MAIN STREET TRUST INC
Form 10-Q
August 14, 2001

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 June 30, 2001

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 the number of shares outstanding of the registrant's common stock, as of August 10, 2001

Main Street Trust, Inc. Common Stock	10,402,855

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

MAIN STREET TRUST, INC AND SUBSIDIARIES

Consolidated Balance Sheets
June 30, 2001 and December 31, 2000

(Unaudited, in thousands, except share data)

	June 30, 2001	De
ASSETS		
Cash and due from banks	$ 50,048	$
Federal funds sold and interest earning deposits	11,931	
Investments in debt and equity securities:		
Available-for-sale, at fair value	216,685	
Held-to-maturity, at cost (fair value of $71,647 and at June 30, 2001 and December 31, 2000, respectively)	70,644	
Non-marketable equity securities	5,052	
Mortgage loans held for sale	7,734	
Loans, net of allowance for loan losses of $8,975 and $8,879 at June 30, 2001 and December 31, 2000, respectively	664,156	
Premises and equipment	20,350	
Accrued interest receivable	9,333	
Other assets	12,538	
Total assets	$ 1,068,471	$

LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Deposits:		
Demand, non-interest bearing	$ 110,236	$
Demand, interest bearing	239,694	
Savings	95,513	
Time, $100 and over	111,734	
Other time	245,571	
Total deposits	802,748	
Federal funds purchased, repurchase agreements and notes payable	78,103	
Federal Home Loan Bank advances and other borrowings	40,925	
Accrued interest payable	4,130	
Other liabilities	10,757	
Total liabilities	936,663	
Shareholders' equity:		
Preferred stock, no par value; 2,000,000 shares authorized	--	
Common stock, $0.01 par value; 15,000,000 shares authorized 10,582,484 shares issued at June 30, 2001 and December 31, 2000, respectively	106	
Paid in capital	44,233	
Retained earnings	87,991	
Accumulated other comprehensive income	2,512	
	134,842	
Less: treasury stock, at cost, 161,398 and 112,178 shares at June 30, 2001 and December 31, 2000, respectively	(3,034)	
Total shareholders' equity	131,808	
Total liabilities and shareholders' equity	$ 1,068,471	$

See accompanying notes to unaudited consolidated financial statements.

MAIN STREET TRUST, INC. AND SUBSIDIARIES

Consolidated Statements of Income
For the Six Months Ended June 30, 2001 and 2000
(Unaudited, in thousands, except share data)

	2001	2002
Interest income:		
Loans and fees on loans	$ 28,349	$ 26,
Investments in debt and equity securities		
Taxable	7,186	7,
Tax-exempt	1,107	
Federal funds sold and interest earning deposits	1,235	
Total interest income	37,877	35,

Interest expense:		
Demand, savings, and other time deposits	12,996	11,
Time deposits $100 and over	2,776	2,
Federal funds purchased, repurchase agreements and notes payable	1,482	1,
Federal Home Loan Bank advances and other borrowings	1,171	
Total interest expense	18,425	17,
Net interest income	19,452	18,
Provision for loan losses	610	
Net interest income after provision for loan losses	18,842	18,
Non-interest income:		
Remittance processing	3,320	3,
Trust and brokerage fees	2,647	2,
Service charges on deposit accounts	1,037	1,
Securities transactions, net	219	
Gain on sales of mortgage loans, net	315	
Other	811	
Total non-interest income	8,349	8,
Non-interest expense:		
Salaries and employee benefits	8,813	9,
Merger related professional fees	--	2,
Occupancy	1,125	1,
Equipment	1,571	1,
Data processing	861	
Office supplies	787	
Service charges from correspondent banks	439	
Other	2,393	1,
Total non-interest expense	15,989	18,
Income before income taxes	11,202	8,
Income taxes	3,470	3,
Net income	$ 7,732	$ 4,
Per share data:		
Basic earnings per share	$ 0.74	$ 0
Weighted average shares of common stock outstanding	10,450,192	10,574,
Diluted earnings per share	$ 0.73	$ 0
Weighted average shares of common stock and dilutive potential common shares outstanding	10,642,214	10,797,

See accompanying notes to unaudited consolidated financial statements

MAIN STREET TRUST, INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

For the Six Months Ended June 30, 2001 and 2000
(Unaudited, in thousands)

	2001	2000

Net income	$ 7,732	$ 4,911
Other comprehensive income, before tax:		
Unrealized gains on securities:		
Unrealized holding gains arising during period, net of tax of $1,059 and $116, for June 30, 2001 and 2000, respectively	2,057	225
Less: reclassification adjustment for gains (losses) included in net income, net of tax of $(74) and $5, for June 30, 2001 and 2000, respectively	(145)	9
Other comprehensive income, net of tax	1,912	234
Comprehensive income	$ 9,644	$ 5,145

See accompanying notes to unaudited consolidated financial statements.

MAIN STREET TRUST, INC. AND SUBSIDIARIES

Consolidated Statements of Income

For the Three Months Ended June 30, 2001 and 2000
(Unaudited, in thousands, except share data)

	2001	2000
Interest income:		
Loans and fees on loans	$ 14,113	$ 13,323
Investments in debt and equity securities		
Taxable	3,504	3,910
Tax-exempt	564	502
Federal funds sold and interest earning deposits	575	265
Total interest income	18,756	18,000
Interest expense:		
Demand, savings, and other time deposits	6,240	5,998
Time deposits $100 and over	1,346	1,156
Federal funds purchased, repurchase agreements and notes payable	703	975
Federal Home Loan Bank advances and other borrowings	557	460
Total interest expense	8,846	8,589
Net interest income	9,910	9,411
Provision for loan losses	375	131
Net interest income after provision for loan losses	9,535	9,280
Non-interest income:		
Remittance processing	1,660	1,660
Trust and brokerage fees	1,370	1,371
Service charges on deposit accounts	553	553
Securities transactions, net	142	(16)
Gain on sales of mortgage loans, net	160	25
Other	377	495
Total non-interest income	4,262	4,088

Non-interest expense:		
Salaries and employee benefits	4,297	4,639
Occupancy	511	556
Equipment	810	734
Data processing	397	390
Office supplies	398	298
Service charges from correspondent banks	316	276
Other	1,194	744
Total non-interest expense	7,923	7,637
Income before income taxes	5,874	5,731
Income taxes	1,810	1,814
Net income	$ 4,064	$ 3,917
Per share data:		
Basic earnings per share	$ 0.39	$ 0.37
Weighted average shares of common stock outstanding	10,435,094	10,570,353
Diluted earnings per share	$ 0.38	$ 0.36
Weighted average shares of common stock and dilutive potential common shares outstanding	10,631,064	10,790,043

See accompanying notes to unaudited consolidated financial statements.

MAIN STREET TRUST, INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

For the Three Months Ended June 30, 2001 and 2000
(Unaudited, in thousands)

	2001	2000
Net income	$ 4,064	$ 3,917
Other comprehensive income, before tax:		
Unrealized gains on securities:		
Unrealized holding gains arising during period, net of tax of $460 and $178, for June 30, 2001 and 2000, respectively	895	344
Less: reclassification adjustment for gains (losses) included in net income, net of tax of $(48) and $6, for June 30, 2001 and 2000, respectively	(94)	10
Other comprehensive income, net of tax	801	354
Comprehensive income	$ 4,865	$ 4,271

See accompanying notes to unaudited consolidated financial statements

MAIN STREET TRUST, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the Six Months Ending June 30, 2001 and 2000

(Unaudited, in thousands)

	2001
Cash flows from operating activities:	
Net income	$ 7,732
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization	1,429
(Accretion) amortization of bond discounts and premiums, net	(228)
Provision for loan losses	610
Securities transactions, net	(219)
Gain on sales of mortgage loans, net	(315)
Federal Home Loan Bank stock dividend	(105)
Proceeds from sales of mortgage loans originated for sale	39,402
Mortgage loans originated for sale	(44,731)
Other, net	(2,244)
Net cash provided by operating activities	1,331
Cash flows from investing activities:	
Net increase in loans	(4,917)
Proceeds from maturities and calls of investments in debt securities:	
Held-to-maturity	26,956
Available-for-sale	42,337
Proceeds from sales of investments:	
Available-for-sale	68,737
Purchases of investments in debt and equity securities:	
Held-to-maturity	(17,493)
Available-for-sale	(111,351)
Other equity securities	(500)
Principal paydowns from mortgage-backed securities:	
Held-to-maturity	4,179
Available-for-sale	1,372
Principal paydowns on other equity securities:	31
Purchases of premises and equipment	(892)
Net cash provided by (used in) investing activities	8,459
Cash flows from financing activities:	
Net (decrease) in deposits	(37,184)
Net increase in federal funds purchased, repurchase agreements and notes payable	8,445
Net increase (decrease) in Federal Home Loan Bank advances and other borrowings	(53)
Cash dividends paid	(2,197)
MSTI stock transactions, net	(961)
Net cash used in financing activities	(31,950)
Net decrease in cash and cash equivalents	(22,160)
Cash and cash equivalents at beginning of year	84,139
Cash and cash equivalents at end of period	$ 61,979
Supplemental disclosures of cash flow information:	
Cash paid during the year for:	
Interest	$ 18,879
Income taxes	5,338
Real estate acquired through or in lieu of foreclosure	--

Dividends declared not paid	1,146

See accompanying notes to unaudited consolidated financial statements.

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, 2000, and schedules included in Main Street Trust, Inc.'s. Form 10-K filed on March 30, 2001.

In the opinion of management, the consolidated financial statements of Main Street Trust, Inc. (the "Company") and its subsidiaries, as of June 30, 2001 and for the three-month and six-month periods ended June 30, 2001 and 2000, 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 six-month period ended June 30, 2001 are not necessarily indicative of the results which may be expected for the year ended December 31, 2001.

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 earning deposits. Generally, federal funds are sold for one-day periods.

Certain amounts in the 2000 consolidated financial statements have been reclassified to conform with the 2001 presentation. Such reclassifications have no effect on previously reported net income.

Note 2. Company Information/Business Combination

On March 23, 2000, BankIllinois Financial Corporation and First Decatur Bancshares, Inc. completed a "merger of equals" between the two companies, structured as a merger of the two companies into the Company. The merger has been accounted for as a pooling of interests and, accordingly, all prior financial statements have been restated to include both companies. As a result of the merger, former shareholders of BankIllinois Financial Corporation and First Decatur Bancshares, Inc. received 5,828,260 and 4,752,649 shares of Company common stock, respectively.

The Company operates 19 banking centers and is the parent company of BankIllinois, First National Bank of Decatur, First Trust Bank of Shelbyville and FirsTech, Inc., a retail payment processing company.

On June 14, 2001, the Company was certified by the Board of Governors of the Federal Reserve System as a financial holding company. This designation 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.

Note 3. New Accounting Rules and Regulations

In June 2001, the Financial Accounting Standards Board issued Statement No. 141, "Business Combinations" (SFAS No. 141). SFAS No. 141 addresses financial accounting and reporting for business combinations and supersedes APB Opinion No. 16, "Business Combinations" and SFAS No 38, Accounting for Preacquisition Contingencies of Purchased Enterprises. SFAS No. 141 requires all business combinations in the scope of this SFAS to be accounted for using the purchase method. SFAS No. 141 is effective for business combinations initiated after June 30, 2001 and all business combinations accounted for using the purchase method for which the acquisition date is July 1, 2001 or later. Management does not believe the adoption of Statement No. 141 will have a significant impact on its financial statements.

In June 2001, the Financial Accounting Standards Board issued Statement No. 142, "Goodwill and Other Intangible Assets" (SFAS 142). SFAS No. 142 addresses financial accounting and reporting for acquired goodwill and other intangible assets and supersedes APB Opinion No. 17, "Intangible Assets". It addresses how intangible assets should be accounted for at acquisition and in subsequent periods. Most significantly, goodwill and intangible assets that have indefinite useful lives will not be amortized but rather will be tested at least annually for impairment. Intangible assets that have finite useful lives will continue to be amortized over their useful lives. The standard also provides specific guidance for testing goodwill for impairment and requires additional disclosures about goodwill and intangible assets. SFAS No. 142 is effective for fiscal years beginning after December 15, 2001. SFAS No. 142 is required to be applied to the beginning of an entity's fiscal year and to be applied to all goodwill and other intangible assets recognized in its financial statements at that date. Impairment losses for goodwill and indefinite-lived intangible assets that arise due to the initial application of this Standard are to be reported as resulting from a change in accounting principle. Management does not believe the adoption of SFAS No. 142 will have a significant impact on its financial statements.

Note 4. Income per Share

Net income per common share has been computed as follows:

	Six Months Ended		Three Months Ended	
	June 30,		June 30,	
	2001	2000	2001	2000
Net Income	$ 7,732,000	$ 4,911,000	$ 4,064,000	$ 3,917,000
Shares:				
Weighted average common shares outstanding	10,450,192	10,574,262	10,435,094	10,570,353
Dilutive effect of outstanding options, as determined by the application of the treasury stock method	176,007	206,392	180,475	203,266
Dilutive effect of outstanding SARs, as determined by the application of the treasury stock method	16,015	16,383	15,495	16,424
Weighted average common shares outstanding, as adjusted	10,642,214	10,797,037	10,631,064	10,790,043
Basic earnings per share	$ 0.74	$ 0.46	$ 0.39	$ 0.37
Diluted earnings per share	$ 0.73	$ 0.45	$ 0.38	$ 0.36

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

Financial Condition

Assets and Liabilities

Total assets decreased $22.610 million, or 2.1%, to $1.068 billion at June 30, 2001 compared to $1.091 billion at December 31, 2000. Decreases in investments held-to-maturity, federal funds sold and interest bearing deposits, cash and due from banks, accrued interest receivable and premises and equipment were partially offset by increases in mortgage loans held for sale, loans, investments available-for-sale, other assets and non-marketable equity securities.

Cash and due from banks decreased $8.919 million, or 15.1%, to $50.048 million at June 30, 2001 compared to $58.967 million at December 31, 2000 primarily due to a smaller dollar amount of deposit items in process of collection at June 30, 2001 compared to December 31, 2000.

Federal funds sold and interest earning deposits decreased $13.241 million, or 52.6%, to $11.931 million at June 30, 2001 compared to $25.172 million at December 31, 2000. The reason for this decrease was due to several factors, including decreases in deposits and increased loan volume, offset somewhat by a decrease in investment in debt and equity securities, and increases in borrowed funds.

Total investments in debt and equity securities decreased $10.806 million, or 3.6%, to $292.381 million at June 30, 2001 compared to $303.187 million at December 31, 2000, due to funding the increase in loans. Investments in securities held-to-maturity decreased $14.328 million, or 16.9%, at June 30, 2001 compared to December 31, 2000. Somewhat offsetting this decrease was an increase in investments in debt and equity securities available-for-sale of $2.999 million, or 1.4%, and an increase in non-marketable equity securities of $0.523 million, or 11.5%, during this time period.

Mortgage loans held for sale increased $5.644 million, or 270.0%, to $7.734 million at June 30, 2001 compared to $2.090 million at December 31, 2000. This increase was mainly due to lower interest rates driving up demand in the mortgage loan area during the first half of 2001.

Loans, net of allowance for loan losses, increased $4.307 million, or 0.7%, to $664.156 million at June 30, 2001 from $659.849 million at December 31, 2000. Increases in commercial, financial and agricultural loans of $2.421 million, or 1.1%, and real estate loans of $2.249 million, or 0.7% were partially offset by a decrease of $0.267 million, or 0.2% in consumer loans at June 30, 2001 compared to December 31, 2000.

Premises and equipment decreased $0.524 million, or 2.5%, from $20.874 million at December 31, 2000 to $20.350 million at June 30, 2001. The decrease was caused by depreciation expense of $1.416 million offset by purchases of $0.892 million.

Other assets increased $2.225 million, or 21.6%, from $10.313 million at December 31, 2000 to $12.538 million at June 30, 2001. Included in this change were increases in taxes receivable of $0.864 million and $0.420 million in accrued trust income.

Total liabilities decreased $29.016 million, or 3.0%, to $936.663 million at June 30, 2001 from $965.679 million at December 31, 2000. Decreases in total deposits, accrued interest payable and Federal Home Loan Bank advances and other borrowings were partially offset by increases in federal funds purchased, repurchase agreements and notes payable and other liabilities.

The market for deposits was extremely competitive in the first half of 2001. Total deposits decreased $37.184 million, or 4.4%, to $802.748 million at June 30, 2001 from $839.932 at December 31, 2000. The decrease in deposits included a decrease in savings deposits of $44.289 million, or 31.7%, and a decrease in other time deposits of $11.710 million, or 4.6%. Somewhat offsetting these decreases were increases of $11.704 million, or 11.7%, in time deposits $100,000 and over, $5.856 million, or 2.5%, in interest bearing demand deposits and $1.255 million, or 1.2%, in non-interest bearing demand deposits. Despite the decrease from year-end, total deposits were $34.542 million, or 4.5%, higher than the June 30, 2000 balance of $768.206 million.

Federal funds purchased, repurchase agreements and notes payable increased $8.445 million, or 12.1%, to $78.103 million at June 30, 2001 compared to $69.658 million at December 31, 2000. Included in this change were increases of $8.236 million in repurchase agreements and $0.575 million in federal funds purchased. Somewhat offsetting these increases was a decrease in notes payable of $0.366 million.

Accrued interest payable decreased $0.454 million, or 9.9%, to $4.130 million at June 30, 2001 from $4.584 million at December 31, 2000. This was reflective of the lower interest paying liability balances and the lower interest rate environment.

Investment Securities

The carrying value of investments in debt and equity securities was as follows for June 30, 2001 and December 31, 2000:

Carrying Value of Securities
(in thousands)

	June 30, 2001	December 31, 2000
Available-for-sale:		
U.S. Treasury	$ 15,005	$ 23,812
Federal agencies	154,216	156,322
Mortgage-backed securities	25,069	11,513
State and municipal	14,049	15,349
Corporate and other obligations	2,343	294
Marketable equity securities	6,003	6,396
Total available-for-sale	$216,685	$213,686
Held-to-maturity:		
Federal agencies	$ 4,745	$ 29,428
Mortgage-backed securities	25,237	22,642
State and municipal	40,662	32,902
Total held-to-maturity	$ 70,644	$ 84,972
Non-marketable equity securities:		
FHLB and FRB stock1	$ 3,631	$ 3,526
Other equity investments	1,421	1,003

Total	$ 5,052	$ 4,529
Total investment securities	$292,381	$303,187

1 FHLB and FRB are commonly used acronyms for Federal Home Loan Bank and Federal Reserve Bank, respectively.

The following table shows the maturities and weighted-average yields of investment securities at June 30, 2001. Mortgage-backed securities are placed in maturity categories based on expected payments. All other securities are shown at their contractual maturity.

Maturities and Weighted Average Yields of Debt Securities

(dollars in thousands)
June 30, 2001

	1 year or less Amount	Rate	1 to 5 years Amount	Rate	5 to 10 years Amount	Rate	O y A
Securities available-for-sale							
U.S. Treasury	$ 12,535	5.75%	$ 2,470	5.75%	$ --	--	$
Federal agencies	$ 11,673	5.85%	$124,690	5.79%	$ 17,853	6.04%	$
Mortgage-backed securities	$ 1,674	6.12%	$ 4,400	6.15%	$ 8,806	6.69%	$
State and municipal	$ 116	5.53%	$ 3,964	6.03%	$ 4,459	6.77%	$
Other securities	$ 295	7.85%	$ 2,048	5.90%	$ --	--	$
Marketable equity securities1	$ --	--	$ --	--	$ --	--	$
Total	$ 26,293		$137,572		$ 31,118		$
Average Yield		5.84%		5.81%		6.33%	
Securities held-to-maturity							
Federal agencies	$ --	--	$ 4,745	5.67%	$ --	--	$
Mortgage-backed securities	$ 7,128	5.86%	$ 11,392	5.94%	$ 1,697	6.68%	$
State and municipal	$ 3,009	5.83%	$ 22,188	4.51%	$ 15,304	4.60%	$
Total	$ 10,137		$ 38,325		$ 17,001		$
Average Yield		5.85%		5.08%		4.81%	
Non-marketable equity securities1							
FHLB and FRB stock2	$ --	--	$ --	--	$ --	--	$
Other equity investments	$ --	--	$ --	--	$ --	--	$
Total	$ --	--	$ --	--	$ --	--	$

Loans

The following tables present the amounts and percentages of loans for June 30, 2001 and December 31, 2000 according to the categories of commercial, financial and agricultural; real estate; and installment and consumer loans.

Amount of Loans Outstanding

(dollars in thousands)

	June 30, 2001		December 31, 2000	
	Amount	Percentage	Amount	Percentage
Commercial, financial and agricultural	$221,962	32.97%	$219,541	32.83%
Real estate	321,660	47.79%	319,412	47.76%
Installment and consumer1	129,509	19.24%	129,775	19.41%
Total loans	$673,131	100.00%	$668,728	100.00%

1 Net of unearned discount

The balance of loans outstanding as of June 30, 2001 by maturity is shown in the following table:

Maturity of Loans Outstanding

(dollars in thousands)
June 30, 2001

	1 year or less	1 to 5 years	Over 5 years	Total
Commercial, financial and agricultural	$111,448	$ 84,321	$ 26,193	$ 221,962
Real estate	55,215	121,617	144,828	321,660
Installment and consumer1	37,940	84,868	6,701	129,509
Total	$204,603	$290,806	$177,722	$673,131
Percentage of total loans outstanding	30.40%	43.20%	26.40%	100.00%

1 Net of unearned discount

Capital

Total shareholders' equity increased $6,406,000 from December 31, 2000 to June 30, 2001. The change is summarized as follows:

	(in thousands)
Shareholders' equity, December 31, 2000	$ 125,402
Net income	7,732
Treasury stock transactions, net	(961)
Stock appreciation rights	19
Cash dividends declared	(2,296)
Other comprehensive income	1,912

Shareholders' equity, June 30, 2001	$ 131,808

On June 19, 2001, the board of directors of the Company declared a quarterly cash dividend of $0.11 per share of the Company's common stock. The dividend of $1,146,000 was paid on July 20, 2001 to holders of record on July 9, 2001.

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 actions 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 June 30, 2001, that the Company and its subsidiary banks exceeded all capital adequacy requirements to which they are subject.

As of June 30, 2001, the most recent notifications from primary regulatory agencies categorized all 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 June 30, 2001:						
Total capital						
(to risk-weighted assets)						
Consolidated	$138,210	18.5%	$ 59,708	8.0%	N/A	
BankIllinois	$ 64,881	16.0%	$ 32,417	8.0%	$ 40,521	10.0%
First National Bank of Decatur	$ 47,086	15.9%	$ 23,699	8.0%	$ 29,624	10.0%
First Trust Bank of Shelbyville	$ 11,632	23.4%	$ 3,974	8.0%	$ 4,968	10.0%
Tier I capital						
(to risk-weighted assets)						
Consolidated	$129,157	17.3%	$ 29,854	4.0%	N/A	
BankIllinois	$ 59,844	14.8%	$ 16,208	4.0%	$ 24,313	6.0%
First National Bank of Decatur	$ 43,438	14.7%	$ 11,850	4.0%	$ 17,775	6.0%
First Trust Bank of Shelbyville	$ 11,264	22.7%	$ 1,987	4.0%	$ 2,981	6.0%

Tier I capital (to average assets)						
Consolidated	$129,157	12.0%	$ 43,289	4.0%	N/A	
BankIllinois	$ 59,844	10.2%	$ 23,429	4.0%	$ 29,287	5.0%
First National Bank of Decatur	$ 43,438	10.2%	$ 17,110	4.0%	$ 21,387	5.0%
First Trust Bank of Shelbyville	$ 11,264	15.6%	$ 2,287	4.0%	$ 3,608	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 specified 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.

The following table presents the Company's interest rate sensitivity at various intervals at June 30, 2001:

Rate Sensitivity of Earning Assets and Interest Bearing Liabilities

(dollars in thousands)

	1-30 Days	31-90 Days	91-180 Days	181-365 Days	Over 1 year
Interest earning assets:					
Federal funds sold and interest earning deposits	$ 11,931	$ --	$ --	$ --	$ --
Debt and equity securities 1	9,916	16,772	7,860	46,425	211,408
Loans 2	186,359	29,103	40,386	63,988	361,029
Total earning assets	$ 208,206	$ 45,875	$ 48,246	$ 110,413	$ 572,437
Interest bearing liabilities:					
Savings and interest bearing demand deposits 3	$ 29,413	$ 1,086	$ 1,628	$ 3,263	$ 144,012
Money market savings deposits	135,768	--	--	--	--
Time deposits	36,855	45,575	76,661	98,630	99,584
Federal funds purchased, repurchase agreements, and notes payable	73,258	103	98	440	4,204
FHLB advances and other borrowings	--	1,000	5,031	161	34,733
Total interest bearing liabilities	$ 275,294	$ 47,764	$ 83,418	$ 102,494	$ 282,533
Net asset (liability) funding gap	(67,088)	(1,889)	(35,172)	7,919	289,904

Repricing gap	0.76	0.96	0.58	1.08	2.03
Cumulative repricing gap	0.76	0.79	0.74	0.81	1.24

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 for 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	Over 1 Year
Savings and interest-bearing demand deposits	0.45%	0.85%	1.25%	2.45%	95.00%

At June 30, 2001, the Company was liability-sensitive due to the levels of savings and interest bearing demand deposits, short-term time deposits, and short-term borrowings. As such, the effect of a decrease in the interest rate for all interest earning assets and interest bearing liabilities of 100 basis points would increase annualized net interest income by approximately $671,000 in the 1-30 days category and $690,000 in the 1-90 days category assuming no management intervention. An increase in interest rates would have the opposite effect for the same time periods.

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 which permit the Company to borrow federal funds on an unsecured basis. Additionally, the Company can borrow approximately $27,237,000 from the Federal Home Bank on a secured basis.

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 June 30, 2001 and December 31, 2000 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.

Basis Point Change				
	+200	+100	-100	-200

June 30, 2001	2.8%	1.4%	(1.4%)	(2.8%)
December 31, 2000	0.2%	0.1%	(0.1%)	(0.2%)

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 maximize current earnings 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 six months of 2001. A review of the consolidated statements of cash flows included in the accompanying financial statements shows that the Company's cash and cash equivalents decreased $22,160,000 from December 31, 2000 to June 30, 2001. This decrease came from cash used in financing activities offset by cash provided by operating and investing activities.

There were differences in the sources and uses of cash during the first six months of 2001 compared to the first six months of 2000. Less cash was provided by operating activities during the first six months of 2001 compared to the same period of 2000. More cash was used during the first six months of 2001 for net loans originated for sale because originated loans were higher than proceeds from sales whereas during the first six months of 2000, proceeds from sales were slightly higher than loans originated. Cash was used by other operating activities during the first six months of 2001 compared to cash provided during the same period of 2000. Cash was provided by investing activities during the first six months of 2001 compared to cash used during the same period of 2000 due to a smaller amount of loan growth in 2001 compared to 2000 and due to changes in the Company's investment portfolio. During the first six months of 2001, net cash provided by investing activities involving the Company's investment portfolio increased $12,698,000 compared to a decrease of $3,034,000 during the same period of 2000. More cash was used in financing activities during the first six months of 2001 compared to the same period of 2000 primarily due to a decrease in deposits during the first six months of 2001 compared to an increase during the same period of 2000. More cash was provided by federal funds purchased, repurchase agreements and notes payable during the first six months of 2001 compared to the same period in 2000. Cash was used during the first six months of 2001 due to a decrease in Federal Home Loan Bank advances compared to cash provided during the same period of 2000.

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 balance of the allowance for loan losses was $8,975,000 at June 30, 2001 compared to $8,879,000 at December 31, 2000, as net charge-offs were $514,000 and provisions totaled $610,000 during the first six months of 2001. The allowance for loan losses as a percentage of gross loans, including loans held-for-sale, was 1.32% at June 30, 2001, and equal to the December 31, 2000 percentage. Gross loans, including loans held-for-sale, remained fairly stable, increasing slightly to $680,865,000 at June 30, 2001 from $670,818,000 at December 31, 2000.

The allowance for loan losses as a percentage of non-performing loans was 301.0% at June 30, 2001 compared to 613.2% at December 31, 2000. Non-performing loans increased from $1,448,000 at December 31, 2000, to $2,982,000 at June 30, 2001. The $1,534,000 increase in non-performing loans during the first six months resulted from a $1,303,000 increase in loans over 90 days past due and a $231,000 increase in non-accruals. The increase in non-accruals consisted of a mix of commercial and real estate loans. The rise in loans over 90-days past due and still accruing was due primarily to a $600,000 farm credit, which is being refinanced by another financial institution, and other smaller commercial and consumer loans. Although unforeseen market conditions could result in significant adjustments in the future, management believes that problem assets have been effectively identified and that the allowance for loan losses is adequate to absorb probable losses in the portfolio which are reasonably anticipated. However, there can be no assurance that the allowance for loan losses will be adequate to cover all losses.

Along with other financial institutions, management shares a concern for the continued softening of the economy in 2001. Should the economic climate continue to deteriorate, borrowers may experience difficulty, and the level of non-performing loans, charge-offs, and delinquencies could rise and require further increases in the provision.

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)

	June 30, 2001	June 30, 2000
Allowance for loan losses at beginning of year	$ 8,879	$ 8,682
Charge-offs during period:		
Commercial, financial and agricultural	$ (243)	$ (10)
Real estate	--	(18)
Installment and consumer	(501)	(361)
Total	$ (744)	$ (389)
Recoveries of loans previously charged off:		
Commercial, financial and agricultural	$ 90	$ 383
Residential real estate	36	1
Installment and consumer	104	87
Total	$ 230	$ 471
Net (charge-offs) recoveries	$ (514)	$ 82

Provision for loan losses	610	267
Allowance for loan losses at end of quarter	$ 8,975	$ 9,031
Ratio of net (charge-offs) recoveries to average net loans	(0.08)%	0.01%

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

Allocation of the Allowance for Loan Losses

	June 30, 2001	December 31, 2000
Allocated:		
Commercial, financial and agricultural	$5,013	$3,426
Residential real estate	348	855
Installment and consumer	1,799	1,649
Total allocated allowance	$7,160	$5,930
Unallocated allowances	1,815	2,949
Total	$8,975	$8,879

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)

	June 30, 2001	December 31, 2000
Nonaccrual loans1	$ 833	$ 602
Loans past due 90 days or more	$2,149	$ 846
Renegotiated loans	$ 73	$ 88

1 Includes $495,000 at June 30, 2001 and $505,000 at December 31, 2000 of real estate and consumer loans which management does not consider impaired as defined by the Statement of Financial Accounting Standards No. 114, "Accounting by Creditors for Impairment of a Loan" (SFAS 114).

Results of Operations

Results of Operations For the Six Months Ended June 30, 2001

The merger of equals to create the Company, which occurred near the end of the first quarter of 2000, resulted in significant merger related costs which were expensed during the first six months of 2000. These expenses had a significant effect on the reported net income of the combined entity during the first half of 2000. Net income for the first six months of 2001 was $7,732,000, a $2,821,000, or 57.4%, increase from $4,911,000 for the same period in 2000.

Basic earnings per share increased $0.28, or 60.9%, to $0.74 in the first six months of 2001 from $0.46 in the same period of 2000. Diluted earnings per share increased $0.28, or 62.2%, to $0.73 in the first six months of 2001 from $0.45 during the same period in 2000.

Operating earnings for the six months ended June 30, 2001, were $7,947,000 compared to $7,927,000 for the same period in 2000, an increase of $20,000, or 0.3%. Basic operating earnings per share increased to $0.76, or 1.3%, in the first six months of 2001 from $0.75 in the same period of 2000. Diluted earnings per share on operating earnings for the first six months of 2001 increased 2.7%, or $0.02, to $0.75, from $0.73 in the same period in 2000. The difference between operating and net earnings was due to merger and restructuring related expenses, net of tax, of $215,000 during the first half of 2001 compared to $3,016,000 during the same period in 2000. The 2001 merger and restructuring related expenses consisted of $70,000 of data processing expense and $256,000 of termination of employment contracts, offset by $111,000 of tax benefit. The 2000 merger and restructuring related expenses consisted of $2,452,000 of professional fees, $941,000 of early retirement and termination of employment contracts, offset by $377,000 of tax benefit.

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 Interest Rates

(dollars in thousands)

	Six Months Ended June 30,				
	2001			2	
	Average Balance	Interest	Rate	Average Balance	Int
Assets					
Taxable investment securities1	$ 243,223	$ 7,186	5.91%	$ 265,242	$
Tax-exempt investment securities1 (TE) .	50,245	1,677	6.68%	43,001	
Federal funds sold and interest earning deposits2	48,037	1,235	5.14%	26,098	
Loans3,4 (TE)	662,057	28,381	8.57%	604,677	
Total interest earning assets and interest income (TE)	$1,003,562	$ 38,479	7.67%	$ 939,018	$
Cash and due from banks	$ 50,859			$ 51,010	
Premises and equipment	20,724			22,046	
Other assets	20,013			21,904	
Total assets	$1,095,158			$1,033,978	
Liabilities and Shareholders' Equity					
Interest bearing demand deposits	$ 243,809	$ 4,229	3.47%	$ 225,351	$
Savings	78,652	962	2.45%	90,837	
Time deposits	363,878	10,581	5.82%	337,420	
Federal funds purchased, repurchase agreements, and notes payable	71,683	1,482	4.13%	76,696	
FHLB advances and other borrowings	40,009	1,171	5.85%	32,192	

Total interest bearing liabilities and interest expense	$ 798,031	$ 18,425	4.62%	$ 762,496	$
Noninterest bearing demand deposits5 ...	$ 113,071			$ 84,979	
Noninterest bearing savings deposits5 ..	40,743			55,161	
Other liabilities	14,909			14,143	
Total liabilities	$ 966,754			$ 916,779	
Shareholders' equity	128,404			117,199	
Total liabilities and stockholders' equity	$1,095,158			$1,033,978	
Interest spread (average rate earned minus average rate paid) (TE)			3.05%		
Net interest income (TE)		$ 20,054			$
Net yield on interest earnings assets (TE)			4.00%		

See next page for Notes 1-5.

Notes to Consolidated Average Balance Sheet and Interest Rate Tables:

1 Investments in debt securities are included at carrying value.

2 Federal funds sold and interest earning deposits include approximately $70,000 and $82,000 in 2001 and 2000, respectively, of interest income from third party processing of cashier checks.

3 Loans are net of allowance for loan losses and include mortgage loans held for sale. Nonaccrual loans are included in the total.

4 Loan fees of approximately $440,000 and $431,000 in 2001 and 2000, respectively, are included in total loan income.

5 Due to current regulatory issues, the Company is allowed to reclassify certain demand deposits to savings deposits. Accounts identified as transactional remained in the demand categories, while accounts identified as non-transactional were reclassified into the savings categories. The classification was based upon whether the account balance was fluctuating or whether it exhibited stable balance portions, which were called non-transactional. Banks are required to hold balances at the Federal Reserve Bank based upon transactional account balances. By identifying these accounts as non-transactional, the Company was able to reduce the balances required to be held at the Federal Reserve Bank in a non-interest bearing reserve account.

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 these 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 34%. 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)
Six Months Ended June 30, 2001

	Increase (Decrease) from Previous Year	Due to Volume	Due to Rate
Interest Income			
Taxable investment securities	$ (666)	$ (651)	$ (15)
Tax-exempt investment securities (TE)	198	243	(45)
Federal funds sold and interest earning deposits	373	598	(225)
Loans (TE)	2,144	2,463	(319)
Total interest income (TE)	$ 2,049	$ 2,653	$ (604)
Interest Expense			
Interest bearing demand and savings deposits1	$ 117	$ 100	$ 17
Time deposits	1,425	745	680
Federal funds purchased, repurchase agreements and notes payable	(498)	(123)	(375)
FHLB advances and other borrowings	252	228	24
Total interest expense	$ 1,296	$ 950	$ 346
Net Interest Income (TE)	$ 753	$ 1,703	$ (950)

1 Due to deposit reclassifications described above, interest bearing demand and savings deposits are included in the same line for comparability.

Net interest income on a tax equivalent basis was $753,000, or 3.9% higher for the first six months of 2001 compared to 2000. Total tax-equivalent interest income was $2,049,000 or 5.6% higher in 2001 compared to 2000, and interest expense increased $1,296,000, or 7.6%. The increase in interest income was due to an increase in average earning assets offset slightly by a decrease in rate. The increase in interest expense was mainly due to an increase in average interest bearing liabilities.

The increase in total interest income was mainly due to an increase in interest income from loans as well as federal funds sold and interest earning deposits, and tax-exempt investment securities, offset somewhat by a decrease in income from taxable investment securities. The increases in interest income from loans, federal funds sold and interest earning deposits, and tax-exempt investments were primarily due to increases in average balances outstanding during the first six months of 2001 compared to the first six months of 2000, offset slightly by decreases in rate. The decrease in taxable investment interest income was mainly due to a decrease in average balance. Shifting assets to fund loan growth caused the decrease in balance in the investment portfolio.

The increase in total interest expense was due to increases in interest on time deposits, FHLB advances and other borrowings, and interest bearing demand and savings deposits, offset somewhat by a decrease in interest expense on federal funds purchased, repurchase agreements and notes payable. Interest expense on time deposits increased during the first six months of 2001 compared to the first six months of 2000 due to both higher average balances and higher rates. Interest expense on FHLB advances and other borrowings as well as interest bearing demand and savings deposits increased during the first six months of 2001 compared to the first six months of 2000 primarily due to an increase in average balances. Somewhat offsetting the increase in total interest expense was a decrease in interest on federal funds purchased, repurchase agreements and notes payable, which was primarily due to lower rates.

The provision for loan losses recorded was $610,000 during the first six months of 2001. This was $343,000, or 128.5%, higher than the $267,000 recorded during the first six months of 2000. 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.

Total non-interest income decreased $28,000, or 0.3%, during the first six months of 2001 compared to the first six months of 2000. Included in this decrease was a decrease of $215,000, or 6.1%, in income from remittance processing. This decrease continues to reflect a shift in late 2000 from lockbox payments to mechanized payments, which have lower revenue streams as well as lower costs. Other income decreased $164,000, or 16.8%, during the first six months of 2001 compared to the same period in 2000. Proceeds from a life insurance policy of approximately $81,000 in the first half of 2000, along with $22,000 in one-time fee income from a third party during the same period, caused results in the first six months of 2001 to be less than those in the same period of 2000. Income from trust and brokerage fees decreased $135,000, or 4.9%, during the first half of 2001 compared to the same period in 2000. This was due, in part, to a decrease in total assets under management, and associated income, during most of the first half of 2001 as a result of stock market fluctuations. Service charges on deposit accounts decreased $3,000, or 0.3%, in the first half of 2001. Somewhat offsetting these decreases was an increase of $256,000, or 433.9%, from gains on sales of mortgage loans held-for-sale. This increase reflected a $31,366,000, or 390.3%, increase in funded mortgage loans held-for-sale during the first six months of 2001 compared to the same period in 2000, and was reflective of lower interest rates during the first six months of 2001. Income from securities transactions increased $233,000, or 1,664.3%, during the first six months of 2001 compared to the same period in 2000. This was the result of the sale of some securities to reposition the portfolio in the current changing rate environment.

Total non-interest expense decreased $2,746,000, or 14.7%, during the first six months of 2001 compared to the same period in 2000. Of this decrease, $2,452,000 was due to merger related professional fees in 2000. Salaries and employee benefits decreased $956,000, or 9.8%, during the first half of 2001 compared to the same period in 2000. Salaries and employee benefits in the first half of 2001 included $256,000 of expenses related to the termination of employment contracts compared to $941,000 in expenses during the same period in 2000 related to early retirement and termination of employment contracts as a result of the merger. Service charges from correspondent banks decreased $136,000, or 23.7%, in the first six months of 2001 compared to the same period in 2000. This was mainly due to a continuing trend toward fewer lockbox transactions, resulting in decreased service charges from correspondent banks. Somewhat offsetting these decreases was an increase in other non-interest expense of $413,000, or 20.9%, during the first half of 2001 compared to the same period in 2000. This was the result of proceeds of $461,000 in April of 2000 from the sale of a property previously written off. Office supplies increased $197,000, or 33.4%, in the first half of 2001 compared to the same period in 2000. Included in office supplies expense were additional printing and mailing expense and additional supplies purchased to support and announce a computer system conversion necessary to move the Company's subsidiaries toward the same data processing system. Equipment expense increased $94,000, or 6.4%, during the first six months of 2001 compared to the same period in 2000. Data processing expense increased $86,000, or 11.1%, in the first six months of 2001 compared to the first six months of 2000. Included in data processing expense in the first half of 2001 were $70,000 in expenses related to computer system conversion and early contract termination as a result of the aforementioned computer system conversion. Occupancy expense increased $8,000, or 0.7%, during the first six months of 2001 compared to the same period in 2000.

Income tax expense increased $231,000, or 7.1%, during the first six months of 2001 compared to the first six months of 2000. The effective tax rate decreased to 31.0% during the first half of 2001 from 39.7% during the first half of 2000. This difference was due to $2,452,000 of merger related professional fees for which no tax benefit had been recognized in the first half of 2000.

Results of Operations For the Three Months Ended June 30, 2001

The merger of equals to create the Company, which occurred near the end of the first quarter of 2000, resulted in additional merger related costs of $151,000, net of tax, which were expensed during the second quarter of 2000. These expenses had an effect on the reported net income of the combined Company. Net income for the second quarter of 2001 was $4,064,000, a $147,000, or 3.8%, increase from $3,917,000 during the second quarter of 2000. Basic earnings per share increased $0.02, or 5.4%, to $0.39 in the second quarter of 2001 from $0.37 in the same period of 2000. Diluted earnings per share increased $0.02, or 5.6%, to $0.38 in the second quarter of 2001 from $0.36 in the same period of 2000.

Operating earnings for the second quarter of 2001, were $4,064,000 compared to $4,068,000 for the same period in 2000, a decrease of $4,000, or 0.1%. Basic operating earnings per share increased $0.01, or 2.6%, to $0.39 in the second quarter of 2001 compared to $0.38 in the second quarter of 2000. Diluted operating earnings per share were unchanged at $0.38 in the second quarter of 2001 compared to the second quarter of 2000.

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 Interest Rates

(dollars in thousands)

	Three Months Ended June 30,				
	2001			200	
	Average Balance	Interest	Rate	Average Balance	Inte
Assets					
Taxable investment securities1	$ 233,279	$ 3,504	6.01%	$ 263,132	$
Tax-exempt investment securities1 (TE) .	51,939	854	6.58%	43,880	
Federal funds sold and interest earning deposits2	34,398	575	6.69%	15,794	
Loans3,4 (TE)	666,354	14,132	8.48%	612,250	1
Total interest earning assets					

and interest income (TE)	$ 985,970	$ 19,065	7.73%	$ 935,056	$ 1
Cash and due from banks	$ 54,907			$ 49,836	
Premises and equipment	20,514			21,875	
Other assets	20,825			22,006	
Total assets	$1,082,216			$1,028,773	
Liabilities and Shareholders' Equity					
Interest bearing demand deposits	$ 247,620	$ 1,889	3.05%	$ 216,561	$
Savings	76,682	449	2.34%	90,765	
Time deposits	360,612	5,248	5.82%	340,512	
Federal funds purchased, repurchase agreements, and notes payable	72,555	703	3.88%	82,698	
FHLB advances and other borrowings	40,932	557	5.44%	32,345	
Total interest bearing liabilities and interest expense	$ 798,401	$ 8,846	4.43%	$ 762,881	$
Noninterest bearing demand deposits5 ...	$ 118,066			$ 85,212	
Noninterest bearing savings deposits5 ..	20,623			49,049	
Other liabilities	14,894			14,186	
Total liabilities	$ 951,984			$ 911,328	
Shareholders' equity	130,232			117,445	
Total liabilities and stockholders' equity	$1,082,216			$1,028,773	
Interest spread (average rate earned minus average rate paid) (TE)			3.30%		
Net interest income (TE)		$ 10,219			$
Net yield on interest earnings assets (TE)			4.15%		

Notes to Consolidated Average Balance Sheet and Interest Rate Tables:

1 Investments in debt securities are included at carrying value.

2 Federal funds sold and interest earning deposits include approximately $35,000 and $39,000 in 2001 and 2000, respectively, of interest income from third party processing of cashier checks.

3 Loans are net of allowance for loan losses and include mortgage loans held for sale. Nonaccrual loans are included in the total.

4 Loan fees of approximately $265,000 and $196,000 in 2001 and 2000, respectively, are included in total loan income.

5 Due to current regulatory issues, the Company is allowed to reclassify certain demand deposits to savings deposits. Accounts identified as transactional remained in the demand categories, while accounts identified as non-transactional were reclassified into the savings categories. The

classification was based upon whether the account balance was fluctuating or whether it exhibited stable balance portions, which were called non-transactional. Banks are required to hold balances at the Federal Reserve Bank based upon transactional account balances. By identifying these accounts as non-transactional, the Company was able to reduce the balances required to be held at the Federal Reserve Bank in a non-interest bearing reserve account.

The following table presents, on a tax equivalent 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 June 30, 2001

	Increase (Decrease) from Previous Year	Due to Volume	Due to Rate
Interest Income			
Taxable investment securities	$ (406)	$ (447)	$ 41
Tax-exempt investment securities (TE)	93	134	(41)
Federal funds sold and interest earning deposits	310	311	(1)
Loans (TE)	797	1,155	(358)
Total interest income (TE)	$ 794	$ 1,153	$ (359)
Interest Expense			
Interest bearing demand and savings deposits1 ..	$ (205)	$ 135	$ (340)
Time deposits	637	281	356
Federal funds purchased,			
repurchase agreements and notes payable	(272)	(111)	(161)
FHLB advances and other borrowings	97	117	(20)
Total interest expense	$ 257	$ 422	$ (165)
Net Interest Income (TE)	$ 537	$ 731	$ (194)

Net interest income on a tax equivalent basis was $507,000, or 5.2%, higher for the second quarter of 2001 compared to the second quarter of 2000. Total tax-equivalent interest income was $764,000, or 4.2%, higher in 2001 compared to 2000, and interest expense increased $257,000, or 3.0%. The increase in both interest income and interest expense was primarily due to an increase in average balances offset slightly by decreased interest rates.

The increase in total interest income was due to an increase in interest income from loans; federal funds sold and interest earning deposits; and tax-exempt investment securities interest. These increases were somewhat offset by a decrease in taxable investment securities interest. The increase in interest income from loans was primarily due to an increase in average loans outstanding during the second quarter of 2001 compared to the second quarter of 2000, offset somewhat by a decrease in rates. The increase in interest from federal funds sold and interest earning deposits was due to an increase in average balances. The increase in tax-exempt investment interest income was due to an increase in average tax-exempt investments, offset somewhat by lower yields. The decrease in interest from taxable investments was caused by a decrease in average taxable investments, somewhat offset by higher yields. The decrease in the total average investment portfolio was primarily caused by shifting assets to fund loan growth.

The increase in total interest expense was due to increases in interest expense on time deposits and FHLB advances and other borrowings offset somewhat by decreases in federal funds purchased, repurchase agreements and notes payable and interest bearing demand and savings deposits. Interest expense on time deposits increased during the second quarter of 2001 compared to the second quarter of 2000 due to both increases in rate and average balances. Interest expense on FHLB advances and other borrowings increased during the second quarter of 2001 compared to the second quarter of 2000 due to an increase in volume offset slightly by a decrease in rate. Somewhat offsetting these increases was a decrease in federal funds purchased, repurchase agreements and notes payable during the second quarter of 2001 compared to the second quarter of 2000 due to decreases in both rate and average balances. Interest on interest bearing demand and savings deposits also decreased during the second quarter of 2001 compared to the second quarter of 2000 due to decreases in rate offset somewhat by an increase in volume.

The provision for loan losses recorded was $375,000 for the second quarter of 2001. This represented a 186.3% increase over the $131,000 recorded in the second quarter of 2000. 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.

Total non-interest income increased $174,000, or 4.3%, during the second quarter of 2001 compared to the second quarter of 2000. Included in this increase was an increase of $158,000, or 987.5%, in income from securities transactions in the second quarter of 2001. This was the result of the sale of some securities to reposition the portfolio in the current changing rate environment. Also contributing to the increase in total non-interest income was an increase of $135,000, or 540.0% in gains on sales of mortgage loans held-for-sale. This increase reflected a $19,450,000, or 470.5%, increase in funded mortgage loans held-for-sale during the second quarter of 2001 compared to the second quarter of 2000 when interest rates were higher. Somewhat offsetting the increase in non-interest income was a decrease in other non-interest income of $118,000, or 23.8%, in the second quarter of 2001 compared to the same period in 2000. Remittance processing, trust and brokerage fees, and service charges on deposit accounts remained stable in the second quarter of 2001 compared to the same period in 2000.

Total non-interest expense increased $286,000, or 3.7%, during the second quarter of 2001 compared to the second quarter of 2000. Other non-interest expense contributed $450,000, or 60.5%, to this increase. This was the result of proceeds of $461,000 in April of 2000 from the sale of a property previously written off. An increase also occurred in office supplies of $100,000, or 33.6%. Equipment expense increased $76,000, or 10.4%, compared to 2000. Service charges from correspondent banks increased $40,000, or 14.5%. Data processing expense increased $7,000, or 1.8%. Somewhat offsetting these increases was a decrease of $342,000, or 7.4%, in salaries and employee benefits during the second quarter of 2001. This decrease was due, in part, to $228,000 of expense related to early retirement and termination of employment contracts as a result of the merger in the second quarter of 2000. Occupancy expense decreased $45,000, or 8.1%, in the second quarter of 2001 compared to the same period in 2000.

Income tax expense decreased $4,000, or 0.2%, during the second quarter of 2001 compared to the second quarter of 2000. The effective tax rate remained stable at 30.8% during the second quarter of 2001 and 31.7% during the second quarter of 2000.

Business Segment Information

The Company currently operates in two industry segments. The primary business involves providing banking services to central Illinois. BankIllinois, First National Bank of Decatur and First Trust Bank of Shelbyville 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; discount brokerage services 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 to the biller; processing of payments delivered by customer 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 Visa e-Pay and Mastercard RPS. The following is a summary of selected data for the various business segments:

	Banking Services	Remittance Services	Company	Eliminations	Total
June 30, 2001					
Total interest income	$ 37,872	$ 72	$ 58	$ (125)	$ 37,87
Total interest expense	18,550	--	--	(125)	18,42
Provision for loan losses ...	610	--	--	--	61
Total non-interest income ...	5,135	3,541	117	(444)	8,34
Total non-interest expense ..	13,100	2,646	687	(444)	15,98
Income before income tax	10,747	967	(512)	--	11,20
Income tax expense	3,319	330	(179)	--	3,47
Net income	7,428	637	(333)	--	7,73
Total assets	1,065,623	6,876	136,740	(140,768)	1,068,47
Depreciation and amortization	1,170	246	13	--	1,42
June 30, 2000					
Total interest income	$ 35,909	$ 63	$ 111 63	$ (179)	$ 35,90
Total interest expense	17,308	--	--	(179)	17,12
Provision for loan losses ...	267	--	--	--	26
Total non-interest income ...	4,942	3,984	68	(617)	8,37
Total non-interest expense ..	12,521	3,179	3,652	(617)	18,73
Income before income tax	10,755	868	(3,473)	--	8,15
Income tax expense	3,347	302	(410)	--	3,23
Net income	7,408	566	(3,063)	--	4,91
Total assets	1,015,876	6,463	123,013	(119,938)	1,025,41
Depreciation and amortization	1,135	262	12	--	1,40

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

This report contains certain forward-looking statements within the meaning of

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

Item 3. Quantitative and Qualitative Disclosures about Market Risk

See the "Interest Rate Sensitivity" section above.

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. Changes in Securities

None

Item 3. Defaults Upon Senior Securities

None

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

On May 14, 2001, the Company's annual meeting of stockholders was held. At the meeting, George T. Shapland, Thomas G. Sloan, Roy V. VanBuskirk, and H. Gale Zacheis were elected to serve as Class II directors with terms expiring in 2004. Continuing as Class III directors with terms expiring in 2002 were David J. Downey, Van A. Dukeman, Larry D. Haab, John W. Luttrell and Gene A. Salmon. Continuing as Class I directors with terms expiring in 2003 were Frederic L. Kenney, Gregory B. Lykins, August C. Meyer and Phillip C. Wise.

There were 10,582,484 issued and outstanding shares of common stock entitled to vote at the annual meeting. The voting on each item presented at the annual meeting was as follows:

Elections of Directors:

	For	Withheld
George T. Shapland	8,508,364	48,729
Thomas G. Sloan	8,495,335	61,758
Roy V. VanBuskirk	8,508,364	48,729
H. Gale Zacheis	8,497,256	59,837

Item 5. Other Information

None

Item 6. Exhibits and Reports on Form 8-K

a. Exhibits

None

b. Reports

None

SIGNATURES

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

MAIN STREET TRUST, INC.

Date: August 14, 2001

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