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

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended June 30, 2002

Commission File Number: 0-30031

MAIN STREET TRUST, INC.
(Exact name of Registrant as specified in its charter)

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

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

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

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

Indicate the number of shares outstanding of the registrant's common stock, as of August 7, 2002.

Main Street Trust, Inc. Common Stock	10,501,787

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	June 30, 2002
ASSETS	
Cash and due from banks	$ 60,589
Federal funds sold and interest earning deposits	3,603
Investments in debt and equity securities:	
Available-for-sale, at fair value	248,846
Held-to-maturity, at cost (fair value of $55,048 and $64,727 at June 30, 2002 and December 31, 2001, respectively)	53,391
Non-marketable equity securities	6,079
Mortgage loans held for sale	2,131
Loans, net of allowance for loan losses of $9,401 and $9,259 at June 30, 2002 and December 31, 2001, respectively	680,661
Premises and equipment	18,928
Accrued interest receivable	7,631
Other assets	13,447
Total assets	$ 1,095,306

LIABILITIES AND SHAREHOLDERS' EQUITY

Liabilities:	
Deposits:	
Demand, non-interest bearing	$ 111,491
Demand, interest bearing	98,144
Savings	291,015
Time, $100 and over	129,718
Other time	231,074
Total deposits	861,442
Federal funds purchased, repurchase agreements and notes payable	55,182
Federal Home Loan Bank advances and other borrowings	37,839
Accrued interest payable	2,785
Other liabilities	9,093
Total liabilities	966,341
Shareholders' equity:	
Preferred stock, no par value; 2,000,000 shares authorized	--
Common stock, $0.01 par value; 15,000,000 shares authorized; 11,219,319 and 11,111,281 shares issued at June 30, 2002 and December 31, 2001, respectively	112
Paid in capital	55,347
Retained earnings	87,065
Accumulated other comprehensive income	2,975
	145,499
Less: treasury stock, at cost, 711,832 and 267,783 shares at June 30, 2002 and December 31, 2001, respectively	(16,534)
Total shareholders' equity	128,965
Total liabilities and shareholders' equity	$ 1,095,306

See accompanying notes to unaudited consolidated financial statements.

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MAIN STREET TRUST, INC. AND SUBSIDIARIES
Consolidated Statements of Income
For the Six Months Ended June 30, 2002 and 2001
(Unaudited, in thousands, except share data)

	2002	2001
Interest income:		
Loans and fees on loans	$ 24,382	$ 28,349
Investments in debt and equity securities		
Taxable	6,455	7,186
Tax-exempt	1,194	1,107
Federal funds sold and interest earning deposits	196	1,235
Total interest income	32,227	37,877
Interest expense:		
Demand, savings, and other time deposits	7,400	12,996
Time deposits $100 and over	2,325	2,776

Federal funds purchased, repurchase agreements and notes payable	649	1,482
Federal Home Loan Bank advances and other borrowings	993	1,171
Total interest expense	11,367	18,425
Net interest income	20,860	19,452
Provision for loan losses	660	610
Net interest income after provision for loan losses	20,200	18,842
Non-interest income:		
Remittance processing	3,786	3,320
Trust and brokerage fees	2,882	2,647
Service charges on deposit accounts	1,150	1,037
Securities transactions, net	290	219
Gain on sales of mortgage loans, net	395	315
Other	955	811
Total non-interest income	9,458	8,349
Non-interest expense:		
Salaries and employee benefits	9,851	8,813
Occupancy	1,161	1,125
Equipment	1,362	1,571
Data processing	1,238	861
Office supplies	634	787
Service charges from correspondent banks	483	439
Other	2,368	2,393
Total non-interest expense	17,097	15,989
Income before income taxes	12,561	11,202
Income taxes	4,108	3,470
Net income	$ 8,453	$ 7,732
Per share data:		
Basic earnings per share	$ 0.77	$ 0.70
Weighted average shares of common stock outstanding	11,045,188	10,972,701
Diluted earnings per share	$ 0.76	$ 0.69
Weighted average shares of common stock and dilutive potential common shares outstanding	11,110,716	11,174,324

See accompanying notes to unaudited consolidated financial statements.

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

	2002	2001
Net income	$ 8,453	$ 7,732

Other comprehensive income, before tax:		
Unrealized gains on securities:		
Unrealized holding gains arising during period, net of tax1 of $476 and $1,059 for June 30, 2002 and 2001, respectively	399	2,057
Less: reclassification adjustment for (gains) losses included in net income, net of tax1 of $(116) and $(74), for June 30, 2002 and 2001, respectively	(174)	(145)
Other comprehensive income, net of tax	225	1,912
Comprehensive income	$ 8,678	$ 9,644

See accompanying notes to unaudited consolidated financial statements.

1 During the second quarter of 2002, the Company's tax rate used to calculate deferred taxes on investment securities was increased to reflect a change in the tax position of the Company.

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

	2002	2001
Interest income:		
Loans and fees on loans	$ 12,195	$ 14,113
Investments in debt and equity securities		
Taxable	3,130	3,504
Tax-exempt	594	564
Federal funds sold and interest earning deposits	101	575
Total interest income	16,020	18,756
Interest expense:		
Demand, savings, and other time deposits	3,485	6,240
Time deposits $100 and over	1,233	1,346
Federal funds purchased, repurchase agreements and notes payable	323	703
Federal Home Loan Bank advances and other borrowings	499	557
Total interest expense	5,540	8,846
Net interest income	10,480	9,910
Provision for loan losses	330	375
Net interest income after provision for loan losses	10,150	9,535
Non-interest income:		
Remittance processing	1,837	1,660
Trust and brokerage fees	1,429	1,370
Service charges on deposit accounts	596	553
Securities transactions, net	220	142
Gain on sales of mortgage loans, net	176	160
Other	476	377

Total non-interest income	4,734	4,262
Non-interest expense:		
Salaries and employee benefits	5,096	4,297
Occupancy	609	511
Equipment	674	810
Data processing	675	397
Office supplies	293	398
Service charges from correspondent banks	247	237
Other	1,335	1,273
Total non-interest expense	8,929	7,923
Income before income taxes	5,955	5,874
Income taxes	1,912	1,810
Net income	$ 4,043	$ 4,064
Per share data:		
Basic earnings per share	$ 0.37	$ 0.37
Weighted average shares of common stock outstanding	11,028,764	10,956,848
Diluted earnings per share	$ 0.36	$ 0.36
Weighted average shares of common stock and dilutive potential common shares outstanding	11,107,133	11,162,617

See accompanying notes to unaudited consolidated financial statements.

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

	2002	2001
Net income	$ 4,043	$ 4,064
Other comprehensive income, before tax:		
Unrealized gains on securities:		
Unrealized holding gains arising during period, net of tax1 of $1,169 and $460 for June 30, 2002 and 2001, respectively	1,708	895
Less: reclassification adjustment for (gains) losses included in net income, net of tax1 of $(92) and $(48) for June 30, 2002 and 2001, respectively	(128)	(94)
Other comprehensive income, net of tax	1,580	801
Comprehensive income	$ 5,623	$ 4,865

See accompanying notes to unaudited consolidated financial statements.

1 During the second quarter of 2002, the Company's tax rate used to calculate deferred taxes on investment securities was increased to reflect a change in the tax position of the Company.

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

	2002	2001
Cash flows from operating activities:		
Net income	$ 8,453	$ 7,732
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,321	1,429
(Accretion) amortization of bond discounts and premiums, net	548	(228)
Provision for loan losses	660	610
Securities transactions, net	(290)	(219)
Gain on sales of mortgage loans, net	(395)	(315)
Federal Home Loan Bank stock dividend	(89)	(105)
Proceeds from sales of mortgage loans originated for sale	45,411	39,402
Mortgage loans originated for sale	(38,372)	(44,731)
Other, net	(962)	(2,244)
Net cash provided by operating activities	16,285	1,331
Cash flows from investing activities:		
Net increase in loans	(8,499)	(4,917)
Proceeds from maturities and calls of investments in debt securities:		
Held-to-maturity	1,791	26,956
Available-for-sale	51,866	42,337
Proceeds from sales of investments:		
Available-for-sale	43,122	68,737
Purchases of investments in debt and equity securities:		
Held-to-maturity	(575)	(17,493)
Available-for-sale	(80,720)	(111,351)
Other equity securities	(880)	(500)
Principal paydowns from mortgage-backed securities:		
Held-to-maturity	9,157	4,179
Available-for-sale	3,730	1,372
Principal paydowns on other equity securities	31	31
Purchases of premises and equipment	(977)	(892)
Net cash provided by investing activities	18,046	8,459
Cash flows from financing activities:		
Net decrease in deposits	(22,667)	(37,184)
Net (decrease) increase in federal funds purchased, repurchase agreements, and notes payable	(30,025)	8,445
Advances from Federal Home Loan Bank and other borrowings	12,977	5,000
Payments on Federal Home Loan Bank and other borrowings	(10,033)	(5,053)
Cash dividends paid	(2,906)	(2,197)
Issuance of new shares of common stock, net	1,222	--
Treasury stock transactions, net	(14,086)	(961)
Net cash used in financing activities	(65,518)	(31,950)
Net decrease in cash and cash equivalents	(31,187)	(22,160)
Cash and cash equivalents at beginning of year	95,379	84,139

Cash and cash equivalents at end of period	$ 64,192	$ 61,979
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Interest	$ 11,972	$ 18,879
Income taxes	4,741	5,338
Real estate acquired through or in lieu of foreclosure	239	--
Dividends declared not paid	1,366	1,146

See accompanying notes to unaudited consolidated financial statements.

MAIN STREET TRUST, INC. AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements

Note 1. Basis of Presentation

The accompanying unaudited consolidated financial statements for Main Street Trust, Inc. have been prepared in accordance with the instructions to Form 10-Q and therefore do not include all information and footnotes necessary for fair presentation of financial position, results of operations, and cash flows in conformity with accounting principles generally accepted in the United States of America. These financial statements should be read in conjunction with the audited consolidated financial statements and related notes as of and for the year ended December 31, 2001, and schedules included in Main Street Trust, Inc.'s. Form 10-K filed on March 20, 2002.

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

Results of operations for the three-month and six-month periods ended June 30, 2002 are not necessarily indicative of the results which may be expected for the year ended December 31, 2002.

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

Certain amounts in the 2001 consolidated financial statements have been reclassified to conform with the 2002 presentation. Such reclassifications have no effect on previously reported net income.

Note 2. Company Information/Business Combination

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

The Company operates 17 banking centers and is the parent company of

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

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

On April 23, 2002, the Company commenced a tender offer to acquire up to 1,200,000 of its shares of common stock at a price of $23.00 per share. The tender offer was completed on June 7, 2002 with 711,832 shares, representing approximately 6.3% of the total shares outstanding, repurchased at a cost, including expenses, of $16.534 million.

Note 3. New Accounting Rules and Regulations

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

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Note 4. Income per Share

Net income per common share has been computed as follows:

	Six Month Ended June 30,		Three Months Ended June 30,	
	2002	2001*	2002	2001*
Net Income	$ 8,453,000	$ 7,732,000	$ 4,043,000	$ 4,064,000
Shares:				
Weighted average common shares outstanding	11,045,188	10,972,701	11,028,764	10,956,848
Dilutive effect of outstanding options, as determined by the application of the treasury stock method	65,528	201,623	78,369	205,769
Weighted average common shares outstanding, as adjusted	11,110,716	11,174,324	11,107,133	11,162,617
Basic earnings per share	$ 0.77	$ 0.70	$ 0.37	$ 0.37
Diluted earnings per share	$ 0.76	$ 0.69	$ 0.36	$ 0.36

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

Assets and Liabilities

Total assets decreased $56.205 million, or 4.9%, to $1.095 billion at June 30, 2002 compared to $1.152 billion at December 31, 2001. Increases in loans, other assets and non-marketable equity securities were offset by decreases in all other asset categories.

Cash and due from banks decreased $27.306 million, or 31.1%, to $60.589 million at June 30, 2002 compared to $87.895 million at December 31, 2001, due to a smaller dollar amount of deposit items in process of collection at June 30, 2002 compared to December 31, 2001.

Federal funds sold and interest earning deposits decreased $3.881 million, or 51.9%, to $3.603 million at June 30, 2002 compared to $7.484 million at December 31, 2001. Federal funds sold and interest earning deposits fluctuate with loan demand and deposit volume.

Total investments in debt and equity securities decreased $27.106 million, or 8.1%, to $308.316 million at June 30, 2002 compared to $335.422 million at December 31, 2001. Investments in securities available-for-sale decreased $17.650 million, or 6.6%, and investments in debt and equity securities held-to-maturity decreased $10.427 million, or 16.3%, at June 30, 2002 compared to December 31, 2001. Slightly offsetting these decreases was an increase in non-marketable equity securities of $0.971 million, or 19.0%, for the same period. Investments fluctuate with loan demand and deposit volume.

Mortgage loans held for sale decreased $6.644 million, or 75.7%, to $2.131 million at June 30, 2002 compared to $8.775 million at December 31, 2001. Although interest rates continue to be low and demand good, the volume of mortgage loans during the first half of 2002 decreased compared to the increased volume during the fourth quarter of 2001.

Loans, net of allowance for loan losses, increased $7.600 million, or 1.1% to $680.661 million at June 30, 2002 from $673.061 million at December 31, 2001. An increase in real estate loans of $34.632 million, or 10.9%, was partially offset by decreases in commercial, financial and agricultural loans of $15.566 million, or 6.3%, and installment and consumer loans of $11.324 million, or 9.5%, at June 30, 2002 compared to December 31, 2001.

Premises and equipment decreased $0.331 million, or 1.7%, from $19.259 million at December 31, 2001 to $18.928 million at June 30, 2002. The decrease was caused by depreciation expense of $1.308 million offset by purchases of $0.977 million.

Other assets increased $2.722 million, or 25.4%, from $10.725 million at December 31, 2001 to $13.447 million at June 30, 2002. Included in this increase was a $1 million receivable for a US Treasury Note that had matured on June 30th and was collected on July 1st, as well as other real estate owned of $0.239 million at June 30, 2002 compared to $0 at December 31, 2001.

Total liabilities decreased $49.177 million, or 4.8%, to $966.341 million at June 30, 2002 from $1.016 billion at December 31, 2001. Decreases in federal funds purchased, repurchase agreements and notes payable, total deposits, and accrued interest payable were slightly offset by an increase in Federal Home

Loan Bank advances and other borrowings and other liabilities.

Total deposits decreased $22.667 million, or 2.6%, to $861.442 million at June 30, 2002 from $884.109 million at December 31, 2001. Decreases in deposits included $21.915 million, or 16.4%, in non-interest bearing demand deposits, $13.097 million, or 11.8%, in interest bearing demand deposits, $10.324 million, or 7.4%, in time deposits $100,000 and over, and $0.508 million, or 0.2%, in other time. Somewhat offsetting these decreases was an increase of $23.177 million, or 8.7%, in savings deposits. The decrease in time deposits $100,000 and over included the maturity of a short-term $25.6 million deposit at the beginning of 2002. Despite the decrease from year-end, total deposits were $58.694 million, or 7.3%, higher than the June 30, 2001 balance of $802.748 million. Much of the shift in deposit volume from both non-interest bearing demand deposits and interest bearing demand deposits into savings deposits was the result of reclassifying additional accounts identified as non-transactional (exhibiting stable balance portions) into the savings category. Current regulations allow this reclassification in order to reduce the balances required to be held at the Federal Reserve Bank in a non-interest bearing reserve account.

Federal funds purchased, repurchase agreements and notes payable decreased $30.025 million, or 35.2%, to $55.182 million at June 30, 2002 compared to $85.207 million at December 31, 2001. Included in this change were decreases of $25.149 million in repurchase agreements, $3.675 million in federal funds purchased and $1.201 million in notes payable.

Federal Home Loan Bank advances and other borrowings increased $2.944 million, or 8.4%, to $37.839 million at June 30, 2002 compared to $34.895 million at December 31, 2001. The Company temporarily borrowed $3 million from a correspondent bank to fund the tender offer. This borrowing is expected to be repaid during the third quarter from dividends received from subsidiary companies.

Other liabilities increased $1.176 million, or 14.9%, to $9.093 million at June 30, 2002 from $7.917 million at December 31, 2001.

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Investment Securities

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

Carrying Value of Securities
(in thousands)

	June 30, 2002	December 30, 2001
Available-for-sale:		
U.S. Treasury	$ 4,496	$ 8,577
Federal agencies	179,035	191,325
Mortgage-backed securities	43,160	28,279
State and municipal	16,462	15,642
Corporate and other obligations	1,006	3,099
Marketable equity securities	4,687	19,574
Total available-for-sale	$248,846	$266,496
Held-to-maturity:		
Federal agencies	$ 1,750	$ 1,750

Mortgage-backed securities	10,657	19,842
State and municipal	40,984	42,226
Total held-to-maturity	$ 53,391	$ 63,818
Non-marketable equity securities:		
FHLB and FRB stock1	$ 3,855	$ 3,766
Other equity investments	2,224	1,342
Total	$ 6,079	$ 5,108
Total investment securities	$308,316	$335,422

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

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

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

June 30, 2002

	1 year or less Amount	Rate	1 to 5 years Amount	Rate	5 to 10 years Amount	Rate	Over 10 years Amount
Securities available-for-sale							
U.S. Treasury	$ 2,446	5.71%	$ 2,050	3.03%	$ --	--	$ --
Federal agencies	$58,525	5.30%	$117,869	4.73%	$ 2,641	6.42%	$ --
Mortgage-backed .... securities 1	$14,755	4.03%	$ 14,059	5.48%	$ 4,403	7.37%	$ 9,943
State and municipal	$ 764	6.63%	$ 8,008	6.41%	$ 5,475	7.55%	$ 2,215
Other securities	$ 1,006	4.26%	$ --	--	$ --	--	$ --
Marketable equity securities	$ --		$ --	--	$ --	--	$ --
Total	$77,496		$141,986		$12,519		$12,158
Average Yield		5.07%		4.88%		7.25%	
Securities held-to-maturity							
Federal agencies	$ 1,750	6.03%	$ --	--	$ --	--	$ --
Mortgage-backed securities1	$ 4,125	5.20%	$ 4,825	6.15%	$ 337	4.20%	$ 1,370
State and municipal	$ 4,859	6.07%	$ 29,218	6.27%	$ 6,907	7.14%	$ --
Total	$10,734		$ 34,043		$ 7,244		$ 1,370
Average Yield		5.73%		6.25%		7.00%	
Non-marketable equity securities2							
FHLB and FRB stock	$ --	--	$ --	--	$ --	--	$ --

Other equity investments	--	--	--	--	--	--	--	
Total	$ --	--	$ --	--	$ --	--	$ --	

Loans

The following tables present the amounts and percentages of loans for June 30, 2002 and December 31, 2001 according to the categories of commercial, financial and agricultural; real estate; and installment and consumer loans.

Amount of Loans Outstanding
(dollars in thousands)

	June 30, 2002		December 31, 2001	
	Amount	Percentage	Amount	Percentage
Commercial, financial and agricultural	$230,476	33.40%	$246,042	36.06%
Real estate	351,325	50.91%	316,693	46.41%
Installment and consumer1	108,261	15.69%	119,585	17.53%
Total loans	$690,062	100.00%	$682,320	100.00%

1 Net of unearned discount

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

Maturity of Loans Outstanding
(dollars in thousands)
June 30, 2002

	1 year or less	1 to 5 years	Over 5 years	Total
Commercial, financial and agricultural	$112,495	$ 96,773	$ 21,208	$230,476
Real estate	40,332	133,695	177,298	351,325
Installment and consumer1	33,593	61,428	13,240	108,261
Total	$186,420	$291,896	$211,746	$690,062
Percentage of total loans outstanding	27.01%	42.30%	30.69%	100.00%

1 Net of unearned discount

Capital

Total shareholders' equity decreased $7.028 million from December 31, 2001 to June 30, 2002. Treasury stock transactions were $14.086 million, primarily due to the completion of the tender offer, offset partially by the exercise of employee stock options. Stock options exercised prior to the completion of the tender offering were fulfilled using existing treasury stock, if available, and through the issuance of new shares. The change is summarized as follows:

	(in thousands)
Shareholders' equity, December 31, 2001	$ 135,993
Net income	8,453
Issuance of new shares of common stock, net	1,222
Treasury stock transactions, net	(14,086)
Stock appreciation rights	(22)
Cash dividends declared	(2,820)
Other comprehensive income	225
Shareholders' equity, June 30, 2002	$ 128,965

On June 18, 2002, the Board of Directors of the Company declared a quarterly cash dividend of $0.13 per share of the Company's common stock. The dividend of $1.366 million was paid on July 19, 2002 to holders of record on July 8, 2002. On April 23, 2002, the Company commenced a tender offer to acquire up to 1,200,000 of its shares of common stock at a price of $23.00 per share. The tender offer was completed on June 7, 2002 with 711,832 shares, representing approximately 6.3% of the total shares outstanding, repurchased at a cost, including expenses, of $16.534 million.

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

Quantitative measures established by regulation to ensure capital adequacy require the Company and its subsidiary banks to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined). Management believes, as of June 30, 2002, that the Company and its subsidiary banks exceeded all capital adequacy requirements to which they are subject.

As of June 30, 2002, the most recent notifications from primary regulatory agencies categorized all the Company's subsidiary banks as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, banks must maintain minimum total capital to risk-weighted assets, Tier I capital to risk-weighted assets, and Tier I capital to average assets ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed any of the Company's subsidiary banks' categories.

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

	Actual	For Capital Adequacy Purposes	To Be Well Capitalized Under Prompt Corrective Action Provisions:

	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of June 30, 2002:						
Total capital						
(to risk-weighted assets)						
Consolidated	$134,754	17.7%	$ 60,797	8.0%	N/A	
BankIllinois	$ 75,159	16.0%	$ 37,493	8.0%	$ 46,867	10.0%
First National Bank of Decatur	$ 49,169	16.6%	$ 23,770	8.0%	$ 29,713	10.0%
Tier I capital						
(to risk-weighted assets)						
Consolidated	$125,262	16.5%	$ 30,398	4.0%	N/A	
BankIllinois	$ 69,332	14.8%	$ 18,747	4.0%	$ 28,120	6.0%
First National Bank of Decatur	$ 45,504	15.3%	$ 11,885	4.0%	$ 17,828	6.0%
Tier I capital						
(to average assets)						
Consolidated	$125,262	11.4%	$ 44,034	4.0%	N/A	
BankIllinois	$ 69,332	10.5%	$ 26,315	4.0%	$ 32,894	5.0%
First National Bank of Decatur	$ 45,504	10.5%	$ 17,262	4.0%	$ 21,578	5.0%

Interest Rate Sensitivity

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

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The following table presents the Company's interest rate sensitivity at various intervals at June 30, 2002:

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 earning deposits	$ 3,603	$ --	$ --	$ --	$
Debt and equity securities 1	7,221	18,331	23,502	33,932	225
Loans 2	168,053	28,217	32,180	51,137	412
Total earning assets	$178,877	$ 46,548	$ 55,682	$ 85,069	$637
Interest bearing liabilities:					
Savings and interest bearing					
demand deposits 3	$ 50,280	$ 1,330	$ 1,996	$ 3,991	$151
Money market savings deposits	142,922	--	--	--	
Time deposits	30,573	45,056	63,649	84,937	136

Federal funds purchased, repurchase agreements, and notes payable	54,181	--	289	127	
FHLB advances and other borrowings	8,000	10,000	2,000	10,138	7
Total interest bearing liabilities	$285,956	$ 56,386	$ 67,934	$ 99,193	$296
Net asset (liability) funding gap	(107,079)	(9,838)	(12,252)	(14,124)	341
Repricing gap	0.63	0.83	0.82	0.86	
Cumulative repricing gap	0.63	0.66	0.69	0.72	

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

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

At June 30, 2002, the Company was liability-sensitive due to the levels of savings and interest bearing demand deposits, short-term time deposits, and short-term borrowings. As such, the effect of a decrease in the interest rate for all interest earning assets and interest bearing liabilities of 100 basis points would increase annualized net interest income by approximately $1.071 million in the 1-30 days category and $1.169 million in the 1-90 days category assuming no management intervention. An increase in interest rates would have the opposite effect for the same time periods.

In addition to managing interest rate sensitivity and liquidity through the use of gap reports, the Company is able to borrow funds on a temporary basis from the Federal Reserve Bank and correspondent banks to meet short-term requirements. Additionally, the Company can borrow approximately $38 million from the Federal Home Bank on a secured basis.

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

The following table shows projected results at June 30, 2002 and December 31, 2001 of the impact on net interest income from an immediate change in interest rates. The results are shown as a percentage change in net interest income over the next twelve months.

	Basis Point Change			
	+200	+100	-100	-200
June 30, 2002	4.0%	2.0%	(2.0%)	(4.1%)
December 31, 2001	4.2%	2.1%	(2.1%)	(3.6%)

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

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

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Liquidity and Cash Flows

The Company was able to meet liquidity needs during the first six months of 2002. A review of the consolidated statements of cash flows included in the accompanying financial statements shows that the Company's cash and cash equivalents decreased $31.187 million from December 31, 2001 to June 30, 2002. This decrease came from cash used in financing activities offset somewhat by cash provided by operating and investing activities.

There were differences in the sources and uses of cash during the first six months of 2002 compared to the first six months of 2001. More cash was provided by operating activities during the first six months of 2002 compared to the same period of 2001. Cash was provided during the first six months of 2002 from net loans originated for sale because proceeds from sales were higher than originated loans, whereas during the first six months of 2001, cash was used by net loans originated for sale because originated loans were higher than proceeds from sales. More cash was provided by investing activities during the first six months of 2002 compared to the first six months of 2001 due to changes in the Company's investment portfolio. During the first six months of 2002, net cash provided by investing activities involving the Company's investment portfolio was $27.522 million compared to $14.268 million during the same period in 2001. More cash was used in financing activities during the first six months of 2002 compared to the first six months of 2001. This was mainly due to a decrease in federal funds purchased, repurchase agreements and notes payable during the first six months of 2002 compared to an increase during the same period in 2001, and an increase in purchases of treasury stock during the first six months of 2002 compared to the same period in 2001, primarily due to the tender offer. These uses of cash were slightly offset by a net source of funds from Federal

Home Loan Bank and other borrowings due to advances exceeding payments during the first half of 2002 compared to the same period in 2001.

Provision and Allowance for Loan Losses

The provision for loan losses is based on management's evaluation of the loan portfolio in light of national and local economic conditions, changes in the composition and volume of the loan portfolio, changes in the volume of past due and nonaccrual loans, and other relevant factors. The allowance for loan losses, which is reported as a deduction from loans, is available for loan charge-offs. The allowance is increased by the provision charged to expense and is reduced by loan charge-offs net of loan recoveries. The allowance is allocated between the commercial, residential real estate and consumer loan portfolios according to the historical losses experienced in each of these portfolios as well as the current level of watch list loans and nonperforming loans for each portfolio. The unallocated portion of the allowance is determined by economic conditions and the other factors mentioned above. The balance of the allowance for loan losses was $9.401 million at June 30, 2002 compared to $9.259 million at December 31, 2001, as net charge-offs were $518,000 and provisions totaled $660,000 during the first six months of 2002. The allowance for loan losses as a percentage of gross loans, including loans held-for-sale, was 1.36% at June 30, 2002, compared to 1.34% at December 31, 2001 as gross loans, including loans held-for-sale, remained fairly stable, increasing slightly to $692.193 million at June 30, 2002 from $691.095 million at December 31, 2001.

The allowance for loan losses as a percentage of nonperforming loans was 274.0% at June 30, 2002. Nonperforming loans decreased from $5.115 million at December 31, 2001 to $3.431 million at June 30, 2002. The $1.684 million decrease in nonperforming loans during the first six months of 2002 was mainly due to a $1.635 million decrease in nonaccrual loans. The decrease in nonaccrual loans was due primarily to the successful resolution and payoff of a $1.727 million agricultural credit. 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 has not been a significant amount of loans charged off which had not been previously identified as problem loans by the credit administration department or the loan committees.

Along with other financial institutions, management shares a concern for the outlook of the economy during the remainder of 2002. A slowdown in economic activity beginning in 2001 severely impacted several major industries as well as the economy as a whole. Even though there are numerous indications of emerging strength, it is not certain that this strength is sustainable. In addition, consumer confidence may be negatively impacted by the recent substantial decline in equity prices. These events could still adversely affect cash flows for both commercial and individual borrowers, as a result of which, the Company could experience increases in problem assets, delinquencies and losses on loans.

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

Allowance for Loan Losses
(dollars in thousands)

	June 30, 2002	June 30, 2001
Allowance for loan losses at		

beginning of year	$ 9,259	$ 8,879
Charge-offs during period:		
Commercial, financial and agricultural	$ (40)	$ (243)
Real estate	(32)	--
Installment and consumer	(671)	(501)
Total	$ (743)	$ (744)
Recoveries of loans previously charged off:		
Commercial, financial and agricultural	$ 124	$ 90
Residential real estate	26	36
Installment and consumer	75	104
Total	$ 225	$ 230
Net (charge-offs) recoveries	$ (518)	$ (514)
Provision for loan losses	660	610
Allowance for loan losses at end of quarter	$ 9,401	$ 8,975
Ratio of net (charge-offs) recoveries to average net loans	(0.08)%	(0.08)%

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

Allocation of the Allowance for Loan Losses

	June 30, 2002	December 31, 2001
Allocated:		
Commercial, financial and agricultural	$5,688	$5,487
Residential real estate	341	419
Installment and consumer	1,907	2,000
Total allocated allowance	$7,936	$7,906
Unallocated allowances	1,465	1,353
Total	$9,401	$9,259

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

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

	June 30, 2002	December 31, 2001
Nonaccrual loans 1	$1,706	$3,341

Loans past due 90 days or more	$1,725	$1,774
Restructured loans 2	$ 58	$ 67

1 Includes $780,000 at June 30, 2002 and $3.216 million at December 31, 2001 of real estate and consumer loans which management does not consider impaired as defined by the Statement of Financial Accounting Standards No. 114, "Accounting by Creditors for Impairment of a Loan" (SFAS 114).

2 Management does not consider restructured loans of $58,000 and $67,000 at June 30, 2002 and December 31, 2001, respectively, to be nonperforming.

Other Nonperforming Assets (dollars in thousands)

	June 30, 2002	December 31, 2001
Other real estate owned	$239	$ --
Nonperforming other assets	$140	$153

Results of Operations

Results of Operations For the Six Months Ended June 30, 2002

Net income for the first six months of 2002 was $8.453 million, a $721,000, or 9.3%, increase from $7.732 million for the same period in 2001. Basic earnings per share increased $0.07, or 10.0%, to $0.77 in the first six months of 2002 from $0.70 in the same period in 2001. Diluted earnings per share increased $0.07, or 10.1%, to $0.76 in the first six months of 2002 from $0.69 during the same period in 2001.

Operating earnings for the six months ended June 30, 2002 were $8.817 million compared to $7.947 million for the same period in 2001, an increase of $870,000, or 10.9%. Basic operating earnings per share increased 11.1% to $0.80 in the first six months of 2002 from $0.72 during the same period in 2001. Diluted operating earnings per share for the six months of 2002 increased 11.3% to $0.79 from $0.71 in the same period in 2001. The difference between operating and net earnings was due to merger and restructuring related expenses, net of tax, of $364,000 during the first half of 2002, compared to $215,000 during the same period in 2001. The 2002 merger and restructuring related expenses consisted of $529,000 of termination of employment contracts, $40,000 of professional fees and $38,000 of data processing expense, offset by $243,000 of tax benefit. The 2001 merger and restructuring related expenses consisted of $70,000 of data processing expense and $256,000 of termination of employment contracts offset by $111,000 of tax benefit.

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

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

	2002			2001	
	Average Balance	Interest	Rate	Average Balance	Intere
Assets					
Taxable investment securities1	$ 267,901	$ 6,455	4.86%	$ 243,223	$ 7,1
Tax-exempt investment securities1 (TE) .	55,179	1,837	6.71%	50,245	1,6
Federal funds sold and interest earning deposits2	20,147	196	1.96%	48,037	1,2
Loans3,4 (TE)	676,729	24,390	7.27%	662,057	28,3
Total interest earning assets and interest income (TE)	$1,019,956	$ 32,878	6.50%	$1,003,562	$38,4
Cash and due from banks	$ 47,655			$ 50,859	
Premises and equipment	19,068			20,724	
Other assets	18,759			20,013	
Total assets	$1,105,438			$1,095,158	
Liabilities and Shareholders' Equity					
Interest bearing demand deposits	$ 101,178	$ 262	0.52%	$ 93,903	$ 1,1
Savings	250,925	2,196	1.76%	228,558	4,0
Time deposits	342,511	7,267	4.28%	363,878	10,5
Federal funds purchased, repurchase agreements, and notes payable	71,629	649	1.83%	71,683	1,4
FHLB advances and other borrowings	35,725	993	5.61%	40,009	1,1
Total interest bearing liabilities and interest expense	$ 801,968	$ 11,367	2.86%	$ 798,031	18,4
Noninterest bearing demand deposits	$ 103,983			$ 113,071	
Noninterest bearing savings deposits ...	48,601			40,743	
Other liabilities	10,717			14,909	
Total liabilities	$ 965,269			$ 966,754	
Shareholders' equity	140,169			128,404	
Total liabilities and shareholders' equity	$1,105,438			$1,095,158	
Interest spread (average rate earned minus average rate paid) (TE)			3.64%		
Net interest income (TE)		$ 21,511			$ 20,0
Net yield on interest earnings assets (TE)			4.25%		

Net interest income, the most significant component of the Company's earnings, is the difference between interest received or accrued on the Company's earning assets - primarily loans and investments - and interest paid or accrued on deposits and borrowings. In order to compare the interest generated from different types of earning assets, the interest income on certain tax-exempt investment securities and loans is increased for analysis purposes to reflect the income tax savings provided by these tax-exempt assets. The adjustment to interest income for tax-exempt investment securities and loans was calculated based on the federal income tax statutory rate of 35% at June 30, 2002, compared to 34% at June 30, 2001. The following table presents, on a tax equivalent (TE) basis, an analysis of changes in net interest income resulting from changes in average volumes of earning assets and interest bearing liabilities and average rates earned and paid. The change in interest due to the combined rate/volume variance has been allocated to rate and volume changes in proportion to the absolute dollar amounts of change in each.

Analysis of Volume and Rate Changes
(in thousands)
Six Months Ended June 30, 2002

	Increase (Decrease) from Previous Year	Due to Volume	Due to Rate
Interest Income			
Taxable investment securities	$ (731)	$ 1,637	$(2,368)
Tax-exempt investment securities (TE)	160	173	(13)
Federal funds sold and interest earning deposits	(1,039)	(502)	(537)
Loans (TE)	(3,991)	1,740	(5,731)
Total interest income (TE)	$(5,601)	$ 3,048	$(8,649)
Interest Expense			
Interest bearing demand and savings deposits1 ..	$(2,733)	$ 1,274	$(4,007)
Time deposits	(3,314)	(591)	(2,723)
Federal funds purchased, repurchase agreements and notes payable	(833)	(1)	(832)
FHLB advances and other borrowings	(178)	(121)	(57)
Total interest expense	$(7,058)	$ 561	$(7,619)
Net Interest Income (TE)	$ 1,457	$ 2,487	$(1,030)

Net interest income on a tax equivalent basis was $1.457 million, or 7.3% higher for the first six months of 2002 compared to 2001. Total tax-equivalent interest income was $5.601 million or 14.6% lower in 2002 compared to 2001, and interest expense decreased $7.058 million, or 38.3%. The decrease in interest income was due to a decrease in rate offset somewhat by an increase in average earnings assets. The decrease in interest expense was due to a decrease in rate offset slightly by an increase in average interest bearing liabilities.

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

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

The provision for loan losses recorded was $660,000 during the first six months of 2002. This was $50,000, or 8.2%, higher than the $610,000 recorded during the first six months of 2001. The provision during both periods was based on management's analysis of the loan portfolio, as discussed in the provision and allowance for loan losses section above.

Total non-interest income increased $1.109 million, or 13.3%, during the first six months of 2002 compared to the first six months of 2001. Included in this increase was an increase of $466,000, or 14.0%, in income from remittance processing. This increase was primarily due to renegotiated contracts, which included restructured pricing for some customers. Income from trust and brokerage fees increased $235,000, or 8.9%, during the first six months of 2002 compared to the same period in 2001. This increase was due, in part, to an increase in assets under management with full investment discretion, which generate higher fee income, and an increase in estate fee income. Other income increased $144,000, or 17.8%, during the first six months of 2002 compared to the same period in 2001. Of this increase, slightly more than one-half was attributable to increases in MasterCard/Visa merchant income and Visa debit interchange fees. Service charges on deposit accounts increased $113,000, or 10.9%, during the first six months of 2002 compared to the same period in 2001. Gains on sales of mortgage loans held-for-sale increased $80,000, or 25.4%, during the first six months of 2002 compared to the same period in 2001. This increase reflected a $6.009 million, or 15.3%, increase in funded mortgage loans held-for-sale during the first six months of 2002 compared to the same period in 2001. This increase was reflective of lower interest rates during the first six months of 2002. Income from securities transactions increased $71,000, or 32.4%, during the first six months of 2002 compared to the same period in 2001.

Total non-interest expense increased $1.108 million, or 6.9%, during the first six months of 2002 compared to the same period in 2001. Of this increase, salaries and employee benefits increased $1.038 million, or 11.8%, in the first six months of 2002 compared to the same period in 2001. Contributing to the increase in salaries and employee benefits was an increase of $273,000 in salaries and benefits related to organizational restructuring that resulted in termination of employment contracts, and an increase of $309,000 in group insurance costs. Data processing expense increased $377,000, or 43.8%, in the first six months of 2002 compared to the same period in 2001. Contributing to this increase was a computer system conversion at the Company's Decatur bank late in the first quarter of 2001 from in-house data processing to third party service bureau data processing, conversion to a new system and a software upgrade at the Company's remittance processing subsidiary FirstTech, costs to merge First Trust Bank of Shelbyville and BankIllinois computer records, as well as more extensive development of the Company's internet services during the first six months of 2002 compared to the same period in 2001. Somewhat offsetting these increases was a decrease of $209,000, or 13.3%, in equipment expense during the first six months of 2002 compared to the same period in 2001. This decrease was due, in part, to conversion to third party service bureau data processing from in-house data processing at the Company's Decatur bank. Office supplies decreased $153,000, or 19.4%, in the first six months of 2002 compared to the first six months of 2001. Included in office supplies expense in 2001 were additional printing and mailing expense to announce a computer system conversion, and additional supplies purchased as a result of the conversion.

Income tax expense increased $638,000, or 18.4%, during the first six months of 2002 compared to the first six months of 2001. The effective tax rate increased to 32.7% during the first six months of 2002 from 31.0% during the same period in 2001. The difference in the effective tax rate was that the 2001 expense was offset by a state net operating loss carry forward that was fully utilized in 2001.

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

Net income for the second quarter of 2002 was $4.043 million, a $21,000, or 0.5%, decrease from $4.064 million for the same period in 2001. Basic earnings per share was $0.37 in both the second quarter of 2002 and the second quarter of 2001. Diluted earnings per share was $0.36 in both the second quarter of 2002 and the second quarter of 2001.

Operating earnings for the second quarter of 2002 were $4.407 million compared to $4.064 million for the same period in 2001, an increase of $343,000, or 8.4%. Basic operating earnings per share increased 8.1%, to $0.40, in the second quarter of 2002 from $0.37 during the same period in 2001. Diluted operating earnings per share for the second quarter of 2002 increased 11.1% to $0.40 from $0.36 in the same period in 2001. The difference between operating and net earnings in the second quarter of 2002 was due to merger and restructuring related expenses, net of tax, of $364,000. The 2002 merger and restructuring related expenses consisted of $529,000 of termination of employment contracts, $40,000 of professional fees and $38,000 of data processing expense, offset by $243,000 of tax benefit.

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

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

	2002			
	Average Balance	Interest	Rate	Average Balance
Assets				
Taxable investment securities1	$ 261,893	$ 3,130	4.79%	$ 233,279
Tax-exempt investment securities1 (TE)	54,871	928	6.78%	51,939
Federal funds sold and interest earning deposits2	19,755	101	2.05%	34,398
Loans3,4 (TE)	679,983	12,200	7.20%	666,354

Total interest earning assets and interest income (TE)	$1,016,502	$16,359	6.46%	$ 985,970
Cash and due from banks	$ 46,317			$ 54,907
Premises and equipment	19,000			20,514
Other assets	18,868			20,825
Total assets	$1,100,687			$1,082,216
Liabilities and Shareholders' Equity				
Interest bearing demand deposits	$ 96,272	$ 105	0.44%	$ 99,941
Savings	250,668	1,082	1.73%	224,361
Time deposits	346,634	3,531	4.09%	360,612
Federal funds purchased, repurchase agreements, and notes payable	70,954	323	1.83%	72,555
FHLB advances and other borrowings	36,182	499	5.53%	40,932
Total interest bearing liabilities and interest expense	$ 800,710	$ 5,540	2.78%	$ 798,401
Noninterest bearing demand deposits	$ 102,940			$ 118,066
Noninterest bearing savings deposits	45,241			20,623
Other liabilities	11,690			14,894
Total liabilities	$ 960,581			$ 951,984
Shareholders' equity	140,106			130,232
Total liabilities and shareholders' equity	$ 1,100,687			$1,082,216
Interest spread (average rate earned minus average rate paid) (TE)			3.68%	
Net interest income (TE)		$10,819		
Net yield on interest earnings assets (TE)			4.27%	

Notes to Consolidated Average Balance Sheet and Interest Rate Tables:

1 Investments in debt securities are included at carrying value.

2 Federal funds sold and interest earning deposits include approximately $14,000 and $35,000 in 2002 and 2001, respectively, of interest income from third party processing of cashier checks.

3 Loans are net of allowance for loan losses. Nonaccrual loans are included in the total.

4 Loan fees of approximately $242,000 and $265,000 in 2002 and 2001, respectively, are included in total loan income.

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

Analysis of Volume and Rate Changes
(in thousands)
Three Months Ended June 30, 2002

	Increase (Decrease) from Previous Year	Due to Volume	Due to Rate
Interest Income			
Taxable investment securities	$ (374)	$ 1,998	$(2,372)
Tax-exempt investment securities (TE)	74	47	27
Federal funds sold and interest earning deposits	(474)	(180)	(294)
Loans (TE)	(1,932)	1,809	(3,741)
Total interest income (TE)	$(2,706)	$ 3,674	$(6,380)
Interest Expense			
Interest bearing demand and savings deposits1 ..	$(1,151)	$ 1,017	$(2,168)
Time deposits	(1,717)	(198)	(1,519)
Federal funds purchased, repurchase agreements and notes payable	(380)	(15)	(365)
FHLB advances and other borrowings	(58)	(114)	56
Total interest expense	$(3,306)	$ 690	$(3,996)
Net Interest Income (TE)	$ 600	$ 2,984	$(2,384)

Net interest income on a tax equivalent basis was $0.600 million, or 5.9%, higher for the second quarter of 2002 compared to the second quarter of 2001. Total tax-equivalent interest income was $2.706 million, or 14.2%, lower in 2002 compared to 2001, and interest expense decreased $3.306 million, or 37.4%. The decrease in interest income was due to a decrease in rates offset somewhat by an increase in average balances. The decrease in interest expense was due to a decrease in rates offset slightly by an increase in average balances.

The decrease in total interest income was due to decreases in interest income from loans, federal funds sold and interest earning deposits, and taxable investment securities. These decreases were offset slightly by an increase in tax-exempt investment securities interest. The decreases in interest income from loans and taxable investment securities were due to a decrease in rates during the second quarter of 2002 compared to the second quarter of 2001, offset somewhat by an increase in average balances. The decrease in federal funds sold and interest earning deposits was due to a decrease in both average balance and rate. The increase in interest from tax-exempt investments was caused by an increase in both average balances and rate.

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

The provision for loan losses recorded was $330,000 during the second quarter of 2002. This was $45,000, or 12.0%, less than the $375,000 recorded during the second quarter of 2001. The provision during both periods was based on management's analysis of the loan portfolio, as discussed in the provision and allowance for loan losses section above.

Total non-interest income increased $472,000, or 11.1%, during the second quarter of 2002 compared to the second quarter of 2001. Included in this increase was an increase of $177,000, or 10.7%, in income from remittance processing in the second quarter of 2002 compared to the same quarter in 2001. This increase was primarily due to renegotiated contracts, which included restructured pricing for some customers. Other income increased $99,000, or 26.3%, during the second quarter of 2002 compared to the same period in 2001. This increase was due, in part, to increases in MasterCard/Visa merchant income and Visa debit interchange fees. Income from securities transactions increased $78,000, or 54.9%, during the second quarter of 2002 compared to the second quarter of 2001. Income from trust and brokerage fees increased $59,000, or 4.3%, during the second quarter of 2002 compared to the same period in 2001. This increase was due, in part, to an increase in assets under management with full investment discretion, which generate higher fee income, and an increase in estate fee income. Service charges on deposit accounts increased $43,000, or 7.8%, during the second quarter of 2002 compared to the same period in 2001. Gains on sales of mortgage loans held-for-sale increased $16,000, or 10.0%, during the second quarter of 2002 compared to the same period in 2001.

Total non-interest expense increased $1.006 million, or 12.7%, during the second quarter of 2002 compared to the same period in 2001. Of this increase, salaries and employee benefits increased $799,000, or 18.6%, in the second quarter of 2002 compared to the second quarter of 2001. Contributing to the increase in salaries and employee benefits was an increase of $529,000 in salaries and benefits related to organizational restructuring that resulted in termination of employment contracts, and an increase of $181,000 in group insurance costs. Data processing expense increased $278,000, or 70.0%, in the second quarter of 2002 compared to the same period in 2001. This was due, in part, to conversion to a new system and a software upgrade at the Company's remittance processing subsidiary FirstTech, a change at the Company's Decatur bank to a different trust accounting system, costs to merge First Trust Bank of Shelbyville and BankIllinois computer records and more extensive development of the Company's internet services. Occupancy expense increased $98,000, or 19.2%, in the second quarter of 2002 compared to the second quarter of 2001. Other noninterest expense increased $62,000, or 4.9%, during the second quarter of 2002 compared to the same period in 2001. Somewhat offsetting these increases was a decrease of $136,000, or 16.8%, in equipment expense during the second quarter of 2002 compared to the same period in 2001. This decrease was due, in part, to conversion to third party service bureau data processing from in-house data processing at the Company's Decatur bank. Office supplies decreased $105,000, or 26.4%, in the second quarter of 2002 compared to the second quarter of 2001. Included in office supplies expense in 2001 were additional printing and mailing expense to announce a computer system conversion, and additional supplies purchased as a result of the conversion.

Income tax expense increased $102,000, or 5.6%, during the second quarter of 2002 compared to the second quarter of 2001. The effective tax rate increased to 32.1% during the second quarter of 2002 from 30.8% during the same period in 2001. The difference in the effective tax rate was that the 2001 expense was offset by a state net operating loss carry forward that was fully utilized in 2001.

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Business Segment Information

The Company currently operates in two industry segments. The primary business involves providing banking services to central Illinois. BankIllinois and First National Bank of Decatur offer a full range of financial services to business and individual customers. These services include demand, savings, time and individual retirement accounts; commercial, consumer (including automobile loans and personal lines of credit), agricultural, and real estate lending; safe deposit and night depository services; farm management; full service trust departments; discount brokerage services and purchases of installment obligations from retailers, primarily without recourse. The other industry segment involves retail payment processing. FirsTech provides the following services to electric, water and gas utilities, telecommunication companies, cable television firms and charitable organizations: retail lockbox processing of payments delivered by mail to the biller; processing of payments delivered by customers to pay agents such as grocery stores, convenience stores and currency exchanges; and concentration of payments delivered by the Automated Clearing House network, money management software such as Quicken and through networks such as Visa e-Pay and Mastercard RPS. The following is a summary of selected data for the various business segments:

	Banking Services	Remittance Services	Company	Eliminations	Total
June 30, 2002					
Total interest income	$ 32,196	$ 50	$ 75	$ (94)	$ 32,227
Total interest expense	11,456	--	5	(94)	11,367
Provision for loan losses ...	660	--	--	--	660
Total non-interest income ...	5,876	3,847	58	(323)	9,458
Total non-interest expense ..	13,764	2,605	1,051	(323)	17,097
Income before income tax	12,192	1,292	(923)	--	12,561
Income tax expense	3,957	516	(365)	--	4,108
Net income	8,235	776	(558)	--	8,453
Total assets	1,083,377	6,026	134,819	(128,916)	1,095,306
Depreciation and amortization	1,065	241	15	--	1,321
June 30, 2001					
Total interest income	$ 37,872	$ 72	$ 58	$ (125)	$ 37,877
Total interest expense	18,550	--	--	(125)	18,425
Provision for loan losses ...	610	--	--	--	610
Total non-interest income ...	5,135	3,541	117	(444)	8,349
Total non-interest expense ..	13,100	2,646	687	(444)	15,989
Income before income tax	10,747	967	(512)	--	11,202
Income tax expense	3,319	330	(179)	--	3,470
Net income	7,428	637	(333)	--	7,732
Total assets	1,065,623	6,876	136,740	(140,768)	1,068,471
Depreciation and amortization	1,170	246	13	--	1,429

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

This document (including information incorporated by reference) contains, and future oral and written statements of the Company and its management may contain, forward-looking statements, within the meaning of such term in the Private Securities Litigation Reform Act of 1995, with respect to the financial condition, results of operations, plans, objectives, future performance and business of the Company. Forward-looking statements, which may be based upon beliefs, expectations and assumptions of the Company's management and on information currently available to management, are generally identifiable by the use of words such as "believe", "expect", "anticipate", "plan", "intend", "estimate", "may", "will", "would", "could", "should", or other similar expressions. Additionally, all statements in this document, including forward-looking statements, speak only as of the date they are made, and the Company undertakes no obligation to update any statement in light of new information or future events.

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

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

- The economic impact of the terrorist attacks that occurred on September 11th, as well as any future threats and attacks, and the response of the United States to any such threats and attacks.

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

- The effects of changes in interest rates (including the effects of changes in the rate of prepayments of the Company's assets) and the policies of the Board of Governors of the Federal Reserve System.

- The ability of the Company to compete with other financial institutions as effectively as the Company currently intends due to increase in competitive pressures in the financial services sector.

- The inability of the Company to obtain new customers and to retain existing customers.

- The timely development and acceptance of products and services, including products and services offered through alternative delivery channels such as the Internet.

- Technological changes implemented by the Company and by other parties, including third party vendors, which may be more difficult or more expensive than anticipated or which may have unforeseen consequences to the Company and its customers.

- The ability of the Company to develop and maintain secure and reliable electronic systems.

- The ability of the Company to retain key executives and employees and the difficulty that the Company may experience in replacing key executives and employees in an effective manner.

- Consumer spending and saving habits which may change in a manner that affects the Company's business adversely. o Business combinations and the integration of acquired businesses which may be more difficult or expensive than expected.

- The costs, effects and outcomes of existing or future litigation.

- Changes in accounting policies and practices, as may be adopted by state and federal regulatory agencies and the Financial Accounting Standards Board.

- The ability of the Company to manage the risks associated with the foregoing as well as anticipated.

These risks and uncertainties should be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements. Additional information concerning the Company and its business, including other factors that could materially affect the Company's financial results, is included in the Company's filings with the Securities and Exchange commission.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

See the "Interest Rate Sensitivity" section above.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 2. Changes in Securities

None

Item 3. Defaults Upon Senior Securities

None

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

On May 14, 2002, the Company's annual meeting of shareholders was held. At the meeting, David J. Downey, Van A. Dukeman, Larry D. Haab, and Gene A Salmon were elected to serve as Class III directors with terms expiring in 2005. Continuing as Class I directors with terms expiring in 2003 were Frederic L. Kenney, Gregory B. Lykins, August C. Meyer, and Phillip C. Wise. Continuing as Class II directors with terms expiring in 2004 were George T. Shapland, Thomas G. Sloan, Roy V. VanBuskirk, and H. Gale Zacheis.

There were 11,182,601 issued and outstanding shares of common stock entitled to vote at the annual meeting. The voting on each item presented at the annual meeting was as follows:

Election of Directors:	For	Withheld

David J. Downey	9,845,368	29,606
Van A. Dukeman	9,845,547	29,427
Larry D. Haab	9,845,547	29,427
Gene A. Salmon	9,848,360	26,614

Item 5. Other Information

None

Item 6. Exhibits and Reports on Form 8-K

a. Exhibits

99.1. Certificate of Chief Executive Officer

99.2. Certificate of Chief Financial Officer

b. Reports

None

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SIGNATURES

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

MAIN STREET TRUST, INC.

Date: August 14, 2002

By: /s/ David B. White

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

By: /s/ Van A.Dukeman

Van A. Dukeman, President
and Chief Executive Officer

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