaired at September 30, 2001. As a result of the foreclosure action, the assets collateralizing these loans were added to "Other Real Estate" in the amount of $356,057, which resulted in a write down to the allowance for loan losses during December 2001 of $82,452.

The allowance for loan losses is based upon estimates of probable losses inherent in the loan portfolio. The amount actually observed in respect to the losses can vary significantly from the estimated amounts. Our methodology includes several features that are intended to reduce the differences between estimated and actual losses. The historical loss experience model that is used to established the loan loss factors for problem graded loans is designed to be self-correcting by taking into account our recent loss experience. Similarly, by basing the past graded loss factors on historical loss experience, the methodology is further designed to take our recent loss experience into account. In addition to historical and recent loss trends, our methodology incorporates the current volume and trend in delinquencies, as well as, a self-assessment of the status of the local economy. Our methodology requires the monitoring of the changing loan portfolio mix and the effect that the changing mix has on the trend in delinquencies, as well as, actually loss factors.

The combination of the historical loss factors, recent loss experience, current trend in delinquencies, the local economic environment, and the assessment of the changing loan portfolio mix are used in conjunction with the internal loan grading system to adjust our allowance on a quarterly basis. Furthermore, our methodology includes our impaired loan assessment and permits adjustments to any loss factor used in determining the allowance in the event that, in management's judgement, significant conditions which effect the collectibility of the portfolio as of the evaluation date are not reflected in the loss factors. By assessing the probable estimated losses inherent in the loan portfolio on a quarterly basis, we are able to adjust specific and inherent loss estimates based upon recent information, as it becomes available.

The following is a breakdown of the loan portfolio composition at March 31, 2002 and June 30, 2001:

	March 31, 2002	June 30, 2001
Mortgage loans:		
1-4 family	$ 90,073,448	$ 64,696,315
Multi-family	6,431,317	6,002,553
Non-residential	33,770,274	27,956,885
Construction	4,024,565	2,455,751
	134,299,604	101,111,504

Consumer Loans:		
Home Improvement	936,546	1,208,279
Automobile	15,401,479	13,000,468
Share loans	1,400,097	1,594,755
Other	2,566,758	2,778,630
	20,304,880	18,582,132
Commercial Loans	12,620,752	12,651,451
Less:		
Loans in process	1,390,132	1,861,360
Net deferred loan fees	74,221	109,015
Allowance for loan losses	979,069	779,170
	2,443,422	2,749,545
Total	$164,781,814	$129,595,542

PART II - OTHER INFORMATION

Item 1 - Legal Proceedings

NONE

Item 2 - Changes in securities

NONE

Item 3 - Defaults upon senior securities

NOT APPLICABLE

Item 4 - Submission of matters to a vote of security holders

NONE

Item 5 - Other information

NONE

Item 6 - Exhibits and reports on Form 8-K

(a) List of Exhibits:

3 (i)	Certificate of Incorporation of Advance Financial Bancorp *
3 (ii)	Amended Bylaws of Advance Financial Bancorp *****
4 (i)	Specimen Stock Certificate *
4 (ii)	Shareholders Rights Plan **
10	Employment Agreement between the Bank and Stephen M. Gagliardi ***
10.1	1998 Stock Option Plan ****
10.2	Restricted Stock Plan and Trust Agreement ****

(b) None

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* Incorporated by reference to the Registration Statement on Form S-1 (File No. 333-13021) declared effective by the SEC on November 12, 1996.

** Incorporated by reference to the Form 8-K (File No. 0-21885) filed July 17, 1997.

*** Incorporated by reference to the June 30, 1997 Form 10K-SB (File No. 0-21885) filed September 23, 1997.

**** Incorporated by reference to the proxy statement for the Special Meeting of the Stockholders on January 20, 1998 and filed with the SEC on December 12, 1997.

*****Incorporated by reference to the June 30, 1999 Form 10KSB (File No. 0-21885) filed on . September 28, 1999.

SIGNATURES

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

Advance Financial Bancorp

Date: May 14, 2002 By: /s/Stephen M. Gagliardi

Stephen M. Gagliardi
President and Chief Executive Officer

Date: May 14, 2002 By: /s/Stephen M. Magnone

Stephen M. Magnone
Vice President and CFO