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MAIN STREET TRUST INC  
Form 10-Q  
November 09, 2005

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, 2005

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  No

Indicate by "X" whether the registrant is an accelerated filer (as defined by Rule 12b-2 of the Exchange Act).

Yes  No

Indicate by "X" whether the registrant is a shell company (as defined by Rule 12b-2 of the Exchange Act).

Yes  No

Indicate the number of shares outstanding of the registrant's common stock, as of November 2, 2005.

Main Street Trust, Inc. Common Stock

10,222,987

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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MAIN STREET TRUST, INC. AND SUBSIDIARIES  
Consolidated Balance Sheets  
September 30, 2005 and December 31, 2004  
(Unaudited, in thousands, except share data)

	September 30, 2005	December 31, 2004
	-----	
ASSETS		
Cash and due from banks	\$ 42,520	\$ 33,133
Federal funds sold and interest bearing deposits	70,325	31,795
	-----	
Cash and cash equivalents	112,845	64,928
	-----	

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Investments in debt and equity securities:		
Available-for-sale, at fair value	228,915	269,580
Held-to-maturity, at cost (fair value of \$80,082 and \$81,099 at September 30, 2005 and December 31, 2004, respectively)	80,803	81,164
Non-marketable equity securities	24,858	7,982
Total investments in debt and equity securities	334,576	358,726
Loans, net of allowance for loan losses of \$13,688 and \$9,650 at September 30, 2005 and December 31, 2004, respectively		
Mortgage loans held for sale	1,000,825	761,227
Premises and equipment	1,973	1,005
Goodwill	22,364	17,087
Core deposit intangibles	20,832	-
Accrued interest receivable	4,786	-
Other assets	9,157	6,570
Total assets	\$ 1,533,419	\$ 1,228,118
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Deposits:		
Non-interest bearing	\$ 211,943	\$ 172,908
Interest bearing	969,883	801,669
Total deposits	1,181,826	974,577
Federal funds purchased, repurchase agreements and notes payable	117,130	96,900
Federal Home Loan Bank advances and other borrowings	71,482	29,882
Accrued interest payable	3,727	2,601
Other liabilities	15,025	10,183
Total liabilities	1,389,190	1,114,143
Commitments and contingencies (See Note 5)		
Shareholders' equity:		
Preferred stock, no par value; 2,000,000 shares authorized	-	-
Common stock, \$0.01 par value; 15,000,000 shares authorized; 11,219,319 shares issued	112	112
Paid in capital	55,189	55,189
Retained earnings	118,075	108,071
Accumulated other comprehensive loss	(1,410)	(218)
Total shareholders' equity	171,966	163,154
Less: treasury stock, at cost, 990,777 and 1,770,329 shares at September 30, 2005 and December 31, 2004, respectively	(27,737)	(49,179)
Total shareholders' equity	144,229	113,975
Total liabilities and shareholders' equity	\$ 1,533,419	\$ 1,228,118

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, 2005 and 2004  
 (Unaudited, in thousands, except share data)

	2005	2004
	-----	-----
Interest income:		
Loans and fees on loans	\$ 43,961	30,571
Investments in debt and equity securities		
Taxable	9,269	7,973
Tax-exempt	1,156	1,424
Federal funds sold and interest bearing deposits	1,252	339
	-----	-----
Total interest income	55,638	40,307
	-----	-----
Interest expense:		
Deposits	14,871	10,189
Federal funds purchased, repurchase agreements and notes payable	2,128	893
Federal Home Loan Bank advances and other borrowings	1,985	1,202
	-----	-----
Total interest expense	18,984	12,284
	-----	-----
Net interest income	36,654	28,023
Provision for loan losses	1,080	990
	-----	-----
Net interest income after provision for loan losses	35,574	27,033
	-----	-----
Non-interest income:		
Remittance processing	5,144	5,635
Trust and brokerage fees	5,805	4,831
Service charges on deposit accounts	2,129	1,820
Securities transactions, net	(450)	139
Gain on sales of mortgage loans, net	726	777
Other	2,017	2,075
	-----	-----
Total non-interest income	15,371	15,277
	-----	-----
Non-interest expense:		
Salaries and employee benefits	17,325	13,978
Occupancy	2,293	1,968
Equipment	1,955	1,886
Data processing	1,669	1,633
Office supplies	906	887
Service charges from correspondent banks	389	652
Amortization of core deposit intangibles	435	-
Other	4,342	3,953
	-----	-----
Total non-interest expense	29,314	24,957
	-----	-----
Income before income taxes	21,631	17,353
Income taxes	7,820	6,137
	-----	-----
Net income	\$ 13,811	\$ 11,216
	=====	=====

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Per share data:

Basic earnings per share	\$ 1.38	\$ 1.18
Weighted average shares of common stock outstanding	10,014,234	9,491,827
Diluted earnings per share	\$ 1.37	1.17
Weighted average shares of common stock and dilutive potential common shares outstanding	10,111,588	9,607,752

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 Nine Months Ended September 30, 2005 and 2004  
(Unaudited, in thousands)

	2005	2004
	-----	-----
Net income	\$ 13,811	\$ 11,216
Other comprehensive income (loss), before tax:		
Unrealized gains (losses) on securities:		
Unrealized holding gains (losses) arising during period, net of tax of (\$975) and (\$1,083), for September 30, 2005 and 2004, respectively	(1,462)	(1,625)
Less: reclassification adjustment for gains (losses) included in net income, net of tax of \$180 and (\$56), for September 30, 2005 and 2004, respectively	270	(83)
Other comprehensive loss	(1,192)	(1,708)
Comprehensive income	\$ 12,619	\$ 9,508
	=====	=====

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, 2005 and 2004  
(Unaudited, in thousands, except share data)

	2005	2004
	-----	-----
Interest income:		
Loans and fees on loans	\$ 16,643	\$ 10,507
Investments in debt and equity securities		
Taxable	3,664	2,560
Tax-exempt	370	445
Federal funds sold and interest bearing deposits	439	151
Total interest income	21,116	13,663

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Interest expense:		
Deposits	5,868	3,643
Federal funds purchased, repurchase agreements and notes payable	870	336
Federal Home Loan Bank advances and other borrowings	812	405
Total interest expense	7,550	4,384
Net interest income	13,566	9,279
Provision for loan losses	450	330
Net interest income after provision for loan losses	13,116	8,949
Non-interest income:		
Remittance processing	1,741	1,820
Trust and brokerage fees	2,153	1,544
Service charges on deposit accounts	820	619
Securities transactions, net	(485)	133
Gain on sales of mortgage loans, net	329	229
Other	740	613
Total non-interest income	5,298	4,958
Non-interest expense:		
Salaries and employee benefits	6,097	4,727
Occupancy	824	685
Equipment	674	606
Data processing	566	546
Office supplies	319	270
Service charges from correspondent banks	134	194
Amortization of core deposit intangibles	217	-
Other	1,480	1,414
Total non-interest expense	10,311	8,442
Income before income taxes	8,103	5,465
Income taxes	2,952	1,910
Net income	\$ 5,151	\$ 3,555

Per share data:		
Basic earnings per share	\$ 0.50	\$ 0.38
Weighted average shares of common stock outstanding	10,248,453	9,460,495
Diluted earnings per share	\$ 0.50	\$ 0.37
Weighted average shares of common stock and dilutive potential common shares outstanding	10,341,647	9,573,370

See accompanying notes to unaudited consolidated financial statements.

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(Unaudited, in thousands)

	2005	2004
Net income	\$ 5,151	\$ 3,555
Other comprehensive income (loss), before tax:		
Unrealized gains (losses) on securities:		
Unrealized holding gains (losses) arising during period, net of tax of (\$497) and \$418, for September 30, 2005 and 2004, respectively	(745)	625
Less: reclassification adjustment for gains (losses) included in net income, net of tax of \$194 and (\$54), for September 30, 2005 and 2004, respective	291	(79)
	(454)	546
Other comprehensive income (loss)		
Comprehensive income	\$ 4,697	\$ 4,101

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 Ending September 30, 2005 and 2004  
(Unaudited, in thousands)

	2005	2004
Cash flows from operating activities:		
Net income	\$ 13,811	\$ 11,216
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,901	1,914
Amortization of bond discounts and premiums, net	952	1,879
Amortization of core deposit intangibles	435	-
Provision for loan losses	1,080	990
Securities transactions, net	450	(139)
Federal Home Loan Bank stock dividend	(597)	(187)
Undistributed gain from non-marketable equity securities	(1,585)	(36)
Gain on sales of mortgage loans, net	(726)	(777)
Loss (gain) on disposal of premises and equipment	9	(286)
Proceeds from sales of mortgage loans originated for sale	55,397	59,411
Mortgage loans originated for sale	(55,357)	(58,912)
Other, net	(287)	(1,154)
Net cash provided by operating activities	15,483	13,919
Cash flows from investing activities:		
Net increase in loans	(12,564)	(61,081)
Proceeds from maturities and calls of investments in debt securities:		
Held-to-maturity	5,532	9,988
Available-for-sale	127,750	171,845
Proceeds from sales of investments:		
Available-for-sale	56,245	3,223
Purchases of investments in debt and equity securities:		
Held-to-maturity	(13,779)	(45,789)

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Available-for-sale	(133,367)	(192,532)
Other equity securities	(685)	(175)
Principal paydowns from mortgage-backed securities:		
Held-to-maturity	8,032	40,797
Available-for-sale	11,655	10,304
Return of principal on other equity securities	1,800	522
Purchases of premises and equipment	(1,197)	(1,694)
Proceeds from sales of premises and equipment	3	623
Acquisition of Citizens First Financial Corporation, net of cash and cash equivalents acquired	(6,385)	-
	-----	-----
Net cash provided by (used in) investing activities	43,040	(63,969)
	-----	-----
Cash flows from financing activities:		
Net (decrease) increase in deposits	(24,840)	91,563
Net increase (decrease) in federal funds purchased, repurchase agreements, and notes payable	20,230	(8,304)
Advances from Federal Home Loan Bank and other borrowings	34,500	-
Payments on Federal Home Loan Bank and other borrowings	(30,499)	(78)
Cash dividends paid	(6,421)	(5,988)
MSTI stock transactions, net	(3,576)	(1,971)
	-----	-----
Net cash (used in) provided by financing activities	(10,606)	75,222
	-----	-----
Net increase in cash and cash equivalents	47,917	25,172
Cash and cash equivalents at beginning of year	64,928	75,903
	-----	-----
Cash and cash equivalents at end of period	\$ 112,845	\$ 101,075
	=====	=====

See accompanying notes to unaudited consolidated financial statements.

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MAIN STREET TRUST, INC. AND SUBSIDIARIES  
Supplemental Disclosure of Cash Flow Information  
For the Nine Months Ending September 30, 2005 and 2004  
(Unaudited, in thousands)

	2005	2004
	-----	-----
Cash paid during the year for:		
Interest	\$ 18,051	\$ 11,649
Income taxes	7,145	5,131
Real estate acquired through or in lieu of foreclosure	-	40
Dividends declared not paid	2,250	1,984
Acquisition of Citizens First Financial Corporation:		
Stock issued	27,804	
Cash paid	28,416	
Capitalized expenses	621	
	-----	
Total cost of acquisition	56,841	
	=====	
Assets acquired:		
Cash and due from banks	6,022	
Federal funds sold and interest bearing deposits	16,630	
	-----	
Cash and cash equivalents	22,652	
Investments in debt and equity securities:		



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Available-for-sale, at fair value	23,865
Non-marketable equity securities	16,374
Loans, net of allowance for loan losses	228,114
Mortgage loans held for sale	282
Premises and Equipment	5,993
Accrued interest receivable	1,571
Goodwill	20,832
Core deposit intangibles	5,222
Other assets	6,288
Liabilities assumed:	
Deposits	(232,089)
Federal Home Loan Bank advances and other borrowings	(37,599)
Accrued interest payable	(193)
Other liabilities	(4,471)
	-----
Net assets acquired	56,841
	=====

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

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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, 2004, and schedules in the Main Street Trust, Inc.'s Form 10-K filed on March 15, 2005.

In the opinion of management, the consolidated financial statements of Main Street Trust, Inc. and its subsidiaries, as of September 30, 2005 and for the three-month and nine-month periods ended September 30, 2005 and 2004, include all adjustments necessary for a fair presentation of the results of those periods. All such adjustments, outside of those related to the business combination discussed in Note 2, are of a normal recurring nature.

Results of operations for the three-month and nine-month periods ended September 30, 2005 are not necessarily indicative of the results which may be expected for the year ended December 31, 2005.

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

Certain amounts in the 2004 consolidated financial statements have been reclassified to conform with the 2005 presentation. Such reclassifications have no effect on previously reported net income or shareholders' equity.

Note 2. Company Information/Business Combination

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Main Street Trust, Inc. (the "Company"), an Illinois corporation, is a bank holding company registered under the Bank Holding Company Act of 1956, as amended. The Company was incorporated on August 12, 1999, and is the parent company of Main Street Bank & Trust and FirsTech, Inc. 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 March 23, 2000, the Company acquired all of the outstanding stock of BankIllinois, The First National Bank of Decatur, First Trust Bank of Shelbyville and FirsTech, Inc. following the merger of BankIllinois Financial Corporation and First Decatur Bancshares, Inc. into the Company. The merger, which was accounted for as a pooling of interests, was completed on March 23, 2000. The Company subsequently merged the Company's former banking subsidiary, First Trust Bank of Shelbyville, into BankIllinois effective June 19, 2002. On November 10, 2004, the Company merged BankIllinois and The First National Bank of Decatur into BankIllinois and renamed the bank Main Street Bank & Trust.

On April 1, 2005, the Company acquired all of the outstanding stock of Citizens First Financial Corp. ("Citizens"), which was the parent company of Citizens Savings Bank, based in Bloomington, Illinois. The transaction has been accounted for as a purchase. Assets and liabilities related to the acquisition of Citizens are reported as of the April 2005 acquisition date. Results of operations of Citizens since the acquisition date have been included in the Company's consolidated financial statements. The Company merged Citizens Savings Bank into Main Street Bank & Trust as of the close of business on October 7, 2005. The Citizens acquisition purchase price of approximately \$56.841 million was allocated based upon the fair value of the assets and liabilities acquired. The Citizens excess purchase price has been allocated to goodwill and identifiable intangible assets in accordance with current accounting literature, to the extent that supportable documentation was available at September 30, 2005. Such amounts are subject to minor adjustments in the near term as additional analysis is performed or obtained from third party sources. \$5.222 million was allocated to core deposit intangibles at acquisition and is being amortized over a period of six years.

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Proforma unaudited operating results for the nine months ended September 30, 2005 and 2004, giving effect to the Citizens acquisition as if it had occurred as of January 1, 2004 are as follows:

	2005	2004
-----		
(in thousands, except per share data)		
Interest Income	\$ 59,806	\$ 54,001
Interest Expense	20,579	17,716
Net Income	13,800	12,954
Basic EPS	1.38	1.25
Diluted EPS	1.36	1.23

These unaudited proforma results have been prepared for comparative purposes only and include certain adjustments, such as additional amortization expense on revalued purchased assets and implied interest on additional borrowings to fund the acquisition. In addition, 2005 merger related expenses were reallocated to a period prior to the pro forma dates presented. All

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adjustments were tax effected. They do not purport to be indicative of the results of operations that actually would have resulted had the combination occurred on January 1, 2004 or of future results of operations of the consolidated entities.

### Note 3. Income per Share

-----

Net income per common share has been computed as follows:

	Nine Months Ended		Three Months Ended	
	September 30,		September 30,	
	2005	2004	2005	2004
Net Income	\$ 13,811,000	\$ 11,216,000	\$ 5,151,000	\$ 3,555,000
Shares:				
Weighted average common shares outstanding	10,014,234	9,491,827	10,248,453	9,460,495
Dilutive effect of outstanding options, as determined by the application of the treasury stock method	97,354	115,925	93,194	112,875
Weighted average common shares outstanding, as adjusted	10,111,588	9,607,752	10,341,647	9,573,370
Basic earnings per share	\$ 1.38	\$ 1.18	\$ 0.50	\$ 0.38
Diluted earnings per share	\$ 1.37	\$ 1.17	\$ 0.50	\$ 0.37

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### Note 4: Stock Option Plans

-----

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

	Nine Months Ended		Three Months Ended	
	September 30,		September 30,	
	2005	2004	2005	2004
Net income on common stock:				

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As reported	\$ 13,811	\$ 11,216	\$ 5,151	\$ 3,555
Deduct total stock-based compensation expense determined under the fair value method for all awards, net of related tax effects	(274)	(280)	(92)	(86)
Pro forma	\$ 13,537	\$ 10,936	\$ 5,059	\$ 3,469
=====				
Basic earnings per share:				
As reported	\$ 1.38	\$ 1.18	\$ 0.50	\$ 0.38
Pro forma	1.35	1.15	0.49	0.37
Diluted earnings per share:				
As reported	\$ 1.37	\$ 1.17	\$ 0.50	\$ 0.37
Pro forma	1.34	1.14	0.49	0.36

The fair value of the stock options granted has been estimated using the Black-Scholes option - pricing model with the following weighted average assumptions. The Black-Scholes option-pricing model was developed for use in estimating the fair value of the traded options, which have no vesting restrictions. In addition, such models require the use of subjective assumptions, including expected stock price volatility. In management's opinion, such valuation models may not necessarily provide the best single measure of option value.

	Nine Months Ended	
	September 30,	
	2005	2004
	-----	
Number of options granted	137,500	140,500
Risk-free interest rate	3.83% - 4.08%	3.94%
Expected life, in years	7.00 - 8.00	8.00
Expected volatility	15.05% - 15.42%	15.95%
Expected dividend yield	2.97% - 3.06%	2.75%

### Note 5. Commitments and Financial Instruments

-----

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

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

The following table summarizes these financial instruments and commitments (in thousands) at September 30, 2005 and 2004:

	September 30,	
	2005	2004
	-----	

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Financial instruments whose contract amounts represent credit risk:

Commitments	\$ 272,011	\$ 285,407
Standby letters of credit	29,685	22,896

The acquisition of Citizens resulted in an additional \$21.351 million in commitments and \$549,000 in additional standby letters of credit at April 1, 2005.

The majority of commitments are agreements to extend credit to a customer as long as there is no violation of any condition established in the contract. Commitments, principally variable interest rates, generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. For commitments to extend credit, the Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation. Collateral held varies, but may include accounts receivable; inventory; property, plant and equipment; and income-producing commercial properties. Also included in commitments at September 30, 2005 was \$2.330 million to purchase other equity securities.

Standby letters of credit are conditional commitments issued by the Banks to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements and, generally, have terms of one year or less. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Banks may hold collateral, which include accounts receivables, inventory, property and equipment, and income producing properties, supporting those commitments, if deemed necessary. In the event the customer does not perform in accordance with the terms of the agreement with the third party, the Banks would be required to fund the commitment. The maximum potential amount of future payments the Banks could be required to make is represented by the contractual amount shown in the summary above. If the commitment is funded, the Bank would be entitled to seek recovery from the customer. At September 30, 2005 and 2004, no amounts had been recorded as liabilities for the Banks' potential obligations under these guarantees.

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

-----  
Financial Condition  
-----

Assets and Liabilities  
-----

Total assets increased \$305.301 million, or 24.9%, to \$1.533 billion at September 30, 2005 compared to \$1.228 billion at December 31, 2004. Increases in loans, federal funds sold and interest bearing deposits, goodwill, non-marketable equity securities, cash and due from banks, other assets, premises and equipment, core deposit intangibles, accrued interest receivable and mortgage loans held for sale were partially offset by decreases in investments in debt and equity securities available for sale and investments in debt and equity securities held to maturity. Most of the change in total assets

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was attributable to the acquisition of Citizens. On April 1, 2005, Citizens total assets were \$331.193 million.

Cash and due from banks increased \$9.387 million, or 28.3%, to \$42.520 million at September 30, 2005 compared to \$33.133 million at December 31, 2004. The Citizens acquisition contributed \$6.022 million to the increase in cash and due from banks.

Federal funds sold and interest bearing deposits increased \$38.530 million, or 121.2%, to \$70.325 million at September 30, 2005 compared to \$31.795 million at December 31, 2004. The Citizens acquisition contributed \$16.630 million. Federal funds sold and interest bearing deposits fluctuate with loan demand, deposit volume and investment opportunities.

Total investments in debt and equity securities decreased \$24.150 million, or 6.7%, to \$334.576 million at September 30, 2005 compared to \$358.726 million at December 31, 2004. Included in the change were decreases of \$40.665 million, or 15.1%, in investments in securities available for sale and \$361,000, or 0.4%, in securities held to maturity offset somewhat by an increase of \$16.876 million, or 211.4%, in non-marketable equity securities. Included in the increase in non-marketable equity securities was \$16.374 million of FHLB Stock owned by Citizens on April 1, 2005. The Citizens acquisition contributed \$23.865 million of investments in securities available for sale. Investments fluctuate with loan demand, deposit volume and investment opportunities.

Loans, net of allowance for loan losses, increased \$239.598 million, or 31.5%, to \$1.001 billion at September 30, 2005 from \$761.227 million at December 31, 2004. The Citizens acquisition contributed \$228.114 million to the increase in loans.

Mortgage loans held for sale increased \$968,000, or 96.3%, to \$1.973 million at September 30, 2005 compared to \$1.005 million at December 31, 2004. The Citizens acquisition contributed \$282,000 to the increase.

Premises and equipment increased \$5.277 million, or 30.9%, from \$17.087 million at December 31, 2004 to \$22.364 million at September 30, 2005. The increase included the acquisition of Citizens which contributed \$5.993 million and purchases of \$1.197 million offset somewhat by depreciation and amortization expense of \$1.901 million, loss on disposal of property of \$9,000 and proceeds from sale of property of \$3,000.

Total liabilities increased \$275.047 million, or 24.7%, to \$1.389 billion at September 30, 2005 from \$1.114 billion at December 31, 2004. There were increases in all categories of liabilities as the acquisition of Citizens contributed \$274.352 million to total liabilities.

Total deposits increased \$207.249 million, or 21.3%, to \$1.182 billion at September 30, 2005 from \$974.577 million at December 31, 2004. Interest bearing deposits increased \$168.214 million, or 21.0%, to \$969.883 million at September 30, 2005 from \$801.669 million at December 31, 2004. Non-interest bearing deposits increased \$39.035 million, or 22.6%, to \$211.943 million at September 30, 2005 from \$172.908 million at December 31, 2004. At the time of acquisition, Citizens added \$203.593 million of interest bearing deposits and \$28.496 million of non-interest bearing deposits. The Company expected interest bearing deposits to decrease during the first quarter of 2005 due to an outflow of short-term deposits attributable to the Company's Wealth Management division which had grown approximately \$43 million during the second half of 2004.

Federal funds purchased, repurchase agreements and notes payable increased \$20.230 million, or 20.9%, to \$117.130 million at September 30, 2005 from \$96.900 million at December 31, 2004. Included in this change was an increase of

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\$20.555 million in repurchase agreements, offset slightly by a decrease of \$325,000 in federal funds purchased.

Federal Home Loan Bank advances and other borrowings increased \$41.600 million, or 139.2%, to \$71.482 million at September 30, 2005 compared to \$29.882 million at December 31, 2004. The increase included \$37.599 million from the acquisition of Citizens.

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### Investment Securities

The carrying value of investments in debt and equity securities was as follows for September 30, 2005 and December 31, 2004:

Carrying Value of Securities <sup>1</sup>		
(in thousands)		
	September 30, 2005	December 31, 2004
<hr/>		
Available-for-sale:		
Federal agencies	\$ 194,444	\$ 218,994
Mortgage-backed securities	16,829	27,713
State and municipal	14,547	16,715
Marketable equity securities	3,095	6,158
	-----	-----
Total available-for-sale	\$ 228,915	\$ 269,580
Held-to-maturity:		
Federal agencies	\$ 38,710	\$ 40,931
Mortgage-backed securities	17,249	14,992
State and municipal	24,844	25,241
	-----	-----
Total held-to-maturity	\$ 80,803	\$ 81,164
<hr/>		
Non-marketable equity securities:		
Federal Home Loan Bank stock	\$ 21,250	\$ 4,279
Other equity investments	3,608	3,703
	-----	-----
Total non-marketable equity securities	\$ 24,858	\$ 7,982
<hr/>		
Total investment securities	\$ 334,576	\$ 358,726
<hr/>		

<sup>1</sup>Investment securities available-for-sale are carried at fair value. Investment securities held-to-maturity are carried at amortized cost.

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The following table shows the maturities and weighted-average yields of investment securities at September 30, 2005. All securities are shown at their contractual maturity.

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

-----  
September 30, 2005

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	1 year or less		1 to 5 years		5 to 10 years		Over 1 years
	Amount	Rate	Amount	Rate	Amount	Rate	Amount
-----							
Securities available- for-sale:							
Federal agencies	\$61,379	2.50%	\$131,606	3.22%	\$ 1,459	4.72%	\$ -
Mortgage-backed securities <sup>1</sup>	\$ 9,284	3.66%	\$ 6,847	4.88%	\$ 681	6.33%	\$ 17
State and municipal (TE) <sup>2</sup>	\$ 1,767	6.33%	\$ 8,612	5.67%	\$ 3,689	7.68%	\$ 479
Marketable equity securities <sup>3</sup>	\$ -	-	\$ -	-	\$ -	-	\$ -
-----							
Total	\$72,430		\$147,065		\$ 5,829		\$ 496
-----							
Average Yield		2.75%		3.44%		6.78%	
=====							
Securities held- to-maturity:							
Federal agencies	\$11,145	2.63%	\$ 22,840	3.04%	\$ 4,725	3.85%	\$ -
Mortgage-backed securities <sup>1</sup>	\$ 5,675	3.05%	\$ 11,177	4.58%	\$ 87	5.06%	\$ 310
State and municipal (TE) <sup>2</sup>	\$ 7,870	5.34%	\$ 16,619	5.58%	\$ 195	7.31%	\$ 160
-----							
Total	\$24,690		\$ 50,636		\$ 5,007		\$ 470
-----							
Average Yield (TE) <sup>2</sup>		3.59%		4.21%		4.00%	
=====							
Non-marketable equity securities <sup>3</sup> :							
Federal Home Loan Bank stock	\$ -	-	\$ -	-	\$ -	-	\$ -
Other equity investments	\$ -	-	\$ -	-	\$ -	-	\$ -
-----							
Total	\$ -	-	\$ -	-	\$ -	-	\$ -
=====							

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

<sup>2</sup>The average yield has been tax equivalized (TE) on state and municipal tax-exempt securities.

<sup>3</sup>Due to the nature of these securities, they do not have a stated maturity date or rate.

Continuous gross unrealized losses of investments in debt and equity securities (in thousands) which are classified as temporary were as follows:

Continuous unrealized losses existing for less than 12 months	Continuous unrealized losses existing greater than 12 months
---	--



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	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value
Available-for-Sale:					
Federal agencies	\$ 36,870	\$ (309)	\$ 138,401	\$ (2,712)	\$
Mortgage-backed securities	21,005	(143)	8,212	(158)	
State and municipal	2,439	(41)	1,097	(10)	
Subtotal, debt securities	\$ 60,314	\$ (493)	\$ 147,710	\$ (2,880)	\$
Other equity securities	599	(108)	331	(289)	
Total temporarily impaired securities	\$ 60,913	\$ (601)	\$ 148,041	\$ (3,169)	\$
Held-to-Maturity:					
Federal agencies	\$ 1,566	\$ (26)	\$ 36,310	\$ (807)	\$
Mortgage-backed securities	10,677	(120)	5,617	(59)	
State and municipal	8,048	(49)	1,379	(10)	
Total temporarily impaired securities	\$ 20,291	\$ (195)	\$ 43,306	\$ (876)	\$

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. In estimating other-than-temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

The \$3.169 million continuous unrealized loss greater than 12 months on available-for-sale securities at September 30, 2005 was made up of thirty-seven debt securities and four other securities which are common stocks and was believed to be a temporary loss. Common stocks represented \$289,000 of the continuous unrealized loss on available-for-sale securities. Management has analyzed these securities to determine whether an other than temporary loss existed and considered several factors, including, but not limited to, the length of time and the extent to which the market value of the security has been less than cost, the financial condition and near-term prospects of the issuer and the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in market value. The \$876,000 continuous unrealized loss greater than 12 months on held-to-maturity securities was made up of twenty-one debt securities and was believed to be a temporary loss. Unrealized losses on debt securities are generally due to changes in interest rates and, as such, are considered, by the Company, to be temporary. Because of the nature of U.S. Agency securities, most of which are single pay at maturity, and because the Company has the ability to hold these investments until a recovery of market value, which may be maturity, the Company does not consider these investments to be other than temporarily impaired. Because the Company believes the decline in market value of mortgage-backed securities is attributable to changes in interest rates and not credit quality and because the Company has the ability to hold these investments until recovery of market value, the Company did not consider these investments to be other than temporarily impaired.

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Loans

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The following table presents the amounts and percentages of loans at September 30, 2005 and December 31, 2004 according to the categories of commercial, financial and agricultural; commercial real estate; residential real estate; and installment and consumer loans.

	Amount of Loans Outstanding (dollars in thousands)			
	September 30, 2005		December 30,	
	Amount	Percentage	Amount	P
Commercial, financial and agricultural	\$ 319,928	31.54%	\$ 314,657	
Real estate - commercial	465,390	45.87%	309,830	
Real estate - residential	140,898	13.89%	62,464	
Installment and consumer	88,297	8.70%	83,926	
Total loans	\$ 1,014,513	100.00%	\$ 770,877	

The shift in the loan mix from December 31, 2004 to September 30, 2005 was primarily attributable to the acquisition of Citizens.

The balance of loans outstanding as of September 30, 2005 by maturity is shown in the following table:

	Maturity of Loans Outstanding (dollars in thousands)			
	September 30, 2005			
	1 year or less	1 to 5 years	Over 5 years	Total
Commercial, financial and agricultural	\$ 175,035	\$ 92,770	\$ 52,123	\$ 319,928
Real estate - commercial	122,297	183,515	159,578	\$ 465,390
Real estate - residential	35,170	48,328	57,400	\$ 140,898
Installment and consumer	14,452	50,169	23,676	\$ 88,297
Total	\$ 346,954	\$ 374,782	\$ 292,777	\$1,014,513
Percentage of total loans outstanding	34.20%	36.94%	28.86%	100.00%

Capital

-----

Total shareholders' equity increased \$30.254 million from December 31, 2004 to September 30, 2005. Treasury stock transactions were \$24.227 million primarily due to the issuance of treasury stock for the acquisition of Citizens First Financial Corporation, offset somewhat by the purchase of stock under the

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Company's stock repurchase plan. The change in shareholders' equity is summarized as follows:

Shareholders' Equity (in thousands)	
Shareholders' equity, December 31, 2004	\$ 113,975
Net income	13,811
Treasury stock transactions, net	24,227
Cash dividends declared	(6,592)
Other comprehensive income	(1,192)
Shareholders' equity, September 30, 2005	\$ 144,229

On September 20, 2005, the Board of Directors of the Company declared a quarterly cash dividend of \$0.22 per share of the Company's common stock. The dividend of \$2.250 million was paid on October 21, 2005, to holders of record on October 7, 2005.

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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 1 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, 2005, that the Company and its subsidiary banks exceeded all capital adequacy requirements to which they are subject.

As of September 30, 2005, the most recent notifications from primary regulatory agencies categorized 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. Citizens Savings Bank was merged into Main Street Bank & Trust on October 7, 2005.

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:

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	Amount	Ratio	Amount	Ratio	Amount	Ratio
-----						
As of September 30, 2005:						
Total capital						
(to risk-weighted assets)						
Consolidated	\$135,569	12.1%	\$89,959	8.0%	N/A	
Main Street Bank & Trust	\$ 97,025	10.6%	\$73,424	8.0%	\$91,780	10.0%
Citizens Savings Bank	\$ 32,524	16.9%	\$15,414	8.0%	\$19,268	10.0%
Tier I capital						
(to risk-weighted assets)						
Consolidated	\$121,678	10.8%	\$44,980	4.0%	N/A	
Main Street Bank & Trust	\$ 86,775	9.5%	\$36,712	4.0%	\$55,068	6.0%
Citizens Savings Bank	\$ 30,102	15.6%	\$7,707	4.0%	\$11,561	6.0%
Tier I capital						
(to average assets)						
Consolidated	\$121,678	8.1%	\$60,442	4.0%	N/A	
Main Street Bank & Trust	\$ 86,775	7.2%	\$48,329	4.0%	\$60,412	5.0%
Citizens Savings Bank	\$ 30,102	10.3%	\$11,711	4.0%	\$14,639	5.0%

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Interest Rate Sensitivity

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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, 2005:

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

	1-30 Days	31-90 Days	91-180 Days	181-365 Days	Ov 1 y
-----					
Interest earning assets:					
Federal funds sold and interest bearing deposits	\$ 70,325	\$ -	\$ -	\$ -	\$ -
Debt and equity securities 1	30,692	27,076	5,863	49,880	22,000
Loans 2	350,972	61,627	51,530	87,822	46,000
-----					
Total earning assets	\$451,989	\$ 88,703	\$ 57,393	\$137,702	\$68,000
-----					
Interest bearing liabilities:					

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Savings and interest bearing demand deposits	\$ 51,830	\$ 1,803	\$ 2,580	\$ 5,161	\$19
Money market savings deposits	248,353	-	-	-	15
Time deposits	42,679	71,489	89,730	103,879	
Federal funds purchased, repurchase agreements, and notes payable	91,941	3,140	11,775	10,274	
FHLB advances and other borrowings	14,575	21,000	18,144	8,225	
<b>Total interest bearing liabilities</b>	<b>\$449,378</b>	<b>\$ 97,432</b>	<b>\$122,229</b>	<b>\$127,539</b>	<b>\$36</b>
<b>Net asset (liability) funding gap</b>	<b>2,611</b>	<b>(8,729)</b>	<b>(64,836)</b>	<b>10,163</b>	<b>32</b>
Repricing gap	1.01	0.91	0.47	1.08	
Cumulative repricing gap	1.01	0.99	0.89	0.92	

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

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

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

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

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At September 30, 2005, the Company was slightly asset sensitive in the 1-30 days category, but somewhat liability sensitive in the 1- 90 days category. As such, the effect of an increase 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 \$26,000 in the 1-30 days category, but would decrease annualized net interest income by approximately \$61,000 in the 1-90 days category assuming no management intervention. A decrease in interest rates would have the opposite effect for the same time periods. The Company's Asset and Liability Management Policy states that the cumulative ratio of rate-sensitive assets ("RSA") to rate-sensitive liabilities ("RSL") for the 12-month period should fall within the range of 0.75-1.25. As of September 30, 2005, the Company's RSA/RSL was 0.92, which was within the established guidelines.

In addition to managing interest rate sensitivity and liquidity through the

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use of gap reports, the Company has provided for emergency liquidity situations with informal agreements with correspondent banks that permit the Company to borrow federal funds on an unsecured basis. Additionally, at September 30, 2005 the Company had a \$15 million unsecured line of credit with a correspondent bank, of which \$3.5 million was outstanding and due in 2006. The Company also has sufficient capacity to permit it to borrow funds from the Federal Home Loan Bank on a secured basis (refer to the Liquidity and Cash Flows section that follows for additional information).

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, 2005 and December 31, 2004 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, 2005	10.5%	5.2%	(5.5%)	(11.2%)
December 31, 2004	10.3%	5.1%	(5.1%)	(10.3%)

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

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

### Liquidity and Cash Flows

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The Company was able to meet liquidity needs during the first nine months

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of 2005. A review of the consolidated statement of cash flows included in the accompanying financial statements shows that the Company's cash and cash equivalents increased \$47.917 million from December 31, 2004 to September 30, 2005.

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

The increase in cash and cash equivalents came from cash provided by investing and operating activities, offset somewhat by cash used in financing activities. There were differences in sources and uses of cash during the first nine months of 2005 compared to the first nine months of 2004. Cash provided by investing activities during the first nine months of 2005 was \$43.040 million compared to cash used of \$63.969 million during the same period in 2004, primarily due to differences in investments in debt and equity securities and volume of loan growth. Cash provided by investing activities during the first nine months of 2005 was \$63.183 million compared to cash used of \$1.817 million during the same period in 2004. In 2005, proceeds of \$211.014 million from maturities, calls and sales of debt and equity securities, principal paydowns on mortgage-backed securities and return of equity on other equity securities were offset somewhat by cash used to purchase debt and equity securities of \$147.831 million. In 2004, purchases of debt and equity securities were \$238.496 million compared to proceeds of \$236.679 million from maturities, calls and sales of debt and equity securities, principal paydowns on mortgage-backed securities and return of principal on other equity securities. Also contributing to the difference in investing activities was the difference in loan growth during these two periods. Cash used to fund loan growth during the first nine months of 2005 was \$12.564 million compared to \$61.081 million during the same period in 2004. In addition, \$6.385 million was used to fund the acquisition of Citizens in 2005. Cash was provided by operating activities during the first nine months of both 2005 and 2004.

Cash used by financing activities during the first nine months of 2005 was \$10.606 million compared to cash provided of \$75.222 million during the same period in 2004, primarily due to a decrease in deposits at the Company's Main Street Bank & Trust subsidiary during the first nine months of 2005 compared to an increase during the same period in 2004. The Company expected deposits to decrease during the first half of 2005 due to a planned outflow of short-term deposits attributable to the Company's Wealth Management division which had grown approximately \$43 million during the second half of 2004. The decrease in deposits was offset somewhat by an increase in federal funds purchased, repurchase agreements and notes payable during the first nine months of 2005 of \$20.230 million, mainly as a result of an increase in repurchase agreements compared to a decrease of \$8.304 million in federal funds purchased, repurchase agreements and notes payable during the same period in 2004 primarily due to a decrease in repurchase agreements. Cash provided by Federal Home Loan Bank advances and other borrowings of \$34.500 million during the first nine months of 2005 was used mainly as a source of working capital and \$30.499 million was repaid during the year. During the first nine months of 2004, there were no Federal Home Loan Bank advances and other borrowings and \$78,000 in payments.

On April 1, 2005, the Company borrowed \$6 million, to be repaid within 3 years, to fund a portion of the Citizens acquisition cost. In addition, the Company negotiated an increase of its \$10 million line of credit from a third party lender to \$15 million and immediately advanced \$4 million. As of September 30, 2005, the Company had \$3.5 million outstanding on its \$15 million line of credit which is due in 2006. The Company's future short-term cash requirements are expected to be provided by maturities and sales of investments, sales of

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loans and deposits. If current sources of liquidity cannot provide needed cash in the future, the Company can obtain long-term funds from several sources, including, but not limited to, utilizing the Company's remaining \$11.5 million line of credit from a third party lender, FHLB borrowings and brokered CDs. To meet short-term liquidity needs, the Company is able to borrow funds on a temporary basis from the Federal Reserve Bank, the FHLB and correspondent banks. With sound capital levels, the Company continues to have several options for longer-term cash needs, such as for future expansion and acquisitions.

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### Critical Accounting Policies

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

### Provision and Allowance for Loan Losses

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The provision for loan losses is based on management's evaluation of the loan portfolio in light of national and local economic conditions, changes in the composition and volume of the loan portfolio, changes in the volume of past due and nonaccrual loans, and other relevant factors. The allowance for loan losses, which is reported as a deduction from loans, is available for loan charge-offs. The allowance is increased by the provision charged to expense and is reduced by loan charge-offs net of loan recoveries. The allowance is allocated between the commercial, financial and agricultural; commercial real estate; residential real estate; and installment and consumer loan portfolios according to the historical losses experienced in each of these portfolios as well as the current level of watch list loans and nonperforming loans for each portfolio. Loans for which borrower cash flow and the estimated liquidation value of collateral are inadequate to repay the total outstanding balance are evaluated separately and assigned a specific allocation. The unallocated portion of the allowance is determined by economic conditions and other factors mentioned above. The balance of the allowance for loan losses was \$13.688 million at September 30, 2005 compared to \$9.650 million at December 31, 2004, an increase of \$4.038 million. Of this increase, \$3.434 million was attributable to the acquisition of Citizens. Net charge-offs were \$476,000 and provisions totaled \$1.080 million during the first nine months of 2005. The allowance for loan losses as a percentage of gross loans, including loans held-for-sale, was 1.35% at September 30, 2005, compared to 1.25% at December 31, 2004. Gross loans, including loans held-for-sale, increased 31.7% to \$1.016 billion at September 30, 2005 from \$771.882 million at December 31, 2004. Of this increase, \$231.830 million was attributable to the acquisition of Citizens.

One measure of the adequacy of the allowance for loan losses is the ratio of the allowance to nonperforming loans. The allowance for loan losses as a percentage of nonperforming loans was 298.3% at September 30, 2005 compared to 431.6% at December 31, 2004. Nonperforming loans increased from \$2.236 million at December 31, 2004 to \$4.589 million at September 30, 2005. The \$2.353 million increase in nonperforming loans during the first nine months of 2005 resulted from a \$1.740 million increase in nonaccrual loans and an increase of \$613,000 in loans past due 90 days or more. Of these increases, the acquisition of



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Citizens resulted in an additional \$446,000 in nonaccrual loans. Other increases in nonaccruals included the addition of two commercial credits that totaled \$892,000. Increases in retail mortgage loan and home equity lines of credit made up the bulk of the remaining increase in nonaccrual and 90-day delinquencies. Management believes that nonperforming and potential problem loans are appropriately identified and monitored based on the extensive loan analysis performed by the credit administration department, the internal loan committees and the board of directors. Historically, there have not been a significant amount of loans charged off which had not been previously identified as problem loans by the credit administration department or the loan committees.

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.

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### Allowance for Loan Losses (dollars in thousands)

	September 30, 2005	September
Allowance for loan losses at beginning of year	\$ 9,650	\$ 9
Allocation for loan losses attributable to acquisition of Citizens	3,434	
Charge-offs during period:		
Commercial, financial and agricultural	\$ (161)	\$
Commercial real estate	-	
Residential real estate	(2)	
Installment and consumer	(547)	
Total	\$ (710)	\$ (1
Recoveries of loans previously charged off:		
Commercial, financial and agricultural	\$ 17	\$
Commercial real estate	5	
Residential real estate	-	
Installment and consumer	212	
Total	\$ 234	\$
Net (charge-offs) recoveries	\$ (476)	\$
Provision for loan losses	1,080	
Allowance for loan losses at end of quarter	\$ 13,688	\$ 9
Ratio of net charge-offs to average net loans	(0.05)%	(

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

### Allocation of the Allowance for Loan Losses (in thousands)

September 30, 2005      December 31, 2004

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Allocated:

Commercial, financial and agricultural	\$ 5,388	\$ 5,289
Commercial real estate	5,137	1,637
Residential real estate	437	198
Installment and consumer	1,512	1,605
Total allocated allowance	\$ 12,474	\$ 8,729
Unallocated allowance	1,214	921
Total	13,688	9,650

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, 2005	December 31, 2004
Nonaccrual loans <sup>1</sup>	\$ 3,429	\$ 1,689
Loans past due 90 days or more	\$ 1,160	\$ 547
Restructured loans	\$ 369	\$ 497

<sup>1</sup>Includes \$1.100 million at September 30, 2005 and \$509,000 at December 31, 2004 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 Impairments of a Loan" (SFAS 114).

### Other Nonperforming Assets (dollars in thousands)

	September 30, 2005	December 31, 2004
Other real estate owned	\$ 40	\$ -
Nonperforming other assets	\$ 50	\$ 33

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### Results of Operations

#### Results of Operations for the Nine Months Ended September 30, 2005

Net income for the first nine months of 2005 was \$13.811 million, a \$2.595 million, or 23.1%, increase from \$11.216 million for the same period in 2004. This increase included \$1.318 million of net income generated by Citizens since the acquisition. Basic earnings per share increased \$0.20, or 16.9%, to \$1.38 per share in the first nine months of 2005 from \$1.18 per share in the first nine months of 2004. Diluted earnings per share increased \$0.20, or 17.1%, to \$1.37 per share in the first nine months of 2005 from \$1.17 per share in the first nine months of 2004.

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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,					
-----					
	2005			2004	
	Average Balance	Interest	Rate	Average Balance	Int
-----					
<b>Assets</b>					
Taxable investment securities <sup>1</sup>	\$ 318,483	\$ 9,269	3.89%	\$ 328,765	\$ 7,100
Tax-exempt investment securities <sup>1</sup> (TE)	39,948	1,778	5.95%	47,467	2,100
Federal funds sold and interest bearing deposits <sup>2</sup>	42,069	1,252	3.98%	33,754	1,100
Loans <sup>3,4</sup> (TE)	922,896	43,972	6.37%	702,101	30,000
-----					
Total interest earning assets and interest income (TE)	\$ 1,323,396	\$ 56,271	5.68%	\$ 1,112,087	\$ 41,300
-----					
Cash and due from banks	\$ 44,024			\$ 46,102	
Premises and equipment	20,685			17,196	
Other assets	46,980			23,664	
-----					
Total assets	\$ 1,435,085			\$ 1,199,049	
=====					
<b>Liabilities and Shareholders' Equity</b>					
Interest bearing demand deposits	\$ 75,254	\$ 374	0.66%	\$ 96,018	\$ 1,100
Savings	408,827	4,652	1.52%	333,124	2,100
Time deposits	429,171	9,845	3.07%	352,729	7,100
Federal funds purchased, repurchase agreements, and notes payable	113,738	2,128	2.50%	98,827	1,100
FHLB advances and other borrowings	57,292	1,985	4.63%	29,936	1,100
-----					
Total interest bearing liabilities and interest expense	\$ 1,084,282	\$ 18,984	2.34%	\$ 910,634	\$ 12,500
-----					
Noninterest bearing demand deposits	\$ 131,058			\$ 100,120	
Noninterest bearing savings deposits	71,095			65,430	
Other liabilities	14,584			10,113	
-----					
Total liabilities	\$ 1,301,019			\$ 1,086,297	
Shareholders' equity	134,066			112,752	
-----					
Total liabilities and shareholders' equity	\$ 1,435,085			\$ 1,199,049	
=====					

Interest spread (average rate earned)

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minus average rate paid) (TE)	3.34%	
=====		
Net interest income (TE)	\$ 37,287	\$28
=====		
Net yield on interest earnings assets (TE)	3.77%	
=====		

See next page for Notes 1-4.

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### Notes to Consolidated Average Balance Sheet and Interest Rates Tables:

1Investments in debt securities are included at carrying value. Income from venture capital funds of approximately \$1.586 million and \$36,000 in 2005 and 2004, respectively, is included in interest income from taxable investment securities. Due to the nature of venture capital investments, future results cannot be predicted based on past performance.

2Federal funds sold and interest bearing deposits included approximately \$149,000 in 2005 and \$45,000 in 2004 of interest income from third party processing of cashier checks.

3Loans are net of allowance for loan losses and include mortgage loans held-for-sale. Nonaccrual loans are included in the total.

4Loan fees of approximately \$1.000 million and \$1.082 million in 2005 and 2004, respectively, are included in total loan income.

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

#### Analysis of Volume and Rate Changes (in thousands)

-----			
Nine Months Ended September 30, 2005			
-----			
	Increase (Decrease) from		
	Previous	Due to	Due to
	Year	Volume	Rate
-----			

Interest Income

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Taxable investment securities	\$ 1,296	\$ (402)	\$ 1,698
Tax-exempt investment securities (TE)	(413)	(339)	(74)
Federal funds sold and bearing earning deposits	913	102	811
Loans (TE)	13,393	10,287	3,106
-----			
Total interest income (TE)	\$ 15,189	\$ 9,648	\$ 5,541
-----			
Interest Expense			
Interest bearing demand and savings deposits	\$ 2,187	\$ 400	\$ 1,787
Time deposits	2,495	1,697	798
Federal funds purchased, repurchase agreements and notes payable	1,235	152	1,083
FHLB advances and other borrowings	783	1,062	(279)
-----			
Total interest expense	\$ 6,700	\$ 3,311	\$ 3,389
-----			
Net Interest Income (TE)	\$ 8,489	\$ 6,337	\$ 2,152
=====			

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Net interest income on a tax equivalent basis was \$8.489 million, or 29.5%, higher for the first nine months of 2005 compared to the same period of 2004. Total tax-equivalent interest income was \$15.189 million, or 37.0%, higher in 2005 compared to 2004, and interest expense increased \$6.700 million, or 54.5%. The increase in tax-equivalent interest income and interest expense was due to increases in average volume and higher rates.

The increase in total tax-equivalent interest income was due to an increase in interest income from loans, taxable investment securities, and federal funds sold and interest bearing deposits, offset somewhat by a decrease in interest income from tax-exempt investment securities. The increase in interest income from loans was due to an increase in volume coupled with higher rates. The increase in interest income from taxable investment securities was due to higher rates, offset somewhat by lower volume. The increase in interest income on federal funds sold and interest earning deposits was primarily due to higher rates. The decrease in interest income from tax-exempt investment securities was primarily due to lower volume.

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

The provision for loan losses recorded was \$1.080 million during the first nine months of 2005 compared to \$990,000 during the same period in 2004. The provision during both periods was based on management's analysis of the loan portfolio, as discussed in the provision for loan losses section above.

Noninterest Income and Expense  
for the Nine Months Ended  
September 30, 2005 and 2004  
(in thousands)

Non-interest Income	09/30/2005	09/30/2004	\$ change	% change
---------------------	------------	------------	-----------	----------

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Remittance processing 1	\$ 5,144	\$ 5,635	\$ (491)	(8.7%)
Trust and brokerage fees 2	5,805	4,831	974	20.2%
Service charges on deposit accounts 3	2,129	1,820	309	17.0%
Securities transactions, net 4	(450)	139	(589)	(423.7%)
Gain on sales of mortgage loans, net	726	777	(51)	(6.6%)
Other	2,017	2,075	(58)	(2.8%)
Total non-interest income	\$15,371	\$ 15,277	\$ 94	0.6%

Non-interest Expense	09/30/2005	09/30/2004	\$ change	% change
Salaries and employee benefits 5	\$17,325	\$ 13,978	\$3,347	23.9%
Occupancy 6	2,293	1,968	325	16.5%
Equipment	1,955	1,886	69	3.7%
Data processing	1,669	1,633	36	2.2%
Office supplies	906	887	19	2.1%
Service charges from correspondent banks 7	389	652	(263)	(40.3%)
Amortization of core deposit intangibles 8	435	-	435	
Other 9	4,342	3,953	389	9.8%
Total non-interest expense	\$29,314	\$ 24,957	\$4,357	17.5%

1 The decrease in remittance processing income was primarily due to a \$839,000, or 45.1%, decrease in income from lockbox fees, offset somewhat by a \$376,000, or 10.0%, increase in electronic processing income at the Company's remittance processing subsidiary, FirsTech. The decrease in lockbox fees was mainly due to the loss of two major accounts in the fourth quarter of 2004. This decrease was offset somewhat by an increase in electronic processing revenue from new and existing Internet Agent customers. These changes continue to demonstrate the Company's shift toward electronic processing from traditional lockbox services.

2 The increase in trust and brokerage fees included a \$377,000, or 255.8%, increase in farm realty income, a \$285,000, or 120.5%, increase in estate fees and an \$88,000, or 31.9%, increase in brokerage income. The increase in farm realty income included approximately \$238,000 in commissions attributable to the sale of several properties in the third quarter of 2005. The increase in estate fees was primarily due to one estate that began producing revenue during the first quarter of 2005. The increase in brokerage income was due to prospecting new customers and the timing of revenue from new customers prospected in prior periods.

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3 The increase in income from service charges on deposit accounts was due to \$513,000 generated by the Citizens accounts, offset somewhat by a \$204,000, or 11.2%, decrease at Main Street Bank & Trust.

4 The decrease in income from securities transactions, net, was primarily due to a \$566,000 net loss recognized on one venture fund, offset somewhat by a net gain of \$103,000 on the sale of equity securities during the first nine months of 2005.

5 In 2005, salaries and benefits included \$2.135 million attributable to additional employees as a result of the acquisition of Citizens and \$307,000 in additional salaries and benefits expense attributable to the new branch in Peoria, Illinois that became fully operational in the fourth quarter of 2004.

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6 In 2005, occupancy expense included \$312,000 attributable to the expenses of operating Citizens.

7 The decrease in service charges from correspondent banks was largely due to the loss of two lockbox accounts as described in footnote 1, which resulted in a significant decrease in the number of checks cleared in the first nine months of 2005 compared to the same period in 2004.

8 Amortization of core deposit intangibles was attributable to the acquisition of Citizens.

9 Included in other non-interest expense in 2005 compared to 2004 was \$448,000 attributable to Citizens.

Income tax expense increased \$1.683, or 27.4%, during the first nine months of 2005 compared to the same period in 2004. The effective tax rate increased to 36.2% during the first nine months of 2005 from 35.4% during the same period in 2004.

### Results of Operations For the Three Months Ended September 30, 2005

Net income for the third quarter of 2005 was \$5.151 million, a \$1.596 million, or 44.9%, increase from \$3.555 million for the same period in 2004. Basic earnings per share increased \$0.12, or 31.6%, to \$0.50 per share during the third quarter of 2005 from \$0.38 per share during the same period in 2004. Diluted earnings per share increased \$0.13, or 35.1%, to \$0.50 during the third quarter of 2005 from \$0.37 per share during the same period in 2004.

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.

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

	Three Months Ended September 30,			
	2005			
	Average Balance	Interest	Rate	Ave Bal
<b>Assets</b>				
Taxable investment securities <sup>1</sup>	\$ 321,759	\$ 3,664	4.52%	\$ 3
Tax-exempt investment securities <sup>1</sup> (TE)	38,274	569	5.90%	
Federal funds sold and interest bearing deposits <sup>2</sup>	40,413	439	4.31%	
Loans <sup>3,4</sup> (TE)	1,007,078	16,648	6.56%	7
<hr style="border-top: 1px dashed black;"/>				
Total interest earning assets and interest income (TE)	\$ 1,407,524	\$21,320	6.01%	\$ 1,1

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Cash and due from banks	\$ 48,848			\$ 4
Premises and equipment	22,483			1
Other assets	58,708			2
<hr/>				
Total assets	\$ 1,537,563			\$1,22
<hr/>				
Liabilities and Shareholders' Equity				
Interest bearing demand deposits	\$ 75,062	\$ 169	0.89%	\$ 1
Savings	425,355	1,912	1.78%	3
Time deposits	472,397	3,787	3.18%	3
Federal funds purchased, repurchase agreements, and notes payable	117,852	870	2.93%	
FHLB advances and other borrowings	71,828	812	4.49%	
<hr/>				
Total interest bearing liabilities and interest expense	\$ 1,162,494	\$ 7,550	2.58%	\$ 9
<hr/>				
Noninterest bearing demand deposits	\$ 137,956			\$ 1
Noninterest bearing savings deposits	76,923			
Other liabilities	16,364			
<hr/>				
Total liabilities	\$ 1,393,737			\$ 1,1
Shareholders' equity	143,826			1
<hr/>				
Total liabilities and shareholders' equity	\$ 1,537,563			\$ 1,2
<hr/>				
Interest spread (average rate earned minus average rate paid) (TE)			3.43%	
<hr/>				
Net interest income (TE)		\$13,770		
<hr/>				
Net yield on interest earnings assets (TE)			3.88%	
<hr/>				

See next page for Notes 1-4.

Notes to Consolidated Average Balance Sheet and Interest Rate Tables:

1Investments in debt securities are included at carrying value. Income from venture capital funds of approximately \$1.045 million and \$26,000 in 2005 and 2004, respectively, is included in interest income from taxable investment securities. Due to the nature of venture capital investments, future results cannot be predicted based on past performance.

2Federal funds sold and interest bearing deposits included approximately \$66,000 and \$15,000 in 2005 and 2004, respectively, of interest income from third party processing of cashier checks.

3Loans are net of allowance for loan losses and include mortgage loans held-for-sale. Nonaccrual loans are included in the total.



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4Loan fees of approximately \$339,000 and \$383,000 in 2005 and 2004, respectively, are included in total loan income.

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

Analysis of Volume and Rate Changes  
(in thousands)

-----			
Three Months Ended September 30, 2005			
-----			
	Increase (Decrease) from	Due to	Due to
	Previous	Volume	Rate
	Year		
-----			
Interest Income			
Taxable investment securities	\$ 1,104	\$ (757)	\$ 1,861
Tax-exempt investment securities (TE)	(116)	(91)	(25)
Federal funds sold and interest earning deposits	288	19	269
Loans (TE)	6,139	4,595	1,544
-----			
Total interest income (TE)	\$ 7,415	\$ 3,766	\$ 3,649
-----			
Interest Expense			
Interest bearing demand and savings deposits	\$ 947	\$ 100	\$ 847
Time deposits	1,278	902	376
Federal funds purchased, repurchase agreements and notes payable	534	111	423
FHLB advances and other borrowings	407	846	(439)
-----			
Total interest expense	\$ 3,166	\$ 1,959	\$ 1,207
-----			
Net Interest Income (TE)	\$ 4,249	\$ 1,807	\$ 2,442
=====			

Net interest income on a tax equivalent basis was \$4.249 million, or 44.6%, higher for the third quarter of 2005 compared to the third quarter of 2004. Total tax-equivalent interest income was \$7.415 million, or 53.3%, higher in 2005 compared to 2004, while interest expense increased \$3.166 million, or 72.2%. The increase in interest income and interest expense was due to an increase in both rates and volume.

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The increase in total tax equivalent interest income was due to increases in interest income from loans, taxable investment securities and federal funds sold and interest earning deposits, offset slightly by a decrease in interest income from tax-exempt investment securities. The increase in interest income from loans was primarily due to an increase in volume. The increase in interest income from federal funds sold and interest earning deposits was primarily due to an increase in rates during the third quarter of 2005 compared to the same period in 2004. The increase in interest income from taxable investment securities was due to an increase in rates, offset somewhat by a decrease in volume. The decrease in interest income from tax-exempt investment securities was due to decreases in both rates and volume.

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The increase in total interest expense was due to increases in interest expense on all categories of interest bearing liabilities. The increases in interest expense on time deposits was primarily due to an increase in volume. The increase in interest expense from interest bearing demand and savings deposits, and federal funds purchased, repurchase agreements and notes payable was primarily due to an increase in rates during the third quarter of 2005 compared to the same period in 2004. The increase in interest expense from FHLB advances and other borrowings was due to an increase in volume, offset slightly by lower rates.

The provision for loan losses recorded was \$450,000 in the third quarter of 2005 compared to \$330,000 in the third quarter of 2004, an increase of 36.4%. The provision during both periods was based on management's analysis of the loan portfolio, as discussed in the provision and allowance for loan losses section above.

### Noninterest Income and Expense for the Three Months Ended September 30, 2005 and 2004 (in thousands)

Non-interest Income	09/30/2005	09/30/2004	\$ change	% chan
Remittance processing	\$ 1,741	\$ 1,820	\$ (79)	(4.
Trust and brokerage fees 1	2,153	1,544	609	39.
Service charges on deposit accounts 2	820	619	201	32.
Securities transactions, net 3	(485)	133	(618)	(464.
Gain on sales of mortgage loans, net 4	329	229	100	43.
Other 5	740	613	127	20.
Total non-interest income	\$ 5,298	\$ 4,958	\$ 340	6.
Non-interest Expense	09/30/2005	09/30/2004	\$ change	% chan
Salaries and employee benefits 6	\$ 6,097	\$ 4,727	\$ 1,370	29.
Occupancy 7	824	685	139	20.
Equipment 8	674	606	68	11.
Data processing	566	546	20	3.
Office supplies 9	319	270	49	18.
Service charges from correspondent banks 10	134	194	(60)	(30.
Amortization of core deposit intangibles 11	217	-	217	
Other	1,480	1,414	66	4.
Total non-interest expense	\$ 10,311	\$ 8,442	\$ 1,869	22.

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1 The increase in trust and brokerage fees was mainly due to a \$379,000, or 2,587.1%, increase in farm realty fees, a \$93,000, or 126.0% increase in estate fees, and a \$52,000, or 145.9% increase in income from employee benefits administration. Included in the increase in farm realty income was approximately \$238,000 in commissions from the sale of several properties in the third quarter of 2005. The increase in estate fees was primarily due to one estate that began producing revenue during the first quarter of 2005.

2 The increase in income from service charges on deposit accounts was due to \$259,000 as a result of the Citizens acquisition, offset somewhat by a \$58,000, or 9.4%, decrease at Main Street Bank & Trust.

3 The decrease in securities transactions, net, was due to a \$395,000 loss recognized on one venture fund and a net loss of \$91,000 on the sale of several equity securities in the third quarter of 2005.

4 The increase in gains on sales of mortgage loans reflected a \$10.897 million, or 70.7%, increase in funded mortgages held-for-sale, from \$15.423 million in the third quarter of 2004 to \$26.320 million in the third quarter of 2005. The volume of funded mortgage loans increased mainly due to more demand for refinancings in the third quarter of 2005 compared to the same period in 2004.

5 The increase in other non-interest income in the third quarter of 2005 included \$81,000 attributable to the acquisition of Citizens and income of approximately \$58,000 in proceeds from two life insurance policies.

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6 The increase in salaries and benefits in the third quarter of 2005 included \$1.055 million attributable to additional employees as a result of the acquisition of Citizens.

7 The increase in occupancy expense in the third quarter of 2005 included \$173,000 attributable to the expense of operating Citizens.

8 Equipment expense in the third quarter of 2005 included \$87,000 attributable to the expense of operating Citizens.

9 Office supplies expense in the third quarter of 2005 included \$74,000 attributable to the expense of operating Citizens.

10 The decrease in service charges from correspondent banks in the third quarter of 2005 was largely due to the loss of two lockbox accounts as described in footnote 1, which resulted in a significant decrease in the number of checks cleared in the third quarter of 2005 compared to the same period in 2004.

11 Amortization of core deposit intangibles was attributable to the acquisition of Citizens.

Income tax expense increased \$1.042 million, or 54.6%, during the third quarter of 2005 compared to the same period in 2004. The effective tax rate increased to 36.4% during the third quarter of 2005 from 34.9% in the third quarter of 2004.

### Business Segment Information

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The Company currently operates in two industry segments. The primary business involves providing banking services in central Illinois to both

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business and individual customers. These services include demand, savings, time and individual retirement accounts; commercial, commercial real estate, consumer (including automobile loans and personal lines of credit), agricultural, and residential real estate lending; safe deposit and night depository services; purchases of installment obligations from retailers, primarily without recourse; farm management; full service trust department that offers a wide range of services such as investment management, acting as trustee, serving as guardian, executor or agent, miscellaneous consulting, and brokerage services offered through a third-party arrangement with Raymond James Financial Services. The other industry segment involves retail payment processing. FirsTech provides the following services to electric, water and gas utilities, telecommunication companies, cable television firms and charitable organizations: retail lockbox processing of payments delivered by mail on behalf of the biller; processing of payments delivered by customers to pay agents such as grocery stores, convenience stores and currency exchanges; and concentration of payments delivered by the Automated Clearing House network, money management software such as Quicken and through networks such as Visa e-Pay and MasterCard RPS.

Company information is provided for informational purposes only, since it is not considered a separate segment for reporting purposes. During 2004, certain administrative, audit, compliance, accounting, finance, property management, human resources, sales management and marketing, courier, information systems and other support services were performed by the Company. The net expenses of these functions were allocated to the subsidiaries by charging a monthly management fee. Effective January 1, 2005, these functions were moved to the Banking Services Segment. During this process, approximately 77 full time equivalent employees were moved from the Company to Main Street Bank & Trust. The net expenses of these functions are allocated to the Company and FirsTech by charging a monthly management fee.

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The following table quantifies the Company's business segment information for the nine-months ended September 30, 2005 and 2004:

As of and for the Nine Months Ended:	Banking Services	Remittance Services	Company	Eliminations	Total
<hr/>					
September 30, 2005					
Total interest income	\$ 53,846	\$ 10	\$ 1,821	\$ (39)	\$ 55,638
Total interest expense	18,813	-	210	(39)	18,984
Provision for loan losses	1,080	-	-	-	1,080
Total non-interest income	11,372	5,253	(456)	(798)	15,371
Total non-interest expense	25,988	3,194	930	(798)	29,314
Income before income tax	19,337	2,069	225	-	21,631
Income tax expense	6,871	870	79	-	7,820
Net income	12,466	1,199	146	-	13,811
Total assets	1,517,540	3,296	157,292	(144,709)	1,533,419
Depreciation and amortization	1,573	288	40	-	1,901
September 30, 2004					
Total interest income	\$ 40,196	\$ 15	\$ 172	\$ (76)	\$ 40,307
Total interest expense	12,309	-	51	(76)	12,284
Provision for loan losses	990	-	-	-	990
Total non-interest income	9,732	5,696	3,529	(3,680)	15,277
Total non-interest expense	20,009	3,905	4,723	(3,680)	24,957
Income before income tax	16,620	1,806	(1,073)	-	17,353

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Income tax expense	5,810	759	(432)	-	6,137
Net income	10,810	1,047	(641)	-	11,216
Total assets	1,221,464	4,730	119,906	(106,502)	1,239,598
Depreciation and amortization	1,142	471	301	-	1,914

### Emerging Accounting Standards

In December 2004, the Financial Accounting Standards Board published Statement No. 123 (revised 2004), Share-Based Payment ("FAS 123(R)"). FAS 123(R) requires that the compensation cost relating to share-based payment transactions, including grants of employee stock options and shares under employee stock purchase plans, be recognized in financial statements. That cost will be measured based on the fair value of the equity or liability instruments issued. FAS 123(R) permits entities to use any option-pricing model that meets the fair value objectives in the Statement. The Statement was originally effective at the beginning of the Company's third quarter in 2005, however, in April 2005 the adoption of a new rule, by the Securities and Exchange Commission, changed the dates for compliance with this standard. The Company will now be required to implement Statement No. 123(R) beginning January 1, 2006.

As of the effective date, the Company will have the option of applying the Statement using the modified prospective application or a modified retrospective application. Under the prospective method, compensation cost would be recognized for (1) all awards granted after the required effective date and for awards modified, cancelled or repurchased after that date and (2) the portion of prior awards for which the requisite service has not yet been rendered, based on the grant-date fair value of those awards calculated for pro forma disclosures under SFAS 123. Under the retrospective application method, compensation cost would be recognized as in (1) above and (2) for prior periods would be restated consistent with the pro forma disclosures required for those periods by SFAS 123. The valuation model and amortization assumption we have used continues to be available, but we have not yet completed our assessment of the alternatives.

The impact of this Statement on the Company after the effective date and beyond will depend upon various factors, among them being the future compensation strategy. The SFAS 123 pro forma compensation costs presented in Note 4 to the financial statements have been calculated using the Black-Scholes option-pricing model and may not be indicative of amounts which should be expected in future periods.

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

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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.

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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 on the operations and future prospects of the Company and its subsidiaries include, but are not limited to, the following:

- o The strength of the United States economy in general and the strength of the local economies in which the Company conducts its operations which may be less favorable than expected and may result in, among other things, a deterioration in the credit quality and value of the Company's assets.
- o The economic impact of past and any future terrorist attacks, acts of war or threats thereof, and the response of the United States to any such threats and attacks.
- o The effects of, and changes in, federal, state and local laws, regulations and policies affecting banking, securities, insurance and monetary and financial matters.
- o The effects of changes in interest rates (including the effects of changes in the rate of prepayments of the Company's assets) and the policies of the Board of Governors of the Federal Reserve System.
- o The ability of the Company to compete with other financial institutions as effectively as the Company currently intends due to increases in competitive pressures in the financial services sector.
- 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.
- 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, the Financial Accounting Standards Board or the Public Company Accounting Oversight 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

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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.

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### Item 3. Quantitative and Qualitative Disclosures about Market Risk

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See the "Interest Rate Sensitivity" section above.

### Item 4. Controls and Procedures

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An evaluation was performed under the supervision and with the participation of the Company's management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) promulgated under the Securities and Exchange Act of 1934, as amended) as of September 30, 2005. Based on that evaluation, the Company's management, including the Chief Executive Officer and Chief Financial Officer, concluded that the Company's disclosure controls and procedures were effective. There have been no significant changes in the Company's disclosure controls or its internal controls over financial reporting, or in other factors that could significantly affect the disclosure controls or the Company's internal control over financial reporting.

## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings

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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. Unregistered Sales of Equity Securities and Use of Proceeds

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#### Issuer Purchases of Equity Securities

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Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs 1	(d) Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs 1
July 1 - July 31, 2005	19,100	\$ 28.71	19,100	278,600
August 1 - August 31, 2005	21,555	\$ 29.02	21,555	257,045
September 1 -				

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September 30, 2005	6,733	\$ 29.03	6,733	250,312
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Total	47,388	\$ 28.89	47,388	250,312
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1 On October 27, 2003, the Company announced that its Board of Directors had reinstated the Stock Repurchase Program allowing the purchase of up to 500,000 shares of the Company's outstanding stock. The program will expire when the Company repurchases all of the shares covered.

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Item 3. Defaults Upon Senior Securities

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None

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

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None

Item 5. Other Information

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None

Item 6. Exhibits

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- 31.1 Certification of Chief Executive Officer Pursuant to Rule 13-a-14(a)/15d-14(a)
  - 31.2 Certification of Chief Financial Officer Pursuant to Rule 13-a-14(a)/15d-14(a)
  - 32.1 Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
  - 32.2 Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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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.



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MAIN STREET TRUST, INC.

Date: November 8, 2005

By: /s/David B. White

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

By: /s/Van A Dukeman

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Van A. Dukeman, President  
And Chief Executive Officer