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

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

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

SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended September 30, 2001

Commission File Number: 0-30031

MAIN STREET TRUST, INC.

(Exact name of Registrant as specified in its charter)

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

100 West University, Champaign, Illinois 61820

(Address of principal executive offices) (Zip Code)

(217) 351-6500

(Registrant's telephone number, including area code)

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

Indicate the number of shares outstanding of the registrant's common stock, as of November 13, 2001

Main Street Trust, Inc. Common Stock	11,868,211

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

MAIN STREET TRUST, INC AND SUBSIDIARIES

Consolidated Balance Sheets
September 30, 2001 and December 31, 2000
(Unaudited, in thousands, except share data)

	Septembe 2001
ASSETS	
Cash and due from banks	$ 50,
Federal funds sold and interest earning deposits	8,
Investments in debt and equity securities:	
Available-for-sale, at fair value	245,
Held-to-maturity, at cost (fair value of $72,177 and $84,849 at September 30, 2001 and December 31, 2000, respectively)	70,
Non-marketable equity securities	5,
Mortgage loans held for sale	8,
Loans, net of allowance for loan losses of $8,864 and $8,879 at September 30, 2001 and December 31, 2000, respectively	675,
Premises and equipment	20,
Accrued interest receivable	9,
Other assets	11,
Total assets	$ 1,104,

LIABILITIES AND SHAREHOLDERS' EQUITY	
Liabilities:	
Deposits:	
Demand, non-interest bearing	$ 106,
Demand, interest bearing	259,
Savings	113,
Time, $100 and over	99,
Other time	258,
Total deposits	836,
Federal funds purchased, repurchase agreements and notes payable	78,
Federal Home Loan Bank advances and other borrowings	39,
Accrued interest payable	3,
Other liabilities	10,
Total liabilities	969,
Shareholders' equity:	
Preferred stock, no par value; 2,000,000 shares authorized	
Common stock, $0.01 par value; 15,000,000 shares authorized 11,111,608 shares issued at September 30, 2001 and December 31, 2000, respectively	
Paid in capital	54,
Retained earnings	80,
Accumulated other comprehensive income	3,
	138,
Less: treasury stock, at cost, 226,494 and 117,786 shares at September 30, 2001 and December 31, 2000, respectively	(4,
Total shareholders' equity	134,
Total liabilities and shareholders' equity	$ 1,104,

See accompanying notes to unaudited consolidated financial statements.

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MAIN STREET TRUST, INC. AND SUBSIDIARIES

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

	2001	2000
Interest income:		
Loans and fees on loans	$ 42,144	$ 40,436
Investments in debt and equity securities		
Taxable	10,513	11,661
Tax-exempt	1,733	1,498
Federal funds sold and interest earning deposits	1,527	1,187
Total interest income	55,917	54,782

Interest expense:		
Demand, savings, and other time deposits	18,832	18,383
Time deposits $100 and over	4,029	3,822
Federal funds purchased, repurchase agreements and notes payable	2,101	2,895
Federal Home Loan Bank advances and other borrowings	1,768	1,554
Total interest expense	26,730	26,654
Net interest income	29,187	28,128
Provision for loan losses	845	458
Net interest income after provision for loan losses	28,342	27,670
Non-interest income:		
Remittance processing	5,105	5,168
Trust and brokerage fees	4,012	4,117
Service charges on deposit accounts	1,598	1,595
Securities transactions, net	302	17
Gain on sales of mortgage loans, net	490	122
Other	1,174	1,335
Total non-interest income	12,681	12,354
Non-interest expense:		
Salaries and employee benefits	13,094	13,848
Merger related professional fees	--	2,454
Occupancy	1,674	1,681
Equipment	2,310	2,861
Data processing	1,349	1,073
Office supplies	1,179	897
Service charges from correspondent banks	660	793
Other	3,527	3,117
Total non-interest expense	23,793	26,724
Income before income taxes	17,230	13,300
Income taxes	5,454	4,845
Net income	$ 11,776	$ 8,455
Per share data:		
Basic earnings per share	$ 1.08	$ 0.76
Weighted average shares of common stock outstanding	10,953,118	11,091,631
Diluted earnings per share	$ 1.06	$ 0.75
Weighted average shares of common stock and dilutive potential . common shares outstanding	11,160,826	11,324,583

See accompanying notes to unaudited consolidated financial statements.

MAIN STREET TRUST, INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income
For the Nine Months Ended September 30, 2001 and 2000

(Unaudited, in thousands)

	2001	2000
Net income	$ 11,776	$ 8,455
Other comprehensive income, before tax:		
Unrealized gains on securities:		
Unrealized holding gains arising during period, net of tax of $1,671 and $995, for September 30, 2001 and 2000, respectively	3,243	1,931
Less: reclassification adjustment for gains (losses) included in net income, net of tax of $(103) and $(6), for September 30, 2001 and 2000, respectively	(199)	(11)
Other comprehensive income, net of tax	3,044	1,920
Comprehensive income	$ 14,820	$ 10,375

See accompanying notes to unaudited consolidated financial statements.

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MAIN STREET TRUST, INC. AND SUBSIDIARIES

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

	2001	2000
Interest income:		
Loans and fees on loans	$ 13,795	$ 14,222
Investments in debt and equity securities		
Taxable	3,349	3,809
Tax-exempt	604	522
Federal funds sold and interest earning deposits	292	325
Total interest income	18,040	18,878
Interest expense:		
Demand, savings, and other time deposits	5,836	6,524
Time deposits $100 and over	1,253	1,451
Federal funds purchased, repurchase agreements and notes payable	619	915
Federal Home Loan Bank advances and other borrowings	597	635
Total interest expense	8,305	9,525
Net interest income	9,735	9,353
Provision for loan losses	235	191
Net interest income after provision for loan losses	9,500	9,162
Non-interest income:		

Remittance processing	1,785	1,633
Trust and brokerage fees	1,365	1,335
Service charges on deposit accounts	561	555
Securities transactions, net	83	31
Gain on sales of mortgage loans, net	175	63
Other	363	360
Total non-interest income	4,332	3,977
Non-interest expense:		
Salaries and employee benefits	4,281	4,079
Merger related professional fees	--	2
Occupancy	549	564
Equipment	739	1,384
Data processing	488	298
Office supplies	392	307
Service charges from correspondent banks	221	218
Other	1,134	1,137
Total non-interest expense	7,804	7,989
Income before income taxes	6,028	5,150
Income taxes	1,984	1,606
Net income	$ 4,044	$ 3,544
Per share data:		
Basic earnings per share	$ 0.37	$ 0.32
Weighted average shares of common stock outstanding	10,916,747	11,069,367
Diluted earnings per share	$ 0.36	$ 0.31
Weighted average shares of common stock and dilutive potential common shares outstanding	11,120,508	11,275,413

See accompanying notes to unaudited consolidated financial statements.

MAIN STREET TRUST, INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income
For the Three Months Ended September 30, 2001 and 2000
(Unaudited, in thousands)

	2001	2000
Net income	$ 4,044	$ 3,544
Other comprehensive income, before tax:		
Unrealized gains on securities:		
Unrealized holding gains arising during period, net of tax of $612 and $879, for September 30, 2001 and 2000, respectively	1,186	1,706
Less: reclassification adjustment for gains (losses) included in net income, net of tax of $(29) and $(11), for September 30, 2001 and 2000, respectively	(54)	(20)
Other comprehensive income, net of tax	1,132	1,686

Comprehensive income	$ 5,176	$ 5,230

See accompanying notes to unaudited consolidated financial statements.

MAIN STREET TRUST, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows
For the Nine Months Ending September 30, 2001 and 2000
(Unaudited, in thousands)

	2001
Cash flows from operating activities:	
Net income	$ 11,776
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization	2,009
(Accretion) amortization of bond discounts and premiums, net	(179)
Provision for loan losses	845
Securities transactions, net	(302)
Gain on sales of mortgage loans, net	(490)
Federal Home Loan Bank stock dividend	(135)
Proceeds from sales of mortgage loans originated for sale	60,060
Mortgage loans originated for sale	(65,911)
Loss on disposal of premises and equipment	--
Other, net	(2,080)
Net cash provided by operating activities	5,593
Cash flows from investing activities:	
Net increase in loans	(16,894)
Proceeds from maturities and calls of investments in debt securities:	
Held-to-maturity	28,559
Available-for-sale	58,332
Proceeds from sales of investments:	
Available-for-sale	89,715
Purchases of investments in debt and equity securities:	
Held-to-maturity	(22,135)
Available-for-sale	(176,252)
Other equity securities	(500)
Principal paydowns from mortgage-backed securities:	
Held-to-maturity	6,932
Available-for-sale	2,515
Principal paydowns on other equity securities	31
Purchases of premises and equipment	(1,150)
Net cash used in investing activities	(30,847)
Cash flows from financing activities:	
Net (decrease) increase in deposits	(3,383)
Net increase (decrease) in federal funds purchased, repurchase agreements, and notes payable	9,162

Net increase (decrease) in Federal Home Loan Bank advances and other borrowings	(1,068)
Cash dividends paid	(3,343)
MSTI stock transactions, net	(2,021)
Net cash used in financing activities	(653)
Net decrease in cash and cash equivalents	(25,907)
Cash and cash equivalents at beginning of year	84,139
Cash and cash equivalents at end of period	$ 58,232
Supplemental disclosures of cash flow information:	
Cash paid during the year for:	
Interest	$ 27,552
Income taxes	5,486
Real estate acquired through or in lieu of foreclosure	--
Dividends declared not paid	1,197

See accompanying notes to unaudited consolidated financial statements.

MAIN STREET TRUST, INC. AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements

Note 1. Basis of Presentation

The accompanying unaudited consolidated financial statements for Main Street Trust, Inc. have been prepared in accordance with the instructions to Form 10-Q and therefore do not include all information and footnotes necessary for fair presentation of financial position, results of operations, and cash flows in conformity with accounting principles generally accepted in the United States of America. These financial statements should be read in conjunction with the audited consolidated financial statements and related notes as of and for the year ended December 31, 2000, and schedules included in Main Street Trust, Inc.'s. Form 10-K filed on March 30, 2001.

In the opinion of management, the consolidated financial statements of Main Street Trust, Inc. (the "Company") and its subsidiaries, as of September 30, 2001 and for the three-month and nine-month periods ended September 30, 2001 and 2000, include all adjustments necessary for a fair presentation of the results of those periods. All such adjustments are of a normal recurring nature.

Results of operations for the three-month and nine-month period ended September 30, 2001 are not necessarily indicative of the results which may be expected for the year ended December 31, 2001.

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

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

Note 2. Company Information/Business Combination

On March 23, 2000, BankIllinois Financial Corporation and First Decatur Bancshares, Inc. completed a "merger of equals" between the two companies, structured as a merger of the two companies into the Company. The merger has been accounted for as a pooling of interests and, accordingly, all prior financial statements have been restated to include both companies. As a result of the merger, former shareholders of BankIllinois Financial Corporation and First Decatur Bancshares, Inc. received 6,119,673 and 4,990,281 shares of Company common stock, respectively.

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

On June 14, 2001, the Company was certified by the Board of Governors of the Federal Reserve System as a financial holding company. This designation allows the Company to engage in a wider range of nonbanking activities, including greater authority to engage in securities and insurance activities. However, the Company has no current plans to do so.

Note 3: Stock Dividend

At its regular board meeting on August 21, 2001, the Board of Directors of the Company declared a one-for-twenty, or five percent, common stock dividend. The record date of the stock dividend was September 4, 2001, and the distribution date was September 21, 2001. The accompanying unaudited consolidated financial statements have been restated to take the stock dividend into account.

Note 4. New Accounting Rules and Regulations

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

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

In June 2001, Statement on Financial Accounting Standards No. 143 "Accounting for Asset Retirement Obligations" was issued to address financial reporting and obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. This Statement applies to all entities and to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development or normal operations of a long-lived asset, except for certain obligations of lessees. Statement No. 143 is effective for financial statements issued for fiscal years beginning after June 15, 2002. Management does not believe the adoption of Statement No. 143 will have a significant impact on its financial statements.

In August 2001, Statement on Financial Accounting Standards No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets" was issued to supersede Statement No. 121 "Accounting for the Impairment and for Long-Lived Assets to Be Disposed Of", and the accounting and reporting provisions of APB Opinion No. 30 "Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions". Statement No. 144 is effective for financial statements issued for fiscal years beginning after December 15, 2001, and interim periods within those fiscal years, with early application encouraged. Management does not believe the adoption of Statement No. 144 will have a significant impact on its financial statements.

Note 5. Income per Share

Net income per common share has been computed as follows:

	Nine Months Ended September 30,		Three Months Ended September 30,	
	2001	2000*	2001	2000*
Net income	$11,776,000	$ 8,455,000	$ 4,044,000	$ 3,544
Shares:				
Weighted average common shares outstanding	10,953,118	11,091,631	10,916,747	11,069
Dilutive effect of outstanding options, as determined by the application of the treasury stock method	193,141	216,180	191,940	188
Dilutive effect of outstanding SARs, as determined by the application of the treasury stock method	14,567	16,772	11,821	17
Weighted average common shares outstanding, as adjusted	11,160,826	11,324,583	11,120,508	11,275
Basic earnings per share	$ 1.08	$ 0.76	$ 0.37	$
Diluted earnings per share	$ 1.06	$ 0.75	$ 0.36	$

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

Financial Condition

Assets and Liabilities

Total assets increased $13.594 million, or 1.2%, to $1.105 billion at September 30, 2001 compared to $1.091 billion at December 31, 2000. Increases in investments available-for-sale, loans, mortgage loans held for sale, other assets and non-marketable equity securities were partially offset by decreases in federal funds sold and interest earning deposits, investments held-to-maturity, cash and due from banks, accrued interest receivable, and premises and equipment.

Cash and due from banks decreased $8.744 million, or 14.8%, to $50.223 million at September 30, 2001 compared to $58.967 million at December 31, 2000 primarily due to a smaller dollar amount of deposit items in process of collection at September 30, 2001 compared to December 31, 2000.

Federal funds sold and interest earning deposits decreased $17.163 million, or 68.2%, to $8.009 million at September 30, 2001 compared to $25.172 million at December 31, 2000. This decrease was the result of excess federal funds sold being used to fund the increase in loans and investments.

Total investments in debt and equity securities increased $18.069 million, or 6.0%, to $321.256 million at September 30, 2001 compared to $303.187 million at December 31, 2000. Investments in securities available-for-sale increased $31.594 million, or 14.8%, and non-marketable equity securities increased $0.553 million, or 12.2%, at September 30, 2001 compared to December 31, 2000. Somewhat offsetting these increases was a decrease in investments in debt and equity securities held-to-maturity of $14.078 million, or 16.6%. The net increase in investments in debt and equity securities was the result of shifting funds from federal funds sold and interest earning deposits into higher yielding investment securities. As held-to-maturity securities have matured or been called, management has shifted additional funds into available-for-sale securities to allow the Company more flexibility to reposition its portfolio in response to future changes in the interest rate environment, economy and balance sheet mix.

Mortgage loans held for sale increased $6.341 million, or 303.4%, to $8.431 million at September 30, 2001 compared to $2.090 million at December 31, 2000. This increase was mainly due to lower interest rates driving up demand in the mortgage loan area during the first three quarters of 2001.

Loans, net of allowance for loan losses, increased $16.049 million, or 2.4%, to $675.898 million at September 30, 2001 from $659.849 million at December 31, 2000. Increases in commercial, financial and agricultural loans of $19.802 million, or 9.0%, and real estate loans of $6.033 million, or 1.9% were partially offset by a decrease of $1.370 million, or 1.1% in consumer loans at September 30, 2001 compared to December 31, 2000.

Premises and equipment decreased $0.839 million, or 4.0%, from $20.874 million at December 31, 2000 to $20.035 million at September 30, 2001. The decrease was caused by depreciation expense of $1.989 million offset by purchases of $1.150 million.

Other assets increased $1.244 million, or 12.1%, from $10.313 million at December 31, 2000 to $11.557 million at September 30, 2001 primarily due to an increase of $0.945 million in accrued trust income.

Total liabilities increased $4.269 million, or 0.4%, to $969.948 million at September 30, 2001 from $965.679 million at December 31, 2000. Increases in federal funds purchased, repurchase agreements and notes payable and other liabilities were partially offset by decreases in total deposits, Federal Home

Loan Bank advances and other borrowings and accrued interest payable.

Total deposits decreased $3.383 million, or 0.4%, to $836.549 million at September 30, 2001 from $839.932 at December 31, 2000. The decrease in deposits included a decrease in savings deposits of $25.838 million, or 18.5%, a decrease in non-interest bearing demand deposits of $2.511 million, or 2.3%, and a decrease in time deposits $100,000 and over of $1.020 million, or 1.0%. Somewhat offsetting these decreases were increases of $25.183 million, or 10.8%, in interest bearing demand deposits and $0.803, or 0.3%, in other time. Despite the decrease from year-end, total deposits were $33.182 million, or 4.1%, higher than the September 30, 2000 balance of $803.367 million.

Federal funds purchased, repurchase agreements and notes payable increased $9.162 million, or 13.2%, to $78.820 million at September 30, 2001 compared to $69.658 million at December 31, 2000. Included in this change were increases of $9.155 million in repurchase agreements and $0.325 million in federal funds purchased. Somewhat offsetting these increases was a decrease in notes payable of $0.318 million.

Accrued interest payable decreased $0.822 million, or 17.9%, to $3.762 million at September 30, 2001 from $4.584 million at December 31, 2000. This was reflective of the lower interest rate environment.

Investment Securities

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

Carrying Value of Securities
(in thousands)

	September 30, 2001	December 31, 2000
Available-for-sale:		
U.S. Treasury	$ 11,792	$ 23,812
Federal agencies	162,726	156,322
Mortgage-backed securities	32,346	11,513
State and municipal	14,072	15,349
Corporate and other obligations	2,382	294
Marketable equity securities	21,962	6,396
Total available-for-sale	$245,280	$213,686
Held-to-maturity:		
Federal agencies	$ 3,745	$ 29,428
Mortgage-backed securities	22,885	22,642
State and municipal	44,264	32,902
Total held-to-maturity	$ 70,894	$ 84,972
Non-marketable equity securities:		
FHLB and FRB stock1	$ 3,661	$ 3,526
Other equity investments	1,421	1,003
Total	$ 5,082	$ 4,529

Total investment securities	$321,256	$303,187

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

The following table shows the maturities and weighted-average yields of investment securities at September 30, 2001. All securities are shown at their contractual maturity.1

Maturities and Weighted Average Yields of Debt Securities

(dollars in thousands)
September 30, 2001

	1 year or less		1 to 5 years		5 to 10 years		
	Amount	Rate	Amount	Rate	Amount	Rate	Am
Securities available-for-sale							
U.S. Treasury	$ 10,228	5.81%	$ 1,564	5.78%	$ --	--%	$
Federal agencies	$ 32,862	4.86%	$126,079	5.45%	$ 3,785	6.17%	$
Mortgage-backed securities1	$ 5,324	6.39%	$ 22,166	5.85%	$ 3,901	7.14%	$
State and municipal	$ 116	5.53%	$ 4,393	6.70%	$ 6,547	7.41%	$
Other securities	$ 292	7.84%	$2,090	5.84%	$ --	--	$
Marketable equity securities	$ --	--	$ --	--	$ --	--	$
Total	$ 48,822		$156,292		$ 14,233		$
Average Yield		5.24%		5.55%		7.01%	
Securities held-to-maturity							
Federal agencies	$ --	--	$ 3,745	5.71%	$ --	--	$
Mortgage-backed securities1	$ 9,932	5.29%	$ 11,388	6.25%	$ --	--	$
State and municipal	$ 2,959	7.33%	$ 32,621	6.28%	$ 8,684	7.03%	$
Total	$ 12,891		$ 47,754		$ 8,684		$
Average Yield		5.75%		6.23%		7.03%	
Non-marketable equity securities2							
FHLB and FRB stock3	$ --	--	$ --	--	$ --	--	$
Other equity investments	$ --	--	$ --	--	$ --	--	$
Total	$ --	--	$ --	--	$ --	--	$

Loans

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

Amount of Loans Outstanding
(dollars in thousands)

	September 30, 2001		December 31, 2000	
	Amount	Percentage	Amount	Percentage
Commercial, financial and agricultural	$239,343	34.95%	$219,541	32.83%
Real estate	317,014	46.30%	319,412	47.76%
Installment and consumer1	128,405	18.75%	129,775	19.41%
Total loans	$684,762	100.00%	$668,728	100.00%

1 Net of unearned discount

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

Maturity of Loans Outstanding
(dollars in thousands)
September 30, 2001

	1 year or less	1 to 5 years	Over 5 years	Total
Commercial, financial and agricultural	$111,080	$ 98,480	$ 29,783	$239,343
Real estate	45,045	113,910	158,059	317,014
Installment and consumer1	40,445	80,650	7,310	128,405
Total	$196,570	$293,040	$195,152	$684,762
Percentage of total loans outstanding	28.71%	42.79%	28.50%	100.00%

1 Net of unearned discount

Capital

Total shareholders' equity increased $9,325,000 from December 31, 2000 to September 30, 2001. The change is summarized as follows:

	(in thousands)
Shareholders' equity, December 31, 2000	$ 125,402
Net income	11,776
Treasury stock transactions, net	(2,021)

Stock appreciation rights	19
Cash dividends declared	(3,493)
Other comprehensive income	3,044
Shareholders' equity, September 30, 2001	$ 134,727

On September 18, 2001, the board of directors of the Company declared a quarterly cash dividend of $0.11 per share of the Company's common stock. The dividend of $1,197,000 was paid on October 19, 2001, to holders of record on October 5, 2001.

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

Quantitative measures established by regulation to ensure capital adequacy require the Company and its subsidiary banks to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined). Management believes, as of September 30, 2001, that the Company and its subsidiary banks exceeded all capital adequacy requirements to which they are subject.

As of September 30, 2001, the most recent notifications from primary regulatory agencies categorized all the Company's subsidiary banks as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, banks must maintain minimum total capital to risk-weighted assets, Tier I capital to risk-weighted assets, and Tier I capital to average assets ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed any of the Company's subsidiary banks' categories.

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

	Actual		For capital adequacy purposes:		To be well capitalized under prompt corrective action provisions:	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of September 30, 2001:						
Total capital						
(to risk-weighted assets)						
Consolidated	$139,815	17.9%	$62,366	8.0%	N/A	
BankIllinois	66,873	15.7	34,172	8.0	$42,715	10.0%

First National Bank of Decatur	48,437	16.6	23,308	8.0	29,134	10.0
First Trust Bank of Shelbyville	11,882	23.5	4,053	8.0	5,066	10.0
Tier I capital						
(to risk-weighted assets)						
Consolidated	$130,951	16.8%	$31,183	4.0%	N/A	
BankIllinois	62,007	14.5	17,086	4.0	$25,629	6.0%
First National Bank of Decatur	44,768	15.4	11,654	4.0	17,481	6.0
First Trust Bank of Shelbyville	11,494	22.7	2,026	4.0	3,040	6.0
Tier I capital						
(to average assets)						
Consolidated	$130,951	12.0%	$43,843	4.0%	N/A	
BankIllinois	62,007	10.5	23,538	4.0	$29,422	5.0%
First National Bank of Decatur	44,768	10.5	17,057	4.0	21,322	5.0
First Trust Bank of Shelbyville	11,494	15.2	3,025	4.0	3,781	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 September 30, 2001:

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

	1-30 Days	31-90 Days	91-180 Days	181-365 Days
Interest earning assets:				
Federal funds sold and				
interest earning deposits	$ 8,009	$ --	$ --	$ --
Debt and equity securities 1	35,793	17,340	34,965	36,049
Loans 2	149,658	26,354	43,872	69,257
Total earning assets	$ 193,460	$ 43,694	$ 78,837	$ 105,306
Interest bearing liabilities:				
Savings and interest bearing				
demand deposits 3	$ 48,609	$ 1,282	$ 1,923	$ 3,854
Money market savings				
deposits	143,745	--	--	--
Time deposits	28,685	63,320	66,334	89,012
Federal funds purchased,				

repurchase agreements, and notes payable	70,706	126	1,452	1,800
FHLB advances and other borrowings	5,000	--	--	5,023
Total interest bearing liabilities	$ 296,745	$ 64,728	$ 69,709	$ 99,689
Net asset (liability) funding gap	(103,285)	(21,034)	9,128	5,617
Repricing gap	0.65	0.68	1.13	1.06
Cumulative repricing gap	0.65	0.66	0.73	0.79

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

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

At September 30, 2001, the Company was liability-sensitive due to the levels of savings and interest bearing demand deposits, short-term time deposits, and short-term borrowings. As such, the effect of a decrease in the interest rate for all interest earning assets and interest bearing liabilities of 100 basis points would increase annualized net interest income by approximately $1,033,000 in the 1-30 days category and $1,243,000 in the 1-90 days category assuming no management intervention. An increase in interest rates would have the opposite effect for the same time periods.

In addition to managing interest rate sensitivity and liquidity through the use of gap reports, the Company has provided for emergency liquidity situations with informal agreements with correspondent banks which permit the Company to borrow federal funds on an unsecured basis. Additionally, the Company can borrow approximately $29 million from the Federal Home Bank on a secured basis.

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

The following table shows projected results at September 30, 2001 and December 31, 2000 of the impact on net interest income from an immediate change in interest rates. The results are shown as a percentage change in net interest income over the next twelve months.

	Basis Point Change			
	+200	+100	-100	-200
September 30, 2001	3.6%	1.8%	(1.8%)	(3.6%)
December 31, 2000	0.2%	0.1%	(0.1%)	(0.2%)

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

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

Liquidity and Cash Flows

The Company was able to meet liquidity needs during the first nine months of 2001. A review of the consolidated statements of cash flows included in the accompanying financial statements shows that the Company's cash and cash equivalents decreased $25,907,000 from December 31, 2000 to September 30, 2001. This decrease came from cash used in investing and financing activities offset by cash provided by operating activities.

There were differences in the sources and uses of cash during the first nine months of 2001 compared to the first nine months of 2000. Less cash was provided by operating activities during the first nine months of 2001 compared to the same period of 2000. This was primarily due to a larger difference between the volume of loans originated for sale versus proceeds from sales during the first nine months of 2001 compared to the same period in 2000. Less cash was used in investing activities during the first nine months of 2001 compared to cash used during the same period of 2000 due to a smaller amount of loan growth in 2001 compared to 2000 and due to changes in the Company's investment portfolio. During the first nine months of 2001, net cash used by investing activities involving the Company's investment portfolio was $12,803,000 compared to $2,058,000 cash provided during the same period in 2000. Less cash was used in financing activities during the first nine months of 2001 compared to the first nine months of 2000. This was due to cash used because of decreases in deposits and Federal Home Loan Bank advances during the first nine months of 2001 compared to cash provided from increases in these areas during the same period of 2000 offset by cash provided by the increase in federal funds purchased, repurchase agreements, and notes payable during the first nine months of 2001 compared to cash used during the same period of 2000.

Provision and Allowance for Loan Losses

The provision for loan losses is based on management's evaluation of the loan portfolio in light of national and local economic conditions, changes in the composition and volume of the loan portfolio, changes in the volume of past due and nonaccrual loans, and other relevant factors. The allowance for loan losses, which is reported as a deduction from loans, is available for loan charge-offs. The allowance is increased by the provision charged to expense and is reduced by loan charge-offs net of loan recoveries. The balance of the allowance for loan losses was $8,864,000 at September 30, 2001 compared to $8,879,000 at December 31, 2000, as net charge-offs were $860,000 and provisions totaled $845,000 during the first nine months of 2001. The allowance for loan losses as a percentage of gross loans, including loans held-for-sale, was 1.28% at September 30, 2001, or slightly less than the December 31, 2000 percentage of 1.32%. Gross loans, including loans held-for-sale, increased 3.3% to $693,193,000 at September 30, 2001 from $670,818,000 at December 31, 2000.

The allowance for loan losses as a percentage of non-performing loans was 228.3% at September 30, 2001 compared to 613.2% at December 31, 2000. Non-performing loans increased from $1,448,000 at December 31, 2000, to $3,883,000 at September 30, 2001. The $2,435,000 increase in non-performing loans during the first nine months resulted from a $66,000 increase in loans over 90 days past due and a $2,369,000 increase in non-accruals. The increase in non-accruals consisted primarily of a $2,166,000 farm credit, which is secured by farm real estate and business personal property, and other smaller commercial and consumer loans. Although unforeseen market conditions could result in significant adjustments in the future, management believes that problem assets have been effectively identified and that the allowance for loan losses is adequate to absorb probable losses in the portfolio which are reasonably anticipated. However, there can be no assurance that the allowance for loan losses will be adequate to cover all losses.

Along with other financial institutions, management shares a concern for the continued softening of the economy in 2001. The tragic events of September 11, 2001 have further clouded the economic outlook, severely impacting several major industries, as well as the economy as a whole. Additionally, consumer confidence, a key factor in the economy, has been negatively impacted. A slowing economy could adversely affect cash flows from both commercial and individual borrowers, as a result of which, the Company could experience increases in problem assets, delinquencies and losses on loans.

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

Allowance for Loan Losses
(dollars in thousands)

	September 30,	
	2001	2000
Allowance for loan losses at		

beginning of year	$ 8,879	$ 8,682
Charge-offs during period:		
Commercial, financial and agricultural	$ (302)	$ (25)
Real estate	--	(33)
Installment and consumer	(859)	(573)
Total	$(1,161)	$ (631)
Recoveries of loans previously charged off:		
Commercial, financial and agricultural	$ 135	$ 424
Residential real estate	37	7
Installment and consumer	129	127
Total	$ 301	$ 558
Net (charge-offs) recoveries	$ (860)	$ (73)
Provision for loan losses	845	458
Allowance for loan losses at end of quarter	$ 8,864	$ 9,067
Ratio of net (charge-offs) recoveries to average net loans	-0.13%	-0.01%

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

Allocation of the Allowance for Loan Losses

	September 30, 2001	December 31, 2000
Allocated:		
Commercial, financial and agricultural	$3,949	$3,426
Residential real estate	839	855
Installment and consumer	1,830	1,649
Total allocated allowance	$6,618	$5,930
Unallocated allowances	2,246	2,949
Total	$8,864	$8,879

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

Nonperforming Loans (dollars in thousands)

	September 30, 2001	December 31, 2000
Nonaccrual loans1	$2,971	$ 602
Loans past due 90 days or more	$ 912	$ 846
Renegotiated loans	$ 70	$ 88

1 Includes $631,000 at September 30, 2001 and $505,000 at December 31, 2000 of real estate and consumer loans which management does not consider impaired as defined by the Statement of Financial Accounting Standards No. 114, "Accounting by Creditors for Impairment of a Loan" (SFAS 114).

Results of Operations

Results of Operations For the Nine Months Ended September 30, 2001

The merger of equals to create the Company, which occurred near the end of the first quarter of 2000, resulted in significant merger related costs which were expensed during the first nine months of 2000. These expenses had a significant effect on the reported net income of the combined entity during the first nine months of 2000. Net income for the first nine months of 2001 was $11,776,000, a $3,321,000, or 39.3%, increase from $8,455,000 for the same period in 2000. Basic earnings per share increased $0.32, or 42.1%, to $1.08 in the first nine months of 2001 from $0.76 in the same period of 2000. Diluted earnings per share increased $0.31, or 41.3%, to $1.06 in the first nine months of 2001 from $0.75 during the same period in 2000.

Operating earnings for the nine months ended September 30, 2001, were $11,991,000 compared to $11,861,000 for the same period in 2000, an increase of $130,000, or 1.1%. Basic operating earnings per share increased to $1.09, or 1.9%, in the first nine months of 2001 from $1.07 in the same period of 2000. Diluted earnings per share on operating earnings for the first nine months of 2001 increased 1.9%, or $0.02, to $1.07, from $1.05 in the same period in 2000. The difference between operating and net earnings was due to merger and restructuring related expenses, net of tax, of $215,000 during the nine months of 2001 compared to $3,406,000 during the same period in 2000. The 2001 merger and restructuring related expenses consisted of $70,000 of data processing expense and $256,000 of termination of employment contracts, offset by $111,000 of tax benefit. The 2000 merger and restructuring related expenses consisted of $2,454,000 of professional fees, $941,000 of early retirement and termination of employment contracts, and $587,000 of expenses related to write-downs of computer equipment, offset by $576,000 of tax benefit.

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

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

	Nine Months Ended September 30,				
	2001			2	
	Average Balance	Interest	Rate	Average Balance	Int
Assets					

Taxable investment securities1	$ 245,250	$ 10,513	5.72%	$ 261,845	$
Tax-exempt investment securities1 (TE) .	51,756	2,626	6.77%	43,858	
Federal funds sold and interest earning deposits2	42,728	1,527	4.77%	23,903	
Loans3,4 (TE)	665,531	42,198	8.45%	614,571	
Total interest earning assets and interest income (TE)	$1,005,265	$ 56,864	7.54%	$ 944,177	$
Cash and due from banks	$ 50,237			$ 49,155	
Premises and equipment	20,537			21,642	
Other assets	20,179			21,574	
Total assets	$1,096,218			$1,036,548	
Liabilities and Shareholders' Equity					
Interest bearing demand deposits	$ 251,418	$ 5,985	3.17%	$ 222,768	$
Savings	81,325	1,448	2.37%	92,386	
Time deposits	362,054	15,428	5.68%	341,964	
Federal funds purchased, repurchase agreements, and notes payable	73,757	2,101	3.80%	73,576	
FHLB advances and other borrowings	40,292	1,768	5.85%	35,474	
Total interest bearing liabilities and interest expense	$ 808,846	$ 26,730	4.41%	$ 766,168	$
Noninterest bearing demand deposits5 ...	$ 102,326			$ 88,402	
Noninterest bearing savings deposits5 ..	40,806			49,205	
Other liabilities	14,436			13,730	
Total liabilities	$ 966,414			$ 917,505	
Shareholders' equity	129,804			119,043	
Total liabilities and stockholders' equity	$1,096,218			$1,036,548	
Interest spread (average rate earned minus average rate paid) (TE)			3.14%		
Net interest income (TE)	$ 30,134			$ 28,933	
Net yield on interest earnings assets (TE)			4.00%		

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Notes to Consolidated Average Balance Sheet and Interest Rate Tables:

1 Investments in debt securities are included at carrying value.
2 Federal funds sold and interest earning deposits include approximately $93,000 and $119,000 in 2001 and 2000, respectively, of interest income from third party processing of cashier checks.
3 Loans are net of allowance for loan losses and include mortgage loans held for sale. Nonaccrual loans are included in the total.
4 Loan fees of approximately $722,000 and $699,000 in 2001 and 2000,

respectively, are included in total loan income.

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

Net interest income, the most significant component of the Company's earnings, is the difference between interest received or accrued on the Company's earning assets - primarily loans and investments - and interest paid or accrued on deposits and borrowings. In order to compare the interest generated from different types of earning assets, the interest income on certain tax-exempt investment securities and loans is increased for analysis purposes to reflect the income tax savings provided by these tax-exempt assets. The adjustment to interest income for tax-exempt investment securities and loans was calculated based on the federal income tax statutory rate of 34%. The following table presents, on a tax equivalent (TE) basis, an analysis of changes in net interest income resulting from changes in average volumes of earning assets and interest bearing liabilities and average rates earned and paid. The change in interest due to the combined rate/volume variance has been allocated to rate and volume changes in proportion to the absolute dollar amounts of change in each.

Analysis of Volume and Rate Changes
(in thousands)
Nine Months Ended September 30, 2001

	Increase (Decrease) from Previous Year	Due to Volume	Due to Rate
Interest Income			
Taxable investment securities	$(1,148)	$ (723)	$ (425)
Tax-exempt investment securities (TE)	356	428	(72)
Federal funds sold and interest earning deposits	340	904	(564)
Loans (TE)	1,729	3,962	(2,233)
Total interest income (TE)	$ 1,277	$ 4,571	$(3,294)
Interest Expense			
Interest bearing demand and savings deposits1 ..	$ (512)	$ 625	$(1,137)
Time deposits	1,168	854	314
Federal funds purchased,			
repurchase agreements and notes payable	(794)	11	(805)
FHLB advances and other borrowings	214	209	5
Total interest expense	$ 76	$ 1,699	$(1,623)
Net Interest Income (TE)	$ 1,201	$ 2,872	$(1,671)

1 Due to deposit reclassifications described above, interest bearing demand and

savings deposits are included in the same line for comparability.

Net interest income on a tax equivalent basis was $1,201,000, or 4.2% higher for the first nine months of 2001 compared to 2000. Total tax-equivalent interest income was $1,277,000 or 2.3% higher in 2001 compared to 2000, and interest expense increased $76,000, or 0.3%. The increase in interest income was due to an increase in average earning assets offset somewhat by a decrease in rate. The slight increase in interest expense was due to an increase in average interest bearing liabilities offset by a decrease in rate.

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

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

The provision for loan losses recorded was $845,000 during the first nine months of 2001. This was $387,000, or 84.5%, higher than the $458,000 recorded during the first nine months of 2000. The provision during both periods was based on management's analysis of the loan portfolio, as discussed in the provision and allowance for loan losses section above.

Total non-interest income increased $327,000, or 2.6%, during the first nine months of 2001 compared to the first nine months of 2000. Included in this increase was an increase of $368,000, or 301.6%, from gains on sales of mortgage loans held-for-sale. This increase reflected a $44,971,000, or 298.0%, increase in funded mortgage loans held-for-sale during the first nine months of 2001 compared to the same period in 2000, and was reflective of lower interest rates during the first nine months of 2001. Income from securities transactions increased $285,000 to $302,000 during the first nine months of 2001, compared to $17,000 during the same period in 2000. This was the result of the sale of some securities to reposition the portfolio in the current changing rate environment. Service charges on deposit accounts increased $3,000, or 0.2%, during the first nine months of 2001. Somewhat offsetting these increases was a decrease in other income of $161,000, or 12.1%, during the first nine months of 2001 compared to the same period in 2000. Proceeds from a life insurance policy of approximately $81,000 during the first three quarters of 2000, along with $22,000 in one-time fee income from a third party during the same period, contributed to this decrease. Income from trust and brokerage fees decreased $105,000, or 2.6%, during the first nine months of 2001 compared to the same period in 2000. This was due, in part, to the downturn in the stock market during the first nine months of 2001. Market values have been depressed causing fee revenue to decline in this area. Remittance processing income decreased $63,000, or 1.2%, during the first nine months of 2001 compared to the same period in 2000. This decrease reflects a shift in late 2000, and continuing into 2001, from lockbox payments to mechanized payments, which have lower revenue streams as well as lower costs.

Total non-interest expense decreased $2,931,000, or 11.0%, during the first nine months of 2001 compared to the same period in 2000. Of this decrease, $2,454,000 was due to merger related professional fees in 2000. Salaries and employee benefits decreased $754,000, or 5.4%, during the first nine months of 2001 compared to the same period in 2000. Salaries and employee benefits in the first nine months of 2001 included $256,000 of expenses related to the termination of employment contracts compared to $941,000 in expenses during the same period in 2000 related to early retirement and termination of employment contracts as a result of the merger. Equipment expense decreased $551,000, or 19.3%, during the first nine months of 2001 compared to the same period in 2000. This was primarily due to $587,000 in merger related write-downs of computer equipment and software during the first nine months of 2000. Service charges from correspondent banks decreased $133,000, or 16.8%, in the first nine months of 2001 compared to the same period in 2000. This was mainly due to a continuing trend toward fewer lockbox transactions, resulting in decreased service charges from correspondent banks. Occupancy expense decreased $7,000, or 0.4%, during the first nine months of 2001 compared to the same period in 2000. Somewhat offsetting these decreases was an increase in other non-interest expense of $410,000, or 13.2%, during the first nine months of 2001 compared to the same period in 2000. This was the result of proceeds of $461,000 in April of 2000 from the sale of a property previously written off. Office supplies increased $282,000, or 31.4%, in the first nine months of 2001 compared to the same period in 2000. Included in office supplies expense were additional printing and mailing expense and additional supplies purchased to support and announce a computer system conversion necessary to move the Company's subsidiaries toward the same data processing system. Data processing expense increased $276,000, or 25.7%, in the first nine months of 2001 compared to the first nine months of 2000. Included in data processing expense in the first nine months of 2001 were expenses associated with conversion to third party service bureau data processing from in-house processing, and $70,000 in expenses related to computer system conversion and early contract termination as a result of the computer system conversion.

Income tax expense increased $609,000, or 12.6%, during the first nine months of 2001 compared to the first nine months of 2000. The effective tax rate decreased to 31.7% during the first nine months of 2001 from 36.4% during the same period in 2000. This difference was due to $2,454,000 of merger related professional fees for which no tax benefit had been recognized in the first nine months of 2000.

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

The merger of equals to create the Company, which occurred near the end of the first quarter of 2000, resulted in additional merger related costs of $390,000, net of tax, which were expensed during the third quarter of 2000. These expenses had an effect on the reported net income of the combined Company. Net income for the third quarter of 2001 was $4,044,000, a $500,000, or 14.1%, increase from $3,544,000 during the third quarter of 2000. Basic earnings per share increased $0.05, or 15.6%, to $0.37 in the third quarter of 2001 from $0.32 in the same period of 2000. Diluted earnings per share increased $0.05, or 16.1%, to $0.36 in the third quarter of 2001 from $0.31 in the same period of 2000.

Operating earnings for the third quarter of 2001 were $4,044,000 compared to $3,934,000 for the same period in 2000, an increase of $110,000, or 2.8%. Basic operating earnings per share increased $0.01, or 2.8%, to $0.37 in the third quarter of 2001 compared to $0.36 in the third quarter of 2000. Diluted operating earnings per share increased $0.01, or 2.9%, to $0.36 in the third quarter of 2001 compared to $0.35 in the third quarter of 2000.

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

Consolidated Average Balance Sheet and Interest Rates
(dollars in thousands)
Three Months Ended September 30,

	2001			20	
	Average Balance	Interest	Rate	Average Balance	Int
Assets					
Taxable investment securities1	$ 251,297	$ 3,349	5.33%	$ 256,043	$
Tax-exempt investment securities1 (TE) .	55,522	915	6.59%	45,684	
Federal funds sold and interest earning deposits2	9,970	292	11.72%	7,590	
Loans3,4 (TE)	678,110	13,817	8.15%	632,468	1
Total interest earning assets and interest income (TE)	$ 994,899	$ 18,373	7.39%	$ 941,785	$ 1
Cash and due from banks	$ 50,136			$ 49,488	
Premises and equipment	20,193			21,491	
Other assets	21,347			22,427	
Total assets	$1,086,575			$1,035,191	
Liabilities and Shareholders' Equity					
Interest bearing demand deposits	$ 248,458	$ 1,755	2.83%	$ 218,254	$
Savings	82,062	487	2.37%	92,465	
Time deposits	357,200	4,847	5.43%	344,773	
Federal funds purchased, repurchase agreements, and notes payable	78,462	619	3.16%	72,998	
FHLB advances and other borrowings	40,417	597	5.91%	41,500	
Total interest bearing liabilities and interest expense	$ 806,599	$ 8,305	4.12%	$ 769,990	$
Noninterest bearing demand deposits5 ...	$ 108,353			$ 86,640	
Noninterest bearing savings deposits5 ..	23,575			43,654	
Other liabilities	14,780			14,788	
Total liabilities	$ 953,307			$ 915,072	
Shareholders' equity	133,268			120,119	

Total liabilities and stockholders' equity	$1,086,575			$1,035,191
Interest spread (average rate earned minus average rate paid) (TE)			3.27%	
Net interest income (TE)		$ 10,068		$
Net yield on interest earnings assets (TE)			4.05%	

Notes to Consolidated Average Balance Sheet and Interest Rate Tables:

1 Investments in debt securities are included at carrying value.
2 Federal funds sold and interest earning deposits include approximately $23,000 and $41,000 in 2001 and 2000, respectively, of interest income from third party processing of cashier checks.
3 Loans are net of allowance for loan losses and include mortgage loans held for sale. Nonaccrual loans are included in the total.

4 Loan fees of approximately $282,000 and $269,000 in 2001 and 2000, respectively, are included in total loan income.
5 Due to current regulatory issues, the Company is allowed to reclassify certain demand deposits to savings deposits. Accounts identified as transactional remained in the demand categories, while accounts identified as non-transactional were reclassified into the savings categories. The classification was based upon whether the account balance was fluctuating or whether it exhibited stable balance portions, which were called non-transactional. Banks are required to hold balances at the Federal Reserve Bank based upon transactional account balances. By identifying these accounts as non-transactional, the Company was able to reduce the balances required to be held at the Federal Reserve Bank in a non-interest bearing reserve account.

The following table presents, on a tax equivalent basis, an analysis of changes in net interest income resulting from changes in average volumes of earning assets and interest bearing liabilities and average rates earned and paid. The change in interest due to the combined rate/volume variance has been allocated to rate and volume changes in proportion to the absolute dollar amounts of change in each.

Analysis of Volume and Rate Changes
(in thousands)
Three Months Ended September 30, 2001

	Increase (Decrease) from Previous Year	Due to Volume	Due to Rate
Interest Income			

Taxable investment securities	$ (460)	$ (73)	$ (387)
Tax-exempt investment securities (TE)	124	348	(224)
Federal funds sold and interest earning deposits	(33)	393	(426)
Loans (TE)	(415)	4,479	(4,894)
Total interest income (TE)	$ (784)	$ 5,147	$(5,931)
Interest Expense			
Interest bearing demand and savings deposits1 ..	$ (628)	$ 1,059	$(1,687)
Time deposits	(258)	954	(1,212)
Federal funds purchased, repurchase agreements and notes payable	(296)	406	(702)
FHLB advances and other borrowings	(38)	(16)	(22)
Total interest expense	$(1,220)	$ 2,403	$(3,623)
Net Interest Income (TE)	$ 436	$ 2,744	$(2,308)

Net interest income on a tax equivalent basis was $436,000, or 4.5%, higher for the third quarter of 2001 compared to the third quarter of 2000. Total tax-equivalent interest income was $784,000, or 4.1%, lower in 2001 compared to 2000, and interest expense decreased $1,220,000, or 12.8%. The decrease in interest income was due to a decrease in rate, somewhat offset by an increase in average balances. The decrease in interest expense was primarily due to a decrease in interest rates offset somewhat by increased average balances.

The decrease in total interest income was due to a decrease in interest income from taxable investment securities, loans, and federal funds sold and interest earning deposits. These decreases were somewhat offset by an increase in interest income from tax-exempt investment securities. The decrease in interest income from taxable investment securities was primarily due to a decrease in rates in the third quarter of 2001 compared to the third quarter of 2000. The decrease in interest from loans was due to a decrease in rates, offset somewhat by an increase in average balances. The decrease in interest from federal funds sold and other interest earning deposits was due to a decrease in rates, somewhat offset by an increase in average balances. The increase in tax-exempt investment interest income was due to an increase in average tax-exempt investments, offset somewhat by lower yields.

The decrease in total interest expense was due to decreases in interest expense on all categories of interest bearing liabilities. Interest expense decreased on interest bearing demand and savings deposits, time deposits, and federal funds purchased, repurchase agreements and notes payable during the third quarter of 2001 compared to the same period in 2000 due to decreases in rates, offset somewhat by increases in average balances. Interest expense on FHLB advances and other borrowings decreased during the third quarter of 2001 compared to the third quarter of 2000 due to decreases in both rate and average balance.

The provision for loan losses recorded was $235,000 for the third quarter of 2001. This represented a 23.0% increase over the $191,000 recorded in the third quarter of 2000. The provision during both periods was based on management's analysis of the loan portfolio, as discussed in the provision and allowance for loan losses section above.

Total non-interest income increased $355,000, or 8.9%, during the third quarter of 2001 compared to the third quarter of 2000. Included in this increase was an increase of $152,000, or 9.3%, in remittance processing income. This increase was due to increased volume coupled with restructured pricing to some customers. Also contributing to the increase in total non-interest income was an increase of $112,000, or 177.8% in gains on sales of mortgage loans held-for-sale. This increase reflected a $13,605,000, or 192.9%, increase in funded mortgage loans held-for-sale during the third quarter of 2001 compared to the third quarter of 2000 due to lower interest rates. Income from securities transactions increased $52,000, or 167.7%, during the third quarter of 2001 compared to the third quarter of 2000. Trust and brokerage fees increased $30,000, or 2.2%, during the third quarter of 2001 compared to the same period in 2000. This was due to an increase in assets under management from new account relationships. Service charges on deposit accounts, and other non-interest income, increased $6,000 and $3,000, respectively, during the third quarter of 2001 compared to the same period in 2000.

Total non-interest expense decreased $185,000, or 2.3%, during the third quarter of 2001 compared to the third quarter of 2000. Equipment expense decreased $645,000, or 46.6%, during the third quarter of 2001 compared to the third quarter of 2000. This was primarily due to $587,000 in merger related write-downs of computer equipment and software during the third quarter of 2000. Occupancy expense and other non-interest expense decreased $15,000 and $3,000, respectively, during the third quarter of 2001. Somewhat offsetting these decreases was an increase in salaries and employee benefits of $202,000, or 5.0%, during the third quarter of 2001 compared to the third quarter of 2000. Data processing expense increased $190,000, or 63.8%, in the third quarter of 2001 compared to the same period in 2000. Contributing to this increase were expenses associated with the conversion to third party service bureau data processing from in house processing. Office supplies had an increase of $85,000, or 27.7% during the third quarter of 2001 compared to the same period in 2000. Included in office supplies were additional printing and mailing expense and additional supplies purchased to support the aforementioned computer system conversion. Service charges from correspondent banks rose $3,000 during the third quarter of 2001 compared to the same period in 2000.

Income tax expense increased $378,000, or 23.5%, during the third quarter of 2001 compared to the third quarter of 2000. The effective tax rate increased to 32.9% in the third quarter of 2001 compared to 31.2% in the third quarter of 2000.

Business Segment Information

The Company currently operates in two industry segments. The primary business involves providing banking services to central Illinois. BankIllinois, First National Bank of Decatur and First Trust Bank of Shelbyville offer a full range of financial services to business and individual customers. These services include demand, savings, time and individual retirement accounts; commercial, consumer (including automobile loans and personal lines of credit), agricultural, and real estate lending; safe deposit and night depository services; farm management; full service trust departments; discount brokerage services and purchases of installment obligations from retailers, primarily without recourse. The other industry segment involves retail payment processing. FirsTech provides the following services to electric, water and gas utilities, telecommunication companies, cable television firms and charitable organizations: retail lockbox processing of payments delivered by mail to the biller; processing of payments delivered by 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. The following is a summary of selected data for the various business segments:

	Banking Services	Remittance Services	Company	Eliminations	Total
September 30, 2001					
Total interest income	$ 55,932	$ 105	$ 89	$ (209)	$ 55,91
Total interest expense	26,939	--	--	(209)	26,73
Provision for loan losses ...	845	--	--	--	84
Total non-interest income ...	7,762	5,398	151	(630)	12,68
Total non-interest expense ..	19,589	3,997	837	(630)	23,79
Income before income tax	16,321	1,506	(597)	--	17,23
Income tax expense	5,120	547	(213)	--	5,45
Net income	11,201	959	(384)	--	11,77
Total assets	1,095,240	7,212	140,264	(138,041)	1,104,67
Depreciation and amortization	1,619	369	21	--	2,00
September 30, 2000					
Total interest income	$ 54,831	$ 100	$ 139 139	$ (288)	$ 54,78
Total interest expense	26,942	--	--	(288)	26,65
Provision for loan losses ...	458	--	--	--	45
Total non-interest income ...	7,370	5,823	136	(975)	12,35
Total non-interest expense ..	18,738	4,587	4,374	(975)	26,72
Income before income tax	16,063	1,336	(4,099)	--	13,30
Income tax expense	5,008	461	(624)	--	4,84
Net income	11,055	875	(3,475)	--	8,45
Total assets	1,034,334	6,382	126,422	(122,170)	1,044,96
Depreciation and amortization	1,709	392	18	--	2,11

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

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

Item 3. Quantitative and Qualitative Disclosures about Market Risk

See the "Interest Rate Sensitivity" section above.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 2. Changes in Securities

None

Item 3. Defaults Upon Senior Securities

None

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

None

Item 5. Other Information

None

Item 6. Exhibits and Reports on Form 8-K

a. Exhibits

None

b. Reports

None

SIGNATURES

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

MAIN STREET TRUST, INC.

Date: November 13, 2001

By: /s/ David B. White

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

By: /s/ Van A. Dukeman

Van A. Dukeman, President
and Chief Executive Officer