MAIN STREET TRUST INC
Form 10-Q
August 09, 2004

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE

SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended June 30, 2004

Commission File Number: 0-30031

MAIN STREET TRUST, INC.

(Exact name of Registrant as specified in its charter)

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

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

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

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 August 1, 2004

Main Street Trust, Inc. Common Stock	9,473,116

Table of Contents

PAGE

PART I.	FINANCIAL INFORMATION	
Item 1.	Financial Statements (Unaudited)	3
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	12
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	31
Item 4.	Controls and Procedures	31
PART II.	OTHER INFORMATION	
Item 1.	Legal Proceedings	31
Item 2.	Changes in Securities, Use of Proceeds and Issuer Purchases of Equity Securities	32
Item 3.	Defaults Upon Senior Securities	32
Item 4.	Submission of Matters to a Vote of Security Holders	33
Item 5.	Other Information	33
Item 6.	Exhibits and Reports on Form 8-K	33
SIGNATURES		35

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

MAIN STREET TRUST, INC. AND SUBSIDIARIES
Consolidated Balance Sheets

June 30, 2004 and December 31, 2003

(Unaudited, in thousands, except share data)

	June 30, 2004	December 31, 2003
ASSETS		
Cash and due from banks	$ 45,553	$ 45,899
Federal funds sold and interest bearing deposits	12,294	30,004
Cash and cash equivalents	57,847	75,903
Investments in debt and equity securities:		
Available-for-sale, at fair value	273,665	265,914
Held-to-maturity, at cost (fair value of		

$102,834 and $96,628 at June 30, 2004 and December 31, 2003, respectively)	103,950	97,056
Non-marketable equity securities	7,758	7,756
Total investments in debt and equity securities	385,373	370,726
Loans, net of allowance for loan losses of $10,084 and $9,786 at June 30, 2004 and December 31, 2003, respectively	706,617	666,259
Mortgage loans held for sale	890	632
Premises and equipment	16,966	17,622
Accrued interest receivable	6,615	6,430
Other assets	20,369	16,602
Total assets	$ 1,194,677	$ 1,154,174
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Deposits:		
Non-interest bearing	$ 161,753	$ 162,175
Interest bearing	797,671	736,297
Total deposits	959,424	898,472
Federal funds purchased, repurchase agreements and notes payable	82,144	102,998
Federal Home Loan Bank advances and other borrowings	29,920	29,980
Accrued interest payable	1,987	1,669
Other liabilities	9,509	9,605
Total liabilities	1,082,984	1,042,724
Shareholders' equity:		
Preferred stock, no par value; 2,000,000 shares authorized	-	-
Common stock, $0.01 par value; 15,000,000 shares authorized; 11,219,319 shares issued	112	112
Paid in capital	55,199	55,271
Retained earnings	105,080	101,521
Accumulated other comprehensive income (loss)	(313)	1,941
	160,078	158,845
Less: treasury stock, at cost, 1,746,203 and 1,718,950 shares at June 30, 2004 and December 31, 2003, respectively	(48,385)	(47,395)
Total shareholders' equity	111,693	111,450
Total liabilities and shareholders' equity	$ 1,194,677	$ 1,154,174

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, 2004 and 2003
(Unaudited, in thousands, except share data)

Interest income:	2004	2003
Loans and fees on loans	$ 20,064	$ 21,402
Investments in debt and equity securities		
Taxable	5,413	5,772
Tax-exempt	979	1,166
Federal funds sold and interest bearing deposits	188	254
Total interest income	26,644	28,594
Interest expense:		
Deposits	6,546	7,491
Federal funds purchased, repurchase agreements and notes payable	557	547
Federal Home Loan Bank advances and other borrowings	797	764
Total interest expense	7,900	8,802
Net interest income	18,744	19,792
Provision for loan losses	660	660
Net interest income after provision for loan losses	18,084	19,132
Non-interest income:		
Remittance processing	3,815	3,498
Trust and brokerage fees	3,287	2,795
Service charges on deposit accounts	1,201	1,240
Securities transactions, net	6	(43)
Gain on sales of mortgage loans, net	548	1,242
Other	1,462	1,038
Total non-interest income	10,319	9,770
Non-interest expense:		
Salaries and employee benefits	9,251	9,243
Occupancy	1,283	1,206
Equipment	1,280	1,212
Data processing	1,087	1,058
Office supplies	617	628
Service charges from correspondent banks	458	465
Other	2,539	2,373
Total non-interest expense	16,515	16,185
Income before income taxes	11,888	12,717
Income taxes	4,227	4,287
Net income	$ 7,661	$ 8,430
Per share data:		
Basic earnings per share	$ 0.81	$ 0.80
Weighted average shares of common stock outstanding	9,507,493	10,487,954
Diluted earnings per share	$ 0.80	$ 0.80
Weighted average shares of common stock and		

dilutive potential common shares outstanding	9,625,020	10,590,106

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, 2004 and 2003

(Unaudited, in thousands)

	2004	2003
Net income	$ 7,661	$ 8,430
Other comprehensive income (loss), before tax:		
Unrealized gains (losses) on securities:		
Unrealized holding gains (losses) arising during period, net of tax of ($1,501) and $49, for June 30, 2004 and 2003, respectively	(2,250)	73
Less: reclassification adjustment for gains (losses) included in net income, net of tax of ($2) and $17, for June 30, 2004 and 2003, respectively	(4)	26
Other comprehensive income (loss)	(2,254)	99
Comprehensive income	$ 5,407	$ 8,529

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, 2004 and 2003
(Unaudited, in thousands, except share data)

Interest income:	2004	2003
Loans and fees on loans	$ 10,013	$ 10,348
Investments in debt and equity securities		
Taxable	2,699	2,949
Tax-exempt	476	579
Federal funds sold and interest bearing deposits	75	152
Total interest income	13,263	14,028
Interest expense:		
Deposits	3,344	3,618
Federal funds purchased, repurchase agreements and notes payable	276	280
Federal Home Loan Bank advances and other borrowings	398	384
Total interest expense	4,018	4,282

Net interest income	9,245	9,746
Provision for loan losses	330	330
Net interest income after provision for loan losses	8,915	9,416
Non-interest income:		
Remittance processing	1,923	1,732
Trust and brokerage fees	1,625	1,333
Service charges on deposit accounts	622	660
Securities transactions, net	(2)	-
Gain on sales of mortgage loans, net	345	698
Other	659	511
Total non-interest income	5,172	4,934
Non-interest expense:		
Salaries and employee benefits	4,543	4,594
Occupancy	638	583
Equipment	647	563
Data processing	555	529
Office supplies	312	325
Service charges from correspondent banks	233	236
Other	1,390	1,291
Total non-interest expense	8,318	8,121
Income before income taxes	5,769	6,229
Income taxes	2,051	2,097
Net income	$ 3,718	$ 4,132
Per share data:		
Basic earnings per share	$ 0.39	$ 0.39
Weighted average shares of common stock outstanding	9,505,500	10,496,736
Diluted earnings per share	$ 0.39	$ 0.39
Weighted average shares of common stock and dilutive potential common shares outstanding	9,619,707	10,605,680

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, 2004 and 2003
(Unaudited, in thousands)

	2004	2003
Net income	$ 3,718	$ 4,132
Other comprehensive income (loss), before tax:		
Unrealized gains (losses) on securities:		
Unrealized holding gains (losses) arising during period, net of tax of ($1,906) and $542, for June 30, 2004 and 2003, respectively	(2,859)	813
Less: reclassification adjustment for		

gains (losses) included in net income, net of tax of $1 and $0, for June 30, 2004 and 2003, respectively	1	-
Other comprehensive income (loss)	(2,858)	813
Comprehensive income	$ 860	$ 4,945

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, 2004 and 2003
(Unaudited, in thousands)

	2004	2003
Cash flows from operating activities:		
Net income	$ 7,661	$ 8,430
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,303	1,223
Amortization of bond discounts and premiums, net	1,206	922
Provision for loan losses	660	660
Securities transactions, net	(6)	43
Federal Home Loan Bank stock dividend	(126)	(181)
Undistributed gain from non-marketable equity securities	(10)	-
Gain on sales of mortgage loans, net	(548)	(1,242)
Gain on disposal of premises and equipment	(292)	-
Proceeds from sales of mortgage loans originated for sale	43,988	115,484
Mortgage loans originated for sale	(43,698)	(119,145)
Other, net	(2,293)	(2,302)
Net cash provided by operating activities	7,845	3,892
Cash flows from investing activities:		
Net (increase) decrease in loans	(41,018)	38,215
Proceeds from maturities and calls of investment in debt securities:		
Held-to-maturity	7,755	7,436
Available-for-sale	104,120	127,974
Proceeds from sales of investments:		
Available-for-sale	88	11,085
Purchases of investments in debt and equity securities:		
Held-to-maturity	(45,624)	(57,569)
Available-for-sale	(120,829)	(175,284)
Other equity securities	(125)	(580)
Principal paydowns from mortgage-backed securities:		
Held-to-maturity	30,331	13,673
Available-for-sale	4,558	10,526
Return of principal on other equity securities	258	115
Purchases of premises and equipment	(978)	(698)
Proceeds from sales of premises and equipment	623	-
Net cash used in investing activities	(60,841)	(25,107)
Cash flows from financing activities:		
Net increase (decrease) in deposits	60,952	(16,718)

Net (decrease) increase in federal funds purchased, repurchase agreements, and notes payable	(20,854)	15,056
Payments on Federal Home Loan Bank and other borrowings	(60)	(58)
Cash dividends paid	(3,998)	(3,145)
MSTI stock transactions, net	(1,100)	235
Net cash provided by (used in) financing activities	34,940	(4,630)
Net decrease in cash and cash equivalents	(18,056)	(25,845)
Cash and cash equivalents at beginning of year	75,903	102,746
Cash and cash equivalents at end of period	$ 57,847	$ 76,901
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Interest	$ 7,582	$ 9,090
Income taxes	4,775	5,430
Real estate acquired through or in lieu of foreclosure	-	10
Dividends declared not paid	1,989	2,097

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, 2003, and schedules included in Main Street Trust, Inc.'s Form 10-K filed on March 12, 2004.

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

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

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

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

Note 2. Company Information/Business Combination

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

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

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

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

Note 3. Income per Share

Net income per common share has been computed as follows:

	Six Months Ended June 30, 2004	Six Months Ended June 30, 2003	Three Months End June 30, 2004	2
Net Income	$ 7,661,000	$ 8,430,000	$ 3,718,000	$ 4
Shares:				
Weighted average common shares outstanding	9,507,493	10,487,954	9,505,500	10
Dilutive effect of outstanding options, as determined by the application of the treasury stock method	117,527	102,152	114,207	
Weighted average common shares oustanding, as adjusted	9,625,020	10,590,106	9,619,707	10
Basic earnings per share	$ 0.81	$ 0.80	$ 0.39	
Diluted earnings per share	$ 0.80	$ 0.80	$ 0.39	

Note 4. Stock Option Plans

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

	Six Months Ended June 30, 2004	Six Months Ended June 30, 2003	Three Months Ended June 30, 2004	Three Months Ended June 30, 2003
Net income on common stock:				
As reported	$ 7,661	$ 8,430	$ 3,718	$ 4,132
Deduct total stock-based compensation expense determined under the fair value method for all awards, net of related tax effects	(195)	(117)	(100)	(72)
Pro forma	$ 7,466	$ 8,313	$ 3,618	$ 4,060
Basic earnings per share:				
As reported	$ 0.81	$ 0.80	$ 0.39	$ 0.39
Pro forma	0.79	0.79	0.38	0.39
Diluted earnings per share:				
As reported	$ 0.80	$ 0.80	$ 0.39	$ 0.39
Pro forma	0.78	0.78	0.38	0.38

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.

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

Note 5. Commitments and Financial Instruments

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

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

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

	June 30, 2004	June 30, 2003
Financial instruments whose contract amounts represent credit risk:		
Commitments	$ 221,953	$ 210,086
Standby letter	21,076	10,368

The majority of commitments are agreements to extend credit to a customer as long as there is no violation of any condition established in the contract. Commitments, principally variable interest rates, generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. For commitments to extend credit, the Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation. Collateral held varies, but may include accounts receivable; inventory; property, plant and equipment; and income-producing commercial properties. Also included in commitments is $3.315 million to purchase other equity securities.

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

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

Financial Condition

Assets and Liabilities

Total assets increased $40.503 million, or 3.5%, to $1.195 billion at June 30, 2004 compared to $1.154 billion at December 31, 2003. Increases in loans, investments in debt and equity securities, other assets, mortgage loans held for sale, and accrued interest receivable were partially offset by decreases in federal funds sold and interest bearing deposits, premises and equipment, and cash and due from banks.

Cash and due from banks decreased $346,000, or 0.8%, to $45.553 million at June 30, 2004 compared to $45.899 million at December 31, 2003.

Federal funds sold and interest bearing deposits decreased $17.710 million, or 59.0%, to $12.294 million at June 30, 2004 compared to $30.004 million at December 31, 2003. Federal funds sold and interest bearing deposits fluctuate with loan demand, deposit volume and investment opportunities.

Total investments in debt and equity securities increased $14.647 million, or 4.0%, to $385.373 million at June 30, 2004 compared to $370.726 million at December 31, 2003. This overall increase was primarily due to an increase in investments in securities available-for-sale of $7.751 million, or 2.9%, and an increase in securities held-to-maturity of $6.894 million, or 7.1%. Investments fluctuate with loan demand, deposit volume and investment opportunities.

Loans, net of allowance for loan losses, increased $40.358 million, or 6.1%, to $706.617 million at June 30, 2004 from $666.259 million at December 31, 2003. Commercial, financial and agricultural loans increased $43.300 million, or 17.3%, primarily as a result of the favorable rate environment, the Company's emphasis on business development and relative improvement in the local economy in recent months. Real estate loans decreased $7.124 million, or 2.0%, primarily due to a decrease in commercial real estate loans of $7.645 million, or 2.6%. During 2003, the Company experienced growth of $32.105 million or 12.1% in commercial real estate loans,compared to 2004 when the Company experienced a slowdown in demand, which, coupled with normal paydowns, resulted in the $7.645 million decrease. Installment and consumer loans increased $4.480 million, or 5.8%. Included in the increase was an increase of $10.424 million, or 62.8% in home equity loans. Home equity loans increased from $16.602 million at December 31, 2003 to $27.026 million at June 30, 2004 as a result of the Company's increased focus on marketing this product, which included promotional rates. Somewhat offsetting this increase was a decrease of $5.817 million, or 14.9%, in indirect lending. Indirect loans decreased from $39.073 million at December 31, 2003 to $33.256 million at June 30, 2004 due to increased competition from alternative funding sources available to consumers, such as special financing offered by the auto manufacturers' captive financing companies.

Mortgage loans held for sale increased $258,000, or 40.8%, from $632,000 at December 31, 2003 to $890,000 at June 30, 2004.

Premises and equipment decreased $656,000, or 3.7%, from $17.622 million at December 31, 2003 to $16.966 million at June 30, 2004. The decrease included depreciation expense of $1.303 million and proceeds from the sale of property of $623,000, offset somewhat by purchases of $978,000 and a gain on disposal of property of $292,000.

Total liabilities increased $40.260 million, or 3.9%, to $1.083 billion at June 30, 2004 from $1.043 billion at December 31, 2003. Increases in total deposits and accrued interest payable were somewhat offset by decreases in federal funds purchased, repurchase agreements and notes payable, Federal Home

Loan Bank advances and other borrowings, and other liabilities.

Total deposits increased $60.952 million, or 6.8%, to $959.424 million at June 30, 2004 from $898.472 million at December 31, 2003. Interest bearing deposits increased $61.374 million, or 8.3%. Included in this increase was an increase of approximately $41 million related to the Company's Wealth Management division. Non-interest bearing deposits decreased $422,000, or 0.3%.

Federal funds purchased, repurchase agreements and notes payable decreased $20.854 million, or 20.2%, to $82.144 million at June 30, 2004 compared to $102.998 million at December 31, 2003. Included in this change were decreases of $20.729 million in repurchase agreements and $125,000 in federal funds purchased.

Federal Home Loan Bank advances and other borrowings decreased $60,000, or 0.2%, to $29.920 million at June 30, 2004 compared to $29.980 million at December 31, 2003.

Investment Securities

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

Carrying Value of Securities
(in thousands)

	June 30, 2004	December 31, 2003
Available-for-sale:		
Federal agencies	$ 218,563	$ 220,199
Mortgage-backed securities	33,130	23,007
State and municipal	16,307	17,317
Marketable equity securities	5,665	5,391
Total available-for-sale	$ 273,665	$ 265,914
Held-to-maturity:		
Federal agencies	$ 45,067	$ 10,704
Mortgage-backed securities	26,634	50,029
State and municipal	32,249	36,323
Total held-to-maturity	$ 103,950	$ 97,056
Non-marketable equity securities:		
FHLB and FRB stock1	$ 4,385	$ 4,259
Other equity investments	3,373	3,497
Total non-marketable equity securities	$ 7,758	$ 7,756
Total investment securities	$ 385,373	$ 370,726

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, 2004. All securities are shown at their contractual maturity, with the exception of mortgage backed securities, as explained in footnote 1.

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

	June 30, 2004						
	1 year or less Amount	Rate	1 to 5 years Amount	Rate	5 to 10 years Amount	Rate	O Amoun
Securities available-for-sale:							
Federal agencies	$ 95,478	3.48%	$ 122,111	3.00%	$ 974	2.61%	$
Mortgage-backed securities1	$ 9,741	1.96%	$ 22,905	4.32%	$ 484	6.95%	$
State and municipal	$ 4,137	3.62%	$ 6,983	4.30%	$ 4,112	5.02%	$ 1,0
Marketable equity securities2	$ -	-	$ -	-	$ -	-	$
Total	$ 109,356		$ 151,999		$ 5,570		$ 1,0
Average Yield		3.35%		3.25%		4.77%	
Securities held-to-maturity:							
Federal agencies	$ 14,518	2.89%	$ 27,024	2.85%	$ 3,525	4.04%	$
Mortgage-backed securities1	$ 6,985	2.40%	$ 18,736	3.95%	$ 214	3.95%	$ 6
State and municipal	$ 11,863	3.82%	$ 19,442	4.05%	$ 439	4.73%	$ 5
Total	$ 33,366		$ 65,202		$ 4,178		$ 1,2
Average Yield		3.12%		3.49%		4.11%	
Non-marketable equity securities2:							
FHLB and FRB stock	$ -	-	$ -	-	$ -	-	$
Other equity investments	$ -	-	$ -	-	$ -	-	$
Total	$ -	-	$ -	-	$ -	-	$

1 Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties and certain securities require principal repayments prior to maturity.

2 Due to the nature of these securities, they do not have a stated maturity date or rate.

Loans

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

Amount of Loans Outstanding
(dollars in thousands)

	June 30, 2004		December 31, 2003	
	Amount	Percentage	Amount	Percentage
Commercial, financial and agricultural	$ 293,095	40.90%	$ 249,795	36.95%
Real estate	341,873	47.70%	348,997	51.62%
Installment and consumer	81,733	11.40%	77,253	11.43%
Total loans	$ 716,701	100.00%	$ 676,045	100.00%

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

Maturity of Loans Outstanding
(dollars in thousands)

	June 30, 2004			
	1 year or less	1 to 5 years	Over 5 years	Total
Commercial, financial and agricultural	$ 189,781	$ 85,335	$ 17,979	$ 293,095
Real estate	52,221	172,432	117,220	341,873
Installment and consumer	25,495	42,429	13,809	81,733
Total	$ 267,497	$ 300,196	$149,008	$ 716,701
Percentage of total loans outstanding	37.32%	41.89%	20.79%	100.00%

Capital

Total shareholders' equity increased $243,000 from December 31, 2003 to June 30, 2004. The change in shareholders' equity is summarized as follows:

Shareholders' Equity (in thousands)

Shareholders' equity, December 31, 2003	$ 111,450
Net income	7,661
Treasury stock transactions, net	(1,100)
Stock appreciation rights	(72)
Cash dividends declared	(3,992)
Other comprehensive income	(2,254)
Shareholders' equity, June 30, 2004	$ 111,693

On June 15, 2004, the Board of Directors of the Company declared a quarterly cash dividend of $0.21 per share of the Company's common stock. The dividend of $1.989 million was paid on July 23, 2004 to holders of record on July 9, 2004.

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

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

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

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

	Actual		For capital adequacy purposes:		To be w capital prompt action
	Amount	Ratio	Amount	Ratio	Amou
As of June 30, 2004:					
Total capital					
(to risk-weighted assets)					
Consolidated	$121,720	13.9%	$69,877	8.0%	N
BankIllinois	$ 62,489	11.5%	$43,544	8.0%	$54,4
First National Bank of Decatur	$ 36,599	11.8%	$24,802	8.0%	$31,0
Tier I capital					
(to risk-weighted assets)					
Consolidated	$111,528	12.8%	$34,938	4.0%	N
BankIllinois	$ 56,308	10.4%	$21,772	4.0%	$32,6

First National Bank of Decatur	$ 32,722	10.6%	$12,401	4.0%	$18,6
Tier I capital					
(to average assets)					
Consolidated	$111,528	9.3%	$47,891	4.0%	N
BankIllinois	$ 56,308	7.9%	$28,553	4.0%	$35,6
First National Bank of Decatur	$ 32,722	7.5%	$17,468	4.0%	$21,8

Interest Rate Sensitivity

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

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

Rate Sensitivity of Earning Assets and Interest Bearing Liabilit
(dollars in thousands)

	1-30 Days	31-90 Days	91-180 Days	181-365 Days	Ove 1 ye
Interest earning assets:					
Federal funds sold and interest bearing deposits	$ 12,294	$ -	$ -	$ -	$
Debt and equity securities	17,759	21,364	28,461	49,798	267,9
Loans 2	287,466	41,470	35,728	53,804	299,1
Total earning assets	$ 317,519	$ 62,834	$ 64,189	$103,602	$ 567,1
Interest bearing liabilities:					
Savings and interest bearing demand deposits	$ 87,766	$ 1,622	$ 2,433	$ 4,864	$ 184,8
Money market savings deposits	159,753	-	-	-	
Time deposits	21,288	44,472	62,535	102,536	125,5
Federal funds purchased, repurchase agreements, and notes payable	81,372	-	58	129	5
FHLB advances and other borrowings	7,268	10,000	92	-	12,5
Total interest bearing liabilities	$ 357,447	$ 56,094	$ 65,118	$107,529	$ 323,5
Net asset (liability)					

funding gap	(39,928)	6,740	(929)	(3,927)	243,5
Repricing gap	0.89	1.12	0.99	0.96	1.
Cumulative repricing gap	0.89	0.92	0.93	0.94	1.

1 Debt and equity securities include securities available-for-sale, securities held-to-maturity, and non-marketable equity securites.

2 Loans are gross and include mortgage loans held-for-sale

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

	1-30 Days	31-90 Days	91-180 Days	181-365 Days	Over 1 Year
Savings and interest-bearing demand deposits	0.45%	0.85%	1.25%	2.45%	95.00%

At June 30, 2004, the Company was slightly liability-sensitive due to the level of savings and interest bearing demand deposits, money market savings deposits and time deposits. As such, the effect of a decrease in the prime rate of 100 basis points would increase annualized net interest income by approximately $399,000 in the 1-30 day category and approximately $332,000 in the 1-90 days category assuming no management intervention. An increase in interest rates would have the opposite effect for the same periods. The Company's Asset and Liability Management Policy states that the cumulative ratio of rate-sensitive assets ("RSA") to rate-sensitive liabilities ("RSL") for the 12-month period shall fall within the range of 0.75-1.25. As of June 30, 2004, the Company's RSA/RSL was 0.94, which was within the established guidelines.

In addition to managing interest rate sensitivity and liquidity through the use of gap reports, the Company has provided for emergency liquidity situations with informal agreements with correspondent banks that permit the Company to borrow federal funds on an unsecured basis. Additionally, the Company has a $10 million unsecured line of credit with a correspondent bank, and can borrow approximately $56 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 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, 2004 and December 31, 2003 of the impact on net interest income from an immediate change in interest rates. The results are shown as a percentage change in net interest income over the next twelve months, all of which are within the Company's guideline of a maximum change of -15% from a 200 basis point change in interest rates.

	Basis Point Change			
	+200	+100	-100	-200
June 30, 2004	12.3%	6.1%	(6.1%)	(12.2%)
December 31, 2003	11.7%	5.9%	(5.9%)	(11.7%)

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

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

Liquidity and Cash Flows

The Company was able to meet liquidity needs during the first six months of 2004. A review of the consolidated statement of cash flows included in the accompanying financial statements shows that the Company's cash and cash equivalents decreased $18.056 million from December 31, 2003 to June 30, 2004.

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

The decrease in cash and cash equivalents 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 six months of 2004 compared to the first six months of 2003. More cash was used in investing activities during the first six months of 2004 compared to the same period in 2003. Cash was used in the area of loans during the first six months of 2004 compared to cash provided by loans during the same period in 2003 due to an increase in net loans during the first six months of

2004 compared to a decrease during the first six months of 2003. Somewhat offsetting more cash used to fund loans was less cash used by net investment portfolio activities during the first six months of 2004 compared to the same period in 2003. During the first six months of 2004, cash used to purchase debt and equity securities was $166.578 million, offset somewhat by proceeds of $147.110 million from maturities, calls and sales of debt and equity securities, principal paydowns on mortgage-backed securities and return of principal on other equity securities. During the first six months of 2003, cash used to purchase debt and equity securities was $233.433 million, offset somewhat by proceeds of $170.809 million from maturities, calls and sales of debt and equity securities, principal paydowns on mortgage-backed securities and return of principal on other equity securities. Cash was provided by financing activities during the first six months of 2004 compared to cash used during the same period in 2003. This was mainly due to funds provided by an increase in deposits during the first six months of 2004 compared to funds used as a result of deposits decreasing during the same period in 2003. This was offset somewhat by cash used during the first six months of 2004 due to a decrease in the area of federal funds purchased, repurchase agreements and notes payable compared to cash provided during the same period of 2003 due to an increase in this area. Slightly more cash was provided by operating activities during the first six months of 2004 compared to the same period in 2003.

Critical Accounting Policies

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

Provision and Allowance for Loan Losses

The provision for loan losses is based on management's evaluation of the loan portfolio in light of national and local economic conditions, changes in the composition and volume of the loan portfolio, changes in the volume of past due and nonaccrual loans, and other relevant factors. The allowance for loan losses, which is reported as a deduction from loans, is available for loan charge-offs. The allowance is increased by the provision charged to expense and is reduced by loan charge-offs net of loan recoveries. The allowance is allocated between the commercial, financial and agricultural, commercial and residential real estate and installment and consumer loan portfolios according to the historical losses experienced in each of these portfolios as well as the current level of watch list loans and nonperforming loans for each portfolio. Loans for which borrower cash flow and the estimated liquidation value of collateral are inadequate to repay the total outstanding balance are evaluated separately and assigned a specific allocation. The unallocated portion of the allowance is determined by economic conditions and other factors mentioned above. The balance of the allowance for loan losses was $10.084 million at June 30, 2004 compared to $9.786 million at December 31, 2003, as net charge-offs were $362,000 and provisions totaled $660,000 during the first six months of 2004. The allowance for loan losses as a percentage of gross loans, including loans held-for-sale, was 1.41% at June 30, 2004, compared to 1.45% at December 31, 2003. Gross loans, including loans held-for-sale, increased 6.0% to $717.591 million at June 30, 2004 from $676.677 million at December 31, 2003.

One measure of the adequacy of the allowance for loan losses is the ratio of the allowance to nonperforming loans. The allowance for loan losses as a percentage of nonperforming loans was 367.8% at June 30, 2004 compared to 959.4% at December 31, 2003. Nonperforming loans increased from $1.020 million at December 31, 2003 to $2.742 million at June 30, 2004. The $1.722 million increase in nonperforming loans during the first six months of 2004 resulted from a $1.558 million increase in nonaccrual loans and an increase of $164,000 in loans past due 90 days or more. The increase in nonaccrual loans was primarily the result of the addition of one commercial loan in the amount of $1.505 million. As of June 30, 2004, a specific valuation allowance of $300,000 had been assigned to this loan, and the remaining balance was considered adequately collateralized by real estate and business and personal property. The Company has been working with the borrower to liquidate collateral in an attempt to satisfy the outstanding obligation. Management believes that nonperforming and potential problem loans are appropriately identified and monitored based on the extensive loan analysis performed by the credit administration department, the internal loan committees and the board of directors. Historically, there have not been a significant amount of loans charged off which had not been previously identified as problem loans by the credit administration department or the loan committee.

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

Allowance for Loan Losses
(dollars in thousands)

	June 30, 2004	June 30, 2003
Allowance for loan losses at beginning of year	$ 9,786	$ 9,259
Charge-offs during period:		
Commercial, financial and agricultural	$ -	$ (7)
Residential real estate	-	(9)
Installment and consumer	(603)	(451)
Total	$ (603)	$ (467)
Recoveries of loans previously charged off:		
Commercial, financial and agricultural	$ 119	$ 181
Residential real estate	15	14
Installment and consumer	107	88
Total	$ 241	$ 283
Net (charge-offs) recoveries	$ (362)	$ (184)
Provision for loan losses	660	660
Allowance for loan losses at end of quarter	$ 10,084	$ 9,735
Ratio of net charge-offs to average net loans	(0.05)%	(0.03)%

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

Allocation of the Allowance for Loan Losses
(in thousands)

	June 30, 2004	December 31, 2003

Allocated:		
Commercial, financial and agricultural	$ 6,599	$ 5,973
Residential real estate	167	153
Installment and consumer	2,005	2,428
Total allocated allowance	$ 8,771	$ 8,554
Unallocated allowances	1,313	1,232
Total	10,084	9,786

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

Nonperforming Loans (dollars in thousands)

	June 30, 2004	December 31, 2003
Nonaccrual loans1	$ 1,957	$ 399
Loans past due 90 days or more	$ 785	$ 621
Restructured loans	$ 240	$ 18

1 Includes $415,000 at June 30, 2004 and $269,000 at December 2003 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).

Other Nonperforming Assets (dollars in thousands)

	June 30, 2004	December 31, 2003
Other real estate owned	$ -	$ -
Nonperforming other assets	$ 126	$ 55

Results of Operations

Results of Operations for the Six Months Ended June 30, 2004

Net income for the first six months of 2004 was $7.661 million, a $769,000, or 9.1%, decrease from $8.430 million for the same period in 2003. Despite this decrease, basic earnings per share increased $0.01, or 1.3%, to $0.81 per share year-to-date in 2004 from $0.80 per share year-to-date in 2003, and diluted earnings per share remained unchanged at $0.80 per share year-to-date in both 2004 and 2003. This was due to a decrease in weighted average shares outstanding after the completion of the tender offer for 1,074,140 shares of the Company's outstanding common stock at the end of the third quarter of 2003.

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

Consolidated Average Balance Sheet and Interest Rates
(dollars in thousands)

	Six Months Ended June 30,			
	2004			200
	Average Balance	Interest	Rate	Aver Bala
Assets				
Taxable investment securities[1]	$ 324,597	$ 5,413	3.35%	$ 291
Tax-exempt investment securities[1] (TE)	48,961	1,506	6.19%	56
Federal funds sold and interest bearing deposits[2]	32,514	188	1.16%	39
Loans[3,4] (TE)	692,128	20,070	5.83%	645
Total interest earning assets and interest income (TE)	$ 1,098,200	$ 27,177	4.98%	$ 1,032
Cash and due from banks	$ 46,099			$ 46
Premises and equipment	17,303			18
Other assets	22,669			17
Total assets	$ 1,184,271			$ 1,115
Liabilities and Shareholders' Equity				
Interest bearing demand deposits	$ 92,887	$ 305	0.66%	$ 83
Savings	319,950	1,400	0.88%	278
Time deposits	350,878	4,841	2.77%	338
Federal funds purchased, repurchase agreements, and notes payable	101,897	557	1.10%	89
FHLB advances and other borrowings	29,948	797	5.35%	27
Total interest bearing liabilities and interest expense	$ 895,560	$ 7,900	1.77%	$ 8
Noninterest bearing demand deposits	$ 100,166			$ 86
Noninterest bearing savings deposits	65,619			63
Other liabilities	9,991			9
Total liabilities	$ 1,071,336			$ 978
Shareholders' equity	112,935			137
Total liabilities and shareholders' equity	$ 1,184,271			$ 1,115
Interest spread (average rate earned				

minus average rate paid) (TE)		3.21%
Net interest income (TE)	$19,277	
Net yield on interest earnings assets (TE)		3.53%

See next page for Notes 1-4.

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 bearing deposits included approximately $30,000 in 2004 and 2003 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 $699,000 and $931,000 in 2004 and 2003, respectively, are included in total loan income.

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

Analysis of Volume and Rate Changes
(in thousands)

Six Months Ended June 30, 2004	Increase (Decrease) from Previous Year	Due to Volume	Due to Rate
Interest Income			
Taxable investment securities	$ (359)	$ 1,416	$ (1,775)
Tax-exempt investment securities (TE)	(288)	(243)	(45)
Federal funds sold and interest earning deposits	(66)	(42)	(24)
Loans (TE)	(1,343)	3,521	(4,864)
Total interest income (TE)	$ (2,056)	$ 4,652	$ (6,708)
Interest Expense			

Interest bearing demand and savings deposits	$ 12	$ 446	$ (434)
Time deposits	(957)	569	(1,526)
Federal funds purchased, repurchase agreements and notes payable	10	138	(128)
FHLB advances and other borrowings	33	97	(64)
Total interest expense	$ (902)	$ 1,250	$ (2,152)
Net Interest Income (TE)	$ (1,154)	$ 3,402	$ (4,556)

Net interest income on a tax equivalent basis was $1.154 million, or 5.6%, lower for the first six months of 2004 compared to the same period of 2003. Total tax-equivalent interest income was $2.056 million, or 7.0%, lower in 2004 compared to 2003, and interest expense decreased $902,000, or 10.2%. The decrease in tax-equivalent interest income and interest expense was mainly due to lower rates, offset somewhat by increases in average volume.

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

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

The provision for loan losses recorded was $660,000 during the first six months of 2004 and 2003. The provision during both periods was based on management's analysis of the loan portfolio, as discussed in the provision for loan losses section above.

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

Non-interest Income	06/30/2004	06/30/2003	$ change	% change
Remittance processing 1	$ 3,815	$ 3,498	$ 317	9.1%
Trust and brokerage fees 2	3,287	2,795	492	17.6%
Service charges on deposit accounts	1,201	1,240	(39)	(3.1%)
Securities transactions, net	6	(43)	49	114.0%
Gain on sales of mortgage loans, net 3	548	1,242	(694)	(55.9%)
Other 4	1,462	1,038	424	40.8%
Total non-interest income	$ 10,319	$ 9,770	$ 549	5.6%

Non-interest Expense	06/30/2004	06/30/2003	$ change	% change

Salaries and employee benefits	$ 9,251	$ 9,243	$ 8	0.1%
Occupancy	1,283	1,206	77	6.4%
Equipment 5	1,280	1,212	68	5.6%
Data processing	1,087	1,058	29	2.7%
Office supplies	617	628	(11)	(1.8%)
Service charges from correspondent banks	458	465	(7)	(1.5%)
Other 6	2,539	2,373	166	7.0%
Total non-interest expense	$ 16,515	$ 16,185	$ 330	2.0%

1 In August 2003, FirsTech introduced a new product called Internet Agent for one new customer. Since then, six existing customers have switched from mechanical processing to this product. Internet Agent income accounted for $1.114 million of total remittance processing income in the first six months of 2004. This increase was offset somewhat by decreases in mechanical collection, lockbox processing and electronic payment income. Emphasis has continued to be placed on new sales of, and conversion of existing customers to, Internet Agent processing, as it is a better product and more profitable compared to mechanical, lockbox and electronic processing.

2 The increase in trust and brokerage fees was the result of strong investment performance for existing clients and obtaining new investment accounts. Assets under management increased $154 million to $1.615 billion at June 30, 2004 compared to $1.461 billion at June 30, 2003.

3 The decrease in gains on sales of mortgage loans reflected a $71.496 million, or 61.9%, decrease in funded mortgage loans sold, from $115.484 million in the first six months of 2003 to $43.988 million in the first six months of 2004. The volume of funded mortgage loans, which peaked in the third quarter of 2003, has decreased mainly due to a decline in demand for refinancing.

4 Other non-interest income included a gain of $291,000 on the sale of two parking lots.

5 The increase in equipment expense included additional costs associated with the new Internet Agent product.

6 Other non-interest expense included $76,000 in additional direct loan costs related primarily to the increased volume in home equity loans.

Income tax expense decreased $60,000, or 1.4%, during the first six months of 2004 compared to the same period in 2003. The effective tax rate increased to 35.6% during the first six months of 2004 from 33.7% from the same period in 2003.

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

Net income for the second quarter of 2004 was $3.718 million, a $414,000, or 10.0%, decrease from $4.132 million for the same period in 2003. Despite this decrease, basic and diluted earnings per share remained unchanged at $0.39 per share in both the second quarters of 2004 and 2003. This was due to a decrease in weighted average shares outstanding after the completion of the tender offer for 1,074,140 shares of the Company's common stock at the end of the third quarter of 2003.

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

Consolidated Average Balance Sheet and Interest Rates
(dollars in thousands)

	Three Months Ended June 30,			
	2004			2003
	Average Balance	Interest	Rate	Average Balance
Assets				
Taxable investment securities1	$ 341,868	$ 2,699	3.18%	$ 306,427
Tax-exempt investment securities1 (TE)	47,787	732	6.16%	57,066
Federal funds sold and interest bearing deposits2	24,460	75	1.23%	47,245
Loans3,4 (TE)	697,628	10,017	5.78%	632,220
Total interest earning assets and interest income (TE)	$ 1,111,743	$13,523	4.89%	$ 1,042,958
Cash and due from banks	$ 44,416			$ 43,583
Premises and equipment	17,088			17,899
Other assets	24,096			18,172
Total assets	$ 1,197,343			$ 1,122,612
Liabilities and Shareholders' Equity				
Interest bearing demand deposits	$ 92,583	$ 154	0.67%	$ 84,498
Savings	335,759	762	0.91%	278,523
Time deposits	354,475	2,428	2.75%	339,715
Federal funds purchased, repurchase agreements, and notes payable	95,956	276	1.16%	93,360
FHLB advances and other borrowings	29,930	398	5.35%	27,757
Total interest bearing liabilities and interest expense	$ 908,703	$ 4,018	1.78%	$ 823,853
Noninterest bearing demand deposits	$ 100,588			$ 82,832
Noninterest bearing savings deposits	65,085			67,401
Other liabilities	10,158			10,006
Total liabilities	$ 1,084,534			$ 984,092
Shareholders' equity	112,809			138,520
Total liabilities and shareholders' equity	$ 1,197,343			$ 1,122,612
Interest spread (average rate earned minus average rate paid) (TE)			3.11%	
Net interest income (TE)		$ 9,505		
Net yield on interest earnings assets (TE)			3.44%	

See next page for Notes 1-4.

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 bearing deposits included approximately $13,000 and $16,000 in 2004 and 2003, 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 $403,000 and $433,000 in 2004 and 2003, respectively, are included in total loan income.

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

Analysis of Volume and Rate Changes
(in thousands)

Three Months Ended June 30, 2004

	Increase (Decrease) from Previous Year	Due to Volume	Due to Rate
Interest Income			
Taxable investment securities	$ (250)	$ 1,557	$ (1,807)
Tax-exempt investment securities (TE)	(159)	(145)	(14)
Federal funds sold and interest earning deposits	(77)	(71)	(6)
Loans (TE)	(338)	4,476	(4,814)
Total interest income (TE)	$ (824)	$ 5,817	$ (6,641)
Interest Expense			
Interest bearing demand and savings deposits	$ 103	$ 317	$ (214)
Time deposits	(377)	700	(1,077)
Federal funds purchased, repurchase agreements and notes payable	(4)	34	(38)
FHLB advances and other borrowings	14	86	(72)
Total interest expense	$ (264)	$ 1,137	$ (1,401)

Net Interest Income (TE)	$ (560)	$ 4,680	$ (5,240)

Net interest income on a tax equivalent basis was $560,000, or 5.6%, lower for the second quarter of 2004 compared to the second quarter of 2003. Total tax-equivalent interest income was $824,000, or 5.7%, lower in 2004 compared to 2003, and interest expense decreased $264,000, or 6.2%. The decrease in interest income and interest expense was due to a decrease in rates offset somewhat by increases in volume.

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

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

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

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

Non-interest Income	06/30/2004	06/30/2003	$ change	% cha
Remittance processing 1	$ 1,923	$ 1,732	$ 191	11
Trust and brokerage fees 2	1,625	1,333	292	21
Service charges on deposit accounts	622	660	(38)	(5
Securities transactions, net	(2)	-	(2)	
Gain on sales of mortgage loans, net 3	345	698	(353)	(50
Other	659	511	148	29
Total non-interest income	$ 5,172	$ 4,934	$ 238	4

Non-interest Expense	06/30/2004	06/30/2003	$ change	% cha
Salaries and employee benefits	$ 4,543	$ 4,594	$ (51)	(1

Occupancy	638	583	55	9
Equipment 4	647	563	84	14
Data processing	555	529	26	4
Office supplies	312	325	(13)	(4
Service charges from correspondent banks	233	236	(3)	(1
Other 5	1,390	1,291	99	7
Total non-interest expense	$ 8,318	$ 8,121	$ 197	2

1 In August 2003, FirsTech introduced a new product called Internet Agent for one new customer. Since then, six existing customers have switched from mechanical processing to this product. Internet Agent income accounted for $713,000 of total remittance processing income in the second quarter of 2004. This increase was offset somewhat by decreases in mechanical collection, lockbox processing and electronic payment income. Emphasis has continued to be placed on new sales of, and conversion of existing customers to, Internet Agent processing, as it is a better product and more profitable compared to mechanical, lockbox and electronic processing.

2 The increase in trust and brokerage fees was the result of strong investment performance for existing clients and obtaining new investment accounts. Assets under management increased $154 million to $1.615 billion at June 30, 2004 compared to $1.461 billion at June 30, 2003.

3 The decrease in gains on sales of mortgage loans reflected a $38.271 million, or 58.5%, decrease in funded mortgage loans sold, from $65.425 million in the second quarter of 2003 to $27.154 million in the second quarter of 2004. The volume of funded mortgage loans, which peaked in the third quarter of 2003, decreased mainly due to a decline in demand for refinancing.

4 The increase in equipment expense included costs associated with the new Internet Agent product.

5 Other non-interest expense included a $42,000 increase in direct loan promotional costs related primarily to the increased volume in home equity loans.

Income tax expense decreased $46,000, or 2.2%, during the second quarter of 2004 compared to the same period in 2003. The effective tax rate increased to 35.6% during the second quarter of 2004 from 33.7% in the second quarter of 2003.

Business Segment Information

The Company currently operates in two industry segments. The primary business involves providing banking services to central Illinois. The company's subsidiary banks offer a full range of financial services to business and individual customers. These services include demand, savings, time and individual retirement accounts; commercial, consumer (including automobile loans and personal lines of credit), agricultural, and real estate lending; safe deposit and night depository services; farm management; full service trust departments that offer a wide range of services such as investment management, acting as trustee, serving as guardian, executor or agent and miscellaneous consulting; 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 Internet Agent, Visa e-Pay and MasterCard RPS.

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

As of and for the Six Months Ended:	Banking Services	Remittance Services	Company	Eliminations
June 30, 2004				
Total interest income	$ 26,593	$ 9	$ 95	$ (53)
Total interest expense	7,921	-	32	(53)
Provision for loan losses	660	-	-	-
Total non-interest income	6,555	3,858	2,359	(2,453)
Total non-interest expense	13,242	2,658	3,068	(2,453)
Income before income tax	11,325	1,209	(646)	-
Income tax expense	3,980	508	(261)	-
Net income	7,345	701	(385)	-
Total assets	1,175,652	4,409	118,469	(103,853)
Depreciation and amortization	764	318	221	-
June 30, 2003				
Total interest income	$ 28,403	$ 34	$ 206	$ (49)
Total interest expense	8,851	-	-	(49)
Provision for loan losses	660	-	-	-
Total non-interest income	6,471	3,543	2,337	(2,581)
Total non-interest expense	13,384	2,364	3,018	(2,581)
Income before income tax	11,979	1,213	(475)	-
Income tax expense	3,987	485	(185)	-
Net income	7,992	728	(290)	-
Total assets	1,111,927	6,972	144,020	(136,437)
Depreciation and amortization	779	199	245	-

Recent Regulatory Developments

Trust Preferred Securities. On May 6, 2004, the Board of Governors of the Federal Reserve System (the "Board") issued a Notice of Proposed Rulemaking in which it proposed to allow the continued inclusion of trust preferred securities in the tier 1 capital of bank holding companies, subject to stricter standards. The Board is proposing to limit the aggregate amount of a bank holding company's cumulative perpetual preferred stock, trust preferred securities and other minority interests to 25% of the company's core capital elements, net of goodwill. Current regulations do not require the deduction of goodwill. The proposal also provides that amounts of qualifying trust preferred securities and certain minority interests in excess of the 25% limit may be included in tier 2 capital but would be limited, together with subordinated debt and limited-life preferred stock, to 50% of tier 1 capital. The proposal provides a three-year transition period for bank holding companies to meet these quantitative limitations. At this time, it is not possible to predict the impact that this proposal would have on the Company.

Bank Sales of Securities. On June 17, 2004, the Securities and Exchange Commission (the "SEC") issued a Proposed Rule in which it described the parameters under which banks may sell securities to their customers without having to register as broker-dealers with the SEC in accordance with Title II of the Gramm-Leach-Bliley Act of 1999. The proposal, which is designated as Regulation B, clarifies, among other things: (i) the limitations on the amount that unregistered bank employees may be compensated for making referrals in connection with a third-party brokerage arrangement; (ii) the manner by which banks may be compensated for effecting securities transactions for its customers in a fiduciary capacity; and (iii) the extent to which banks may engage in certain securities transactions as a custodian. At this time, it is not possible to predict the impact that this proposal would have on the Company and its subsidiaries.

Illinois Department of Financial and Professional Regulation. On July 1, 2004, the Office of Banks and Real Estate (the "OBRE"), the Department of Financial Institutions, the Department of Insurance and the Department of Professional Regulation were consolidated into a new agency known as the Illinois Department of Financial and Professional Regulation ("IDFPR"). The OBRE is now designated as the Division of Banks and Real Estate within the IDFPR.

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

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

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

o 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.

o 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.

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

o 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 June 30, 2004. Based on that evaluation, the Company's management, including the Chief Executive Officer and Chief Financial Officer, concluded that the Company's disclosure controls and procedures were effective. There have been no significant changes in the Company's internal controls or in other factors that could significantly affect internal controls.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 2. Changes in Securities, Use of Proceeds and Issuer Purchase of Equity Securities

Issuer Purchases of Equity Securities

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs 1	(d) Maxim Number of Share that May Yet Be Purchase Under th Plans or Programs
April 1 - April 30, 2004	-	$ -	-	4
May 1 - May 31, 2004	69,300	$ 30.93	69,300	4
June 1 - June 30, 2004	-	$ -	-	4
Total	69,300	$ 30.93	69,300	4

1 On October 27, 2003, the Company announced that its Board of Directors had reinstated the Stock Repurchase Program allowing the purchase of up to 500,000 shares of the Company's outstanding stock. The program will expire when the Company repurchases all of the shares covered.

Item 3. Defaults Upon Senior Securities

None.

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

On May 11, 2004, the Company's annual meeting of shareholders was held. At the meeting, one item was put to a vote of the security holders. There were 9,534,243 issued and outstanding shares of common stock entitled to vote at the annual meeting. The voting presented at the annual meeting was as follows:

1. David J. Downey, Van A. Dukeman, Larry D. Haab, Frederic L. Kenney, Gregory B. Lykins, August C. Meyer, Jr., Gene A. Salmon, George T. Shapland, Thomas G. Sloan, and H. Gale Zacheis, M.D. were elected to serve as directors for one year with terms expiring at the next annual meeting in 2005.

Election of Directors:	Votes For	Votes Withheld
David J. Downey	7,695,378	9,923
Van A. Dukeman	7,692,639	12,662
Larry D. Haab	7,697,158	8,143
Frederic L. Kenney	7,698,169	7,132
Gregory B. Lykins	7,692,639	12,662
August C. Meyer, Jr.	7,699,324	5,977
Gene A. Salmon	7,699,324	5,977
George T. Shapland	7,697,239	8,062
Thomas G. Sloan	7,697,158	8,143
H. Gale Zacheis, M.D.	7,698,104	7,197

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 13-a-14(a)/15d-14(a)

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

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

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

b. Reports

On April 26, 2004, the Company filed a report on Form 8-K pursuant to Item 12 that reported the Company's financial information for the fiscal quarter ended March 31, 2004.

On July 27, 2004, the Company filed a report on Form 8-K pursuant to Item 12 that reported the Company's financial information for the fiscal quarter ended June 30, 2004.

SIGNATURES

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

MAIN STREET TRUST, INC.

Date: August 6, 2004

By: /s/ David B. White

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

By: /s/ Van A. Dukeman

Van. A. Dukeman, President
and Chief Executive Officer