MAIN STREET TRUST INC
Form 10-Q
November 07, 2003

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, 2003

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, 2003.

Main Street Trust, Inc. Common Stock 9,499,212

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

MAIN STREET TRUST, INC. AND SUBSIDIARIES
Consolidated Balance Sheets
September 30, 2003 and December 31, 2002
(Unaudited, in thousands, except share data)

	September 30, 2003	December 31 2002
ASSETS		
Cash and due from banks	$ 47,970	$ 59,744
Federal funds sold and interest bearing deposits	38,806	43,002
Cash and cash equivalents	86,776	102,746
Investments in debt and equity securities:		
Available-for-sale, at fair value	262,273	240,616
Held-to-maturity, at cost (fair value of $100,342 and $70,489 at September 30, 2003 and December 31, 2002, respectively)	100,990	68,563
Non-marketable equity securities	7,469	7,031

Total investments in debt and equity securities	370,732	316,210
Loans, net of allowance for loan losses of $9,693 and $9,259 at September 30, 2003 and December 31, 2002, respectively	645,839	664,142
Mortgage loans held for sale	1,887	2,972
Premises and equipment	17,594	18,349
Accrued interest receivable	7,449	7,315
Other assets	17,196	10,994
Total assets	$ 1,147,473	$ 1,122,728
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Deposits:		
Non-interest bearing	$ 151,747	$ 163,903
Interest bearing	710,110	704,683
Total deposits	861,857	868,586
Federal funds purchased, repurchase agreements and notes payable	102,710	80,651
Federal Home Loan Bank advances and other borrowings	29,999	27,806
Accrued interest payable	1,605	2,252
Other liabilities	42,013	8,963
Total liabilities	1,038,184	988,258
Shareholders' equity:		
Preferred stock, no par value; 2,000,000 shares authorized	--	--
Common stock, $0.01 per value; 15,000,000 shares authorized; 11,219,319 shares issued at September 30, 2003 and December 31, 2002	112	112
Paid in capital	55,268	55,337
Retained earnings	99,720	92,853
Accumulated other comprehensive income	2,231	3,776
	157,331	152,078
Less: treasury stock, at cost, 1,742,435 and 755,047 shares at September 30, 2003 and December 31, 2002, respectively	(48,042)	(17,608
Total shareholders' equity	109,289	134,470
Total liabilities and shareholders' equity	$ 1,147,473	$ 1,122,728

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, 2003 and 2002
(Unaudited, in thousands, except share data)

	2003	2002

Interest income:		
Loans and fees on loans	$ 31,548	$ 36,381
Investments in debt and equity securities		
Taxable	8,647	9,632
Tax-exempt	1,722	1,783
Federal funds sold and interest bearing deposits	363	302
Total interest income	42,280	48,098
Interest expense:		
Deposits	10,837	14,403
Federal funds purchased, repurchase agreements and notes payable	817	919
Federal Home Loan Bank advances and other borrowings	1,156	1,444
Total interest expense	12,810	16,766
Net interest income	29,470	31,332
Provision for loan losses	990	990
Net interest income after provision for loan losses	28,480	30,342
Non-interest income:		
Remittance processing	5,312	5,555
Trust and brokerage fees	4,230	4,625
Service charges on deposit accounts	1,906	1,762
Securities transactions, net	(49)	228
Gain on sales of mortgage loans, net	2,214	773
Other	1,577	1,214
Total non-interest income	15,190	14,157
Non-interest expense:		
Salaries and employee benefits	13,893	14,407
Occupancy	1,847	1,759
Equipment	1,787	2,069
Data processing	1,563	1,732
Office supplies	962	959
Service charges from correspondent banks	698	709
Other	3,685	3,614
Total non-interest expense	24,435	25,249
Income before income taxes	19,235	19,25
Income taxes	6,540	6,318
Net income	$ 12,695	$ 12,932
Per share data:		
Basic earnings per share	$ 1.21	$ 1.19
Weighted average shares of common stock outstanding	10,491,883	10,900,115
Diluted earnings per share	$ 1.20	$ 1.18
Weighted average shares of common stock and dilutive potential common shares outstanding	10,604,327	10,979,889

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, 2003 and 2002
(Unaudited, in thousands)

	2003	2002
Net income	$ 12,695	$ 12,932
Other comprehensive income, before tax:		
Unrealized gains (losses) on securities:		
Unrealized holding gains (losses) arising during period, net of tax of ($1,050) and $1,111 for September 30, 2003 and 2002, respectively	(1,574)	1,352
Less: reclassification adjustment for (gains) losses included in net income, net of tax of $20 and $(91), for September 30, 2003 and 2002, respectively	29	(137
Other comprehensive income, net of tax	(1,545)	1,215
Comprehensive income	$ 11,150	$ 14,147

See accompanying notes to unaudited consolidated financial statements.

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MAIN STREET TRUST, INC. AND SUBSIDIARIES
Consolidated Statements of Income
For the Three Months Ended September 30, 2003 and 2002
(Unaudited, in thousands, except share data)

	2003	2002
Interest income:		
Loans and fees on loans	$ 10,146	$ 11,999
Investments in debt and equity securities		
Taxable	2,875	3,177
Tax-exempt	556	589
Federal funds sold and interest bearing deposits	109	106
Total interest income	13,686	15,871
Interest expense:		
Deposits	3,346	4,678
Federal funds purchased, repurchase agreements and notes payable	270	270
Federal Home Loan Bank advances and other borrowings	392	451
Total interest expense	4,008	5,399
Net interest income	9,678	10,472
Provision for loan losses	330	330
Net interest income after provision for loan losses	9,348	10,142
Non-interest income:		
Remittance processing	1,814	1,769
Trust and brokerage fees	1,435	1,743
Service charges on deposit accounts	666	612

Securities transactions, net	(6)	(62
Gain on sales of mortgage loans, net	972	378
Other	539	198
Total non-interest income	5,420	4,638
Non-interest expense:		
Salaries and employee benefits	4,650	4,556
Occupancy	641	598
Equipment	575	707
Data processing	505	494
Office supplies	334	325
Service charges from correspondent banks	233	226
Other	1,312	1,185
Total non-interest expense	8,250	8,091
Income before income taxes	6,518	6,689
Income taxes	2,253	2,210
Net income	$ 4,265	$ 4,479
Per share data:		
Basic earnings per share	$ 0.41	$ 0.43
Weighted average shares of common stock outstanding	10,499,741	10,486,735
Diluted earnings per share	$ 0.40	$ 0.42
Weighted average shares of common stock and dilutive potential common shares outstanding	10,631,293	10,591,587

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, 2003 and 2002
(Unaudited, in thousands)

	2003	2002
Net income	$ 4,265	$ 4,479
Other comprehensive income, before tax:		
Unrealized gains (losses) on securities:		
Unrealized holding gains (losses) arising during period, net of tax of ($1,099) and $635 for September 30, 2003 and 2002, respectively	(1,647)	953
Less: reclassification adjustment for losses included in net income, net of tax of $3 and $25 for September 30, 2003 and 2002, respectively	3	37
Other comprehensive income, net of tax	(1,644)	990
Comprehensive income	$ 2,621	$ 5,469

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, 2003 and 2002
(Unaudited, in thousands)

	2003	2002
Cash flows from operating activities:		
Net income	$ 12,695	$ 12,932
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	1,826	1,969
Amortization of bond discounts and premiums, net	1,534	830
Provision for loan losses	990	990
Securities transactions, net	49	(228)
Gain on sales of mortgage loans, net	(2,214)	(773)
Federal Home Loan Bank stock dividend	(247)	(121)
Proceeds from sales of mortgage loans originated for sale	188,245	79,865
Mortgage loans originated for sale	(184,946)	(74,011)
Other, net	(5,672)	45
Net cash provided by operating activities	12,260	21,498
Cash flows from investing activities:		
Net decrease (increase) in loans	17,303	(5,295)
Proceeds from maturities and calls of investments in debt securities:		
Held-to-maturity	9,753	1,841
Available-for-sale	140,574	72,620
Proceeds from sales of investments:		
Available-for-sale	11,085	44,732
Purchases of investments in debt and equity securities:		
Held-to-maturity	(58,691)	(14,058)
Available-for-sale	(192,787)	(108,702)
Other equity securities	(830)	(1,720)
Principal paydowns from mortgage-backed securities:		
Held-to-maturity	15,924	12,262
Available-for-sale	16,049	8,934
Return of principal on other equity securities	490	106
Purchases of premises and equipment	(1,071)	(1,521)
Net cash (used in) provided by investing activities	(42,201)	9,199
Cash flows from financing activities:		
Net decrease in deposits	(6,729)	(20,988)
Net increase (decrease) in federal funds purchased, repurchase agreements, and notes payable	22,059	(26,641)
Advances from Federal Home Loan Bank and other borrowings	2,268	13,000
Payments on Federal Home Loan Bank and other borrowings	(75)	(18,072)
Cash dividends paid	(5,243)	(4,273)
Issuance of new shares of common stock, net	--	1,222
MSTI stock transactions, net	1,691	(15,003)
Net cash used in financing activities	13,971	(70,755)
Net decrease in cash and cash equivalents	(15,970)	(40,058)
Cash and cash equivalents at beginning of year	102,746	95,379

Cash and cash equivalents at end of period	$ 86,776	$ 55,321
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	$ 12,810	$ 17,522
Income taxes	6,745	6,734
Real estate acquired through or in lieu of foreclosure	10	289
Dividends declared not paid	1,896	1,361
Obligation to purchase treasury stock	32,385	--

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, 2002, and schedules included in Main Street Trust, Inc.'s Form 10-K filed on March 21, 2003.

In the opinion of management, the consolidated financial statements of Main Street Trust, Inc. and its subsidiaries, as of September 30, 2003 and for the three-month and nine-month periods ended September 30, 2003 and 2002, 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, 2003 are not necessarily indicative of the results which may be expected for the year ended December 31, 2003.

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 2002 consolidated financial statements have been reclassified to conform with the 2003 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 "BHCA"). The Company was incorporated on August 12, 1999, and is the parent company of BankIllinois, The First National Bank of Decatur and FirsTech, Inc. The Company's two banking subsidiaries are referred to as "the Banks".

On March 23, 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 merger, which was accounted for as a pooling of interests, was completed on March 23, 2000. The Company subsequently merged the Company's former banking subsidiary, First Trust Bank of Shelbyville, into BankIllinois effective June 19, 2002.

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.

The Company completed a tender offer on June 7, 2002 with 711,832 shares, representing approximately 6.3% of the total shares then outstanding, repurchased at a cost, including expenses, of $16.556 million. The Company completed a second tender offer on September 30, 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.

Note 3. Income per Share

Net income per common share has been computed as follows:

	Nine Months Ended September 30, 2003	Nine Months Ended September 30, 2002	Three Months Ended September 30, 2003	Three Months Ended September 30, 2002
Net Income	$12,695,000	$12,932,000	$ 4,265,000	$ 4,479,000
Shares:				
Weighted average common shares outstanding	10,491,883	10,900,115	10,499,741	10,486,735
Dilutive effect of outstanding options, as determined by the application of the treasury stock method	112,444	79,774	131,552	104,852
Weighted average common shares outstanding, as adjusted	10,604,327	10,979,889	10,631,293	10,591,587
Basic earnings per share	$ 1.21	$ 1.19	$ 0.41	$ 0.43
Diluted earnings per share	$ 1.20	$ 1.18	$ 0.40	$ 0.42

Note 4. Stock Option Plans

The Company has four stock-based compensation plans, which have been in existence for all periods presented. 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 September 30,		Three Months En September 30	
	2003	2002	2003	2
Net income on common stock:				
As reported	12,695	12,932	4,265	4
Deduct total stock-based compensation expense determined under the fair value method for all awards, net of related tax effects	(189)	(249)	(72)	
Pro forma	12,506	12,683	4,193	4
Basic earnings per share:				
As reported	$ 1.21	$ 1.19	$ 0.41	$
Pro forma	1.19	1.16	0.40	
Diluted earnings per share:				
As reported	$ 1.20	$ 1.18	$ 0.40	$
Pro forma	1.18	1.16	0.39	

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,	
	2003	2002
Number of options granted	129,000	158,000
Risk-free interest rate	3.64%	5.20%
Expected life, in years	8.00	8.00
Expected volatility	13.35%	10.34%
Expected dividend yield	2.42%	2.80%

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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. Those 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, 2003 and December 31, 2002:

	September 30, 2003	December 31, 2002
Financial instruments whose contract amounts represent credit risk:		
Commitments	$207,784	$201,181
Standby letters of credit	11,181	11,563

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 receivables; inventory; property, plant and equipment; and income-producing commercial properties. Also included in commitments at September 30, 2003 was $3.672 million to purchase other equity securities, compared to $1.750 million at December 31, 2002.

Standby letters of credit are conditional commitments issued by the Company 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 Company 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 Company would be required to fund the commitment. The maximum potential amount of future payments the Company could be required to make is represented by the contractual amount shown in the summary above. If the commitment is funded, the Company would be entitled to seek recovery from the customer. At September 30, 2003 and December 31, 2002, no amounts have been recorded as liabilities for the Company's 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 $24.745 million, or 2.2%, to $1.147 billion at September 30, 2003 compared to $1.123 billion at December 31, 2002. Increases in all categories of investment securities, other assets and accrued interest receivable were partially offset by decreases in loans, cash and due from banks, federal funds sold and interest bearing deposits, mortgage loans held for sale and premises and equipment.

Cash and due from banks decreased $11.774 million, or 19.7%, to $47.970 million at September 30, 2003 compared to $59.744 million at December 31, 2002, primarily due to a smaller dollar amount of deposit items in process of collection at September 30, 2003 compared to December 31, 2002.

Federal funds sold and interest bearing deposits decreased $4.196 million, or 9.8%, to $38.806 million at September 30, 2003 compared to $43.002 million at December 31, 2002. Federal funds sold and interest bearing deposits fluctuate with loan demand, deposit volume and investment opportunities.

Total investments in debt and equity securities increased $54.522 million, or 17.2%, to $370.732 million at September 30, 2003 compared to $316.210 million at December 31, 2002. There were increases in all categories of investment securities as investments in securities available-for-sale increased $21.657 million, or 9.0%, investments in securities held-to-maturity increased $32.427 million, or 47.3%, and non-marketable equity securities increased $438,000, or 6.2%, at September 30, 2003 compared to December 31, 2002. Investments fluctuate with loan demand, deposit volume and other investment opportunities.

Loans, net of allowance for loan losses, decreased $18.303 million, or 2.8%, to $645.839 million at September 30, 2003 from $664.142 million at December 31, 2002. Decreases in installment and consumer loans, and in real estate loans, were partially offset by an increase in commercial, financial and agricultural loans. Installment and consumer loans decreased $17.637 million, or 18.5%, due to alternative funding sources available to consumers, such as special financing offered by the auto manufacturers' captive financing companies. Real estate loans decreased $9.448 million, or 2.7%. The decrease in real estate loans included a decrease of $26.766 million in residential real estate caused by long-term fixed rate loans being refinanced and subsequently sold on the secondary market, offset somewhat by an increase of $17.318 million in commercial real estate. Commercial, financial and agricultural loans increased $9.216 million, or 3.9%. The increases in both commercial real estate and commercial, financial and agricultural loans were due to an increase in loan demand in these areas.

Mortgage loans held for sale decreased $1.085 million, or 36.5%, to $1.887 million at September 30, 2003 compared to $2.972 million at December 31, 2002. This decrease was reflective of a decrease in demand at the end of September 2003 compared to December 2002.

Premises and equipment decreased $755,000, or 4.1%, to $17.594 million at September 30, 2003 from $18.349 million at December 31, 2002. The decrease included depreciation expense of $1.826 million offset somewhat by purchases of $1.071 million.

Other assets increased $6.202 million, or 56.4%, to $17.196 million at September 30, 2003 from $10.994 million at December 31, 2002. The increase included an investment in a low-income housing property development and a lower deferred tax asset due to the decrease in market value on securities available for sale.

Total liabilities increased $49.926 million, or 5.1%, to $1.038 billion at September 30, 2003 from $988.258 million at December 31, 2002. Increases in other liabilities, federal funds purchased, repurchase agreements and notes payable, and Federal Home Loan Bank advances and other borrowings were partially offset by decreases in total deposits and accrued interest payable.

Total deposits decreased $6.729 million, or 0.8%, to $861.857 million at September 30, 2003 from $868.586 million at December 31, 2002. The decrease in deposits included a decrease of $12.156 million, or 7.4%, in non-interest bearing deposits offset somewhat by an increase of $5.427 million, or 0.8%, in interest bearing deposits.

Federal funds purchased, repurchase agreements and notes payable increased $22.059 million, or 27.4%, to $102.710 million at September 30, 2003 compared to $80.651 million at December 31, 2002. Included in this change was an increase of $22.321 million in repurchase agreements offset by decreases of $200,000 in federal funds purchased and $62,000 in notes payable.

Federal Home Loan Bank advances and other borrowings increased $2.193 million, or 7.9%, to $29.999 million at September 30, 2003 compared to $27.806 million at December 31, 2002. The increase was due to borrowing to finance the investment in a low-income housing development offset partially by payments on FHLB advances.

Other liabilities increased $33.050 million, or 368.7%, to $42.013 million at September 30, 2003 compared to $8.963 million at December 31, 2002 primarily due to the accrual of $32.385 million related to the purchase of stock pursuant to the tender offer.

Investment Securities

The carrying value of investments in debt and equity securities was as follows for September 30, 2003 and December 31, 2002:

Carrying Value of Securities
(in thousands)

	September 30, 2003	December 31, 2002
Available-for-sale:		
U.S. Treasury	$ 2,009	$ 3,066
Federal agencies	213,730	185,469
Mortgage-backed securities	26,114	30,884
State and municipal	15,678	16,168
Corporate and other obligations	--	1,008
Marketable equity securities	4,742	4,021
Total available-for-sale	$262,273	$240,616
Held-to-maturity:		
Federal agencies	$ 7,415	$ 1,750
Mortgage-backed securities	53,313	23,595
State and municipal	40,262	43,218
Total held-to-maturity	$100,990	$ 68,563
Non-marketable equity securities:		
FHLB and FRB stock1	$ 4,190	$ 3,963
Other equity investments	3,279	3,068
Total	$ 7,469	$ 7,031
Total investment securities	$370,732	$316,210

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 September 30, 2003. All securities are shown at their contractual maturity.

Maturities and Weighted Average Yields of Debt
(dollars in thousands)

	September 30, 2003						
	1 year Or Less Amount	Rate	1 to 5 Years Amount	Rate	5 to 10 Years Amount	Rate	Over 10 Years Amount
Securities available-for-sale							
U.S. Treasury	$ 2,009	3.03%	$ --	--	$ --	--	$ --
Federal agencies	$65,243	3.62%	$145,563	3.44%	$ 2,924	3.45%	$ --
Mortgage-backed securities1	$ 4,988	4.34%	$ 19,263	4.39%	$ 95	6.23%	$ 1,768
State and municipal	$ 1,403	3.74%	$ 8,223	4.72%	$ 4,743	5.02%	$ 1,309
Marketable equity securities2	$ --	--	$ --	--	$ --	--	$ --
Total	$73,643		$173,049		$ 7,762		$ 3,077
Average Yield		3.66%		3.61%		4.44%	
Securities held-to-maturity							
Federal agencies	$ --	--	$ 2,490	2.68%	$ 4,925	4.53%	$ --
Mortgage-backed securities1	$40,143	-1.13%	$ 11,026	3.62%	$ 105	0.00%	$ 2,039
State and municipal	$11,242	3.61%	$ 25,704	3.98%	$ 3,146	4.57%	$ 170
Total	$51,385		$ 39,220		$ 8,176		$ 2,209
Average Yield		-0.09%		3.79%		4.49%	
Non-marketable equity securities2							
FHLB and FRB stock	$ --	--	$ --	--	$ --	--	$ --
Other equity investments	$ --	--	$ --	--	$ --	--	$ --
Total	$ --	--	$ --	- -	$ --	--	$ --

Loans

The following table presents the amounts and percentages of loans at September 30, 2003 and December 31, 2002 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,	December 31,

	2003		2002	
	Amount	Percentage	Amount	Percentage
Commercial, financial and agricultural	$243,261	37.11%	$234,045	34.75%
Real estate	334,379	51.01%	343,827	51.06%
Installment and consumer1	77,892	11.88%	95,529	14.19%
Total loans	$655,532	100.00%	$673,401	100.00%

1 Net of unearned discount

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The balance of loans outstanding as of September 30, 2003 by maturity is shown in the following table:

Maturity of Loans Outstanding
(dollars in thousands)

	September 30, 2003			
	1 Year Or Less	1 to 5 Years	Over 5 Years	Total
Commercial, financial and agricultural	$143,541	$ 75,594	$ 24,126	$243,261
Real estate	64,389	156,130	113,860	334,379
Installment and consumer1	28,480	41,174	8,238	77,892
Total	$236,410	$272,898	$146,224	$655,532
Percentage of total loans outstanding	36.06%	41.63%	22.31%	100.00%

Capital

Total shareholders' equity decreased $25.181 million from December 31, 2002 to September 30, 2003. Treasury stock transactions were $30.694 million, primarily due to completion of the tender offer, offset partially by the exercise of employee stock options. Stock options exercised prior to the completion of the tender offering were fulfilled using existing treasury stock. The change in shareholders' equity is summarized as follows:

Shareholders' Equity (in thousands)

Shareholders' equity, December 31, 2002	$ 134,470
Net income	12,695
Treasury stock transactions, net	(30,694)
Stock appreciation rights	(69)
Cash dividends declared	(5,568)
Other comprehensive income	(1,545)
Shareholders' equity, September 30, 2003	$ 109,289

On September 16, 2003, the Board of Directors of the Company declared a quarterly cash dividend of $0.20 per share of the Company's common stock. The dividend of $1.896 million was paid on October 24, 2003 to holders of record on October 14, 2003. On August 11, 2003, the Company commenced a tender offer to acquire up to 1,400,000 of its shares of common stock at a price of $30.00 per share. The tender offer was completed on September 30, 2003 with 1,074,140 shares, representing 10.2% of the total shares outstanding, repurchased at a cost, including expenses, of $32.395 million.

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 September 30, 2003, 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, 2003, 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 September 30, 2003:						
Total capital						
(to risk-weighted assets)						
Consolidated	$115,833	14.6%	$63,398	8.0%	N/A	
BankIllinois	$ 60,304	12.4%	$38,920	8.0%	$48,650	10.0%
First National Bank of Decatur	$ 35,349	12.2%	$23,172	8.0%	$28,965	10.0%
Tier I capital						
(to risk-weighted assets)						
Consolidated	$106,140	13.4%	$31,699	4.0%	N/A	
BankIllinois	$ 54,328	11.2%	$19,460	4.0%	$29,190	6.0%

First National Bank of Decatur	$ 31,726	11.0%	$11,586	4.0%	$17,379	6.0%
Tier I capital (to average assets)						
Consolidated	$106,140	9.4%	$45,334	4.0%	N/A	
BankIllinois	$ 54,328	7.9%	$27,629	4.0%	$34,536	5.0%
First National Bank of Decatur	$ 31,726	7.4%	$17,219	4.0%	$21,523	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.

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The following table presents the Company's interest rate sensitivity at various intervals at September 30, 2003:

	Rate Sensitivity of Earning Assets and Interest (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	$ 38,806	$ --	$ --	$ --
Debt and equity securities 1	18,714	33,402	23,280	62,275
Loans 2	239,572	28,333	32,827	63,872
Total earning assets	$ 297,092	$ 61,735	$ 56,107	$ 126,147
Interest bearing liabilities:				
Savings and interest bearing demand deposits	$ 40,695	$ 1,502	$ 2,253	$ 4,511
Money market savings deposits	159,954	--	--	--
Time deposits	27,277	58,157	67,097	67,618
Federal funds purchased, repurchase agreements, and notes payable	99,905	24	1,034	1,262
FHLB advances and other borrowings	7,268	10,000	115	--
Total interest bearing liabilities	$ 335,099	$ 69,683	$ 70,499	$ 73,391
Net asset (liability) funding gap	(38,007)	(7,948)	(14,392)	52,756
Repricing gap	0.89	0.89	0.80	1.72

Cumulative repricing gap	0.89	0.89	0.87	0.99

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 September 30, 2003, 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 $380,000 in the 1-30 days category and $460,000 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. 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 should fall within the range of 0.75-1.25. As of September 30, 2003, the Company's RSA/RSL was 0.99 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 which permit the Company to borrow federal funds on an unsecured basis. The Company has a $10 million unsecured line of credit with a correspondent bank. Additionally, the Company can borrow approximately $51.570 million from the Federal Home Loan 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 Company analyzes interest rate sensitivity 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, 2003 and December 31, 2002 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
September 30, 2003	10.9%	5.5%	(5.5%)	(10.9%)
December 31, 2002	7.6%	3.8%	(3.9%)	(7.8%)

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 2003. A review of consolidated statements of cash flows included in the accompanying financial statements shows that the Company's cash and cash equivalents decreased $15.970 million from December 31, 2002 to September 30, 2003. This decrease came from cash used in investing activities offset somewhat by cash provided by financing and operating activities.

There were differences in the sources and uses of cash during the first nine months of 2003 compared to the first nine months of 2002. Cash was used in investing activities during 2003 compared to cash provided by investing activities during 2002. During the first nine months of 2003, net cash used in investing activities involving the Company's investment portfolio was $58.433 million compared to cash provided during the first nine months of 2002 of $16.015 million. During the first nine months of 2003, the Company's investment portfolio grew versus the first nine months of 2002 when the Company's investment portfolio was reduced. The size of the Company's investment portfolio varies in response to volume of loans and deposits as well as investment opportunities. Somewhat offsetting this difference was cash provided by loans during the first nine months of 2003 due to a decrease in loans, compared to cash used by loans during the same period of 2002 when loans increased slightly. Somewhat offsetting this change was cash provided by financing activities during the first nine months of 2003 compared to cash used during the first nine months of 2002. This was mainly due to changes in federal funds purchased, repurchase agreements and notes payable, net MSTI stock transactions, deposits and FHLB advances and other borrowings. Cash was provided by an increase in federal funds purchased, repurchase agreements and notes payable during the first nine months of 2003 compared to cash used during the same period in 2002, mainly due to a change in volume of repurchase agreements. Cash was provided from net MSTI stock transactions during the first nine months of 2003 compared to cash used during the same period of 2002 due to completion of the tender offer during the second quarter of 2002. There was a larger decrease in deposits during the first nine months of 2002 compared to the same period of 2003. The decrease in 2002 included the maturity of a large short-term time deposit. Also, cash was provided by an increase in FHLB advances and other borrowings during the first nine months of 2003 compared to cash used because of a decrease during the first nine months of 2002. Less cash was provided by operating activities during the first nine months of 2003 compared to the same period of 2002 due, in part, to an increase in other assets.

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, residential real estate 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 $9.693 million at September 30, 2003 compared to $9.259 million at December 31, 2002, as net charge-offs were $556,000 and provisions totaled $990,000 during the first nine months of 2003. The allowance for loan losses as a percentage of gross loans, including loans held-for-sale, was 1.47% at September 30, 2003, compared to 1.37% at December 31, 2002. Gross loans, including loans held-for-sale, decreased 2.8% to $657.419 million at September 30, 2003 from $676.373 million at December 31, 2002.

The allowance for loan losses as a percentage of nonperforming loans was 383.1% at September 30, 2003 compared to 416.9% at December 31, 2002. Nonperforming loans increased from $2.221 million at December 31, 2002 to $2.530 million at September 30, 2003. The $309,000 increase in nonperforming loans during the first nine months of 2003 resulted from a $461,000 increase in loans past due 90 days or more, offset somewhat by a $152,000 decrease in nonaccrual loans. 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 committees.

While the economy has shown recent strength, we are still concerned about the weakness in the labor market. Many economists believe that the sustainability of the current economic expansion is dependent upon a resurgence in new job creation. Any improvement in our levels of problem assets, delinquencies and losses on loans is similarly dependent upon a recovery in employment levels to materialize. Due to increases in several leading economic indicators (including the stock market, temporary worker hiring and ISM survey data), we are cautiously optimistic that the employment picture will brighten. However, it is still too early to consider robust jobs growth a certainty.

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, 2003	September 30, 2002
Allowance for loan losses at beginning of year ...	$ 9,259	$ 9,259
Charge-offs during period:		
Commercial, financial and agricultural	$ (138)	$ (96)
Residential real estate	(9)	(32)
Installment and consumer	(799)	(969)
Total	$ (946)	$(1,097)
Recoveries of loans previously charged off:		
Commercial, financial and agricultural	$ 209	$ 187
Residential real estate	46	28
Installment and consumer	135	123
Total	$ 390	$ 338
Net (charge-offs) recoveries	$ (556)	$ (759)
Provision for loan losses	990	990
Allowance for loan losses at end of quarter	$ 9,693	$ 9,490
Ratio of net (charge-offs) recoveries to average net loans	(0.09)%	(0.11)%

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

Allocation of the Allowance for Loan Losses
(in thousands)

	September 30, 2003	December 31, 2002
Allocated:		
Commercial, financial and agricultural	$6,153	$5,732
Residential real estate	180	345
Installment and consumer	2,460	1,763

Total allocated allowance	$8,793	$7,840
Unallocated allowances	900	1,419
Total	$9,693	$9,259

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.

Nonaccrual, Past Due and Restructured Loans (dollars in thousands)

	September 30, 2003	December 31, 2002
Nonaccrual loans1	$1,240	$1,392
Loans past due 90 days or more	$1,290	$ 829
Restructured loans2	$ 18	$ 20

1 Includes $500,000 at September 30, 2003 and $628,000 at December 31, 2002 of real estate and consumer loans which management does not considered impaired as defined by the Statement of Financial Accounting Standards No. 114, Accounting by Creditors for Impairment of a Loan (SFAS 114).

2 Restructured loans of $18,000 at September 30, 2003 and $20,000 at December 31, 2002 are not considered nonperforming.

Other Nonperforming Assets (dollars in thousands)

	September 30, 2003	December 31, 2002
Other real estate owned	$ 50	$ 58
Nonperforming other assets	$ 344	$ 94

Results of Operations

Results of Operations For the Nine Months Ended September 30, 2003

Net income for the first nine months of 2003 was $12.695 million, a $237,000, or 1.8%, decrease from $12.932 million for the same period in 2002. Basic earnings per share increased $0.02, or 1.7%, to $1.21 per share in the first nine months of 2003 from $1.19 per share in the same period in 2002. Diluted earnings per share increased $0.02, or 1.7%, to $1.20 per share in the first nine months of 2003 from $1.18 per share in the first nine months of 2002. The increase in basic and diluted earnings per share was mainly due to a decrease in weighted average shares outstanding after the completion of the tender offer for 6.3% of the Company's outstanding common stock near the end of the second quarter of 2002. This was offset somewhat by other treasury stock transactions.

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)

	Nine Months Ended September 30,				
	2003			200	
	Average Balance	Interest	Rate	Average Balance	Inte
Assets					
Taxable investment securities1	$ 300,672	$ 8,647	3.85%	$ 264,543	$
Tax-exempt investment securities1 (TE) .	55,916	2,649	6.33%	55,083	
Federal funds sold and interest bearing deposits2	39,493	363	1.23%	20,794	
Loans3,4 (TE)	643,594	31,562	6.56%	676,320	3
Total interest earning assets and interest income (TE)	$1,039,675	$ 43,221	5.56%	$1,016,740	$ 4
Cash and due from banks	$ 46,310			$ 46,970	
Premises and equipment	17,940			19,022	
Other assets	18,794			18,599	
Total assets	$1,122,719			$1,101,331	
Liabilities and Shareholders' Equity					
Interest bearing demand deposits	$ 85,187	$ 468	0.73%	$ 93,182	$
Savings	279,874	1,964	0.94%	257,588	
Time deposits	338,320	8,405	3.32%	349,112	1
Federal funds purchased, repurchase agreements, and notes payable	92,426	817	1.18%	68,859	
FHLB advances and other borrowings	27,987	1,156	5.52%	34,555	
Total interest bearing liabilities and interest expense	$ 823,794	$ 12,810	2.08%	$ 803,296	$ 1
Noninterest bearing demand deposits	$ 87,994			$ 96,384	
Noninterest bearing savings deposits ...	63,036			53,948	
Other liabilities	9,899			10,778	
Total liabilities	$ 984,723			$ 964,406	
Shareholders' equity	137,996			136,925	
Total liabilities and shareholders' equity	$1,122,719			$1,101,331	
Interest spread (average rate earned minus average rate paid) (TE)			3.48%		
Net interest income (TE)		$ 30,411			$ 3

Net yield on interest earnings assets (TE)	3.91%

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 35% at September 30, 2003 and 2002. 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, 2003		
	Increase (Decrease) from Previous Year	Due to Volume	Due to Rate
Interest Income			
Taxable investment securities	$ (985)	$ 1,744	$(2,729)
Tax-exempt investment securities (TE)	(94)	62	(156)
Federal funds sold and interest bearing deposits	61	254	(193)
Loans (TE)	(4,834)	(1,705)	(3,129)
Total interest income (TE)	$(5,852)	$ 355	$(6,207)
Interest Expense			
Interest bearing demand and savings deposits ...	$(1,183)	$ 231	$(1,414)
Time deposits	(2,383)	(325)	(2,058)
Federal funds purchased, repurchase agreements and notes payable	(102)	367	(469)
FHLB advances and other borrowings	(288)	(272)	(16)
Total interest expense	$(3,956)	$ 1	$(3,957)
Net Interest Income (TE)	$(1,896)	$ 354	$(2,250)

Net interest income on a tax equivalent basis was $1.896 million, or 5.9%, lower for the first nine months of 2003 compared to the same period in 2002. Total tax-equivalent interest income was $5.852 million, or 11.9%, lower in 2003 compared to 2002, and interest expense decreased $3.956 million, or 23.6%. The decrease in tax-equivalent interest income was due to lower rates, offset slightly by an increase in average balances. The decrease in interest expense was due to lower rates.

The decrease in total tax-equivalent interest income was due to a decrease in interest income from loans, taxable investment securities and tax-exempt investment securities, offset slightly by an increase in interest income from federal funds sold and interest bearing deposits. The decrease in interest income from loans was due to lower rates and lower average balances. The decrease in interest income from taxable investment securities and tax-exempt investment securities was due to lower rates, offset somewhat by an increase in average balances. The slight increase in interest income from federal funds sold and interest bearing deposits was due to higher average balances offset somewhat by lower interest rates.

The decrease in total interest expense was due to decreases in interest expense from all categories of interest bearing liabilities. Interest expense on interest bearing demand and savings deposits decreased primarily due to lower rates, offset slightly by an increase in average volume. Interest expense on time deposits and FHLB advances and other borrowings decreased due to lower rates and lower average balances. Interest expense on federal funds purchased, repurchase agreements and notes payable decreased due to lower rates, offset somewhat by an increase in average balances.

The provision for loan losses recorded was $990,000 during the first nine months of both 2003 and 2002. 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.

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Total non-interest income increased $1.033 million, or 7.3%, during the first nine months of 2003 compared to the first nine months of 2002. Included in this increase was an increase of $1.441 million, or 186.4%, in gains on sales of mortgage loans held-for-sale during the first nine months of 2003 compared to the same period in 2002. This increase reflected a $108.380 million, or 135.7%, increase in funded mortgage loans held-for-sale during the first nine months of 2003 compared to the first nine months of 2002. This increase was reflective of lower mortgage interest rates during the first nine months of 2003 compared to the same period in 2002. While mortgage rates remain at historically low levels, this level of mortgage sales gains may not continue throughout the rest of the year. Other non-interest income increased $363,000, or 29.9%, in the first nine months of 2003 compared to the first nine months of 2002. During the first nine months of 2002, other non-interest income included a write-down of approximately $300,000 in the value of mortgage servicing rights as a result of the sharp rise in prepayment speeds. Service charges on deposit accounts increased $144,000, or 8.2%, during the first nine months of 2003 compared to the same period in 2002. Somewhat offsetting these increases was a decrease in trust and brokerage fees of $395,000, or 8.5%, in the first nine months of 2003 compared to the first nine months of 2002. This decrease was due, in part, to lower market values of assets upon which fees were charged during the first nine months of 2003 compared to the same period in 2002. Income from securities transactions decreased $277,000, or 121.5%, in the first nine months of 2003 compared to the same period in 2002. This decrease included recognition of loss on a non-marketable equity security, offset somewhat by a gain on the sale of one available-for-sale government agency security. Remittance processing income decreased $243,000, or 4.4%, in the first nine months of 2003 compared to the same period in 2002. This was due to a reduction of volume at the Company's remittance processing subsidiary, FirsTech, associated with a gradual volume reduction in electronic payments processed for a large telecommunications company since 2002 as a result of their conversion to an internal processing platform. This was offset somewhat by additional revenue produced by the conversion of new clients to FirsTech's agent payment processing platform and the renegotiation of some existing contracts.

Total non-interest expense decreased $814,000, or 3.2%, during the first nine months of 2003 compared to the same period of 2002. Of this decrease, salaries and employee benefits decreased $514,000, or 3.6%, during the first nine months of 2003 compared to the first nine months of 2002. Contributing to salaries and employee benefits in the first nine months of 2002 was $529,000 in salaries and benefits related to organizational restructuring that resulted in termination of employment contracts. Equipment expense decreased $282,000, or 13.6%, during the first nine months of 2003 compared to the same period in 2002. Equipment expense decreased largely due to efficiencies gained from restructuring and the merger of BankIllinois and First Trust Bank of Shelbyville in June 2002. Data processing expense decreased $169,000, or 9.8%, in the first nine months of 2003 compared to the first nine months of 2002. Contributing to data processing expense in the first nine months of 2002 were conversion to a new system and software upgrade at the Company's remittance processing subsidiary FirsTech, and costs to merge First Trust Bank of Shelbyville and BankIllinois computer records. Service charges from correspondent banks decreased $11,000, or 1.6%, in the first nine months of 2003 compared to the same period in 2002. Somewhat offsetting these decreases were increases of $88,000, or 5.0%, in occupancy expense, $71,000, or 2.0%, in other non-interest expense and $3,000, or 0.3%, in office supplies expense in the first nine months of 2003 compared to the same period in 2002.

Income tax expense increased $222,000, or 3.5%, during the first nine months of 2003 compared to the first nine months of 2002. The effective tax rate increased to 34.0% during the first nine months of 2003 from 32.8% during the first nine months of 2002.

Results of Operations For the Three Months Ended September 30, 2003

Net income for the third quarter of 2003 was $4.265 million, a $214,000, or 4.8%, decrease from $4.479 million for the same period in 2002. Basic earnings per share decreased $0.02, or 4.7%, to $0.41 per share in the third quarter of 2003 compared to $0.43 per share in the third quarter of 2002. Diluted earnings per share decreased $0.02, or 4.8%, to $0.40 per share in the third quarter of 2003 compared to $0.42 per share in the third quarter of 2002.

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
(dollars in thousands)

	Three Months Ended September 30,			
	2003			
	Average Balance	Interest	Rate	Average Balance
Assets				
Taxable investment securities1	$ 319,930	$ 2,875	3.57%	$ 257,827
Tax-exempt investment securities1 (TE) .	53,826	855	6.30%	54,891
Federal funds sold and interest bearing				

deposits2	39,129	109	1.11%	22,088	
Loans3,4 (TE)	640,184	10,149	6.29%	675,502	
Total interest earning assets and interest income (TE)	$1,053,069	$ 13,988	5.27%	$1,010,308	$
Cash and due from banks	$ 45,852			$ 45,600	
Premises and equipment	17,718			18,930	
Other assets	21,250			18,279	
Total assets	$1,137,889			$1,093,117	
Liabilities and Shareholders' Equity					
Interest bearing demand deposits	$ 88,121	$ 142	0.64%	$ 77,190	$
Savings	282,914	597	0.84%	270,914	
Time deposits	337,854	2,607	3.06%	362,314	
Federal funds purchased, repurchase agreements, and notes payable	98,040	270	1.09%	63,319	
FHLB advances and other borrowings	28,411	392	5.47%	32,215	
Total interest bearing liabilities and interest expense	$ 835,340	$ 4,008	1.90%	$ 805,952	$
Noninterest bearing demand deposits	$ 91,292			$ 81,186	
Noninterest bearing savings deposits ...	61,556			64,642	
Other liabilities	9,975			10,900	
Total liabilities	$ 998,163			$ 962,680	
Shareholders' equity	139,726			130,437	
Total liabilities and shareholders' equity	$1,137,889			$1,093,117	
Interest spread (average rate earned minus average rate paid) (TE)			3.37%		
Net interest income (TE)		$ 9,980			$
Net yield on interest earnings assets (TE)			3.76%		

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

	September 30, 2003		
	Increase (Decrease) From Previous Year	Due to Volume	Due to Rate
Interest Income			
Taxable investment securities	$ (302)	$ 3,071	$(3,373)
Tax-exempt investment securities (TE)	(51)	(17)	(34)
Federal funds sold and interest bearing deposits	3	230	(227)
Loans (TE)	(1,857)	(606)	(1,251)
Total interest income (TE)	$(2,207)	$ 2,678	$(4,885)
Interest Expense			
Interest bearing demand and savings deposits ...	$ (418)	$ 460	$ (878)
Time deposits	(914)	(226)	(688)
Federal funds purchased, repurchase agreements and notes payable	--	461	(461)
FHLB advances and other borrowings	(59)	(53)	(6)
Total interest expense	$(1,391)	$ 642	$(2,033)
Net Interest Income (TE)	$ (816)	$ 2,036	$(2,852)

Net interest income on a tax equivalent basis was $816,000, or 7.6%, lower for the third quarter of 2003 compared to the third quarter of 2002. Total tax-equivalent interest income was $2.207 million, or 13.6%, lower in 2003 compared to 2002, and interest expense decreased $1.391 million, or 25.8%. The decrease in interest income and interest expense was due primarily to a decrease in rates offset somewhat by an increase in average balances.

The decrease in total interest income was due to decreases in interest income from loans and both taxable and tax-exempt investment securities. These decreases were offset slightly by an increase in interest income from federal funds sold and interest bearing deposits. The decreases in interest income from loans and tax-exempt investment securities were due to decreases in rates and average balances during the third quarter of 2003 compared to the same period in 2002. The decrease in interest income from taxable investment securities was due to a decrease in rates, offset somewhat by an increase in average balances during the third quarter of 2003 compared to the third quarter of 2002. The increase in federal funds sold and interest bearing deposits was due to an increase in average balances, offset somewhat by a decrease in rates.

The decrease in total interest expense was due to decreases in interest expense on all categories of interest bearing liabilities, with the exception of federal funds purchased, repurchase agreements and notes payable, which recorded no change in interest expense in the third quarter of 2003 compared to the same period in 2002. The decreases in interest expense on time deposits and on FHLB advances and other borrowings were due to decreases in rates and average balances during the third quarter of 2003 compared to the same period in 2002. The decrease in interest expense from interest bearing demand and savings deposits was due to a decrease in rates, offset somewhat by an increase in average balances during the third quarter of 2003 compared to the third quarter of 2002.

The provision for loan losses recorded was $330,000 during both the third quarter of 2003 and 2002. 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 $782,000, or 16.9%, during the third quarter of 2003 compared to the third quarter of 2002. Included in this increase was an increase of $594,000, or 157.1%, in gains on sales of mortgage loans held-for-sale in the third quarter of 2003 compared to the same period in 2002. This increase reflected a $38.307 million, or 111.2%, increase in funded mortgage loans held-for-sale in the third quarter of 2003 compared to the same period in 2002. This increase was reflective of lower mortgage interest rates during the third quarter of 2003 compared to the same period in 2002. While mortgage rates remain at historically low levels, this level of mortgage sales gains may not continue throughout the rest of the year. Other non-interest income increased $341,000, or 172.2%, in the third quarter of 2003 compared to the third quarter of 2002. In the third quarter of 2002, other non-interest income included a write down of approximately $300,000 in the value of mortgage servicing rights as a result of the sharp rise in prepayment speeds. Service charges on deposit accounts increased $54,000, or 8.8%, in the third quarter of 2003 compared to the third quarter of 2002. Income from remittance processing increased $45,000, or 2.5%, in the third quarter of 2003 compared to the same quarter in 2002. This was due to a combination of the conversion of new clients to FirsTech's agent payment processing platform and the renegotiation of some existing contracts that produced additional revenue. Securities transactions generated a net loss of $6,000 during the third quarter of 2003 compared to a net loss of $62,000 in the third quarter of 2002. Somewhat offsetting these increases was a decrease in trust and brokerage fees of $308,000, or 17.7%, in the third quarter of 2003 compared to the same quarter in 2002. This was due, in part, to lower market values of assets upon which fees were charged during the third quarter of 2003 compared to the same period in 2002.

Total non-interest expense increased $159,000, or 2.0%, during the third quarter of 2003 compared to the same period in 2002. Of this increase, other non-interest expense increased $127,000, or 10.7%, in the third quarter of 2003 compared to the third quarter of 2002. Of this increase, $45,000 was attributable to marketing and charitable contributions. Expenses in this category vary based on the timing of advertising and promotions. Salaries and employee benefits increased $94,000, or 2.1%, in the third quarter of 2003 compared to the third quarter of 2002 primarily due to the increase in volume of mortgage loans held for sale during the third quarter of 2003 compared to the same period in 2002. Also contributing to the overall increase in non-interest expense in the third quarter of 2003 compared to the same period in 2002 were increases of $43,000, or 7.2%, in occupancy expense, $11,000, or 2.2% in data processing expense, $9,000 or 2.8%, in office supplies expense and $7,000, or 3.1%, in service charges from correspondent banks. Somewhat offsetting these increases was a decrease of equipment expense of $132,000, or 18.7%, in the third quarter of 2003 compared to the third quarter of 2002. Equipment expense decreased largely due to efficiencies gained from restructuring, and the merger of BankIllinois and First Trust Bank of Shelbyville in June of 2002.

Income tax expense increased $43,000, or 1.9%, during the third quarter of 2003 compared to the third quarter of 2002. The effective tax rate increased to 34.6% during the third quarter of 2003 from 33.0% during the same period in 2002.

Business Segment Information

The Company currently operates in two industry segments. The primary business involves providing banking services to central Illinois. The 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; 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 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 Visa e-Pay and MasterCard RPS.

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Company information is provided for informational purposes only, since it is not considered a separate segment for reporting purposes. Effective January 1, 2003, certain administrative, audit, compliance, accounting, finance, property management, human resources, courier, information systems and other support services previously included in the budgets of the Banks were moved to the Company. During this process, approximately 80 full time equivalent employees were moved from the Banks to the Company. The net expenses of these functions are now allocated to the subsidiaries by charging a monthly management fee.

	Banking Services	Remittance Services	Company	Eliminations	Total
September 30, 2003					
Total interest income	$ 42,063	$ 43	$ 257	$ (83)	$ 42,280
Total interest expense	12,888	--	5	(83)	12,810
Provision for loan losses ...	990	--	--	--	990
Total non-interest income ...	10,115	5,372	3,495	(3,792)	15,190
Total non-interest expense ..	20,105	3,680	4,442	(3,792)	24,435
Income before income tax	18,195	1,735	(695)	--	19,235
Income tax expense	6,118	698	(276)	--	6,540
Net income	12,077	1,037	(419)	--	12,695
Total assets	1,130,724	3,359	148,339	(134,949)	1,147,473
Depreciation and amortization	1,159	304	363	--	1,826
September 30, 2002					
Total interest income	$ 47,963	$ 69	$ 185	$ (119)	$ 48,098
Total interest expense	16,869	--	16	(119)	16,766
Provision for loan losses ...	990	--	--	--	990
Total non-interest income ...	9,070	5,646	(76)	(483)	14,157
Total non-interest expense ..	20,662	3,853	1,217	(483)	25,249
Income before income tax	18,512	1,862	(1,124)	--	19,250
Income tax expense	6,021	744	(447)	--	6,318
Net income	12,491	1,118	(677)	--	12,932
Total assets	1,083,664	6,451	134,817	(129,343)	1,095,589
Depreciation and amortization	1,584	383	22	--	1,989

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 term in the Private Securities Litigation Reform Act of 1995, 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 an don 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, 2003. 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. Changes in Securities and Use of Proceeds

None

Item 3. Defaults Upon Senior Securities

None

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

None

Item 5. Other Information

None

Item 6. Exhibits and Reports on Form 8-K

a. Exhibits

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

31.2 Certification of Chief Financial Officer Pursuant to Rule 13a-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.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

b. Reports

On October 27, 2003, the Company filed a report on Form 8-K, pursuant to Item 12 regarding the issuance of a letter to shareholders and a press release announcing its earnings for the quarter ended September 30, 2003, and pursuant to Item 5 on Form 8-K regarding the announcement of the reinstatement of the Company's stock repurchase plan.

On July 21, 2003, the Company filed a report on Form 8-K, pursuant to Item 12 regarding the issuance of a letter to shareholders and a press release announcing its earnings for the quarter ended June 30, 2003.

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: November 7, 2003

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