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MAIN STREET TRUST INC
Form 10-Q
November 14, 2002

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, 2002

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 12, 2002

Main Street Trust, Inc. Common Stock

10,469,232

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

MAIN STREET TRUST, INC. AND SUBSIDIARIES
 Consolidated Balance Sheets
 September 30, 2002 and December 31, 2001
 (Unaudited, in thousands, except share data)

	September 30 2002 -----
ASSETS	
Cash and due from banks	\$ 51,242
Federal funds sold and interest earning deposits	4,079
Investments in debt and equity securities:	
Available-for-sale, at fair value	250,766
Held-to-maturity, at cost (fair value of \$66,263 and \$64,727 at September 30, 2002 and December 31, 2001, respectively)	63,679
Non-marketable equity securities	6,716
Mortgage loans held for sale	3,694
Loans, net of allowance for loan losses of \$9,490 and \$9,259 at September 30, 2002 and December 31, 2001, respectively	677,077
Premises and equipment	18,811
Accrued interest receivable	8,165
Other assets	11,360

Total assets	\$ 1,095,589 =====

LIABILITIES AND SHAREHOLDERS' EQUITY

Liabilities:

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Deposits:	
Demand, non-interest bearing	\$ 112,297
Demand, interest bearing	81,216
Savings	312,299
Time, \$100 and over	125,646
Other time	231,663

Total deposits	863,121
Federal funds purchased, repurchase agreements and notes payable	58,566
Federal Home Loan Bank advances and other borrowings	29,823
Accrued interest payable	2,634
Other liabilities	9,277

Total liabilities	963,421

Shareholders' equity:	
Preferred stock, no par value; 2,000,000 shares authorized	--
Common stock, \$0.01 par value; 15,000,000 shares authorized; 11,219,319 and 11,111,281 shares issued at September 30, 2002 and December 31, 2001, respectively	112
Paid in capital	55,358
Retained earnings	90,172
Accumulated other comprehensive income	3,965

	149,607
Less: treasury stock, at cost, 748,727 and 267,783 shares at September 30, 2002 and December 31, 2001, respectively	(17,439)

Total shareholders' equity	132,168

Total liabilities and shareholders' equity	\$ 1,095,589
	=====

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, 2002 and 2001
(Unaudited, in thousands, except share data)

	2002	2001
	-----	-----
Interest income:		
Loans and fees on loans	\$ 11,999	\$ 13,795
Investments in debt and equity securities		
Taxable	3,177	3,349
Tax-exempt	589	604
Federal funds sold and interest earning deposits	106	292
	-----	-----
Total interest income	15,871	18,040
Interest expense:		
Demand, savings, and other time deposits	3,432	5,836

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Time deposits \$100 and over	1,246	1,253
Federal funds purchased, repurchase agreements and notes payable	270	619
Federal Home Loan Bank advances and other borrowings	451	597
	-----	-----
Total interest expense	5,399	8,305
	-----	-----
Net interest income	10,472	9,735
Provision for loan losses	330	235
	-----	-----
Net interest income after provision for loan losses	10,142	9,500
Non-interest income:		
Remittance processing	1,769	1,785
Trust and brokerage fees	1,743	1,365
Service charges on deposit accounts	612	561
Gain on sales of mortgage loans, net	378	175
Securities transactions, net	(62)	83
Other	164	363
	-----	-----
Total non-interest income	4,604	4,332
Non-interest expense:		
Salaries and employee benefits	4,556	4,281
Occupancy	598	549
Equipment	707	739
Data processing	494	488
Office supplies	325	392
Service charges from correspondent banks	226	221
Other	1,151	1,134
	-----	-----
Total non-interest expense	8,057	7,804
Income before income taxes	6,689	6,028
Income taxes	2,210	1,984
	-----	-----
Net income	\$ 4,479	\$ 4,044
	=====	=====
Per share data:		
Basic earnings per share	\$ 0.43	\$ 0.37
Weighted average shares of common stock outstanding	10,486,735	10,916,747
Diluted earnings per share	\$ 0.42	\$ 0.36
Weighted average shares of common stock and dilutive potential common shares outstanding	10,591,587	11,120,508

See accompanying notes to unaudited consolidated financial statements.

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MAIN STREET TRUST, INC. AND SUBSIDIARIES
 Consolidated Statements of Comprehensive Income
 For the Three Months Ended September 30, 2002 and 2001
 (Unaudited, in thousands)

2002 2001

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Net income	\$ 4,479	\$ 4,044
<hr/>		
Other comprehensive income:		
Unrealized gains on securities:		
Unrealized holding gains arising during period, net of tax of \$635 and \$612, for September 30, 2002 and 2001, respectively	953	1,186
Less: reclassification adjustment for losses (gains) included in net income, net of tax of \$25 and (\$29), for September 30, 2002 and 2001, respectively	37	(54)
<hr/>		
Other comprehensive income, net of tax	990	1,132
<hr/>		
Comprehensive income	\$ 5,469	\$ 5,176
<hr/>		

See accompanying notes to unaudited consolidated financial statements.

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MAIN STREET TRUST, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
For the Nine Months Ended September 30, 2002 and 2001
(Unaudited, in thousands)

	2002	2001
	<hr/>	<hr/>
Cash flows from operating activities:		
Net income	\$ 12,932	\$ 11,776
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,989	2,009
Amortization (accretion) of bond discounts and premiums, net	830	(179)
Provision for loan losses	990	845
Securities transactions, net	(228)	(302)
Gain on sales of mortgage loans, net	(773)	(490)
Federal Home Loan Bank stock dividend	(121)	(135)
Proceeds from sales of mortgage loans originated for sale	79,865	60,060
Acquisitions of mortgage loans originated for sale	(74,011)	(65,911)
Other, net	25	(2,080)
<hr/>		
Net cash provided by operating activities	21,498	5,593
<hr/>		
Cash flows from investing activities:		
Net increase in loans	(5,295)	(16,894)
Proceeds from maturities and calls of investments in debt securities:		
Held-to-maturity	1,841	28,559
Available-for-sale	72,620	58,332
Proceeds from sales of investments:		
Available-for-sale	44,732	89,715
Purchases of investments in debt and equity securities:		
Held-to-maturity	(14,058)	(22,135)
Available-for-sale	(108,702)	(176,252)
Other equity securities	(1,720)	(500)
Principal paydowns from mortgage-backed securities:		
Held-to-maturity	12,262	6,932
Available-for-sale	8,934	2,515
Principal paydowns on other equity securities	106	31

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Purchases of premises and equipment	(1,531)	(1,150)
Proceeds from sales of premises and equipment	10	--
	-----	-----
Net cash provided by (used in) investing activities	9,199	(30,847)
	-----	-----
Cash flows from financing activities:		
Net decrease in deposits	(20,988)	(3,383)
Net (decrease) increase in federal funds purchased, repurchase agreements, and notes payable	(26,641)	9,162
Advances from Federal Home Loan Bank and other borrowings	13,000	5,000
Payments on Federal Home Loan Bank and other borrowings	(18,072)	(6,068)
Cash dividends paid	(4,273)	(3,343)
Issuance of new shares of common stock, net	1,222	--
Treasury stock transactions, net	(15,003)	(2,021)
	-----	-----
Net cash used in financing activities	(70,755)	(653)
	-----	-----
Net decrease in cash and cash equivalents	(40,058)	(25,907)
Cash and cash equivalents at beginning of year	95,379	84,139
	-----	-----
Cash and cash equivalents at end of period	\$ 55,321	\$ 58,232
	=====	=====
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Interest	\$ 17,522	\$ 27,552
Income taxes	6,734	5,486
Real estate acquired through or in lieu of foreclosure	289	--
Dividends declared not paid	1,361	1,197

See accompanying notes to unaudited consolidated financial statements.

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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, 2001, and schedules included in Main Street Trust, Inc.'s Form 10-K filed on March 20, 2002.

In the opinion of management, the consolidated financial statements of Main Street Trust, Inc. (the "Company") and its subsidiaries, as of September 30, 2002 and for the three-month and nine-month periods ended September 30, 2002 and 2001, include all adjustments necessary for a fair presentation of the results of those periods. All such adjustments are of a normal recurring nature.

Results of operations for the three-month and nine-month periods ended September 30, 2002 are not necessarily indicative of the results which may be expected for

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the year ended December 31, 2002.

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 2001 consolidated financial statements have been reclassified to conform with the 2002 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 17 banking centers and is the parent company of BankIllinois, First National Bank of Decatur, and FirstTech, Inc., a retail payment processing company. The Company received approval from its bank regulators to merge BankIllinois and the Company's former banking subsidiary, First Trust Bank of Shelbyville. The merger was effective June 19, 2002 and the resulting bank is BankIllinois. The merger is not expected to have a significant impact on the consolidated financial statements.

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.

On April 23, 2002, the Company commenced a tender offer to acquire up to 1,200,000 of its shares of common stock at a price of \$23.00 per share. The tender offer was completed 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 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.

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Note 4. Income per Share

Net income per common share has been computed as follows:

Nine Months Ended

Three Months Ended

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	September 30, 2002		September 30, 2001	
Net Income	\$12,932,000	\$11,776,000	\$ 4,479,000	\$ 4,044,000
Shares:				
Weighted average common shares outstanding	10,900,115	10,953,118	10,486,735	10,916,747
Dilutive effect of outstanding options, as determined by the application of the treasury stock method	79,774	207,708	104,852	203,761
Weighted average common shares outstanding, as adjusted	10,979,889	11,160,826	10,591,587	11,120,508
Basic earnings per share	\$ 1.19	\$ 1.08	\$ 0.43	\$ 0.37
Diluted earnings per share	\$ 1.18	\$ 1.06	\$ 0.42	\$ 0.36

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

Financial Condition

Assets and Liabilities

Total assets decreased \$55.922 million, or 4.9%, to \$1.096 billion at September 30, 2002 compared to \$1.152 billion at December 31, 2001. Decreases in cash and due from banks, investments available-for-sale, mortgage loans held for sale, federal funds sold and interest earning deposits, accrued interest receivable, premises and equipment and investments held-to-maturity were partially offset by increases in loans, non-marketable equity securities and other assets.

Cash and due from banks decreased \$36.653 million, or 41.7%, to \$51.242 million at September 30, 2002 compared to \$87.895 million at December 31, 2001, due to a smaller dollar amount of deposit items in process of collection at September 30, 2002 compared to December 31, 2001.

Federal funds sold and interest earning deposits decreased \$3.405 million, or 45.5%, to \$4.079 million at September 30, 2002 compared to \$7.484 million at December 31, 2001. Federal funds sold and interest earning deposits fluctuate with loan demand and deposit volume.

Total investments in debt and equity securities decreased \$14.261 million, or 4.3%, to \$321.161 million at September 30, 2002 compared to \$335.422 million at December 31, 2001. Investments in securities available-for-sale decreased \$15.730 million, or 5.9%, and investments in debt and equity securities held-to-maturity decreased \$0.139 million, or 0.2%, at September 30, 2002 compared to December 31, 2001. Somewhat offsetting these decreases was an increase in non-marketable equity securities of \$1.608 million, or 31.5%, for the same period. Investments fluctuate with loan demand and deposit volume.

Mortgage loans held for sale decreased \$5.081 million, or 57.9%, to \$3.694 million at September 30, 2002 compared to \$8.775 million at December 31, 2001. This decrease was mainly attributable to faster loan processing time by the Company's secondary market investors.

Loans, net of allowance for loan losses, increased \$4.016 million, or 0.6%, to

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\$677.077 million at September 30, 2002 from \$673.061 million at December 31, 2001. An increase in real estate loans of \$36.751 million, or 11.6%, was partially offset by decreases in installment and consumer loans of \$18.296 million, or 15.3%, and commercial, financial and agricultural loans of \$14.208 million, or 5.8%, at September 30, 2002 compared to December 31, 2001.

Premises and equipment decreased \$0.448 million, or 2.3%, from \$19.259 million at December 31, 2001 to \$18.811 million at September 30, 2002. The decrease was caused by depreciation expense of \$1.969 million and disposals of \$0.010 million offset by purchases of \$1.531 million.

Other assets increased \$0.635 million, or 5.9%, from \$10.725 million at December 31, 2002 to \$11.360 million at September 30, 2002.

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Total liabilities decreased \$52.097 million, or 5.1%, to \$963.421 million at September 30, 2002 from \$1.016 billion at December 31, 2001. Decreases in total deposits, federal funds purchased, repurchase agreements and notes payable, Federal Home Loan Bank advances and other borrowings and accrued interest payable was slightly offset by an increase in other liabilities.

Total deposits decreased \$20.988 million, or 2.4%, to \$863.121 million at September 30, 2002 from \$884.109 million at December 31, 2001. Decreases in deposits included \$30.025 million, or 27.0%, in interest bearing demand deposits, \$21.109 million, or 15.8%, in non-interest bearing demand deposits and \$14.396 million, or 10.3%, in time deposits \$100,000 and over. Somewhat offsetting these decreases were increases of \$44.461 million, or 16.6%, in savings deposits and \$0.081 million, or 0.03%, in other time deposits. The decrease in time deposits \$100,000 and over included the maturity of a short-term \$25.6 million deposit at the beginning of 2002. Despite the decrease from year-end, total deposits were \$26.572 million, or 3.2%, higher than the September 30, 2001 balance of \$836.549 million. Much of the shift in deposit volume from both non-interest bearing deposits and interest bearing demand deposits into savings deposits was the result of reclassifying additional accounts identified as non-transactional (exhibiting stable balance portions) into the savings category. Current regulations allow this reclassification in order to reduce the balances required to be held at the Federal Reserve Bank in a non-interest bearing reserve account.

Federal funds purchased, repurchase agreements and notes payable decreased \$26.641 million, or 31.3%, to \$58.566 million at September 30, 2002 compared to \$85.207 million at December 31, 2001. Included in this change were decreases of \$31.365 million in repurchase agreements and \$1.201 million in notes payable offset somewhat by an increase of \$5.925 million in federal funds purchased.

Federal Home Loan Bank advances and other borrowings decreased \$5.072 million, or 14.5%, to \$29.823 million at September 30, 2002 compared to \$34.895 million at December 31, 2001.

Other liabilities increased \$1.360 million, or 17.2%, to \$9.277 million at September 30, 2002 from \$7.917 million at December 31, 2001.

Investment Securities

The carrying value of investments in debt and equity securities was as follows for September 30, 2002 and December 31, 2001:

Carrying Value of Securities
(in thousands)

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	September 30,	December 31,

Available-for-sale:		
U.S. Treasury	\$ 3,583	\$ 8,577
Federal agencies	187,411	191,325
Mortgage-backed securities	38,123	28,279
State and municipal	16,887	15,642
Corporate and other obligations	1,011	3,099
Marketable equity securities	3,751	19,574

Total available-for-sale	\$250,766	\$266,496
	=====	
Held-to-maturity:		
Federal agencies	\$ 1,750	\$ 1,750
Mortgage-backed securities	21,012	19,842
State and municipal	40,917	42,226

Total held-to-maturity	\$ 63,679	\$ 63,818
	=====	
Non-marketable equity securities:		
FHLB and FRB stock ¹	\$ 3,898	\$ 3,766
Other equity investments	2,818	1,342

Total	\$ 6,716	\$ 5,108
	=====	
Total investment securities	\$321,161	\$335,422
	=====	

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

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The following table shows the maturities and weighted-average yields of investment securities at September 30, 2002. All securities are shown at their contractual maturity.

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

	September 30, 2002						
	1 year or less		1 to 5 years		5 to 10 years		Over 10 years
	Amount	Rate	Amount	Rate	Amount	Rate	Amount

Securities available-							
for-sale							
U.S. Treasury	\$ 1,526	5.74%	\$ 2,057	3.03%	\$ --	--	\$ --
Federal agencies	\$ 67,783	4.78%	\$117,525	4.52%	\$ 2,103	6.46%	\$ --
Mortgage-backed securities ¹	\$ 11,621	3.75%	\$ 12,578	5.37%	\$ 8,995	6.53%	\$ 4,000
State and municipal	\$ 759	5.85%	\$ 8,167	4.53%	\$ 5,682	4.98%	\$ 2,000
Other securities	\$ 1,011	4.26%	\$ --	--	\$ --	--	\$ --
Marketable equity securities	\$ --	-	\$ --	--	\$ --	--	\$ 3,000

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Total	\$ 82,700		\$140,327		\$ 16,780		\$10,
Average Yield		4.66%		4.57%		6.00%	
Securities held- to-maturity							
Federal agencies	\$ 1,750	6.03	\$ --	--	\$ --	--	\$
Mortgage-backed securities ¹	\$ 2,485	5.33%	\$ 7,748	5.13%	\$ 331	5.27%	\$ 10
State and municipal	\$ 6,739	4.07%	\$ 28,595	4.15%	\$ 5,583	4.75%	\$
Total	\$ 10,974		\$ 36,343		\$ 5,914		\$ 10
Average Yield		4.67%		4.36%		4.78%	
Non-marketable equity securities ²							
FHLB and FRB stock	\$ --	--	\$ --	--	\$ --	--	\$
Other equity investments	\$ --	--	\$ --	--	\$ --	--	\$
Total	\$ --	--	\$ --	--	\$ --	--	\$

Loans

The following tables present the amounts and percentages of loans for September 30, 2002 and December 31, 2001 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, 2002		December 31, 2001	
	Amount	Percentage	Amount	Percentage
Commercial, financial and agricultural	\$231,834	33.77%	\$246,042	36.06%
Real estate	353,444	51.48%	316,693	46.41%
Installment and consumer ¹	101,289	14.75%	119,585	17.53%
Total loans	\$686,567	100.00%	\$682,320	100.00%

¹ Net of unearned discount

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The balance of loans outstanding as of September 30, 2002 by maturity is shown in the following table:

	Maturity of Loans Outstanding (dollars in thousands)			
	September 30, 2002			
	1 year or less	1 to 5 years	Over 5 years	Total
Commercial, financial and agricultural	\$112,433	\$ 97,207	\$ 22,194	\$ 231,834

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Real estate	47,069	137,142	169,233	353,444
Installment and consumer1	33,941	59,577	7,771	101,289

Total	\$193,443	\$293,926	\$199,198	\$686,567
=====				
Percentage of total loans outstanding	28.18%	42.81%	29.01%	100.00%
=====				

Capital

Total shareholders' equity decreased \$3.825 million from December 31, 2001 to September 30, 2002. Treasury stock transactions were \$15.003 million, primarily due to the completion of the \$16.556 million tender offer during the second quarter of 2002, offset partially by the exercise of employee stock options. Stock options exercised prior to the completion of the tender offering were fulfilled using existing treasury stock, if available, and through the issuance of new shares. The change in shareholders' equity is summarized as follows:

	(in thousands)

Shareholders' equity, December 31, 2001	\$ 135,993
Net income	12,932
Issuance of new shares of common stock, net	1,222
Treasury stock transactions, net	(15,003)
Stock appreciation rights	(9)
Cash dividends declared	(4,182)
Other comprehensive income	1,215

Shareholders' equity, September 30, 2002	\$ 132,168
	=====

On September 17, 2002, the board of directors of the Company declared a quarterly cash dividend of \$0.13 per share of the Company's common stock. The dividend of \$1.361 million was paid on October 18, 2002, to holders of record on October 7, 2002. In April 2002, the Company commenced a tender offer to acquire up to 1,200,000 of its shares of common stock at a price of \$23.00 per share. The tender offer was completed 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.

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, 2002, that the Company and its subsidiary banks exceeded all capital adequacy requirements to which they are subject.

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As of September 30, 2002, 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, 2002:						
Total capital						
(to risk-weighted assets)						
Consolidated	\$136,370	17.8%	\$ 61,432	8.0%	N/A	
BankIllinois	\$ 73,894	15.7%	\$ 37,645	8.0%	\$ 47,056	10.0%
First National Bank of Decatur	\$ 47,686	16.6%	\$ 22,990	8.0%	\$ 28,738	10.0%
Tier I capital						
(to risk-weighted assets)						
Consolidated	\$126,796	16.5%	\$ 30,716	4.0%	N/A	
BankIllinois	\$ 68,037	14.5%	\$ 18,822	4.0%	\$ 28,234	6.0%
First National Bank of Decatur	\$ 44,092	15.3%	\$ 11,495	4.0%	\$ 17,243	6.0%
Tier I capital						
(to average assets)						
Consolidated	\$126,796	11.6%	\$ 43,581	4.0%	N/A	
BankIllinois	\$ 68,037	10.5%	\$ 26,021	4.0%	\$ 32,526	5.0%
First National Bank of Decatur	\$ 44,092	10.1%	\$ 17,420	4.0%	\$ 21,775	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

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intervals at September 30, 2002:

	Rate Sensitivity of Earning Assets and Interests (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	\$ 4,079	\$ --	\$ --	\$ --
Debt and equity securities 1	18,603	22,816	27,726	32,654
Loans 2	196,419	21,476	28,564	53,694
Total earning assets	\$ 219,101	\$ 44,292	\$ 56,290	\$ 86,348
Interest bearing liabilities:				
Savings and interest bearing demand deposits 3	\$ 38,727	\$ 1,348	\$ 2,022	\$ 4,050
Money market savings deposits	150,022	--	--	--
Time deposits	36,539	39,210	59,190	80,969
Federal funds purchased, repurchase agreements, and notes payable	55,660	126	934	1,746
FHLB advances and other borrowings	2,000	10,000	10,138	--
Total interest bearing liabilities	\$ 282,948	\$ 50,684	\$ 72,284	\$ 86,765
Net asset (liability) funding gap	(63,847)	(6,392)	(15,994)	(417)
Repricing gap	0.77	0.87	0.78	1.00
Cumulative repricing gap	0.77	0.79	0.79	0.82

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, 2002, 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 \$0.638 million in the 1-30 days category and \$0.702 million in the 1-90 days category

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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 is able to borrow funds on a temporary basis from the Federal Reserve Bank and correspondent banks to meet short-term requirements. Additionally, the Company can borrow approximately \$44 million from the Federal Home Bank on a secured basis.

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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, 2002 and December 31, 2001 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, 2002	5.5%	2.7%	(2.7%)	(6.1%)
December 31, 2001	4.2%	2.1%	(2.1%)	(3.6%)

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 2002. 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 \$40.058 million from December 31, 2001 to September 30,

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2002. This decrease came from cash used in financing activities offset somewhat by cash provided by operating and investing activities.

There were differences in the sources and uses of cash during the first nine months of 2002 compared to the first nine months of 2001. More cash was used in financing activities during the first nine months of 2002 compared to the first nine months of 2001. This was mainly due to a decrease in federal funds purchased, repurchase agreements and notes payable, an increase in purchases of treasury stock, primarily due to the tender offer, and an increase in the net use of funds on Federal Home Loan Bank and other borrowings due to payments exceeding advances during the first nine months of 2002 compared to the same period in 2001. More cash was provided by operating activities during the first nine months of 2002 compared to the same period of 2001, primarily from net loans originated for sale because proceeds from sales were higher than originated loans during the first nine months of 2002, whereas during the first nine months of 2001 cash was used by net loans originated for sale because originated loans were higher than proceeds from sales. More cash was provided by investing activities during the first nine months of 2002 compared to the first nine months of 2001. This was due to a smaller amount of loan growth in the first nine months of 2002 compared to the same period in 2001 and due to changes in the Company's investment portfolio. During the first nine months of 2002, net cash provided by investing activities involving the Company's investment portfolio was \$16.015 million compared to \$12.803 million cash used by investing activities during the same period in 2001.

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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. The unallocated portion of the allowance is determined by economic conditions and the other factors mentioned above. The balance of the allowance for loan losses was \$9.490 million at September 30, 2002 compared to \$9.259 million at December 31, 2001, as net charge-offs were \$0.759 million and provisions totaled \$0.990 million during the first nine months of 2002. The allowance for loan losses as a percentage of gross loans, including loans held-for-sale, was 1.37% at September 30, 2002, a slight increase over the December 31, 2001 percentage of 1.34%. Gross loans, including loans held-for-sale, remained stable with \$690.261 million at September 30, 2002 compared to \$691.095 million at December 31, 2001.

The allowance for loan losses as a percentage of non-performing loans was 404.5% at September 30, 2002 compared to 181.0% at December 31, 2001. Non-performing loans decreased from \$5.115 million at December 31, 2001, to \$2.346 million at September 30, 2002. The \$2.769 million decrease in non-performing loans during the first nine months resulted from a \$1.857 million decrease in nonaccrual loans and a \$0.912 million decrease in loans over 90 days past due. The decrease in nonaccrual loans was due primarily to the successful resolution and payoff of a \$1.727 million agricultural credit. The decrease in 90 day delinquencies was due largely to a reduction in residential mortgage loans over 90 days past due. Management believes that nonperforming and potential problem loans are appropriately identified and monitored based on the extensive loan analysis

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performed by the credit administration department, the internal loan committees and the board of directors. Historically, there has 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 remainder of 2002. 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.

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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,	
		2002	2001
Allowance for loan losses at beginning of year		\$ 9,259	\$ 8,879
Charge-offs during period:			
Commercial, financial and agricultural		\$ (96)	\$ (302)
Real estate		(32)	--
Installment and consumer		(969)	(859)
Total		\$ (1,097)	\$ (1,161)
Recoveries of loans previously charged off:			
Commercial, financial and agricultural		\$ 187	\$ 135
Residential real estate		28	37
Installment and consumer		123	129
Total		\$ 338	\$ 301
Net (charge-offs) recoveries		\$ (759)	\$ (860)
Provision for loan losses		990	845
Allowance for loan losses at end of quarter		\$ 9,490	\$ 8,864
Ratio of net (charge-offs) recoveries to average net loans		(0.11)%	(0.13)%

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, December 31,
2002 2001

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Allocated:		
Commercial, financial and agricultural	\$5,737	\$5,487
Residential real estate	397	419
Installment and consumer	1,847	2,000

Total allocated allowance	\$7,981	\$7,906
Unallocated allowances	1,509	1,353

Total	\$9,490	\$9,259
	=====	

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

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

	September 30, 2002	December 31, 2001

Nonaccrual loans ¹	\$1,484	\$3,341
Loans past due 90 days or more	\$ 862	\$1,774
Restructured loans ²	\$ 47	\$ 67

- 1 Includes \$658,000 at September 30, 2002 and \$3.216 million at December 31, 2001 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).
- 2 Management does not consider restructured loans of \$47,000 and \$67,000 at September 30, 2002 and December 31, 2001, respectively, to be nonperforming.

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Other Nonperforming Assets (dollars in thousands)

	September 30, 2002	December 31, 2001

Other real estate owned	\$ 50	\$ --
Nonperforming other assets	\$ 239	\$ 153

Results of Operations

Results of Operations For the Nine Months Ended September 30, 2002

Net income for the first nine months of 2002 was \$12.932 million, a \$1.156 million, or 9.8%, increase from \$11.776 million for the same period in 2001. Basic earnings per share increased \$0.11, or 10.2%, to \$1.19 in the first nine months of 2002 from \$1.08 in the same period of 2001. Diluted earnings per share increased \$0.12, or 11.3%, to \$1.18 in the first nine months of 2002 from \$1.06 during the same period in 2001.

Operating earnings for the nine months ended September 30, 2002 were \$13.296 million compared to \$11.991 million for the same period in 2001, an increase of \$1.305 million, or 10.9%. Basic operating earnings per share increased 11.9% to \$1.22 in the first nine months of 2002 from \$1.09 in the same period of 2001.

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Diluted operating earnings per share for the first nine months of 2002 increased 13.1%, or \$0.14, to \$1.21 from \$1.07 in the same period in 2001. The difference between operating and net earnings was due to merger and restructuring related expenses, net of tax, of \$364,000 during the first nine months of 2002 compared to \$215,000 during the same period in 2001. The 2002 merger and restructuring related expenses consisted of \$529,000 of termination of employment contracts, \$40,000 of professional fees and \$38,000 of data processing expense, offset by \$243,000 of tax benefit. 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.

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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,				
	2002				
	Average Balance	Interest	Rate	Average Balance	Int
Assets					
Taxable investment securities ¹	\$ 264,543	\$ 9,632	4.87%	\$ 245,250	\$
Tax-exempt investment securities ¹ (TE) .	55,083	2,743	6.66%	51,756	
Federal funds sold and interest earning deposits ²	20,794	302	1.94%	42,728	
Loans ^{3,4} (TE)	676,320	36,396	7.20%	665,531	
Total interest earning assets and interest income (TE)	\$1,016,740	\$ 49,073	6.45%	\$1,005,265	\$
Cash and due from banks	\$ 46,970			\$ 50,237	
Premises and equipment	19,022			20,537	
Other assets	18,599			20,179	
Total assets	\$1,101,331			\$1,096,218	
Liabilities and Shareholders' Equity					
Interest bearing demand deposits	\$ 93,182	\$ 788	1.13%	\$ 107,482	\$
Savings	257,588	2,827	1.47%	225,261	
Time deposits	349,112	10,788	4.13%	362,054	
Federal funds purchased, repurchase agreements, and notes payable	68,859	919	1.78%	73,757	
FHLB advances and other borrowings	34,555	1,444	5.59%	40,292	
Total interest bearing liabilities and interest expense	\$ 803,296	\$ 16,766	2.79%	\$ 808,846	\$
Noninterest bearing demand deposits	\$ 96,384			\$ 102,326	
Noninterest bearing savings deposits ...	53,948			40,806	
Other liabilities	10,778			14,436	
Total liabilities	\$ 964,406			\$ 966,414	
Shareholders' equity	136,925			129,804	

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Total liabilities and shareholders' equity	\$1,101,331	\$1,096,218
Interest spread (average rate earned minus average rate paid) (TE)		3.66%
Net interest income (TE)	\$ 32,307	\$
Net yield on interest earnings assets (TE)		4.25%

Notes to Consolidated Average Balance Sheet and Interest Rate Tables:

- Investments in debt securities are included at carrying value.
- Federal funds sold and interest earning deposits include approximately \$49,000 and \$93,000 in 2002 and 2001, respectively, of interest income from third party processing of cashier checks.
- Loans are net of allowance for loan losses and include mortgage loans held for sale. Nonaccrual loans are included in the total.
- Loan fees of approximately \$742,000 and \$722,000 in 2002 and 2001, respectively, are included in total loan income.

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Net interest income, the most significant component of the Company's earnings, is the difference between interest received or accrued on the Company's earning assets - primarily loans and investments - and interest paid or accrued on deposits and borrowings. In order to compare the interest generated from different types of earning assets, the interest income on certain tax-exempt investment securities and loans is increased for analysis purposes to reflect the income tax savings provided by these tax-exempt assets. The adjustment to interest income for tax-exempt investment securities and loans was calculated based on the federal income tax statutory rate of 35% at September 30, 2002, compared to 34% at September 30, 2001. 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, 2002

	Increase (Decrease) from		
	Previous Year	Due to Volume	Due to Rate
Interest Income			
Taxable investment securities	\$ (881)	\$ 1,151	\$ (2,031)
Tax-exempt investment securities (TE)	117	190	(74)

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Federal funds sold and interest earning deposits	(1,225)	(568)	(657)
Loans (TE)	(5,802)	1,091	(6,893)

Total interest income (TE)	\$ (7,791)	\$ 1,864	\$ (9,655)

Interest Expense			
Interest bearing demand and savings deposits1 ..	\$ (3,818)	\$ 629	\$ (4,447)
Time deposits	(4,640)	(534)	(4,106)
Federal funds purchased, repurchase agreements and notes payable	(1,182)	(132)	(1,050)
FHLB advances and other borrowings	(324)	(243)	(81)

Total interest expense	\$ (9,964)	\$ (280)	\$ (9,684)

Net Interest Income (TE)	\$ 2,173	\$ 2,144	\$ 29
	=====		

Net interest income on a tax equivalent basis was \$2.173 million, or 7.2%, higher for the first nine months of 2002 compared to 2001. Total tax-equivalent interest income was \$7.791 million, or 13.7%, lower in 2002 compared to 2001, and interest expense decreased \$9.964 million, or 37.3%. The decrease in interest income was due to a decrease in rate offset somewhat by an increase in average earning assets. The decrease in interest expense was due primarily to a decrease in rate.

The decrease in total interest income was mainly due to a decrease in interest income from loans as well as federal funds sold and interest earning deposits, and taxable investment securities, offset slightly by an increase in income from tax-exempt investment securities. The decreases in interest income from loans and taxable investment securities were primarily due to decreases in rate offset somewhat by increases in average balances outstanding during the first nine months of 2002 compared to the first nine months of 2001. The decrease in federal funds sold and interest earning deposits resulted from a decrease in rates as well as a decrease in average balances outstanding. The increase in tax-exempt investment securities was due to an increase in average balances outstanding offset somewhat by a decrease in rates for the first nine months of 2002 compared to the first nine months of 2001.

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The decrease in total interest expense was due to decreases in interest expense from all categories of interest bearing liabilities. Decreases in interest expense on time deposits, and federal funds purchased, repurchase agreements and notes payable during the first nine months of 2002 compared to the first nine months of 2001 were due primarily to decreases in rate, but also to decreases in average balances. Interest expense on interest bearing demand and savings deposits decreased during the first nine months of 2002 compared to the first nine months of 2001 due to a decrease in rates, offset somewhat by an increase in average balances. Interest expense on FHLB advances and other borrowings decreased during the first nine months of 2002 compared to the same period in 2001 due to both lower average balances and lower rates.

The provision for loan losses recorded was \$990,000 during the first nine months of 2002. This was \$145,000, or 17.2%, higher than the \$845,000 recorded during the first nine months of 2001. 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.

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Total non-interest income increased \$1.381 million, or 10.9%, during the first nine months of 2002 compared to the first nine months of 2001. Included in this increase was an increase of \$613,000, or 15.3%, from trust and brokerage fees. A uniform trust fee schedule was adopted throughout the Company resulting in the recognition of increased fees as well as an increase in estate fee income. Remittance processing income increased \$450,000, or 8.8%, during the first nine months of 2002 compared to the first nine months of 2001. This increase was primarily due to renegotiated contracts, which included restructured pricing for some customers. Income on gains on sales of mortgage loans held-for-sale increased \$283,000, or 57.8%, during the first nine months of 2002 compared to the same period in 2001. This increase reflected a \$19.805 million, or 33.0%, increase in funded mortgage loans held-for-sale during the first nine months of 2002 compared to the same period in 2001. This increase was reflective of lower interest rates during the first nine months of 2002. Service charges on deposit accounts increased \$164,000, or 10.3%, during the first nine months of 2002 compared to the first nine months of 2001. Somewhat offsetting these increases were decreases of \$74,000, or 24.5%, in securities transactions and \$55,000, or 4.7%, in other non-interest income. The decrease in other noninterest income included a write-down of approximately \$300,000 in the value of mortgage servicing rights as a result of the sharp rise in prepayment speeds.

Total non-interest expense increased \$1.361 million, or 5.7%, during the first nine months of 2002 compared to the same period in 2001. Of this increase, salaries and employee benefits increased \$1.313 million, or 10.0%, during the first nine months of 2002 compared to the same period in 2001. Contributing to the increase in salaries and employee benefits was an increase of \$273,000 in salaries and benefits related to organizational restructuring that resulted in termination of employment contracts, and an increase of \$449,000 in group health insurance costs. Data processing expense increased \$383,000, or 28.4%, in the first nine months of 2002 compared to the first nine months of 2001. Contributing to this increase were a computer system conversion at the Company's Decatur bank late in the first quarter of 2001 from in-house data processing to third party service bureau data processing, conversion to a new system and a software upgrade at the Company's remittance processing subsidiary FirstTech, costs to merge First Trust Bank of Shelbyville and Bank Illinois computer records, as well as to continue development of the Company's internet services during the first nine months of 2002 compared to the same period in 2001. Somewhat offsetting these increases was a decrease in equipment expense of \$241,000, or 10.4%, during the first nine months of 2002 compared to the same period in 2001. This decrease was due, in part, to conversion to third party service bureau data processing from in-house data processing at the Company's Decatur bank during the first quarter in 2001. Office supplies decreased \$220,000, or 18.7% during the first nine months of 2002 compared to the first nine months of 2001. Included in office supplies expense in 2001 were additional printing and mailing expense to announce a computer system conversion, and additional supplies purchased as a result of the conversion.

Income tax expense increased \$864,000, or 15.8%, during the first nine months of 2002 compared to the first nine months of 2001. The effective tax rate increased to 32.8% during the first nine months of 2002 from 31.7% during the same period in 2001. This difference in the effective tax rate was that the 2001 expense was offset by a state net operating loss carry forward that was fully utilized in 2001.

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Results of Operations For the Three Months Ended September 30, 2002

Net income for the third quarter of 2002 was \$4.479 million, a \$435,000, or 10.8%, increase from \$4.044 million for the same period in 2001. Basic earnings per share increased 16.2% to \$0.43 in the third quarter of 2002 from \$0.37

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during the same period in 2001. Diluted earnings per share increased 16.7% to \$0.42 in the third quarter of 2002 from \$0.36 in the third quarter of 2001.

Operating income and earnings per share for the third quarter of 2002 and 2001 were the same as net income for those quarters.

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,

	2002			2001	
	Average Balance	Interest	Rate	Average Balance	Interest
Assets					
Taxable investment securities ¹	\$ 257,827	\$ 3,177	4.89%	\$ 251,297	\$
Tax-exempt investment securities ¹ (TE) ..	54,891	906	6.55%	55,522	
Federal funds sold and interest earning deposits ²	22,088	106	1.90%	9,970	
Loans ^{3,4} (TE)	675,502	12,006	7.05%	678,110	1
<hr style="border-top: 1px dashed black;"/>					
Total interest earning assets and interest income (TE)	\$1,010,308	\$ 16,195	6.36%	\$ 994,899	\$ 1
<hr style="border-top: 1px dashed black;"/>					
Cash and due from banks	\$ 45,600			\$ 50,136	
Premises and equipment	18,930			20,193	
Other assets	18,279			21,347	
<hr style="border-top: 1px dashed black;"/>					
Total assets	\$1,093,117			\$1,086,575	
<hr style="border-top: 1px dashed black;"/>					
Liabilities and Shareholders' Equity					
Interest bearing demand deposits	\$ 77,190	\$ 205	1.05%	\$ 103,170	\$
Savings	270,914	952	1.39%	231,237	
Time deposits	362,314	3,521	3.86%	357,200	
Federal funds purchased, repurchase agreements, and notes payable	63,319	270	1.69%	78,462	
FHLB advances and other borrowings	32,215	451	5.55%	40,417	
<hr style="border-top: 1px dashed black;"/>					
Total interest bearing liabilities and interest expense	\$ 805,952	\$ 5,399	2.66%	\$ 810,486	\$
<hr style="border-top: 1px dashed black;"/>					
Noninterest bearing demand deposits	\$ 81,186			\$ 104,466	
Noninterest bearing savings deposits ...	64,642			23,575	
Other liabilities	10,900			14,780	
<hr style="border-top: 1px dashed black;"/>					
Total liabilities	\$ 962,680			\$ 953,307	
Shareholders' equity	130,437			133,268	
<hr style="border-top: 1px dashed black;"/>					
Total liabilities and shareholders' equity	\$1,093,117			\$1,086,575	
<hr style="border-top: 1px dashed black;"/>					
Interest spread (average rate earned minus average rate paid) (TE)			3.70%		
<hr style="border-top: 1px dashed black;"/>					

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Net interest income (TE)	\$ 10,796	\$ 1
=====		
Net yield on interest earnings assets (TE)	4.24%	
=====		

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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, 2002

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

Interest Income			
Taxable investment securities	\$ (172)	\$ 469	\$ (641)
Tax-exempt investment securities (TE)	(9)	(19)	10
Federal funds sold and interest earning deposits	(186)	1,038	(1,224)
Loans (TE)	(1,811)	(52)	(1,759)

Total interest income (TE)	\$ (2,178)	\$ 1,436	\$ (3,614)

Interest Expense			
Interest bearing demand and savings deposits ¹ ..	\$ (1,085)	\$ 593	\$ (1,678)
Time deposits	(1,326)	460	(1,786)
Federal funds purchased, repurchase agreements and notes payable	(349)	(103)	(246)
FHLB advances and other borrowings	(146)	(116)	(30)

Total interest expense	\$ (2,906)	\$ 834	\$ (3,740)

Net Interest Income (TE)	\$ 728	\$ 602	\$ 126
	=====		

Net interest income on a tax equivalent basis was \$728,000, or 7.2%, higher for the third quarter of 2002 compared to the third quarter of 2001. Total tax-equivalent interest income was \$2.178 million, or 11.9%, lower in 2002 compared to 2001, and interest expense decreased \$2.906 million, or 35.0%. The decrease in interest income was due to a decrease in rates offset somewhat by an increase in average balances. The decrease in interest expense was due to a decrease in rates offset slightly by an increase in average balances.

The decrease in total interest income was due to decreases in all categories of interest earning assets. The decrease in interest income from loans was due to a

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decrease in both rates and average balances during the third quarter of 2002 compared to the third quarter of 2001. The decrease in income from tax-exempt securities was due to a decrease in volume, offset somewhat by an increase in tax equivalized rate. The increase in rate on tax-exempt securities was due to the increase in the federal income tax statutory rate to 35% during the third quarter of 2002 from 34% during the same period in 2001. The decreases in taxable investment securities and federal funds sold and interest earning deposits was due to decreases in rates, offset somewhat by increases in average balances.

The decrease in total interest expense was due to decreases in interest expense in all categories of interest bearing liabilities. Interest expense on federal funds purchased, repurchase agreements and notes payable and FHLB advances and other borrowings decreased during the third quarter of 2002 compared to the third quarter of 2001 due to both decreases in rates and average balances. Interest expense on interest bearing demand and savings deposits and time deposits decreased during the third quarter of 2002 compared to the third quarter of 2001 due to decreases in rates, offset somewhat by increases in average balances.

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The provision for loan losses recorded was \$330,000 during the third quarter of 2002. This was \$95,000, or 40.4%, more than the \$235,000 recorded during the third quarter of 2001. 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 \$272,000, or 6.3%, during the third quarter of 2002 compared to the third quarter of 2001. Included in this increase was an increase of \$378,000, or 27.7%, in income from trust and brokerage fees in the third quarter of 2002 compared to the same quarter in 2001. A uniform trust fee schedule was adopted throughout the Company resulting in the recognition of increased fees as well as an increase in estate fee income. Gains on sales of mortgage loans held-for-sale increased \$203,000, or 116.0%, during the third quarter of 2002 compared to the same period in 2001. This increase reflected a \$13,796,000, or 66.8%, increase in funded mortgage loans held-for-sale during the third quarter of 2002 compared to the same period in 2001. This increase was the result of lower interest rates during the third quarter of 2002 compared to the same period in 2001. Service charges on deposit accounts increased \$51,000, or 9.1%, during the third quarter of 2002 compared to the same period in 2001. Somewhat offsetting these increases was a decrease of \$199,000, or 54.8%, in other income during the third quarter of 2002 compared to the same period in 2001. This decrease included a write-down of approximately \$300,000 in the value of mortgage servicing rights as a result of the sharp rise in prepayment speeds. Income from securities transactions decreased \$145,000, or 174.7%, during the third quarter of 2002 compared to the third quarter of 2001. Included in this decrease was recognition of a net loss on marketable equity securities of \$168,000 in the third quarter of 2002 compared to none in the third quarter of 2001. Income from remittance processing decreased \$16,000, or 0.9%, during the third quarter of 2002 compared to the same period in 2001.

Total non-interest expense increased \$253,000, or 3.2%, during the third quarter of 2002 compared to the same period in 2001. Of this increase, salaries and employee benefits increased \$275,000, or 6.4%, in the third quarter of 2002 compared to the third quarter of 2001. Contributing to the increase in salaries and employee benefits was a 76.9% increase in group health insurance. Other categories with increases during the third quarter of 2002 compared to the same period in 2001 included occupancy expense with an increase of \$49,000, or 8.9%, other noninterest expense with an increase of \$17,000, or 1.5%, data processing with an increase of \$6,000, or 1.2%, and service charges from correspondent

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banks with an increase of \$5,000, or 2.3%. Somewhat offsetting these increases were decreases of \$67,000, or 17.1%, in office supplies expense and \$32,000, or 4.3%, in equipment expense during the third quarter of 2002 compared to the same period in 2001.

Income tax expense increased \$226,000, or 11.4%, during the third quarter of 2002 compared to the third quarter of 2001. The effective tax rate increased to 33.0% during the third quarter of 2002 from 32.9% during the same period in 2001.

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Business Segment Information

The Company currently operates in two industry segments. The primary business involves providing banking services to central Illinois. BankIllinois and First National Bank of Decatur 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, 2002					
Total interest income	\$ 47,963	\$ 69	\$ 185	\$ (119)	\$ 48,098
Total interest expense	16,869	--	16	(119)	16,766
Provision for loan losses ...	990	--	--	--	990
Total non-interest income ...	8,975	5,646	(76)	(483)	14,062
Total non-interest expense ..	20,567	3,853	1,217	(483)	25,154
Income before income tax	18,512	1,862	(1,124)	--	19,250
Income tax expense	6,021	744	(447)	--	6,318
Net income	12,491	1,118	(677)	--	12,932
Total assets	1,083,664	6,451	134,817	(129,343)	1,095,589
Depreciation and amortization	1,584	383	22	--	1,989
September 30, 2001					
Total interest income	\$ 55,932	\$ 105	\$ 89	\$ (209)	\$ 55,917
Total interest expense	26,939	--	--	(209)	26,730
Provision for loan losses ...	845	--	--	--	845
Total non-interest income ...	7,762	5,398	151	(630)	12,681
Total non-interest expense ..	19,589	3,997	837	(630)	23,793
Income before income tax	16,321	1,506	(597)	--	17,230
Income tax expense	5,120	547	(213)	--	5,454
Net income	11,201	959	(384)	--	11,776
Total assets	1,095,240	7,212	140,264	(138,041)	1,104,675
Depreciation and amortization	1,619	369	21	--	2,009

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

This document (including information incorporated by reference) 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 and on information currently available to management, are generally identifiable by the use of words such as "believe", "expect", "anticipate", "plan", "intend", "estimate", "may", "will", "would", "could", "should", or other similar expressions. Additionally, all statements in this document, including forward-looking statements, speak only as of the date they are made, and the Company undertakes no obligation to update any statement in light of new information or future events.

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

- o The strength of the United States economy in general and the strength of the local economies in which the Company conducts its operations which may be less favorable than expected and may result in, among other things, a deterioration in the credit quality and value of the Company's assets.

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- o The economic impact of the terrorist attacks that occurred on September 11th, as well as any future threats and attacks, and the response of the United States to any such threats and attacks.
- o The effects of, and changes in, federal, state and local laws, regulations and policies affecting banking, securities, insurance and monetary and financial matters.
- o The effects of changes in interest rates (including the effects of changes in the rate of prepayments of the Company's assets) and the policies of the Board of Governors of the Federal Reserve System.
- o The ability of the Company to compete with other financial institutions as effectively as the Company currently intends due to increase in competitive pressures in the financial services sector.
- o The inability of the Company to obtain new customers and to retain existing customers.
- o The timely development and acceptance of products and services, including products and services offered through alternative delivery channels such as the Internet.
- o 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.
- o The ability of the Company to develop and maintain secure and reliable electronic systems.

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- o 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.
- o Consumer spending and saving habits which may change in a manner that affects the Company's business adversely.
- o Business combinations and the integration of acquired businesses which may be more difficult or expensive than expected.
- o The costs, effects and outcomes of existing or future litigation.
- o Changes in accounting policies and practices, as may be adopted by state and federal regulatory agencies and the Financial Accounting Standards Board.
- o 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

Based upon an evaluation within the 90 days prior to the filing date of this report, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective. There have been no significant changes in the Company's internal controls or in other factors that could significantly affect the Company's internal controls subsequent to the date of the evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

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

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Item 3. Defaults Upon Senior Securities

None

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

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None

Item 5. Other Information

None

Item 6. Exhibits and Reports on Form 8-K

a. Exhibits

99.1. Certificate of Chief Executive Officer

99.2. Certificate of Chief Financial Officer

b. Reports

None

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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 14, 2002

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

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CERTIFICATION OF CHIEF EXECUTIVE OFFICER

PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Van A. Dukeman, Chief Executive Officer of the Company, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Main Street Trust, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue

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statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in the Report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a. designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b. evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within the 90 days prior to the filing date of this quarterly report (the "Evaluation Date");
 - c. presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a. all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 14, 2002

/s/ Van A. Dukeman

Van A. Dukeman
Chief Executive Officer

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I, David B. White, Chief Financial Officer of the Company, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Main Street Trust, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in the Report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a. designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b. evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within the 90 days prior to the filing date of this quarterly report (the "Evaluation Date");
 - c. presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a. all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 14, 2002

/s/ David B. White

David B. White

Chief Financial Officer