MAIN STREET TRUST INC
Form 10-Q
November 08, 2004

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the Quarterly Period Ended September 30, 2004

Commission File Number: 0-30031

MAIN STREET TRUST, INC.
(Exact name of Registrant as specified in its charter)

Illinois	37-1338484
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

100 West University, Champaign, Illinois	61820
(Address of principal executive offices)	(Zip Code)

(217) 351-6500
(Registrant's telephone number, including area code)

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

Indicate by "X" whether the registrant is an accelerated filer (as defined by Rule 12b-2 of the Exchange Act). Yes [X] No [ ]

Indicate the number of shares outstanding of the registrant's common stock, as of November 3, 2004

Main Street Trust, Inc. Common Stock 9,448,373

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

MAIN STREET TRUST, INC. AND SUBSIDIARIES
Consolidated Balance Sheets
September 30, 2004 and December 31, 2003
(Unaudited, in thousands, except share data)

	September 30, 2004	December 31, 2003
ASSETS		
Cash and due from banks	$ 38,206	$ 45,899
Federal funds sold and interest bearing deposits	62,869	30,004
Cash and cash equivalents	101,075	75,903
Investments in debt and equity securities:		
Available-for-sale, at fair value	269,452	265,914
Held-to-maturity, at cost (fair value of $91,396 and $96,628 at September 30, 2004 and December 31, 2003, respectively) ...	91,095	97,056
Non-marketable equity securities	7,632	7,756
Total investments in debt and equity securities	368,179	370,726
Loans, net of allowance for loan losses of $9,963 and $9,786		

at September 30, 2004 and December 31, 2003, respectively	726,310	666,259
Mortgage loans held for sale	910	632
Premises and equipment	17,065	17,622
Accrued interest receivable	7,119	6,430
Other assets	18,940	16,602
Total assets	$ 1,239,598	$ 1,154,174
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Deposits:		
Non-interest bearing	$ 160,775	$ 162,175
Interest bearing	829,260	736,297
Total deposits	990,035	898,472
Federal funds purchased, repurchase agreements and notes payable	94,694	102,998
Federal Home Loan Bank advances and other borrowings	29,902	29,980
Accrued interest payable	2,304	1,669
Other liabilities	9,735	9,605
Total liabilities	1,126,670	1,042,724
Shareholders' equity:		
Preferred stock, no par value; 2,000,000 shares authorized	--	--
Common stock, $0.01 par value; 15,000,000 shares authorized; 11,219,319 shares issued	112	112
Paid in capital	55,189	55,271
Retained earnings	106,592	101,521
Accumulated other comprehensive income	233	1,941
	162,126	158,845
Less: treasury stock, at cost, 1,770,996 and 1,718,950 shares at September 30, 2004 and December 31, 2003, respectively	(49,198)	(47,395)
Total shareholders' equity	112,928	111,450
Total liabilities and shareholders' equity	$ 1,239,598	$ 1,154,174

See accompanying notes to unaudited consolidated financial statements.

MAIN STREET TRUST, INC. AND SUBSIDIARIES
Consolidated Statements of Income
For the Nine Months Ended September 30, 2004 and 2003
(Unaudited, in thousands, except share data)

	2004	2003
Interest income:		
Loans and fees on loans	$ 30,571	$ 31,548
Investments in debt and equity securities		
Taxable	7,973	8,647
Tax-exempt	1,424	1,722
Federal funds sold and interest bearing deposits	339	363

Total interest income	40,307	42,280
Interest expense:		
Deposits	10,189	10,837
Federal funds purchased, repurchase agreements and notes payable	893	817
Federal Home Loan Bank advances and other borrowings	1,202	1,156
Total interest expense	12,284	12,810
Net interest income	28,023	29,470
Provision for loan losses	990	990
Net interest income after provision for loan losses	27,033	28,480
Non-interest income:		
Remittance processing	5,635	5,312
Trust and brokerage fees	4,831	4,230
Service charges on deposit accounts	1,820	1,906
Securities transactions, net	139	(49)
Gain on sales of mortgage loans, net	777	2,214
Other	2,075	1,577
Total non-interest income	15,277	15,190
Non-interest expense:		
Salaries and employee benefits	13,978	13,893
Occupancy	1,968	1,847
Equipment	1,886	1,787
Data processing	1,633	1,563
Office supplies	887	962
Service charges from correspondent banks	652	698
Other	3,953	3,685
Total non-interest expense	24,957	24,435
Income before income taxes	17,353	19,235
Income taxes	6,137	6,540
Net income	$ 11,216	$ 12,695
Per share data:		
Basic earnings per share	$ 1.18	$ 1.21
Weighted average shares of common stock outstanding	9,491,827	10,491,883
Diluted earnings per share	$ 1.17	$ 1.20
Weighted average shares of common stock and dilutive potential common shares outstanding	9,607,752	10,604,327

See accompanying notes to unaudited consolidated financial statements.

MAIN STREET TRUST, INC. AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income
For the Nine Months Ended September 30, 2004 and 2003
(Unaudited, in thousands)

	2004
Net income	$ 11,2
Other comprehensive income (loss), before tax:	
Unrealized gains (losses) on securities:	
Unrealized holding gains (losses) arising during period, net of tax of ($1,083) and ($1,050) for September 30, 2004 and 2003, respectively	(1,6
Less: reclassification adjustment for (gains) losses included in net income, net of tax of ($56) and $20 for September 30, 2004 and 2003, respectively	(
Other comprehensive income (loss)	(1,7
Comprehensive income	$ 9,5

See accompanying notes to unaudited consolidated financial statements.

MAIN STREET TRUST, INC. AND SUBSIDIARIES
Consolidated Statements of Income
For the Three Months Ended September 30, 2004 and 2003
(Unaudited, in thousands, except share data)

	2004	2003
Interest income:		
Loans and fees on loans	$ 10,507	$ 10,146
Investments in debt and equity securities		
Taxable	2,560	2,875
Tax-exempt	445	556
Federal funds sold and interest bearing deposits	151	109
Total interest income	13,663	13,686
Interest expense:		
Deposits	3,643	3,346
Federal funds purchased, repurchase agreements and notes payable	336	270
Federal Home Loan Bank advances and other borrowings	405	392
Total interest expense	4,384	4,008
Net interest income	9,279	9,678
Provision for loan losses	330	330
Net interest income after provision for loan losses	8,949	9,348
Non-interest income:		
Remittance processing	1,820	1,814
Trust and brokerage fees	1,544	1,435
Service charges on deposit accounts	619	666
Securities transactions, net	133	(6)
Gain on sales of mortgage loans, net	229	972
Other	613	539

Total non-interest income	4,958	5,420
Non-interest expense:		
Salaries and employee benefits	4,727	4,650
Occupancy	685	641
Equipment	606	575
Data processing	546	505
Office supplies	270	334
Service charges from correspondent banks	194	233
Other	1,414	1,312
Total non-interest expense	8,442	8,250
Income before income taxes	5,465	6,518
Income taxes	1,910	2,253
Net income	$ 3,555	$ 4,265
Per share data:		
Basic earnings per share	$ 0.38	$ 0.41
Weighted average shares of common stock outstanding	9,460,495	10,499,741
Diluted earnings per share	$ 0.37	$ 0.40
Weighted average shares of common stock and dilutive potential common shares outstanding	9,573,370	10,631,293

See accompanying notes to unaudited consolidated financial statements.

MAIN STREET TRUST, INC. AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income
For the Three Months Ended September 30, 2004 and 2003
(Unaudited, in thousands)

	2004
Net income	$ 3,555
Other comprehensive income (loss), before tax:	
Unrealized gains (losses) on securities:	
Unrealized holding gains (losses) arising during period, net of tax of $418 and ($1,099), for September 30, 2004 and 2003, respectively	625
Less: reclassification adjustment for (gains) losses included in net income, net of tax of ($54) and $3, for September 30, 2004 and 2003, respectively	(79)
Other comprehensive income (loss)	546
Comprehensive income	$ 4,101

See accompanying notes to unaudited consolidated financial statements.

MAIN STREET TRUST, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
For the Nine Months Ending September 30, 2004 and 2003
(Unaudited, in thousands)

	2004	2003
Cash flows from operating activities:		
Net income	$ 11,216	$ 12,695
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,914	1,826
Amortization of bond discounts and premiums, net	1,879	1,534
Provision for loan losses	990	990
Securities transactions, net	(139)	49
Federal Home Loan Bank stock dividend	(187)	(247)
Undistributed gain from non-marketable equity securities	(36)	--
Gain on sales of mortgage loans, net	(777)	(2,214)
Gain on disposal of premises and equipment	(286)	--
Proceeds from sales of mortgage loans originated for sale	59,411	188,245
Mortgage loans originated for sale	(58,912)	(184,946)
Other, net	(1,154)	(5,672)
Net cash provided by operating activities	13,919	12,260
Cash flows from investing activities:		
Net (increase) decrease in loans	(61,081)	17,303
Proceeds from maturities and calls of investments in debt securities:		
Held-to-maturity	9,988	9,753
Available-for-sale	171,845	140,574
Proceeds from sales of investments:		
Available-for-sale	3,223	11,085
Purchases of investments in debt and equity securities:		
Held-to-maturity	(45,789)	(58,691)
Available-for-sale	(192,532)	(192,787)
Other equity securities	(175)	(830)
Principal paydowns from mortgage-backed securities:		
Held-to-maturity	40,797	15,924
Available-for-sale	10,304	16,049
Return of principal on other equity securities	522	490
Purchases of premises and equipment	(1,694)	(1,071)
Proceeds from sales of premises and equipment	623	--
Net cash used in investing activities	(63,969)	(42,201)
Cash flows from financing activities:		
Net increase (decrease) in deposits	91,563	(6,729)
Net (decrease) increase in federal funds purchased, repurchase agreements, and notes payable	(8,304)	22,059
Advances from Federal Home Loan Bank and other borrowings	--	2,268
Payments on Federal Home Loan Bank and other borrowings	(78)	(75)
Cash dividends paid	(5,988)	(5,243)

MSTI stock transactions, net	(1,971)	1,691
Net cash provided by financing activities	75,222	13,971
Net increase (decrease) in cash and cash equivalents	25,172	(15,970)
Cash and cash equivalents at beginning of year	75,903	102,746
Cash and cash equivalents at end of period	$ 101,075	$ 86,776
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Interest	$ 11,649	$ 12,810
Income taxes	5,131	6,745
Real estate acquired through or in lieu of foreclosure	40	10
Dividends declared not paid	1,984	1,896
Obligation to purchase treasury stock	--	32,385

See accompanying notes to unaudited consolidated financial statements.

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MAIN STREET TRUST, INC. AND SUBSIDIARIES
Notes to Unaudited Consolidated Financial Statements

Note 1. Basis of Presentation

The accompanying unaudited consolidated financial statements for Main Street Trust, Inc. have been prepared in accordance with the instructions to Form 10-Q and therefore do not include all information and footnotes necessary for fair presentation of financial position, results of operations, and cash flows in conformity with accounting principles generally accepted in the United States of America. These financial statements should be read in conjunction with the audited consolidated financial statements and related notes as of and for the year ended December 31, 2003, and schedules included in Main Street Trust, Inc.'s Form 10-K filed on March 12, 2004.

In the opinion of management, the consolidated financial statements of Main Street Trust, Inc. and its subsidiaries, as of September 30, 2004 and for the three-month and nine-month periods ended September 30, 2004 and 2003, include all adjustments necessary for a fair presentation of the results of those periods. All such adjustments are of a normal recurring nature.

Results of operations for the three-month and nine-month periods ended September 30, 2004 are not necessarily indicative of the results which may be expected for the year ended December 31, 2004.

For purposes of the consolidated statements of cash flows, cash and cash equivalents include cash and due from banks and federal funds sold and interest bearing deposits. Generally, federal funds are sold for one-day periods.

Certain amounts in the 2003 consolidated financial statements have been reclassified to conform with the 2004 presentation. Such reclassifications have no effect on previously reported net income or shareholders' equity.

Note 2. Company Information/Business Combination

Main Street Trust, Inc. (the "Company"), an Illinois corporation, is a bank holding company registered under the Bank Holding Company Act of 1956, as amended. The Company was incorporated on August 12, 1999, and is the parent company of BankIllinois and The First National Bank of Decatur (the "Banks") and FirsTech, Inc.

In March 2000, the Company acquired all of the outstanding stock of BankIllinois, The First National Bank of Decatur, First Trust Bank of Shelbyville and FirsTech, Inc. following the merger of BankIllinois Financial Corporation and First Decatur Bancshares, Inc. into the Company. The Company subsequently merged the Company's former banking subsidiary, First Trust Bank of Shelbyville, into BankIllinois in June 2002.

The Company is a financial holding company, which allows the Company to engage in a wider range of nonbanking activities, including greater authority to engage in securities and insurance activities. However, the Company has no current plans to do so.

The Company completed a tender offer in June 2002 with 711,832 shares, representing approximately 6.3% of the total shares then outstanding, repurchased at cost, including expenses, of $16.556 million. The Company completed a second tender offer in September 2003 with 1,074,140 shares, representing approximately 10.2% of the total shares then outstanding, repurchased at a cost, including expenses, of approximately $32.395 million.

Main Street Trust, Inc. has obtained regulatory approval from the Illinois Department of Financial and Professional Regulation and the Federal Deposit Insurance Corporation to merge The First National Bank of Decatur with and into BankIllinois, with the resulting bank to be named "Main Street Bank & Trust." It is anticipated that the merger will be consummated at the close of business on November 10, 2004. The merger is not expected to have a significant impact on the operations of the Company or the Bank.

Note 3. Income per Share

Net income per common share has been computed as follows:

	Nine Months Ended		Three Months Ended	
	September 30,		September 30,	
	2004	2003	2004	2003
Net Income	$11,216,000	$12,695,000	$ 3,555,000	$ 4,265,
Shares:				
Weighted average common shares outstanding	9,491,827	10,491,883	9,460,495	10,499,
Dilutive effect of outstanding options, as determined by the application of the treasury stock method	115,925	112,444	112,875	131,
Weighted average common shares oustanding, as adjusted	9,607,752	10,604,327	9,573,370	10,631,
Basic earnings per share	$ 1.18	$ 1.21	$ 0.38	$ 0
Diluted earnings per share	$ 1.17	$ 1.20	$ 0.37	$ 0

Note 4. Stock Option Plans

The Company has established a stock incentive plan, which provides for the granting of options of the Company's common stock to certain directors, officers and employees. As permitted under accounting principles generally accepted in the United States of America, grants of options under the plans are accounted for under the recognition and measurement principles of APB Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations. Because options granted under the plans had an exercise price equal to market value of the underlying common stock on the grant date, no stock-based employee compensation cost is included in determining net income. The following table illustrates the effect on net income (in thousands, except per share data and earnings per share) if the Company had applied the fair value recognition provisions of FASB Statement No. 123, Accounting for Stock-Based Compensation, to stock-based employee compensation.

	Nine Months Ended		Three Months End	
	September 30,		September 30,	
	2004	2003	2004	20
Net income on common stock:				
As reported	$ 11,216	$ 12,695	$ 3,555	$ 4
Deduct total stock-based compensation expense determined under the fair value method for all awards, net of related tax effects	(280)	(189)	(86)	
Pro forma	$ 10,936	$ 12,506	$ 3,469	$ 4
Basic earnings per share:				
As reported	$ 1.18	$ 1.21	$ 0.38	$
Pro forma	1.15	1.19	0.37	
Diluted earnings per share:				
As reported	$ 1.17	$ 1.20	$ 0.37	$
Pro forma	1.14	1.18	0.36	

The fair value of the stock options granted has been estimated using the Black-Scholes option-pricing model with the following weighted average assumptions. The Black-Scholes option-pricing model was developed for use in estimating the fair value of traded options, which have no vesting restrictions. In addition, such models require the use of subjective assumptions, including expected stock price volatility. In management's opinion, such valuation models may not necessarily provide the best single measure of option value.

	Nine Months Ended September 30,	
	2004	2003
Number of options granted	140,500	129,000
Risk-free interest rate	3.94%	3.64%
Expected life, in years	8.00	8.00
Expected volatility	15.95%	13.35%
Expected dividend yield	2.75%	2.42%

Note 5. Commitments and Financial Instruments

The Company is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of amounts recognized in the consolidated balance sheets. The contractual amounts of those instruments reflect the extent of involvement the Company has in particular classes of financial instruments.

The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments. Management does not anticipate any significant losses as a result of these transactions.

The following table summarizes these financial instruments and commitments (in thousands) at September 30, 2004 and 2003:

	September 30,	
	2004	2003
Financial instruments whose contract amounts represent credit risk:		
Commitments	$285,407	$207,784
Standby letters of credit	22,896	11,181

The majority of commitments are agreements to extend credit to a customer as long as there is no violation of any condition established in the contract. Commitments, principally variable interest rates, generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. For commitments to extend credit, the Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation. Collateral held varies, but may include accounts receivable; inventory; property, plant and equipment; and income-producing commercial properties. Also included in commitments is $3.265 million to purchase other equity securities.

Standby letters of credit are conditional commitments issued by the Company's subsidiary banks to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements and, generally, have terms of one year or less. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Banks may hold collateral, which include accounts receivables, inventory, property and equipment, and income producing properties, supporting those commitments, if deemed necessary. In the event the customer does not perform in accordance with the terms of the agreement with the third party, the Banks would be required to fund the commitment. The maximum potential amount of future payments the Banks could be required to make is represented by the contractual amount shown in the summary above. If the commitment is funded, the banks would be entitled to seek recovery from the customer. At September 30, 2004 and 2003, no amounts have been recorded as liabilities for the Banks' potential obligations under these guarantees.

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

Financial Condition

Assets and Liabilities

Total assets increased $85.424 million, or 7.4%, to $1.240 billion at September 30, 2004 compared to $1.154 billion at December 31, 2003. Increases in loans, federal funds sold and interest bearing deposits, investments in securities available-for-sale, other assets, accrued interest receivable and mortgage loans held for sale were partially offset by decreases in cash and due from banks, investments in securities held-to-maturity, premises and equipment, and non-marketable equity securities.

Cash and due from banks decreased $7.693 million, or 16.8% to $38.206 million at September 30, 2004 compared to $45.899 million at December 31, 2003, primarily due to a smaller dollar amount of deposit items in process of collection at September 30, 2004 compared to December 31, 2003.

Federal funds sold and interest bearing deposits increased $32.865 million, or 109.5%, to $62.869 million at September 30, 2004 compared to $30.004 million at December 31, 2003. Federal funds sold and interest bearing deposits fluctuate with loan demand, deposit volume and investment opportunities.

Total investments in debt and equity securities decreased $2.547 million, or 0.7%, to $368.179 million at September 30, 2004 compared to $370.726 million at December 31, 2003. This overall decrease was due to decreases in investments in securities held-to-maturity of $5.961 million, or 6.1%, and non-marketable equity securities of $124,000, or 1.6%, offset somewhat by an increase in securities available-for-sale of $3.538 million, or 1.3%. Investments fluctuate with loan demand, deposit volume and investment opportunities.

Loans, net of allowance for loan losses, increased $60.051 million, or 9.0%, to $726.310 million at September 30, 2004 from $666.259 million at December 31, 2003. Commercial, financial and agricultural loans increased $45.359 million, or 18.2%, primarily as a result of the Company's emphasis on business development, the favorable rate environment and relative improvement in the economy in recent months. Real estate loans increased $6.654 million, or 1.9%, primarily due to an increase in residential real estate of $9.721 million, or 19.1%, offset somewhat by a decrease in commercial real estate loans of $3.067 million, or 1.0%. Residential real estate loans increased during 2004 due to attractive adjustable rate mortgage rates after decreasing in 2003 due to refinancings. During 2003, the Company experienced growth of $32.105 million or 12.1% in commercial real estate loans. During 2004, the Company experienced a slowdown in demand, which coupled with normal paydowns, resulted in the $3.067 million decrease. Installment and consumer loans increased $8.215 million, or 10.6%. Included in the increase was an increase of $15.720 million, or 94.7% in home equity loans. Home equity loans increased from $16.602 million at December 31, 2003 to $32.322 million at September 30, 2004 as a result of the Company's increased focus on marketing this product, which included promotional rates. Somewhat offsetting this increase was a decrease of $8.485 million, or 21.7%, in indirect lending. Indirect loans decreased from $39.073 million at December 31, 2003 to $30.588 million at September 30, 2004 due to increased competition from alternative funding sources available to consumers, such as special financing offered by the auto manufacturers' captive financing companies.

Mortgage loans held for sale increased $278,000, or 44.0%, from $632,000 at

December 31, 2003 to $910,000 at September 30, 2004.

Premises and equipment decreased $557,000, or 3.2%, from $17.622 million at December 31, 2003 to $17.065 million at September 30, 2004. The decrease included depreciation expense of $1.914 million and proceeds from sale of property of $623,000, offset somewhat by purchases of $1.694 million and gain on disposal of property of $286,000.

Total liabilities increased $83.946 million, or 8.1%, to $1.127 billion at September 30, 2004 from $1.043 billion at December 31, 2003. Increases in total deposits, accrued interest payable and other liabilities were somewhat offset by decreases in federal funds purchased, repurchase agreements and notes payable and Federal Home Loan Bank advances and other borrowings.

Total deposits increased $91.563 million, or 10.2%, to $990.035 million at September 30, 2004 from $898.472 million at December 31, 2003. Interest bearing deposits increased $92.963 million, or 12.6%. Included in this increase was an increase of approximately $43 million related to the Company's Wealth Management division. Non-interest bearing deposits decreased $1.400 million, or 0.9%.

Federal funds purchased, repurchase agreements and notes payable decreased $8.304 million, or 8.1%, to $94.694 million at September 30, 2004 compared to $102.998 million at December 31, 2003. Included in this change was a decrease of $9.054 million in repurchase agreements offset by an increase of $750,000 in federal funds purchased.

Federal Home Loan Bank advances and other borrowings decreased $78,000, or 0.3%, to $29.902 million at September 30, 2004 compared to $29.980 million at December 31, 2003.

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Investment Securities

The carrying value of investments in debt and equity securities was as follows for September 30, 2004 and December 31, 2003:

Carrying Value of Securities
(in thousands)

	September 30, 2004	December 31, 2003
Available-for-sale:		
Federal agencies	$216,067	$220,199
Mortgage-backed securities	31,645	23,007
State and municipal	16,157	17,317
Marketable equity securities	5,583	5,391
Total available-for-sale	$269,452	$265,914
Held-to-maturity:		
Federal agencies	$ 44,974	$ 10,704
Mortgage-backed securities	15,967	50,029
State and municipal	30,154	36,323
Total held-to-maturity	$ 91,095	$ 97,056
Non-marketable equity securities:		

FHLB and FRB stock1	$ 4,446	$ 4,259
Other equity investments	3,186	3,497
Total non-marketable equity securities	$ 7,632	$ 7,756
Total investment securities	$368,179	$370,726

The following table shows the maturities and weighted-average yields of investment securities at September 30, 2004. All securities are shown at their contractual maturity, with the exception of mortgage backed securities, as explained in footnote 1.

Maturities and Weighted Average Yields of
(dollars in thousands)

	September 30, 2004						
	1 year or less		1 to 5 years		5 to 10 years		
	Amount	Rate	Amount	Rate	Amount	Rate	
Securities available-for-sale:							
Federal agencies	$100,136	3.57%	$114,932	2.68%	$ 999	2.61%	$
Mortgage-backed securities1	$ 9,940	2.41%	$ 21,241	4.42%	$ 203	7.19%	$
State and municipal	$ 3,740	3.66%	$ 7,059	4.30%	$4,239	5.02%	$
Marketable equity securities2	$ --	--	$ --	--	$ --	--	$
Total	$113,816		$143,232		$5,441		$
Average Yield		3.47%		3.02%		4.66%	
Securities held-to-maturity:							
Federal agencies	$ 11,800	2.79%	$ 29,649	2.90%	$ 3,525	4.04%	$
Mortgage-backed securities1	$ 6,968	2.66%	$ 8,620	2.98%	$ 137	3.45%	$
State and municipal	$ 10,002	3.78%	$ 19,512	4.06%	$ 295	4.74%	$
Total	$ 28,770		$ 57,781		$ 3,957		$
Average Yield		3.10%		3.26%		4.07%	
Non-marketable equity securities2:							
FHLB and FRB stock	$ --	--	$ --	--	$ --	--	$
Other equity investments	$ --	--	$ --	--	$ --	--	$
Total	$ --	--	$ --	--	$ --	--	$

Continuous gross unrealized losses of investments in debt and equity securities (in thousands) which are classified as temporary were as follows:

	Continuous unrealized losses existing for less than 12 months		Continuous unrealized losses existing greater than 12 months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unre Lo
Available-for-Sale:						
Federal agencies.....	$121,511	$ (995)	$ 18,599	$ (400)	$140,110	$ (
Mortgage-backed securities	10,474	(58)	8,456	(257)	18,930	
Obligations of state and political subdivisions	1,338	(1)	--	--	1,338	
Subtotal, debt securities	$133,323	$ (1,054)	$ 27,055	$ (657)	$160,378	$ (
Other	972	(108)	1,112	(856)	2,084	
Total temporarily impaired securities	$134,295	$ (1,162)	$ 28,167	$ (1,513)	$162,462	$ (
Held-to-Maturity:						
Federal agencies	$ 41,442	$ (404)	$ 3,038	$ (90)	$ 44,480	$
Mortgage-backed securities	5,990	(55)	7,595	(182)	13,585	
Obligations of state and political subdivisions	1,553	(14)	334	(1)	1,887	
Total temporarily impaired securities	$ 48,985	$ (473)	$ 10,967	$ (273)	$ 59,952	$

The $1.546 million continuous unrealized loss greater than 12 months on available-for-sale securities was made up of four debt securities and eight common stocks and is believed to be a temporary loss. Common stocks represented $856,000 of the continuous unrealized loss on available-for-sale securities which was a decrease of $125,000 from the loss on common stocks of $981,000 at December 31, 2003. Management believes the market value of these securities will continue to improve as the economy continues to recover. The $239,000 continuous unrealized loss greater than 12 months on held-to-maturity securities was made up of six debt securities and is believed to be a temporary loss. Unrealized losses on debt securities are generally due to changes in interest rates and, as such, are considered, by the Company, to be temporary.

Loans

The following tables present the amounts and percentages of loans at September 30, 2004 and December 31, 2003 according to the categories of commercial, financial and agricultural; real estate; and installment and consumer loans.

	Amount of Loans Outstanding (dollars in thousands)	
	September 30, 2004	December 31, 2003

	Amount	Percentage	Amount	Percentage
Commercial, financial and agricultural	$295,154	40.09%	$249,795	36.95%
Real estate	355,651	48.30%	348,997	51.62%
Installment and consumer	85,468	11.61%	77,253	11.43%
Total loans	$736,273	100.00%	$676,045	100.00%

The balance of loans outstanding as of September 30, 2004 by maturity is shown in the following table:

Maturity of Loans Outstanding
(dollars in thousands)

	September 30, 2004			
	1 year or less	1 to 5 years	Over 5 years	Total
Commercial, financial and agricultural	$183,160	$ 93,592	$ 18,402	$ 295,154
Real estate	57,743	176,658	121,250	355,651
Installment and consumer	25,332	43,522	16,614	85,468
Total	$266,235	$313,772	$156,266	$736,273
Percentage of total loans outstanding	36.16%	42.62%	21.22%	100.00%

Capital

Total shareholders' equity increased $1.478 million from December 31, 2003 to September 30, 2004. Treasury stock transactions were $1.971 million primarily due to purchases of treasury stock exceeding stock option exercise transactions. The change in shareholders' equity is summarized as follows:

Shareholders' Equity (in thousands)

Shareholders' equity, December 31, 2003	$ 111,450
Net income	11,216
Treasury stock transactions, net	(1,971)
Stock appreciation rights	(82)
Cash dividends declared	(5,977)
Other comprehensive income	(1,708)
Shareholders' equity, September 30, 2004	$ 112,928

On September 21, 2004, the Board of Directors of the Company declared a quarterly cash dividend of $0.21 per share of the Company's common stock. The dividend of $1.984 million was paid on October 22, 2004 to holders of record on October 12, 2004.

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

Quantitative measures established by regulation to ensure capital adequacy require the Company and its subsidiary banks to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined). Management believes, as of September 30, 2004, that the Company and its subsidiary banks exceeded all capital adequacy requirements to which they are subject.

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As of September 30, 2004, the most recent notifications from primary regulatory agencies categorized both of the Company's subsidiary banks as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, banks must maintain minimum total capital to risk-weighted assets, Tier I capital to risk-weighted assets, and Tier I capital to average assets ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed any of the Company's subsidiary banks' categories.

The Company's and the Banks' actual capital amounts and ratios are presented in the following table (in thousands):

	Actual		For capital adequacy purposes:		To be well capitalized under prompt corrective action provisions:	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of September 30, 2004:						
Total capital						
(to risk-weighted assets)						
Consolidated	$122,256	13.7%	$71,563	8.0%	N/A	
BankIllinois	$ 63,513	11.2%	$45,282	8.0%	$56,602	10.0%
First National Bank of Decatur	$ 37,337	12.0%	$24,812	8.0%	$31,016	10.0%
Tier I capital						
(to risk-weighted assets)						
Consolidated	$112,229	12.6%	$35,782	4.0%	N/A	
BankIllinois	$ 57,542	10.2%	$22,641	4.0%	$33,961	6.0%
First National Bank of Decatur	$ 33,457	10.8%	$12,406	4.0%	$18,609	6.0%
Tier I capital						
(to average assets)						
Consolidated	$112,229	9.2%	$48,935	4.0%	N/A	
BankIllinois	$ 57,542	7.5%	$30,767	4.0%	$38,459	5.0%
First National Bank of Decatur	$ 33,457	7.6%	$17,713	4.0%	$22,141	5.0%

Interest Rate Sensitivity

The concept of interest rate sensitivity attempts to gauge exposure of the Company's net interest income to adverse changes in market driven interest rates by measuring the amount of interest-sensitive assets and interest-sensitive liabilities maturing or subject to repricing within a specific time period. Liquidity represents the ability of the Company to meet the day-to-day demands of deposit customers balanced by its investments of these deposits. The Company must also be prepared to fulfill the needs of credit customers for loans with various types of maturities and other financing arrangements. The Company monitors its interest rate sensitivity and liquidity through the use of static gap reports which measure the difference between assets and liabilities maturing or repricing within specified time periods as well as financial forecasting/budgeting/reporting software packages.

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The following table presents the Company's interest rate sensitivity at various intervals at September 30, 2004:

Rate Sensitivity of Earning Assets and Interes (dollars in thousands)

	1-30 Days	31-90 Days	91-180 Days	181-365 Days
Interest earning assets:				
Federal funds sold and interest bearing deposits	$ 62,869	$ --	$ --	$ --
Debt and equity securities 1	20,608	25,619	27,604	40,991
Loans 2	295,915	31,630	31,706	71,513
Total earning assets	$ 379,392	$ 57,249	$ 59,310	$ 112,504
Interest bearing liabilities:				
Savings and interest bearing demand deposits	$ 95,316	$ 1,622	$ 2,433	$ 4,872
Money market savings deposits	187,065	--	--	--
Time deposits	22,550	46,088	77,407	79,798
Federal funds purchased, repurchase agreements, and notes payable	85,291	24	3,850	4,944
FHLB advances and other borrowings	7,360	10,000	--	--
Total interest bearing liabilities	$ 397,582	$ 57,734	$ 83,690	$ 89,614
Net asset (liability) funding gap	(18,190)	(485)	(24,380)	22,890
Repricing gap	0.95	0.99	0.71	1.26
Cumulative repricing gap	0.95	0.96	0.92	0.97

Included in the 1-30 day category of savings and interest-bearing demand deposits are non-core deposits plus a percentage, based upon industry-accepted assumptions and Company analysis, of the core deposits. "Core deposits" are the lowest average balance of the prior twelve months of each product type included in this category. "Non-core deposits" are the difference between the current balance and core deposits. The time frames include a percentage, based upon industry-accepted assumptions and Company analysis, of the core deposits, as follows:

	1-30 Days	31-90 Days	91-180 Days	181-365 Days
Savings and interest-bearing demand deposits	0.45%	0.85%	1.25%	2.45%

At September 30, 2004, the Company was liability-sensitive due to the level of savings and interest bearing demand deposits, money market savings deposits and time deposits. As such, the effect of a decrease in the prime rate of 100 basis points would increase annualized net interest income by approximately $182,000 in the 1-30 day category and approximately $187,000 in the 1-90 days category assuming no management intervention. An increase in interest rates would have the opposite effect for the same periods. The Company's Asset and Liability Management Policy states that the cumulative ratio of rate-sensitive assets ("RSA") to rate-sensitive liabilities ("RSL") for the 12-month period shall fall within the range of 0.75-1.25. As of September 30, 2004, the Company's RSA/RSL was 0.97, which was within the established guidelines.

In addition to managing interest rate sensitivity and liquidity through the use of gap reports, the Company has provided for emergency liquidity situations with informal agreements with correspondent banks that permit the Company to borrow federal funds on an unsecured basis. Additionally, the Company has a $10 million unsecured line of credit with a correspondent bank, and can borrow approximately $57 million from the Federal Home Loan Bank on a secured basis.

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The Company uses financial forecasting/budgeting/reporting software packages to perform interest rate sensitivity analysis for all product categories. The Company's primary focus of its analysis is on the effect of interest rate increases and decreases on net interest income. Management believes that this analysis reflects the potential effects on current earnings of interest rate changes. Call criteria and prepayment assumptions are taken into consideration for investments in debt and equity securities. All of the Company's financial instruments are analyzed by a software database which includes each of the different product categories which are tied to key rates such as prime, Treasury Bills, or the federal funds rate. The relationships of each of the different products to the key rate that the product is tied to is proportional. The software reprices the products based on current offering rates. The software performs interest rate sensitivity analysis by performing rate shocks of plus or minus 200 basis points in 100 basis point increments.

The following table shows projected results at September 30, 2004 and December 31, 2003 of the impact on net interest income from an immediate change in interest rates. The results are shown as a percentage change in net interest income over the next twelve months, all of which are within the Company's guideline of a maximum change of -15% from a 200 basis point change in interest rates.

	Basis Point Change			
	+200	+100	-100	-200

September 30, 2004	11.1%	5.6%	(5.5%)	(11.1%)
December 31, 2003	11.7%	5.9%	(5.9%)	(11.7%)

The foregoing computations are based on numerous assumptions, including relative levels of market interest rates, prepayments and deposit mix. The computed estimates should not be relied upon as a projection of actual results. Despite the limitations on preciseness inherent in these computations, management believes that the information provided is reasonably indicative of the effect of changes in interest rate levels on the net earning capacity of the Company's current mix of interest earning assets and interest bearing liabilities. Management continues to use the results of these computations, along with the results of its computer model projections, in order to enhance earnings potential while positioning the Company to minimize the effect of a prolonged shift in interest rates that would adversely affect future results of operations.

At the present time, the most significant market risk affecting the Company is interest rate risk. Other market risks such as foreign currency exchange risk and commodity price risk do not occur in the normal business of the Company. The Company also is not currently using trading activities or derivative instruments to control interest rate risk.

Liquidity and Cash Flows

The Company was able to meet liquidity needs during the first nine months of 2004. A review of the consolidated statement of cash flows included in the accompanying financial statements shows that the Company's cash and cash equivalents increased $25.172 million from December 31, 2003 to September 30, 2004.

In general, funds provided by customer deposits, federal funds purchased, repurchase agreements, and notes payable, and maturities, calls and paydowns of investment securities are used to fund loans and purchase investment securities. Available funds are used to fund demand for loans that meet the Company's credit quality guidelines, with the remaining funds used to purchase investment securities and/or federal funds sold.

The increase in cash and cash equivalents came from cash provided by financing and operating activities, offset somewhat by cash used in investing activities. There were differences in the sources and uses of cash during the first nine months of 2004 compared to the first nine months of 2003. More cash was provided by financing activities during the first nine months of 2004 compared to the same period in 2003. Cash was provided by deposits during the first nine months of 2004 compared to cash used by deposits during the same period in 2003 due, in part, to an increase of approximately $43 million in deposits attributable to the Company's Wealth Management division. Somewhat offsetting cash provided by deposits was cash used by federal funds purchased, repurchase agreements, and notes payable during the first nine months of 2004 compared to cash provided during the same period in 2003. Slightly more cash was provided by operating activities during the first nine months of 2004 compared to the same period in 2003. More cash was used in investing activities during the first nine months of 2004 compared to the same period in 2003. This was mainly due to cash used in the area of loans in 2004 as a result of an increase in loans, compared to cash provided by loans in 2003 when loans decreased. Less cash was used in investment portfolio activities during the first nine months of 2004 compared to the same period in 2003. In 2004, cash used to purchase debt and equity securities was $238.496 million, offset somewhat by proceeds of $236.679 million from maturities, calls and sales of debt and equity securities, principal paydowns on mortgage-backed securities and return of principal on other equity securities.

In 2003, cash used to purchase debt and equity securities was $252.308 million, offset somewhat by proceeds of $193.875 million from maturities, calls and sales of debt and equity securities, principal paydowns on mortgage-backed securities and return of principal on other equity securities.

Critical Accounting Policies

The preparation of financial statements in conformity with accounting standards generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the related disclosures of contingent assets and liabilities. Actual results could differ from those estimates under different assumptions and conditions. The Company believes that it has one critical accounting policy, allowance for loan losses, that is subject to estimates and judgements used in the preparation of its consolidated financial statements.

Provision and Allowance for Loan Losses

The provision for loan losses is based on management's evaluation of the loan portfolio in light of national and local economic conditions, changes in the composition and volume of the loan portfolio, changes in the volume of past due and nonaccrual loans, and other relevant factors. The allowance for loan losses, which is reported as a deduction from loans, is available for loan charge-offs. The allowance is increased by the provision charged to expense and is reduced by loan charge-offs net of loan recoveries. The allowance is allocated between the commercial, financial and agricultural, commercial and residential real estate and installment and consumer loan portfolios according to the historical losses experienced in each of these portfolios as well as the current level of watch list loans and nonperforming loans for each portfolio. Loans for which borrower cash flow and the estimated liquidation value of collateral are inadequate to repay the total outstanding balance are evaluated separately and assigned a specific allocation. The unallocated portion of the allowance is determined by economic conditions and other factors mentioned above. The balance of the allowance for loan losses was $9.963 million at September 30, 2004 compared to $9.786 million at December 31, 2003, as net charge-offs were $813,000 and provisions totaled $990,000 during the first nine months of 2004. The allowance for loan losses as a percentage of gross loans, including loans held-for-sale, was 1.35% at September 30, 2004, compared to 1.45% at December 31, 2003. Gross loans, including loans held-for-sale, increased 8.9% to $737.183 million at September 30, 2004 from $676.677 million at December 31, 2003.

One measure of the adequacy of the allowance for loan losses is the ratio of the allowance to nonperforming loans. The allowance for loan losses as a percentage of nonperforming loans was 369.6% at September 30, 2004 compared to 959.4% at December 31, 2003. Nonperforming loans increased from $1.020 million at December 31, 2003 to $2.696 million at September 30, 2004. The $1.676 million increase in nonperforming loans during the first nine months of 2004 resulted from a $1.428 million increase in nonaccrual loans and an increase of $247,000 in loans past due 90 days or more. The increase in nonaccrual loans was primarily the result of the addition in the first quarter of 2004 of one commercial loan in the amount of $1.328 million. As of September 30, 2004, a specific valuation allowance of $300,000 had been assigned to this loan, and the remaining balance was considered adequately collateralized by real estate and by business and personal property. The Company has been working with the borrower to liquidate collateral in an attempt to satisfy the outstanding obligation. Management believes that nonperforming and potential problem loans are appropriately identified and monitored based on the extensive loan analysis performed by the credit administration department, the internal loan committees and the board of directors. Historically, there have not been a significant amount of loans charged off which had not been previously identified as problem loans by the credit administration department or the loan committee.

The following table summarizes changes in the allowance for loan losses by loan categories for each period and additions to the allowance for loan losses which have been charged to operations.

Allowance for Loan Losses
(dollars in thousands)

	September 30, 2004	September 30, 2003
Allowance for loan losses at beginning of year	$ 9,786	$ 9,259
Charge-offs during period:		
Commercial, financial and agricultural	$ (279)	$ (138)
Residential real estate	--	(9)
Installment and consumer	(856)	(799)
Total	$(1,135)	$ (946)
Recoveries of loans previously charged off:		
Commercial, financial and agricultural	$ 157	$ 209
Residential real estate	15	46
Installment and consumer	150	135
Total	$ 322	$ 390
Net charge-offs	$ (813)	$ (556)
Provision for loan losses	990	990
Allowance for loan losses at end of quarter	$ 9,963	$ 9,693
Ratio of net charge-offs to average net loans	(0.12)%	(0.09)%

The following table shows the allocation of the allowance for loan losses allocated to each loan category.

Allocation of the Allowance for Loan Losses
(in thousands)

	September 30, 2004	December 31, 2003
Allocated:		
Commercial, financial and agricultural	$6,590	$5,973
Residential real estate	185	153
Installment and consumer	1,819	2,428
Total allocated allowance	$8,594	$8,554
Unallocated allowances	1,369	1,232
Total	9,963	9,786

The following table presents the aggregate amount of loans considered to be nonperforming for the periods indicated. Nonperforming loans include loans accounted for on a nonaccrual basis, accruing loans contractually past due 90 days or more as to interest or principal payments and loans which are troubled debt restructurings as defined in Statement of Financial Accounting Standards No. 15, "Accounting by Debtors and Creditors for Troubled Debt Restructurings."

	Nonperforming Loans (dollars in thousands)	
	September 30, 2004	December 31, 2003
Nonaccrual loans1	$1,827	$ 399
Loans past due 90 days or more	$ 868	$ 621
Restructured loans	$ 517	$ 18

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	Other Nonperforming Assets (dollars in thousands)	
	September 30, 2004	December 31, 2003
Other real estate owned	$ 40	$ --
Nonperforming other assets	$145	$ 55

Results of Operations

Results of Operations for the Nine Months Ended September 30, 2004

Net income for the first nine months of 2004 was $11.216 million, a $1.479 million, or 11.7%, decrease from $12.695 million for the same period in 2003. Basic earnings per share decreased $0.03, or 2.5%, to $1.18 per share year-to-date in 2004 from $1.21 per share year-to-date in 2003. Diluted earnings per share decreased $0.03, or 2.5%, to $1.17 per share year-to-date in 2004 from $1.20 per share year-to-date in 2003.

The following schedule "Consolidated Average Balance Sheet and Interest Rates" provides details of average balances, interest income or interest expense, and the average rates for the Company's major asset and liability categories.

Consolidated Average Balance Sheet and Inter				
(dollars in thousands)				
Nine Months Ended September 30,				
2004			2	
Average Balance	Interest	Rate	Average Balance	Int

Assets					
Taxable investment securities1	$ 328,765	$ 7,973	3.24%	$ 300,672	$
Tax-exempt investment securities1 (TE) .	47,467	2,191	6.17%	55,916	
Federal funds sold and interest bearing deposits2	33,754	339	1.34%	39,493	
Loans3,4 (TE)	702,101	30,579	5.82%	643,594	
Total interest earning assets and interest income (TE)	$1,112,087	$ 41,082	4.93%	$1,039,675	$
Cash and due from banks	$ 46,102			$ 46,310	
Premises and equipment	17,196			17,940	
Other assets	23,664			18,794	
Total assets	$1,199,049			$1,122,719	
Liabilities and Shareholders' Equity					
Interest bearing demand deposits	$ 96,018	$ 497	0.69%	$ 85,187	$
Savings	333,124	2,342	0.94%	279,874	
Time deposits	352,729	7,350	2.78%	338,320	
Federal funds purchased, repurchase agreements, and notes payable	98,827	893	1.21%	92,426	
FHLB advances and other borrowings	29,936	1,202	5.36%	27,987	
Total interest bearing liabilities and interest expense	$ 910,634	$ 12,284	1.80%	$ 823,794	$
Noninterest bearing demand deposits	$ 100,120			$ 87,994	
Noninterest bearing savings deposits ...	65,430			63,036	
Other liabilities	10,113			9,899	
Total liabilities	$1,086,297			$ 984,723	
Shareholders' equity	112,752			137,996	
Total liabilities and shareholders' equity	$1,199,049			$1,122,719	
Interest spread (average rate earned minus average rate paid) (TE)			3.13%		
Net interest income (TE)		$ 28,798			$
Net yield on interest earnings assets (TE)			3.46%		

Net interest income, the most significant component of the Company's earnings, is the difference between interest received or accrued on the Company's earning assets - primarily loans and investments - and interest paid or accrued on deposits and borrowings. In order to compare the interest generated from different types of earning assets, the interest income on certain tax-exempt investment securities and loans is increased for analysis purposes to reflect the income tax savings provided by the tax-exempt assets. The adjustment to interest income for tax-exempt investment securities and loans was calculated based on the federal income tax statutory rate of 35%. The following table presents, on a tax equivalent (TE) basis, an analysis of changes in net interest income resulting from changes in average volumes of earning assets and interest bearing liabilities and average rates earned and paid. The change in interest due to the combined rate/volume variance has been allocated to rate and volume changes in proportion to the absolute dollar amounts of change in each.

Analysis of Volume and Rate Changes (in thousands)

	Nine Months Ended September 30, 2004		
	Increase (Decrease) from Previous Year	Due to Volume	Due to Rate
Interest Income			
Taxable investment securities	$ (674)	$ 1,105	$(1,779)
Tax-exempt investment securities (TE)	(458)	(390)	(68)
Federal funds sold and interest earning deposits	(24)	(68)	45
Loans (TE)	(983)	3,807	(4,791)
Total interest income (TE)	$(2,139)	$ 4,454	$(6,593)
Interest Expense			
Interest bearing demand and savings deposits ...	$ 407	$ 439	$ (32)
Time deposits	(1,055)	539	(1,594)
Federal funds purchased, repurchase agreements and notes payable	76	58	18
FHLB advances and other borrowings	46	95	(49)
Total interest expense	$ (526)	$ 1,131	$(1,657)
Net Interest Income (TE)	$(1,613)	$ 3,323	$(4,936)

Net interest income on a tax equivalent basis was $1.613 million, or 5.3%, lower for the first nine months of 2004 compared to the same period of 2003. Total tax-equivalent interest income was $2.139 million, or 4.9%, lower in 2004 compared to 2003, and interest expense decreased $526,000, or 4.1%. The decrease in tax-equivalent interest income and interest expense was mainly due to lower rates, offset somewhat by increases in average volume.

The decrease in total tax-equivalent interest income was due to a decrease in interest income from all categories of interest earning assets. The decrease in interest income from loans and taxable investment securities was due to lower rates, offset somewhat by increases in volume. The decrease in interest income from tax-exempt investment securities was due to lower rates and lower volume. The decrease in interest income on federal funds sold was due to a decrease in volume, offset somewhat by an increase in rate.

The decrease in total interest expense was due to a decrease in interest expense from time deposits, offset somewhat by increases in interest expense on interest bearing demand and savings deposits, federal funds purchased, repurchase agreements and notes payable and FHLB advances and other borrowings. Interest expense on time deposits decreased due to lower rates, offset somewhat by an increase in volume. Interest expense on interest bearing demand and savings deposits increased primarily due to higher volume. Interest expense on federal funds purchased, repurchase agreements and notes payable increased due to both higher volume and rates. Interest expense on FHLB advances and other borrowings increased due to higher volume, offset somewhat by a decrease in rates.

The provision for loan losses recorded was $990,000 during the first nine months of both 2004 and 2003. The provision during both periods was based on management's analysis of the loan portfolio, as discussed in the provision for loan losses section above.

	Noninterest Income and Expense for the Nine Months Ended September 30, 2004 and 2003 (in thousands)			
Non-interest Income	09/30/2004	09/30/2003	$ change	% change
Remittance processing 1	$ 5,635	$ 5,312	$ 323	6.1%
Trust and brokerage fees 2	4,831	4,230	601	14.2%
Service charges on deposit accounts	1,820	1,906	(86)	(4.5%)
Securities transactions, net 3	139	(49)	188	383.7%
Gain on sales of mortgage loans, net 4 .	777	2,214	(1,437)	(64.9%)
Other 5	2,075	1,577	498	31.6%
Total non-interest income	$ 15,277	$ 15,190	$ 87	0.6%
Non-interest Expense				
Salaries and employee benefits	$ 13,978	$ 13,893	$ 85	0.6%
Occupancy	1,968	1,847	121	6.6%
Equipment 6	1,886	1,787	99	5.5%
Data processing	1,633	1,563	70	4.5%
Office supplies	887	962	(75)	(7.8%)
Service charges from correspondent banks	652	698	(46)	(6.6%)
Other 7	3,953	3,685	268	7.3%
Total non-interest expense	$ 24,957	$ 24,435	$ 522	2.1%

Income tax expense decreased $403,000, or 6.2%, during the first nine months of 2004 compared to the same period in 2003. The effective tax rate increased to 35.4% during the first nine months of 2004 from 34.0% for the same period in 2003.

Results of Operations For the Three Months Ended September 30, 2004

Net income for the second quarter of 2004 was $3.555 million, a $710,000, or 16.6%, decrease from $4.265 million for the same period in 2003. Basic earnings per share decreased $0.03, or 7.3%, to $0.38 per share during the third quarter of 2004 from $0.41 per share during the same period in 2003. Diluted earnings per share decreased $0.03, or 7.5%, to $0.37 per share during the third quarter of 2004 from $0.40 per share during the same period of 2003.

The following scheduled "Consolidated Average Balance Sheet and Interest Rates" provides details of average balances, interest income or interest expense, and the average rates for the Company's major asset and liability categories.

Consolidated Average Balance Sheet and Intere
(dollars in thousands)

	Three Months Ended September 30,				
	2004			200	
	Average Balance	Interest	Rate	Average Balance	Inte
Assets					
Taxable investment securities1	$ 337,101	$ 2,560	3.02%	$ 319,930	$
Tax-exempt investment securities1 (TE) .	44,479	685	6.13%	53,826	
Federal funds sold and interest bearing deposits2	36,234	151	1.66%	39,129	
Loans3,4 (TE)	722,047	10,509	5.79%	640,184	1
Total interest earning assets and interest income (TE)	$1,139,861	$ 13,905	4.85%	$1,053,069	$ 1
Cash and due from banks	$ 46,108			$ 45,852	
Premises and equipment	16,982			17,718	
Other assets	25,654			21,250	
Total assets	$1,228,605			$1,137,889	
Liabilities and Shareholders' Equity					
Interest bearing demand deposits	$ 102,280	$ 192	0.75%	$ 88,121	$
Savings	359,472	942	1.04%	282,914	
Time deposits	356,431	2,509	2.80%	337,854	
Federal funds purchased, repurchase agreements, and notes payable	92,687	336	1.44%	98,040	
FHLB advances and other borrowings	29,912	405	5.39%	28,411	
Total interest bearing liabilities and interest expense	$ 940,782	$ 4,384	1.85%	$ 835,340	$
Noninterest bearing demand deposits	$ 100,028			$ 91,292	
Noninterest bearing savings deposits ...	65,052			61,556	
Other liabilities	10,357			9,975	
Total liabilities	$1,116,219			$ 998,163	
Shareholders' equity	112,386			139,726	
Total liabilities and shareholders' equity	$1,228,605			$1,137,889	
Interest spread (average rate earned minus average rate paid) (TE)			3.00%		
Net interest income (TE)		$ 9,521			$
Net yield on interest earnings assets (TE)			3.32%		

Net interest income, the most significant component of the Company's earnings, is the difference between interest received or accrued on the Company's earning assets - primarily loans and investments - and interest paid or accrued on deposits and borrowings. In order to compare the interest generated from different types of earning assets, the interest income on certain tax-exempt investment securities and loans is increased for analysis purposes to reflect the income tax savings provided by the tax-exempt assets. The adjustment to interest income for tax-exempt investment securities and loans was calculated based on the federal income tax statutory rate of 35%. The following table presents, on a tax equivalent (TE) basis, an analysis of changes in net interest income resulting from changes in average volumes of earning assets and interest bearing liabilities and average rates earned and paid. The change in interest due to the combined rate/volume variance has been allocated to rate and volume changes in proportion to the absolute dollar amounts of change in each.

	Analysis of Volume and Rate Changes (in thousands)		
	Three Months Ended September 30, 2004		
	Increase (Decrease) From Previous Year	Due to Volume	Due to Rate
Interest Income			
Taxable investment securities	$ (315)	$ 824	$(1,139)
Tax-exempt investment securities (TE)	(170)	(147)	(23)
Federal funds sold and interest earning deposits	42	(50)	92
Loans (TE)	360	4,167	(3,807)
Total interest income (TE)	$ (83)	$ 4,794	$(4,877)
Interest Expense			
Interest bearing demand and savings deposits ...	$ 395	$ 202	$ 193
Time deposits	(98)	653	(751)
Federal funds purchased, repurchase agreements and notes payable	66	(90)	156
FHLB advances and other borrowings	13	48	(35)
Total interest expense	$ 376	$ 813	$ (437)
Net Interest Income (TE)	$ (459)	$ 3,981	$(4,440)

Net interest income on a tax equivalent basis was $459,000, or 4.6%, lower for the third quarter of 2004 compared to the third quarter of 2003. Total tax-equivalent interest income was $83,000, or 0.6%, lower in 2004 compared to 2003, but interest expense increased $376,000, or 9.4%. The decrease in interest income was due to a decrease in rates, offset somewhat by an increase in volume. The increase in interest expense was due to an increase in volume offset somewhat by a decrease in rates.

The decrease in total interest income was due to decreases in interest income from taxable and tax-exempt investment securities, offset somewhat by increases in interest income from loans and federal funds sold and interest earning deposits. The decreases in interest income from taxable investment securities was due to a decrease in rates, offset somewhat by an increase in volume during the third quarter of 2004 compared to the same period in 2003. The decrease in interest income from tax-exempt investment securities was due to decreases in both volume and rates. The increase in interest income from loans was due to an increase in volume, offset somewhat by a decrease in rates. The increase in interest income from federal funds sold and interest earning deposits was due to an increase in rates, offset somewhat by a decrease in volume.

The increase in total interest expense was due to increases in interest expense on interest bearing demand and savings deposits, federal funds purchased, repurchase agreements and notes payable and FHLB advances and other borrowings, offset somewhat by a decrease in interest expense on time deposits in the third quarter of 2004 compared to the same period in 2003. The increases in interest expense on interest bearing demand and savings deposits was due to an increase in both volume and rates. The increase in interest expense on federal funds purchased, repurchase agreements and notes payable was due to an increase in rates, offset somewhat by a decrease in volume. The increase in interest expense from FHLB advances and other borrowings was due to an increase in volume, offset somewhat by lower rates. The decrease in interest expense on time deposits was due to a decrease in rates, offset somewhat by an increase in volume.

The provision for loan losses recorded was $330,000 during both the third quarter of 2004 and 2003. The provision during both periods was based on management's analysis of the loan portfolio, as discussed in the provision and allowance for loan losses section above.

Noninterest Income and Expense for the Three Months Ended September 30, 2004 and 2003 (in thousands)

Non-interest Income	09/30/2004	09/30/2003	$ Change	% Change
Remittance processing	$ 1,820	$ 1,814	$ 6	0.3%
Trust and brokerage fees 1	1,544	1,435	109	7.6%
Service charges on deposit accounts	619	666	(47)	(7.1%)
Securities transactions, net 2	133	(6)	139	2316.7%
Gain on sales of mortgage loans, net 3 .	229	972	(743)	(76.4%)
Other	613	539	74	13.7%
Total non-interest income	$ 4,958	$ 5,420	$ (462)	(8.5%)
Non-interest Expense				
Salaries and employee benefits	$ 4,727	$ 4,650	$ 77	1.7%
Occupancy	685	641	44	6.9%
Equipment 4	606	575	31	5.4%
Data processing 5	546	505	41	8.1%
Office supplies	270	334	(64)	(19.2%)
Service charges from correspondent banks	194	233	(39)	(16.7%)
Other 6	1,414	1,312	102	7.8%
Total non-interest expense	$ 8,442	$ 8,250	$ 192	2.3%

Income tax expense decreased $343,000, or 15.2%, during the third quarter of 2004 compared to the same period in 2003. The effective tax rate increased to 34.9% during the third quarter of 2004 from 34.6% in the second quarter of 2003.

Business Segment Information

The Company currently operates in two industry segments. The primary business involves providing banking services to central Illinois. The company's subsidiary banks offer a full range of financial services to business and individual customers. These services include demand, savings, time and individual retirement accounts; commercial, consumer (including automobile loans and personal lines of credit), agricultural, and real estate lending; safe deposit and night depository services; farm management; full service trust departments that offer a wide range of services such as investment management, acting as trustee, serving as guardian, executor or agent and miscellaneous consulting; full service brokerage and purchases of installment obligations from retailers, primarily without recourse. The other industry segment involves retail payment processing. FirsTech provides the following services to electric, water and gas utilities, telecommunication companies, cable television firms and charitable organizations: retail lockbox processing of payments delivered by mail on behalf of the biller; processing of payments delivered by customers to pay agents such as grocery stores, convenience stores and currency exchanges; and concentration of payments delivered by the Automated Clearing House network, money management software such as Quicken and through networks such as Internet Agent, Visa e-Pay and MasterCard RPS.

Company information is provided for informational purposes only, since it is not considered a separate segment for reporting purposes. Certain administrative, audit, compliance, accounting, finance, property management, human resources, sales management and marketing, courier, information systems and other support services are performed by the Company. The net expenses of these functions are allocated to the subsidiaries by charging a monthly maintenance fee.

As of and for the Nine Months Ended:	Banking Services	Remittance Services	Company	Eliminations	Total
September 30, 2004					
Total interest income	$ 40,196	$ 15	$ 172	$ (76)	$ 40,30
Total interest expense	12,309	--	51	(76)	12,28
Provision for loan losses ...	990	--	--	--	99
Total non-interest income ...	9,732	5,696	3,529	(3,680)	15,27
Total non-interest expense ..	20,009	3,905	4,723	(3,680)	24,95
Income before income tax	16,620	1,806	(1,073)	--	17,35
Income tax expense	5,810	759	(432)	--	6,13
Net income	10,810	1,047	(641)	--	11,21
Total assets	1,221,464	4,730	119,906	(106,502)	1,239,59
Depreciation and amortization	1,142	471	301	--	1,91
September 30, 2003					
Total interest income	$ 42,063	$ 43	$ 257 43	$ (83)	$ 42,28
Total interest expense	12,888	--	5	(83)	12,81
Provision for loan losses ...	990	--	--	--	99
Total non-interest income ...	10,115	5,372	3,495	(3,792)	15,19
Total non-interest expense ..	20,105	3,680	4,442	(3,792)	24,43
Income before income tax	18,195	1,735	(695)	--	19,23
Income tax expense	6,118	698	(276)	--	6,54
Net income	12,077	1,037	(419)	--	12,69
Total assets	1,130,724	3,359	148,339	(134,949)	1,147,47
Depreciation and amortization	1,159	304	363	--	1,82

Recent Regulatory Developments

On August 20, 2004, Illinois Governor Blagojevich signed legislation that permits state-chartered banks and national banks that are headquartered outside of Illinois to establish de novo branches and to acquire branches in Illinois, provided that the states in which they are headquartered grant reciprocal privileges to banks that are headquartered in Illinois. This legislation will allow state-chartered banks and national banks headquartered in Illinois to establish de novo branches and to acquire branches in states that have similar reciprocity laws. On September 13, 2004, the Illinois Department of Financial and Professional Regulation published guidance, in the form of Interpretive Letter 2004-01, that lists those states that have similar reciprocity laws. At this time, it is not possible to predict the impact this legislation will have on the Company.

Safe Harbor Statement Under the Private Securities Litigation Reform Act of 1995

This document contains, and future oral and written statements of the Company and its management may contain, forward-looking statements, within the meaning of such terms in the Private Securities Litigation Reform Act of 1985, with respect to the financial condition, results of operations, plans, objectives, future performance and business of the Company. Forward-looking statements, which may be based upon beliefs, expectations and assumptions of the Company's management and on information currently available to management, are generally identifiable by the use of words such as "believe", "expect", "anticipate", "plan", "intend", "estimate", "may", "will", "would", "could", "should", or other similar expressions. Additionally, all statements in this document, including forward-looking statements, speak only as of the date they are made, and the Company undertakes no obligation to update any statement in light of new information or future events.

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

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

- The economic impact of past and any future terrorist attacks, acts of war or threats thereof, and the response of the United States to any such threats and attacks.

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

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

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

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

- The timely development and acceptance of products and services, including products and services offered through alternative delivery channels such as the Internet.

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

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

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

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

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

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

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

- The ability of the Company to manage the risks associated with the foregoing as well as anticipated.

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

Item 3. Quantitative and Qualitative Disclosures about Market Risk

See the "Interest Rate Sensitivity" section above.

Item 4. Controls and Procedures

An evaluation was performed under the supervision and with the participation of the Company's management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) promulgated under the Securities and Exchange Act of 1934, as amended) as of September 30, 2004. Based on that evaluation, the Company's management, including the Chief Executive Officer and Chief Financial Officer, concluded that the Company's disclosure controls and procedures were effective. There have been no significant changes in the Company's internal controls or in other factors that could significantly affect internal controls.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

There are no material pending legal proceedings to which the Company or its subsidiaries is a party other than ordinary routine litigation incidental to their respective businesses.

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

Issuer Purchases of Equity Securities

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Shares	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs 1	(d) Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs 1
July 1- July 31, 2004	--	$ --	--	428,700
August 1 - August 31, 2004	36,000	$ 30.96	36,000	392,700
September 1 - September 30, 2004	3,000	$ 31.00	3,000	389,700
Total	39,000	$ 30.96	39,000	389,700

Item 3. Defaults Upon Senior Securities

None.

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

None

Item 5. Other Information

None

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Item 6. Exhibits

a. Exhibits

31.1 Certification of Chief Executive Officer Pursuant to Rule 13-a-14(a)/15d-14(a)

31.2 Certification of Chief Financial Officer Pursuant to Rule 13-a-14(a)/15d-14(a)

32.1 Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification of Chief Financial Officer Pursuant to 18. U.S.S. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf of the undersigned, thereunto duly authorized.

MAIN STREET TRUST, INC.

Date: November 8, 2004

By: /s/ David B. White

David B. White, Executive Vice President
and Chief Financial Officer

By: /s/ Van A. Dukeman

Van. A. Dukeman, President
and Chief Executive Officer