MAIN STREET TRUST INC
Form 10-Q
August 06, 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 June 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 August 1, 2003.

Main Street Trust, Inc. Common Stock	10,502,150

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	28
Item 4. Controls and Procedures	29
PART II. OTHER INFORMATION	
Item 1. Legal Proceedings	29
Item 2. Changes in Securities and Use of Proceeds	29
Item 3. Defaults Upon Senior Securities	29
Item 4. Submission of Matters to a Vote of Security Holders	29
Item 5. Other Information	29
Item 6. Exhibits and Reports on Form 8-K	30
SIGNATURES	31

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	June 30, 2003	December 31, 2002
ASSETS		
Cash and due from banks	$ 52,685	$ 59,744
Federal funds sold and interest bearing deposits	24,216	43,002
Cash and cash equivalents	76,901	102,746
Investments in debt and equity securities:		

Available-for-sale, at fair value	265,976	240,616
Held-to-maturity, at cost (fair value of $106,563 and $70,489 at June 30, 2003 and December 31, 2002, respectively)	104,711	68,563
Non-marketable equity securities	7,528	7,031
Total investments in debt and equity securities	378,215	316,210
Loans, net of allowance for loan losses of $9,735 and $9,259 at June 30, 2003 and December 31, 2002, respectively	625,257	664,142
Mortgage loans held for sale	7,875	2,972
Premises and equipment	17,824	18,349
Accrued interest receivable	6,704	7,315
Other assets	13,706	10,994
Total assets	$ 1,126,482	$ 1,122,728
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Deposits:		
Non-interest bearing	153,139	163,903
Interest bearing	698,729	704,683
Total deposits	851,868	868,586
Federal funds purchased, repurchase agreements and notes payable	95,707	80,651
Federal Home Loan Bank advances and other borrowings	27,748	27,806
Accrued interest payable	1,964	2,252
Other liabilities	9,591	8,963
Total liabilities	986,878	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 June 30, 2003 and December 31, 2002	112	112
Paid in capital	55,379	55,337
Retained earnings	97,435	92,853
Accumulated other comprehensive income	3,875	3,776
	156,801	152,078
Less: treasury stock, at cost, 734,501 and 755,047 shares at June 30, 2003 and December 31, 2002, respectively	(17,197)	(17,608)
Total shareholders' equity	139,604	134,470
Total liabilities and shareholders' equity	$ 1,126,482	$ 1,122,728

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

	2003	2002
Interest income:		
Loans and fees on loans	$ 21,402	$ 24,382
Investments in debt and equity securities		
Taxable	5,772	6,455
Tax-exempt	1,166	1,194
Federal funds sold and interest bearing deposits	254	196
Total interest income	28,594	32,227
Interest expense:		
Deposits	7,491	9,725
Federal funds purchased, repurchase agreements and notes payable	547	649
Federal Home Loan Bank advances and other borrowings	764	993
Total interest expense	8,802	11,367
Net interest income	19,792	20,860
Provision for loan losses	660	660
Net interest income after provision for loan losses	19,132	20,200
Non-interest income:		
Remittance processing	3,498	3,786
Trust and brokerage fees	2,795	2,882
Service charges on deposit accounts	1,240	1,150
Securities transactions, net	(43)	290
Gain on sales of mortgage loans, net	1,242	395
Other	1,038	1,016
Total non-interest income	9,770	9,519
Non-interest expense:		
Salaries and employee benefits	9,243	9,851
Occupancy	1,206	1,161
Equipment	1,212	1,362
Data processing	1,058	1,238
Office supplies	628	634
Service charges from correspondent banks	465	483
Other	2,373	2,429
Total non-interest expense	16,185	17,158
Income before income taxes	12,717	12,561
Income taxes	4,287	4,108
Net income	$ 8,430	$ 8,453
Per share data:		
Basic earnings per share	$ 0.80	$ 0.77
Weighted average shares of common stock outstanding	10,487,954	11,045,188
Diluted earnings per share	$ 0.80	$ 0.76
Weighted average shares of common stock and dilutive potential common shares outstanding	10,590,106	11,110,716

See accompanying notes to unaudited consolidated financial statements.

4

MAIN STREET TRUST, INC. AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income
For the Six Months Ended June 30, 2003 and 2002
(Unaudited, in thousands)

	2003	2002
Net income	$ 8,430	$ 8,453
Other comprehensive income, before tax:		
Unrealized gains on securities:		
Unrealized holding gains arising during period, net of tax of $49 and $476 for June 30, 2003 and 2002, respectively	73	399
Less: reclassification adjustment for (gains) losses included in net income, net of tax of $17 and $(116), for June 30, 2003 and 2002, respectively	26	(174)
Other comprehensive income, net of tax	99	225
Comprehensive income	$ 8,529	$ 8,678

See accompanying notes to unaudited consolidated financial statements.

5

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

	2003	2002
Interest income:		
Loans and fees on loans	$ 10,348	$ 12,19
Investments in debt and equity securities		
Taxable	2,949	3,13
Tax-exempt	579	59
Federal funds sold and interest bearing deposits	152	10
Total interest income	14,028	16,02
Interest expense:		
Deposits	3,618	4,71
Federal funds purchased, repurchase agreements and notes payable	280	32
Federal Home Loan Bank advances and other borrowings	384	49
Total interest expense	4,282	5,54
Net interest income	9,746	10,48
Provision for loan losses	330	33
Net interest income after provision for loan losses	9,416	10,15

Non-interest income:		
Remittance processing	1,732	1,83
Trust and brokerage fees	1,333	1,42
Service charges on deposit accounts	660	59
Securities transactions, net	--	22
Gain on sales of mortgage loans, net	698	17
Other	511	50
Total non-interest income	4,934	4,76
Non-interest expense:		
Salaries and employee benefits	4,594	5,09
Occupancy	583	60
Equipment	563	67
Data processing	529	67
Office supplies	325	29
Service charges from correspondent banks	236	24
Other	1,291	1,36
Total non-interest expense	8,121	8,96
Income before income taxes	6,229	5,95
Income taxes	2,097	1,91
Net income	$ 4,132	$ 4,04
Per share data:		
Basic earnings per share	$ 0.39	$ 0.3
Weighted average shares of common stock outstanding	10,496,736	11,028,76
Diluted earnings per share	$ 0.39	$ 0.3
Weighted average shares of common stock and dilutive potential common shares outstanding	10,605,680	11,107,13

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, 2003 and 2002
(Unaudited, in thousands)

	2003	2002
Net income	$ 4,132	$ 4,043
Other comprehensive income, before tax:		
Unrealized gains on securities:		
Unrealized holding gains arising during period, net of tax of $542 and $1,169 for June 30, 2003 and 2002, respectively	813	1,708
Less: reclassification adjustment for (gains) losses included in net income, net of tax of $0 and $(92) for June 30, 2003 and 2002, respectively	--	(128)
Other comprehensive income, net of tax	813	1,580
Comprehensive income	$ 4,945	$ 5,623

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, 2003 and 2002
(Unaudited, in thousands)

	2003	2002
Cash flows from operating activities:		
Net income	$ 8,430	$ 8,453
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	1,223	1,321
Amortization of bond discounts and premiums, net	922	548
Provision for loan losses	660	660
Securities transactions, net	43	(290)
Gain on sales of mortgage loans, net	(1,242)	(395)
Federal Home Loan Bank stock dividend	(181)	(89)
Proceeds from sales of mortgage loans originated for sale	115,484	45,411
Mortgage loans originated for sale	(119,145)	(38,372)
Other, net	(2,302)	(962)
Net cash provided by operating activities	3,892	16,285
Cash flows from investing activities:		
Net decrease (increase) in loans	38,215	(8,499)
Proceeds from maturities and calls of investments in debt securities:		
Held-to-maturity	7,436	1,791
Available-for-sale	127,974	51,866
Proceeds from sales of investments:		
Available-for-sale	11,085	43,122
Purchases of investments in debt and equity securities:		
Held-to-maturity	(57,569)	(575)
Available-for-sale	(175,284)	(80,720)
Other equity securities	(580)	(880)
Principal paydowns from mortgage-backed securities:		
Held-to-maturity	13,673	9,157
Available-for-sale	10,526	3,730
Return of principal on other equity securities	115	31
Purchases of premises and equipment	(698)	(977)
Net cash (used in) provided by investing activities	(25,107)	18,046
Cash flows from financing activities:		
Net decrease in deposits	(16,718)	(22,667)
Net increase (decrease) in federal funds purchased, repurchase agreements, and notes payable	15,056	(30,025)
Advances from Federal Home Loan Bank and other borrowings	--	12,977
Payments on Federal Home Loan Bank and other borrowings	(58)	(10,033)
Cash dividends paid	(3,145)	(2,906)
Issuance of new shares of common stock, net	--	1,222
MSTI stock transactions, net	235	(14,086)

Net cash used in financing activities	(4,630)	(65,518)
Net decrease in cash and cash equivalents	(25,845)	(31,187)
Cash and cash equivalents at beginning of year	102,746	95,379
Cash and cash equivalents at end of period	$ 76,901	$ 64,192
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	$ 9,090	$ 11,972
Income taxes	5,430	4,741
Real estate acquired through or in lieu of foreclosure	10	239
Dividends declared not paid	2,097	1,366

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 June 30, 2003 and for the three-month and six-month periods ended June 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 six-month periods ended June 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 outstanding, repurchased at a cost, including expenses, of $16.556 million.

Note 3. New Accounting Rules and Regulations

In April 2003, Statement on Financial Accounting Standards No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities, was issued. This Statement amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities under FASB Statement No. 133, Accounting for Derivative Instruments and Hedging Activities. This Statement is effective for contracts entered into or modified after June 30, 2003, except as stated below and for hedging relationships designated after June 30, 2003. In addition, except as indicated in the standard, all provisions of this Statement should be applied prospectively. The provisions of this Statement that relate to Statement 133 Implementation Issues that have been effective for fiscal quarters that began prior to June 15, 2003, should continue to be applied in accordance with their respective effective dates. In addition, paragraphs 7(a) and 23(a), which relate to forward purchases or sales of when-issued securities or other securities that do not yet exist, should be applied to both existing contracts and new contracts entered into after June 30, 2003. The Company does not anticipate this Statement having a significant impact upon the operations of the Company or the Banks.

In May 2003, Statement of Financial Accounting Standards No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity, was issued. This Statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). Many of those instruments were previously classified as equity.

This Statement requires an issuer to classify the following instruments as liabilities (or assets in some circumstances):

- o A financial instrument issued in the form of shares that is mandatorily redeemable - that embodies an unconditional obligation requiring the issuer to redeem it by transferring its assets at a specified or determinable date (or dates) or upon an event that is certain to occur

- o A financial instrument, other than an outstanding share, that, at inception, embodies an obligation to repurchase the issuer's equity shares,

or is indexed to such an obligation, and that requires or may require the issuer to settle the obligation by transferring assets (for example, a forward purchase contract or written put option on the issuer's equity shares that is to be physically settled or net cash settled)

- A financial instrument that embodies an unconditional obligation, or a financial instrument other than an outstanding share that embodies a conditional obligation, that the issuer must or may settle by issuing a variable number of its equity shares, if, at inception, the monetary value of the obligation is based solely or predominantly on any of the following:

  - A fixed monetary amount known at inception, for example, a payable settleable with a variable number of the issuer's equity shares

  - Variations in something other than the fair value of the issuer's equity shares, for example, a financial instrument indexed to the S&P 500 and settleable with a variable number of the issuer's equity shares

  - Variations inversely related to changes in the fair value of the issuer's equity shares, for example, a written put option that could be net share settled

The requirements of this Statement apply to issuers' classification and measurement of freestanding financial instruments, including those that comprise more than one option or forward contract.

This Statement is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. It is to be implemented by reporting the cumulative effect of a change in an accounting principle for financial instruments created before the issuance date of the Statement and still existing at the beginning of the interim period of adoption. Restatement is not permitted.

The Company does not anticipate this statement having a significant impact upon the operations of the Company or the Banks.

Note 4. Income per Share

Net income per common share has been computed as follows:

	Six Month Ended		Three Months Ended	
	June 30,		June 30,	
	2003	2002	2003	2002
Net Income	$ 8,430,000	$ 8,453,000	$ 4,132,000	$ 4,043,000
Shares:				
Weighted average common shares outstanding	10,487,954	11,045,188	10,496,736	11,028,764
Dilutive effect of outstanding options, as determined by the application of the treasury stock method	102,152	65,528	108,944	78,369
Weighted average common shares outstanding, as adjusted	10,590,106	11,110,716	10,605,680	11,107,133
Basic earnings per share	$ 0.80	$ 0.77	$ 0.39	$ 0.37

Diluted earnings per share	$ 0.80	$ 0.76	$ 0.39	$ 0.36

Note 5. 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 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,		Three Months Ended June 30,	
	2003	2002	2003	2002
Net income on common stock:				
As reported	$ 8,430	$ 8,453	$ 4,132	$ 4,0
Deduct total stock-based compensation expense determined under the fair value method for all awards, net of related tax effects	(117)	(209)	(72)	(
Pro forma	$ 8,313	$ 8,244	$ 4,060	$ 4,0
Basic earnings per share:				
As reported	$ 0.80	$ 0.77	$ 0.39	$ 0.
Pro forma	0.79	0.75	0.39	0.
Diluted earnings per share:				
As reported	$ 0.80	$ 0.76	$ 0.39	$ 0.
Pro forma	0.78	0.74	0.38	0.

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,	
	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%

Note 6. 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 June 30, 2003 and December 31, 2002:

	June 30, 2003	December 31, 2002
Financial instruments whose contract amounts represent credit risk:		
Commitments	$210,086	$201,181
Standby letters of credit	10,368	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 June 30, 2003 was $3.670 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 June 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 $3.754 million, or 0.3%, to $1.126 billion at June 30, 2003 compared to $1.123 billion at December 31, 2002. Increases in all categories of investment securities, mortgage loans held for sale and other assets were partially offset by decreases in loans, federal funds sold and interest bearing deposits, cash and due from banks, accrued interest receivable and premises and equipment.

Cash and due from banks decreased $7.059 million, or 11.8%, to $52.685 million at June 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 June 30, 2003 compared to December 31, 2002.

Federal funds sold and interest bearing deposits decreased $18.786 million, or 43.7%, to $24.216 million at June 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 $62.005 million, or 19.6%, to $378.215 million at June 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 $25.360 million, or 10.5%, investments in securities held-to-maturity increased $36.148 million, or 52.7%, and non-marketable equity securities increased $497,000, or 7.1%, at June 30, 2003 compared to December 31, 2002. Investments fluctuate with loan demand, deposit volume and availability of funds.

Loans, net of allowance for loan losses, decreased $38.885 million, or 5.9%, to $625.257 million at June 30, 2003 from $664.142 million at December 31, 2002. There were decreases in all loan categories. Commercial, financial and agricultural loans decreased $8.183 million, or 3.5%, as a result of the slowdown of the economy and the Company's conservative underwriting standards, in which it has been unwilling to sacrifice credit quality for growth. Real estate loans decreased $17.682 million, or 5.1%. The decrease in real estate loans included a decrease of $18.554 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 $872,000 in commercial real estate. Installment and consumer loans decreased $12.544 million, or 13.1%, due to alternative funding sources available to consumers, such as special financing offered by the auto manufacturers' captive financing companies.

Mortgage loans held for sale increased $4.903 million, or 165.0%, to $7.875 million at June 30, 2003 compared to $2.972 million at December 31, 2002.

Premises and equipment decreased $525,000, or 2.9%, to $17.824 million at June 30, 2003 from $18.349 million at December 31, 2002. The decrease included depreciation expense of $1.223 million, offset somewhat by purchases of $698,000.

Total liabilities decreased $1.380 million, or 0.1%, to $986.878 million at June

30, 2003 from $988.258 million at December 31, 2002. Decreases in total deposits, Federal Home Loan Bank advances and other borrowings, and accrued interest payable were somewhat offset by increases in federal funds purchased, repurchase agreements and notes payable and other liabilities.

Total deposits decreased $16.718 million, or 1.9%, to $851.868 million at June 30, 2003 from $868.586 million at December 31, 2002. Decreases in deposits included decreases of $10.764 million, or 6.6%, in non-interest bearing deposits and $5.954 million, or 0.8%, in interest bearing deposits.

Federal funds purchased, repurchase agreements and notes payable increased $15.056 million, or 18.7%, to $95.707 million at June 30, 2003 compared to $80.651 million at December 31, 2002. Included in this change was an increase of $15.906 million in repurchase agreements offset somewhat by a decrease of $850,000 in federal funds purchased.

Federal Home Loan Bank advances and other borrowings decreased $58,000, or 0.2%, to $27.748 million at June 30, 2003 compared to $27.806 million at December 31, 2002.

Investment Securities

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

Carrying Value of Securities
(in thousands)

	June 30, 2003	December 31, 2002
Available-for-sale:		
U.S. Treasury	$ 2,025	$ 3,066
Federal agencies	211,283	185,469
Mortgage-backed securities	32,252	30,884
State and municipal	16,007	16,168
Corporate and other obligations	--	1,008
Marketable equity securities	4,409	4,021
Total available-for-sale	$265,976	$240,616
Held-to-maturity:		
Federal agencies	$ 7,211	$ 1,750
Mortgage-backed securities	55,815	23,595
State and municipal	41,685	43,218
Total held-to-maturity	$104,711	$ 68,563
Non-marketable equity securities:		
FHLB and FRB stock1	$ 4,128	$ 3,963
Other equity investments	3,400	3,068
Total	$ 7,528	$ 7,031
Total investment securities	$378,215	$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 June 30, 2003. All securities are shown at their contractual maturity.

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

	June 30, 2003						
	1 Year or Less Amount	Rate	1 to 5 Years Amount	Rate	5 to 10 Years Amount	Rate	Over Yea Amo
Securities available-for-sale							
U.S. Treasury	$ 2,025	3.03%	$ --	0.00%	$ --	--	$
Federal agencies	$ 64,220	3.91%	$143,833	3.60%	$ 3,230	4.10%	$
Mortgage-backed securities1	$ 4,363	2.91%	$ 16,562	5.48%	$ 11,211	4.57%	$
State and municipal	$ 1,031	3.91%	$ 8,720	4.65%	$ 4,898	5.02%	$ 1
Marketable equity securities2	$ --	--	$ --	--	$ --	--	$
Total	$ 71,639		$169,115		$ 19,339		$ 1
Average Yield		3.83%		3.84%		4.61%	
Securities held-to-maturity							
Federal agencies	$ --	--	$ 2,286	2.56%	$ 4,925	4.53%	$
Mortgage-backed securities1	$ 3,710	4.56%	$ 8,176	4.95%	$ 8,381	4.87%	$ 35
State and municipal	$ 11,228	3.62%	$ 27,404	3.99%	$ 3,053	4.84%	$
Total	$ 14,938		$ 37,866		$ 16,359		$ 35
Average Yield		3.85%		4.11%		4.76%	
Non-marketable equity securities2							
FHLB and FRB stock	$ --	--	$ --	--	$ --	--	$
Other equity investments	$ --	--	$ --	--	$ --	--	$
Total	$ --	--	$ --	--	$ --	--	$

Loans

The following table presents the amounts and percentages of loans at June 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)

June 30, 2003		December 31, 2002	
Amount	Percentage	Amount	Percentage

Commercial, financial and agricultural	$225,862	35.57%	$234,045	34.75%
Real estate	326,145	51.36%	343,827	51.06%
Installment and consumer1	82,985	13.07%	95,529	14.19%
Total loans	$634,992	100.00%	$673,401	100.00%

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

Maturity of Loans Outstanding (dollars in thousands)

	June 30, 2003			
	1 Year or Less	1 to 5 Years	Over 5 Years	Total
Commercial, financial and agricultural	$121,190	$ 83,623	$ 21,049	$225,862
Real estate	57,642	143,946	124,557	326,145
Installment and consumer1	29,971	45,070	7,944	82,985
Total	$208,803	$272,639	$153,550	$634,992
Percentage of total loans outstanding	32.88%	42.94%	24.18%	100.00%

Capital

Total shareholders' equity increased $5.134 million from December 31, 2002 to June 30, 2003. Treasury stock transactions were $235,000, primarily due to stock option exercise transactions exceeding the purchase of shares of treasury stock. The change in shareholders' equity is summarized as follows:

Shareholders' Equity (in thousands)

Shareholders' equity, December 31, 2002	$ 134,470
Net income	8,430
Treasury stock transactions, net	235
Stock appreciation rights	42
Cash dividends declared	(3,672)
Other comprehensive income	99
Shareholders' equity, June 30, 2003	$ 139,604

On June 17, 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 $2.097 million was paid on July 18, 2003 to holders of record on July 7, 2003.

The Company and its subsidiary banks are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet

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

Quantitative measures established by regulation to ensure capital adequacy require the Company and its subsidiary banks to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined). Management believes, as of June 30, 2003, that the Company and its subsidiary banks exceeded all capital adequacy requirements to which they are subject.

As of June 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 June 30, 2003:						
Total capital (to risk-weighted assets)						
Consolidated	$144,112	18.9%	$ 61,064	8.0%	N/A	
BankIllinois	$ 74,672	16.0%	$ 37,333	8.0%	$ 46,666	10.0%
First National Bank of Decatur	$ 48,105	17.4%	$ 22,146	8.0%	$ 27,683	10.0%
Tier I capital (to risk-weighted assets)						
Consolidated	$134,645	17.6%	$ 30,532	4.0%	N/A	
BankIllinois	$ 68,742	14.7%	$ 18,666	4.0%	$ 28,000	6.0%
First National Bank of Decatur	$ 44,640	16.1%	$ 11,073	4.0%	$ 16,610	6.0%
Tier I capital (to average assets)						
Consolidated	$134,645	12.0%	$ 44,733	4.0%	N/A	
BankIllinois	$ 68,742	10.0%	$ 27,371	4.0%	$ 34,213	5.0%
First National Bank of Decatur	$ 44,640	10.4%	$ 17,145	4.0%	$ 21,431	5.0%

Interest Rate Sensitivity:

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

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

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

	1-30 Days	31-90 Days	91-180 Days	181-365 Days
Interest earning assets:				
Federal funds sold and interest bearing deposits	$ 24,216	$ --	$ --	$ --
Debt and equity securities 1	10,042	49,091	32,716	58,293
Loans 2	210,490	35,738	31,381	54,836
Total earning assets	$ 244,748	$ 84,829	$ 64,097	$ 113,129
Interest bearing liabilities:				
Savings and interest bearing demand deposits	$ 39,650	$ 1,488	$ 2,232	$ 4,464
Money market savings deposits	141,655	--	--	--
Time deposits	23,389	39,345	83,432	83,738
Federal funds purchased, repurchase agreements, and notes payable	94,910	485	81	231
FHLB advances and other borrowings	5,000	10,000	--	115
Total interest bearing liabilities	$ 304,604	$ 51,318	$ 85,745	$ 88,548
Net asset (liability) funding gap	(59,856)	33,511	(21,648)	24,581
Repricing gap	0.80	1.65	0.75	1.28
Cumulative repricing gap	0.80	0.93	0.89	0.96

16

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 Yea
Savings and interest-bearing demand deposits	0.45%	0.85%	1.25%	2.45%	95.00%

At June 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 $599,000 in the 1-30 days category and $263,000 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 June 30, 2003, the Company's RSA/RSL was 0.96 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 $5 million unsecured line of credit with a correspondent bank. Additionally, the Company can borrow approximately $50.301 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 June 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
June 30, 2003	9.9%	5.0%	(5.0%)	(9.9%)
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.

17

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 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 $25.845 million from December 31, 2002 to June 30, 2003. This decrease came from cash used in investing and financing activities offset somewhat by cash provided by operating activities.

There were differences in the sources and uses of cash during the first six months of 2003 compared to the first six months of 2002. Cash was used in investing activities during 2003 compared to cash provided by investing activities during 2002. During the first six months of 2003, net cash used in investing activities involving the Company's investment portfolio was $62.624 million compared to cash provided during the first six months of 2002 of $27.522 million. During the first six months of 2003, the Company's investment portfolio grew versus the first six 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 six months of 2003 due to a decrease in loans, compared to cash used by loans during the same period of 2002 when loans increased. Less cash was used in financing activities during the first six months of 2003 compared to the first six months of 2002. This was mainly due to changes in net MSTI stock transactions, deposits and federal funds purchased, repurchase agreements, and notes payable volumes. Cash was provided from net MSTI stock transactions during the first six months of 2003 compared to cash used during the same period of 2002 due to the completion of the tender offer during the second quarter of 2002. There was a larger decrease in deposits during the first six 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, during the first six months of 2003, cash was provided by an increase in federal funds purchased, repurchase agreements, and notes payable compared to a decrease during the same period of 2002. Less cash was provided by operating activities during the first six months of 2003 compared to the same period of 2002, primarily from net loans originated for sale. Proceeds from sales were higher than originated loans during the first six months of 2002, whereas during the first six months of 2003 loan originations exceeded proceeds from sales.

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 $9.735 million at June 30, 2003 compared to $9.259 million at December 31, 2002, as net charge-offs were $184,000 and provisions totaled $660,000 during the first six months of 2003. The allowance for loan losses as a percentage of gross loans, including loans held-for-sale, was 1.51% at June 30, 2003, compared to 1.37% at December 31, 2002. Gross loans, including loans held-for-sale, decreased 5.0% to $642.867 million at June 30, 2003 from $676.373 million at December 31, 2002.

The allowance for loan losses as a percentage of nonperforming loans was 424.4% at June 30, 2003 compared to 416.9% at December 31, 2002. Nonperforming loans increased from $2.221 million at December 31, 2002 to $2.294 million at June 30, 2003. The $73,000 increase in nonperforming loans during the first six months resulted from a $248,000 increase in nonaccrual loans, offset somewhat by a $175,000 decrease in loans past due 90 days or more. The increase in nonaccruals consisted primarily of consumer loans as a result of a more aggressive approach toward placing 90-day consumer loan delinquencies on nonaccrual status. 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.

Along with other financial institutions, management shares a concern for the outlook of the economy during the second half of 2003. A slowdown in economic activity beginning in 2001 severely impacted several major industries as well as the economy as a whole. Even though there are indications of emerging strength, it is not certain that this strength is sustainable. In addition, consumer confidence may be negatively impacted by the decline in equity prices. These events could still adversely affect cash flows for both commercial and individual borrowers, as a result of which, the Company could experience increases in problem assets, delinquencies and losses on loans.

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, 2003	June 30, 2002
Allowance for loan losses at beginning of year	$ 9,259	$ 9,259
Charge-offs during period:		
Commercial, financial and agricultural	$ (7)	$ (40)
Real estate	(9)	(32)
Installment and consumer	(451)	(671)
Total	$ (467)	$ (743)
Recoveries of loans previously charged off:		
Commercial, financial and agricultural	$ 181	$ 124
Residential real estate	14	26
Installment and consumer	88	75
Total	$ 283	$ 225
Net (charge-offs) recoveries	$ (184)	$ (518)
Provision for loan losses	660	660
Allowance for loan losses at end of quarter	$ 9,735	$ 9,401
Ratio of net (charge-offs) recoveries to average net loans	(0.03)%	(0.08)%

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)

	June 30, 2003	December 31, 2002
Allocated:		
Commercial, financial and agricultural	$5,497	$5,732
Residential real estate	214	345
Installment and consumer	1,954	1,763
Total allocated allowance	$7,665	$7,840
Unallocated allowances	2,070	1,419
Total	$9,735	$9,259

19

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)

	June 30, 2003	December 31, 2002
Nonaccrual loans1	$1,640	$1,392
Loans past due 90 days or more	$ 654	$ 829
Restructured loans2	$ 18	$ 20

1 Includes $862,000 at June 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 June 30, 2003 and $20,000 at December 31, 2002 are not considered nonperforming.

Other Nonperforming Assets (dollars in thousands)

	June 30, 2003	December 31, 2002
Other real estate owned	$ --	$ 58
Nonperforming other assets	$ 259	$ 94

Results of Operations

Results of Operations For the Six Months Ended June 30, 2003

Net income for the first six months of 2003 was $8.430 million, a $23,000, or 0.3%, decrease from $8.453 million for the same period in 2002. Basic earnings per share increased $0.03, or 3.9%, to $0.80 per share in the first six months of 2003 from $0.77 per share in the same period in 2002. Diluted earnings per share increased $0.04, or 5.3%, to $0.80 per share in the first six months of 2003 from $0.76 per share in the first six 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.

20

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 R
(dollars in thousands)

Six Months Ended June 30,

2003 20

	Average Balance	Interest	Rate	Average Balance	Inte
Assets					
Taxable investment securities1	$ 291,043	$ 5,772	4.00%	$ 267,901	$
Tax-exempt investment securities1 (TE) .	56,961	1,794	6.35%	55,179	
Federal funds sold and interest bearing deposits2	39,675	254	1.29%	20,147	
Loans3,4 (TE)	645,299	21,413	6.69%	676,729	2
Total interest earning assets and interest income (TE)	$1,032,978	$ 29,233	5.71%	$1,019,956	$ 3
Cash and due from banks	$ 46,539			$ 47,655	
Premises and equipment	18,051			19,068	
Other assets	17,566			18,759	
Total assets	$1,115,134			$1,105,438	
Liabilities and Shareholders' Equity					
Interest bearing demand deposits	$ 83,720	$ 326	0.79%	$ 101,178	$
Savings	278,354	1,367	0.99%	250,925	
Time deposits	338,553	5,798	3.45%	342,511	
Federal funds purchased, repurchase agreements, and notes payable	89,619	547	1.23%	71,629	
FHLB advances and other borrowings	27,775	764	5.55%	35,725	
Total interest bearing liabilities and interest expense	$ 818,021	$ 8,802	2.17%	$ 801,968	$ 1
Noninterest bearing demand deposits	$ 86,345			$ 103,983	
Noninterest bearing savings deposits ...	63,776			48,601	
Other liabilities	9,861			10,717	
Total liabilities	$ 978,003			$ 965,269	
Shareholders' equity	137,131			140,169	
Total liabilities and shareholders' equity	$1,115,134			$1,105,438	
Interest spread (average rate earned minus average rate paid) (TE)			3.54%		
Net interest income (TE)		$ 20,431			$ 2
Net yield on interest earnings assets (TE)			3.99%		

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 June 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)

	Six Months Ended June 30, 2003		
	Increase (Decrease) From Previous Year	Due to Volume	Due to Rate
Interest Income			
Taxable investment securities	$ (683)	$ 1,287	$(1,970)
Tax-exempt investment securities (TE)	(43)	134	(177)
Federal funds sold and interest bearing deposits	58	243	(185)
Loans (TE)	(2,977)	(1,100)	(1,877)
Total interest income (TE)	$(3,645)	$ 564	$(4,209)
Interest Expense			
Interest bearing demand and savings deposits ...	$ (765)	$ 198	$ (963)
Time deposits	(1,469)	(83)	(1,386)
Federal funds purchased, repurchase agreements and notes payable	(102)	327	(429)
FHLB advances and other borrowings	(229)	(219)	(10)
Total interest expense	$(2,565)	$ 223	$(2,788)
Net Interest Income (TE)	$(1,080)	$ 341	$(1,421)

Net interest income on a tax equivalent basis was $1.080 million, or 5.0%, lower for the first six months of 2003 compared to the same period in 2002. Total tax-equivalent income was $3.645 million, or 11.1%, lower in 2003 compared to 2002, and interest expense decreased $2.565 million, or 22.6%. The decrease in tax-equivalent interest income and interest expense was mainly due to lower rates, offset slightly by an increase in average balances.

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 time deposits and interest bearing demand and savings deposits decreased primarily due to lower rates and interest expense on FHLB advances and other borrowings decreased primarily due to lower average balances. Interest expense on federal funds purchased, repurchase agreements and notes payable decreased primarily due to lower rates, offset somewhat by an increase in average balances.

The provision for loan losses recorded was $660,000 during the first six months of 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.

Total non-interest income increased $251,000, or 2.6%, during the first six months of 2003 compared to the first six months of 2002. Included in this increase was an increase of $847,000, or 214.4%, in gains on sales of mortgage loans held-for-sale during the first six months of 2003 compared to the same period in 2002. This increase reflected a $70.073 million, or 154.3%, increase in funded mortgage loans held-for-sale during the first six months of 2003 compared to the first six months of 2002. This increase was reflective of lower mortgage interest rates during the first half 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 year. Service charges on deposit accounts increased $90,000, or 7.8%, during the first six months of 2003 compared to the same period in 2002. Other non-interest income increased $22,000, or 2.2%, in the first half of 2003 compared to the first half of 2002. Somewhat offsetting these increases was a decrease of $333,000, or 114.8%, in income from securities transactions in the first six 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 $288,000, or 7.6%, in the first half 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. Trust and brokerage fees decreased $87,000, or 3.0%, in the first half of 2003 compared to the first half of 2002. This decrease was primarily due to lower market values of assets upon which fees were charged during the first six months of 2003 compared to the same period in 2002.

Total non-interest expense decreased $973,000, or 5.7%, during the first six months of 2003 compared to the same period of 2002. Of this decrease, salaries and employee benefits decreased $608,000, or 6.2%, during the first half of 2003 compared to the first half of 2002. Contributing to salaries and employee benefits in the first 6 months of 2002 was $529,000 in salaries and benefits related to organizational restructuring that resulted in termination of employment contracts. Data processing expense decreased $180,000, or 14.5%, in the first six months of 2003 compared to the first six months of 2002. Contributing to data processing expense in the first half of 2002 was 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. Equipment expense decreased $150,000, or 11.0%, during the first six 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. Other non-interest expense decreased $56,000, or 2.3%, in the first half of 2003 compared to the first half of 2002. Service charges from correspondent banks decreased $18,000, or 3.7%, and office supplies expense decreased $6,000, or 0.9%, in the first six months of 2003 compared to the same period in 2002. Slightly offsetting these decreases was an increase in occupancy expense of $45,000, or 3.9%, during the first half of 2003 compared to the first half of 2002.

Income tax expense increased $179,000, or 4.4%, during the first six months of 2003 compared to the first six months of 2002. The effective tax rate increased to 33.7% during the first half of 2003 from 32.7% during the first half of 2002.

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

Net income for the second quarter of 2003 was $4.132 million, an $89,000, or 2.2%, increase from $4.043 million for the same period in 2002. Basic earnings per share increased $0.02, or 5.4%, to $0.39 per share in the second quarter of 2003 compared to $0.37 per share in the second quarter of 2002. Diluted earnings per share increased $0.03, or 8.3%, to $0.39 per share in the second quarter of 2003 compared to $0.36 per share in the second 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 Interes
(dollars in thousands)

	Three Months Ended June 30,				
	2003			20	
	Average Balance	Interest	Rate	Average Balance	Inte
Assets					
Taxable investment securities1	$ 306,427	$ 2,949	3.86%	$ 261,893	$
Tax-exempt investment securities1 (TE) .	57,066	891	6.26%	54,871	
Federal funds sold and interest bearing deposits2	47,245	152	1.29%	19,755	
Loans3,4 (TE)	632,220	10,355	6.57%	679,983	1
Total interest earning assets and interest income (TE)	$1,042,958	$ 14,347	5.52%	$1,016,502	$ 1
Cash and due from banks	$ 43,583			$ 46,317	
Premises and equipment	17,899			19,000	
Other assets	18,172			18,868	
Total assets	$1,122,612			$1,100,687	
Liabilities and Shareholders' Equity					
Interest bearing demand deposits	$ 84,498	$ 129	0.61%	$ 96,272	$
Savings	278,523	684	0.99%	250,668	
Time deposits	339,715	2,805	3.31%	346,634	
Federal funds purchased, repurchase agreements, and notes payable	93,360	280	1.20%	70,954	

FHLB advances and other borrowings	27,757	384	5.55%	36,182	
Total interest bearing liabilities and interest expense	$ 823,853	$ 4,282	2.08%	$ 800,710	$
Noninterest bearing demand deposits	$ 82,832			$ 102,940	
Noninterest bearing savings deposits ...	67,401			45,241	
Other liabilities	10,006			11,690	
Total liabilities	$ 984,092			$ 960,581	
Shareholders' equity	138,520			140,106	
Total liabilities and shareholders' equity	$1,122,612			$1,100,687	
Interest spread (average rate earned minus average rate paid) (TE)			3.43%		
Net interest income (TE)		$ 10,065			$ 1
Net yield on interest earnings assets (TE)			3.87%		

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 cash.

Analysis of Volume and Rate Changes (in thousands)

	Three Months Ended June 30, 2003		
	Increase (Decrease) From Previous Year	Due to Volume	Due to Rate
Interest Income			
Taxable investment securities	$ (181)	$ 2,195	$(2,376)
Tax-exempt investment securities (TE)	(37)	183	(220)
Federal funds sold and interest bearing deposits	51	277	(226)
Loans (TE)	(1,845)	(824)	(1,021)
Total interest income (TE)	$(2,012)	$ 1,831	$(3,843)
Interest Expense			
Interest bearing demand and savings deposits ...	$ (374)	$ 345	$ (719)
Time deposits	(726)	(69)	(657)
Federal funds purchased, repurchase agreements and notes payable	(43)	404	(447)

FHLB advances and other borrowings	(115)	(125)	10
Total interest expense	$(1,258)	$ 555	$(1,813)
Net Interest Income (TE)	$ (754)	$ 1,276	$(2,030)

Net interest income on a tax equivalent basis was $754,000, or 7.0%, lower for the second quarter of 2003 compared to the second quarter of 2002. Total tax-equivalent interest income was $2.012 million, or 12.3%, lower in 2003 compared to 2002, and interest expense decreased $1.258 million, or 22.7%. The decrease in interest income and interest expense was due 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 was due to decreases in rates and average balances during the second quarter of 2003 compared to the same period in 2002. The decreases in interest income from taxable and tax-exempt investment securities were due to a decrease in rates during the second quarter of 2003 compared to the second quarter of 2002, offset somewhat by an increase in average balances. The increase in federal funds sold and interest bearing deposits was due to an increase in average balance offset somewhat by a decrease in rate.

The decrease in total interest expense was due to decreases in interest expense on all categories of interest bearing liabilities. The decrease in interest expense on time deposits was due to decreases in rate and average balance during the second 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 second quarter of 2003 compared to the second quarter of 2002. Interest expense on FHLB advances and other borrowings decreased due to a decrease in average balances, offset slightly by higher rates during the second quarter of 2003 compared to the second quarter of 2002. Interest expense on federal funds purchased, repurchase agreements and notes payable decreased during the second quarter of 2003 compared to the second quarter of 2002 due to decreases in rates, offset somewhat by increases in average balances.

The provision for loan losses recorded was $330,000 during both the second 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 $168,000, or 3.5%, during the second quarter of 2003 compared to the second quarter of 2002. Included in this increase was an increase of $522,000, or 296.6%, in gains on sales of mortgage loans held-for-sale in the second quarter of 2003 compared to the same period in 2002. This increase reflected a $46.824 million, or 251.7%, increase in funded mortgage loans held-for-sale in the second quarter of 2003 compared to the same period in 2002. This increase was reflective of lower mortgage interest rates during the first half 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 year. Service charges on deposit accounts increased $64,000, or 10.7%, in the second quarter of 2003 compared to the second quarter of 2002. Somewhat offsetting these increases was a decrease in income from remittance processing of $105,000, or 5.7%, in the second quarter of

2003 compared to the same quarter in 2002. This was due to a significant 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. Trust and brokerage fees decreased $96,000, or 6.7%, in the second quarter of 2003 compared to the same quarter in 2002. This decrease was primarily due to lower market values of assets upon which fees were charged during the second quarter of 2003 compared to the same period in 2002. There was no income generated from securities transactions in the second quarter of 2003 compared to $220,000 in the second quarter of 2002.

Total non-interest expense decreased $840,000, or 9.4%, during the second quarter of 2003 compared to the same period in 2002. Of this decrease, salaries and employee benefits decreased $502,000, or 9.9%, in the second quarter of 2003 compared to the second quarter of 2002. Contributing to salaries and employee benefits in the second quarter of 2002 was $529,000 in salaries and benefits related to organizational restructuring that resulted in termination of employment contracts. Data processing expense decreased $146,000, or 21.6%, in the second quarter of 2003 compared to the same period in 2002. Contributing to data processing expense in the second quarter of 2002 was 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. Equipment expense decreased $111,000, or 16.5%, in the second quarter of 2003 compared to the second 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 2002. Other non-interest expense decreased $76,000, or 5.6%, during the second quarter of 2003 compared to the second quarter of 2002. Occupancy expense decreased $26,000, or 4.3%, in the second quarter of 2003 compared to the second quarter of 2002. Service charges from correspondent banks decreased $11,000, or 4.5%, in the second quarter of 2003 compared to the same period in 2002. Slightly offsetting these decreases was an increase of $32,000, or 10.9%, in office supplies during the second quarter of 2003 compared to the second quarter of 2002.

Income tax expense increased $185,000, or 9.7%, during the second quarter of 2003 compared to the second quarter of 2002. The effective tax rate increased to 33.7% during the second quarter of 2003 from 32.1% 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.

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
June 30, 2003					
Total interest income	$ 28,403	$ 34	$ 206	$ (49)	$ 28,59
Total interest expense	8,851	--	--	(49)	8,80
Provision for loan losses ...	660	--	--	--	66
Total non-interest income ...	6,471	3,543	2,337	(2,581)	9,77
Total non-interest expense ..	13,384	2,364	3,018	(2,581)	16,18
Income before income tax	11,979	1,213	(475)	--	12,71
Income tax expense	3,987	485	(185)	--	4,28
Net income	7,992	728	(290)	--	8,43
Total assets	1,111,927	6,972	144,020	(136,437)	1,126,48
Depreciation and amortization	779	199	245	--	1,22
June 30, 2002					
Total interest income	$ 32,196	$ 50	$ 75	$ (94)	$ 32,22
Total interest expense	11,456	--	5	(94)	11,36
Provision for loan losses ...	660	--	--	--	66
Total non-interest income ...	5,876	3,847	58	(323)	9,45
Total non-interest expense ..	13,764	2,605	1,051	(323)	17,09
Income before income tax	12,192	1,292	(923)	--	12,56
Income tax expense	3,957	516	(365)	--	4,10
Net income	8,235	776	(558)	--	8,45
Total assets	1,083,377	6,026	134,819	(128,916)	1,095,30
Depreciation and amortization	1,065	241	15	--	1,32

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 June 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

On May 6, 2003, the Company's annual meeting of shareholders was held. At the meeting, two items were put to a vote of the shareholders. There were 10,499,599 issued and outstanding shares of common stock entitled to vote at the annual meeting. The voting on each item presented at the annual meeting was as follows:

1. Frederic L. Kenney, Gregory B. Lykins, August C. Meyer, Jr, and Phillip C. Wise were elected to serve as Class I directors. Continuing as Class II directors were George T. Shapland, Thomas G. Sloan, Roy V. VanBuskirk, and H. Gale Zacheis. Continuing as Class III directors were David J. Downey, Van A. Dukeman, Larry D. Haab, and Gene A. Salmon. The shareholders also approved an amendment to the Company's Articles of Incorporation, which eliminated the classification of directors on the Company's Board. As a result of this amendment, the Company's directors are now all in the same class and each director's term expires at the next annual meeting to be held in 2004.

Election of Directors:	Votes For	Votes Witheld
Frederic L. Kenney	8,266,766	22,056

Gregory B. Lykins	8,262,566	22,256
August C. Meyer, Jr.	8,266,800	22,022
Phillip C. Wise	8,262,600	26,222

2. Amend the Articles of Incorporation to eliminate the classification of the Company's Board and to increase the range of the number of directors:

Votes For	Votes Against	Abstentions
8,204,916	45,974	37,932

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 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.

On April 25, 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 March 31, 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: August 6, 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