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MAIN STREET TRUST INC
Form 10-K
March 16, 2006

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2005

Commission File Number: 33-90342

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

Illinois

(State or other jurisdiction of incorporation or organization)

37-1338484

(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)
Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class -----	Name of each exchange on which registered -----
None	None

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, \$.01 par value per share
(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes [] No [X]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes [] No [X]

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No []

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendments to this Form 10-K. [X]

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer [] Accelerated filer [X] Non-accelerated filer []

Indicate by check mark whether the registrant is a shell company (as defined in Exchange Act Rule 12b-2). Yes [] No [X]

As of March 2, 2006, the Registrant had issued and outstanding 10,138,875 shares of the Registrant's Common Stock.

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant, based on the last reported price on June 30, 2005, the last business day of the registrant's most recently completed second fiscal quarter, was approximately \$202,040,337*.

- * Based on the last reported price (\$28.75) of an actual transaction in Registrant's Common Stock on June 30, 2005, and reports of beneficial ownership filed by directors and executive officers of Registrant and by beneficial owners of more than 5% of the outstanding shares of Common Stock of Registrant; however, such determination of shares owned by affiliates does not constitute an admission of affiliate status or beneficial interest in shares of Registrant's Common Stock.

Documents Incorporated By Reference

Part III of Form 10-K - Portions of Proxy Statement for annual meeting of shareholders to be held May 17, 2006.

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MAIN STREET TRUST, INC.

Form 10-K Annual Report

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PART I

Item 1. Description of Business

A. General

MAIN STREET TRUST, INC. (the "Company"), an Illinois corporation, is a bank holding company registered under the Bank Holding Company Act of 1956, as amended (the "BHCA"). The Company was incorporated on August 12, 1999, and is the parent company of Main Street Bank & Trust, and FirstTech, Inc.

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 FirstTech, 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. The Company merged Citizens Savings Bank into Main Street Bank & Trust as of the close of business on October 7, 2005.

B. Business of the Company and Subsidiaries

General

The Company conducts the business of banking and offers trust services through Main Street Bank & Trust ("the Bank"), and retail payment processing through

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FirsTech, Inc., its wholly owned subsidiaries. As of December 31, 2005 the Company had consolidated total assets of \$1.625 billion, shareholders' equity of \$143.769 million and Wealth Management Group assets under management on of approximately \$1.959 billion. Substantially all of the income of the Company is currently derived from dividends received from the subsidiaries and income from other investments. The amount of these dividends is directly related to the earnings of the subsidiaries and is subject to various regulatory restrictions. See "Supervision and Regulation".

Banking Segment

The Bank conducts a general banking business embracing most of the services, both consumer and commercial, which banks may lawfully provide, including the following principal services: the acceptance of deposits to demand, savings, time and individual retirement accounts and the servicing of such accounts; commercial, consumer and real estate lending, including installment loans and personal lines of credit; safe deposit operations; and additional services tailored to the needs of individual customers, such as the sale of traveler's checks, cashier's checks and other specialized services. The Company offers personalized financial planning services through Raymond James, which services include a broad spectrum of investment products, including stocks, bonds, mutual funds and tax advantaged investments. In addition, the Wealth Management division offers a wide range of services such as investment management, acting as trustee, serving as guardian, executor or agent, farm management, 401K administration and miscellaneous consulting.

Commercial lending at the Bank covers such categories as agriculture, manufacturing, capital, inventory, construction, real estate development and commercial mortgages. Commercial lending, particularly loans to small and medium sized businesses, accounts for a major portion of the Bank's loan portfolios. The Bank's retail banking division makes loans to consumers for various purposes, including home equity and automobile loans. The consumer mortgage loan department, which is part of the retail banking division, specializes in real estate loans to individuals. The Bank also purchases installment obligations from retailers, primarily without recourse.

The Bank's principal sources of income are interest and fees on loans and investments and service fees. Its principal expenses are interest paid on deposits and general operating expenses. The Bank's primary service area is Central Illinois.

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Remittance Services Segment

FirsTech, Inc. 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. For the years ended December 31, 2005, 2004 and 2003, FirsTech accounted for \$6.9 million (7%), \$7.3 million (10%) and \$7.3 million (10%), respectively, of the consolidated total revenues of the Company and accounted for \$2.6 million (9%), \$2.3 million (10%), and \$2.3 million (9%), respectively, of the consolidated income before income tax of the Company. See Note 1 to the Consolidated Financial Statements for an analysis of segment operations.

In 2003, FirsTech introduced a new remittance processing product called Internet Agent. A portion of the additional income generated by the Internet Agent

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product was partially offset by decreases in mechanical collection, lockbox processing and electronic payment income. FirstTech has continued to experience success in the expansion of the Internet Agent product among new and existing customers, and management believes it is at the forefront of technology compared to similar products within the payment industry.

Over the past three years, FirstTech's sources of processing revenue has shifted toward the processing of payments to paying agents. FirstTech's retail lockbox processing for organizations provided approximately 20%, 30% and 41% of the total revenue of FirstTech in 2005, 2004 and 2003, respectively. FirstTech processes payments delivered by customers to pay agents. Many businesses and merchants such as grocery stores and convenience stores located throughout the United States serve as agents of utilities in collecting customer payments. In 2005, 2004 and 2003, the remittance collection business for these companies accounted for approximately 79%, 69% and 55%, respectively, of the total revenue of FirstTech.

FirstTech competes in the retail payment processing business with companies that range from large national companies to small, local businesses. In addition, many companies do their own remittance processing rather than out-source the work to an independent processor such as FirstTech. The principal methods of competition in the remittance processing industry are pricing of services, use of technology and quality of service.

C. Competition

The Company faces strong competition both in originating loans and in attracting deposits. Competition in originating real estate loans comes primarily from other commercial banks, savings institutions and mortgage bankers making loans secured by real estate located in the Company's market area. Commercial banks and finance companies, including finance company affiliates of automobile manufacturers, provide vigorous competition in consumer lending. In addition to competition from the local market, the Company faces competition from large national organizations, such as financial organizations and insurance companies, for large commercial real estate loans. The Company competes for real estate and other loans primarily on the basis of the interest rates and loan fees it charges, the types of loans it originates and the quality of services it provides to borrowers.

The Company faces substantial competition in attracting deposits from other commercial banks, savings institutions, money market and mutual funds, credit unions, insurance agencies, brokerage firms, and other investment vehicles. The ability of the Company to attract and retain deposits depends on its ability to provide investment opportunities that satisfy the requirements of investors as to rate of return, liquidity, risk and other factors. The Company attracts a significant amount of deposits through its branch offices, primarily from the communities in which those branch offices are located; therefore, competition for those deposits is principally from other commercial banks, savings institutions, and credit unions located in the same communities. The Company competes for these deposits by offering a variety of deposit accounts at competitive rates, convenient business hours, internet banking, and convenient branch locations with interbranch deposit and withdrawal privileges at each.

Under the Gramm-Leach-Bliley Act, which was enacted in 2000, securities firms and insurance companies that elect to become financial holding companies may acquire banks and other financial institutions. Although the Company has seen no significant impact from this change, it has the potential to change the competitive environment in which the Company and the Bank conduct business. The financial services industry is also likely to become more competitive as further technological advances enable more companies to provide financial services. These technological advances may diminish the importance of depository institutions and other financial intermediaries in the transfer of funds between

parties.

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D. Monetary Policy and Economic Conditions

The earnings of commercial banks and bank holding companies are affected not only by general economic conditions, but also by the policies of various governmental regulatory agencies. In particular, the Federal Reserve regulates money and credit conditions and interest rates in order to influence general economic conditions and interest rates, primarily through open market operations in U.S. government securities, varying the discount rate on member banks and nonmember bank borrowings and setting reserve requirements against bank deposits. Such Federal Reserve policies and acts have a significant influence on overall growth and distribution of bank loans, investments, deposits and related interest rates. The Company cannot accurately predict the effect, if any, such policies and acts may have in the future on its business or earnings.

E. Supervision and Regulation

General

Financial institutions, their holding companies and their affiliates are extensively regulated under federal and state law. As a result, the growth and earnings performance of the Company may be affected not only by management decisions and general economic conditions, but also by the requirements of federal and state statutes and by the regulations and policies of various bank regulatory authorities, including the Illinois Department of Financial and Professional Regulation (the "DFPR"), the Board of Governors of the Federal Reserve System (the "Federal Reserve") and the Federal Deposit Insurance Corporation (the "FDIC"). Furthermore, taxation laws administered by the Internal Revenue Service and state taxing authorities and securities laws administered by the Securities and Exchange Commission (the "SEC") and state securities authorities have an impact on the business of the Company. The effect of these statutes, regulations and regulatory policies may be significant, and cannot be predicted with a high degree of certainty.

Federal and state laws and regulations generally applicable to financial institutions regulate, among other things, the scope of business, the kinds and amounts of investments, reserve requirements, capital levels relative to operations, the nature and amount of collateral for loans, the establishment of branches, mergers and consolidations and the payment of dividends. This system of supervision and regulation establishes a comprehensive framework for the respective operations of the Company and its subsidiaries and is intended primarily for the protection of the FDIC-insured deposits and depositors of the Bank, rather than shareholders.

The following is a summary of the material elements of the regulatory framework that applies to the Company and its subsidiaries. It does not describe all of the statutes, regulations and regulatory policies that apply, nor does it restate all of the requirements of those that are described. As such, the following is qualified in its entirety by reference to applicable law. Any change in statutes, regulations or regulatory policies may have a material effect on the business of the Company and its subsidiaries.

The Company

General. The Company, as the sole shareholder of the Bank, is a bank holding company. As a bank holding company, the Company is registered with, and is subject to regulation by, the Federal Reserve under the Bank Holding Company Act of 1956, as amended (the "BHCA"). In accordance with Federal Reserve policy, the

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Company is expected to act as a source of financial strength to the Bank and to commit resources to support the Bank in circumstances where the Company might not otherwise do so. Under the BHCA, the Company is subject to periodic examination by the Federal Reserve. The Company is also required to file with the Federal Reserve periodic reports of the Company's operations and such additional information regarding the Company and its subsidiaries as the Federal Reserve may require.

Acquisitions, Activities and Change in Control. The primary purpose of a bank holding company is to control and manage banks. The BHCA generally requires the prior approval of the Federal Reserve for any merger involving a bank holding company or any acquisition by a bank holding company of another bank or bank holding company. Subject to certain conditions (including deposit concentration limits established by the BHCA), the Federal Reserve may allow a bank holding company to acquire banks located in any state of the United States. In approving interstate acquisitions, the Federal Reserve is required to give effect to applicable state law limitations on the aggregate amount of deposits that may be held by the acquiring bank holding company and its insured depository institution affiliates in the state in which the target bank is located (provided that those limits do not discriminate against out-of-state depository institutions or their holding companies) and state laws that require that the target bank have been in existence for a minimum period of time (not to exceed five years) before being acquired by an out-of-state bank holding company.

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The BHCA generally prohibits a bank holding company from acquiring direct or indirect ownership or control of more than 5% of the voting shares of any company that is not a bank and from engaging in any business other than that of banking, managing and controlling banks or furnishing services to banks and their subsidiaries. This general prohibition is subject to a number of exceptions. The principal exception allows bank holding companies to engage in, and to own shares of companies engaged in, certain businesses found by the Federal Reserve to be "so closely related to banking... as to be a proper incident thereto." This authority would permit the Company to engage in a variety of banking-related businesses, including the operation of a thrift, consumer finance, equipment leasing, the operation of a computer service bureau (including software development), and mortgage banking and brokerage. The BHCA generally does not place territorial restrictions on the domestic activities of non-bank subsidiaries of bank holding companies.

Additionally, bank holding companies that meet certain eligibility requirements prescribed by the BHCA and elect to operate as financial holding companies may engage in, or own shares in companies engaged in, a wider range of nonbanking activities, including securities and insurance underwriting and sales, merchant banking and any other activity that the Federal Reserve, in consultation with the Secretary of the Treasury, determines by regulation or order is financial in nature, incidental to any such financial activity or complementary to any such financial activity and does not pose a substantial risk to the safety or soundness of depository institutions or the financial system generally. The Company has elected (and the Federal Reserve has accepted the Company's election) to operate as a financial holding company.

Federal law also prohibits any person or company from acquiring "control" of an FDIC-insured depository institution or its holding company without prior notice to the appropriate federal bank regulator. "Control" is conclusively presumed to exist upon the acquisition of 25% or more of the outstanding voting securities of a bank or bank holding company, but may arise under certain circumstances at 10% ownership.

Capital Requirements. Bank holding companies are required to maintain minimum

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levels of capital in accordance with Federal Reserve capital adequacy guidelines. If capital levels fall below the minimum required levels, a bank holding company, among other things, may be denied approval to acquire or establish additional banks or non-bank businesses.

The Federal Reserve's capital guidelines establish the following minimum regulatory capital requirements for bank holding companies: (i) a risk-based requirement expressed as a percentage of total assets weighted according to risk; and (ii) a leverage requirement expressed as a percentage of total assets. The risk-based requirement consists of a minimum ratio of total capital to total risk-weighted assets of 8% and a minimum ratio of Tier 1 capital to total risk-weighted assets of 4%. The leverage requirement consists of a minimum ratio of Tier 1 capital to total assets of 3% for the most highly rated companies, with a minimum requirement of 4% for all others. For purposes of these capital standards, Tier 1 capital consists primarily of permanent stockholders' equity less intangible assets (other than certain loan servicing rights and purchased credit card relationships). Total capital consists primarily of Tier 1 capital plus certain other debt and equity instruments that do not qualify as Tier 1 capital and a portion of the company's allowance for loan and lease losses.

The risk-based and leverage standards described above are minimum requirements. Higher capital levels will be required if warranted by the particular circumstances or risk profiles of individual banking organizations. For example, the Federal Reserve's capital guidelines contemplate that additional capital may be required to take adequate account of, among other things, interest rate risk, or the risks posed by concentrations of credit, nontraditional activities or securities trading activities. Further, any banking organization experiencing or anticipating significant growth would be expected to maintain capital ratios, including tangible capital positions (i.e., Tier 1 capital less all intangible assets), well above the minimum levels. As of December 31, 2005, the Company had regulatory capital in excess of the Federal Reserve's minimum requirements.

Dividend Payments. The Company's ability to pay dividends to its shareholders may be affected by both general corporate law considerations and policies of the Federal Reserve applicable to bank holding companies. As an Illinois corporation, the Company is subject to the limitations of the Illinois Business Corporation Act, as amended, which prohibit the Company from paying a dividend if, after giving effect to the dividend: (i) the Company would be insolvent; or (ii) the net assets of the Company would be less than zero; or (iii) the net assets of the Company would be less than the maximum amount then payable to shareholders of the company who would have preferential distribution rights if the Company were liquidated. Additionally, policies of the Federal Reserve caution that a bank holding company should not pay cash dividends that exceed its net income or that can only be funded in ways that weaken the bank holding company's financial health, such as by borrowing. The Federal Reserve also possesses enforcement powers over bank holding companies and their non-bank subsidiaries to prevent or remedy actions that represent unsafe or unsound practices or violations of applicable statutes and regulations. Among these powers is the ability to proscribe the payment of dividends by banks and bank holding companies.

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Federal Securities Regulation. The Company's common stock is registered with the SEC under the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Consequently, the Company is subject to the information, proxy solicitation, insider trading and other restrictions and requirements of the SEC under the Exchange Act.

The Bank

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General. The Bank is an Illinois-chartered bank, the deposit accounts of which are insured by the FDIC's Bank Insurance Fund ("BIF"). As an Illinois-chartered FDIC-insured bank, the Bank is subject to the examination, supervision, reporting and enforcement requirements of the DFPR, the chartering authority for Illinois Banks, and the FDIC, designated by federal law as the primary federal regulator of insured state banks that, like the Bank, are not members of the Federal Reserve System ("non-member banks"). The Bank is a member of the Federal Home Loan Bank System, which provides a central credit facility primarily for member institutions.

Deposit Insurance. As an FDIC-insured institution, the Bank is required to pay deposit insurance premium assessments to the FDIC. The FDIC has adopted a risk-based assessment system under which all insured depository institutions are placed into one of nine categories and assessed insurance premiums based upon their respective levels of capital and results of supervisory evaluations. Institutions classified as well-capitalized (as defined by the FDIC) and considered healthy pay the lowest premium while institutions that are less than adequately capitalized (as defined by the FDIC) and considered of substantial supervisory concern pay the highest premium. Risk classification of all insured institutions is made by the FDIC for each semi-annual assessment period.

During the year ended December 31, 2005, BIF assessments ranged from 0% of deposits to 0.27% of deposits. For the semi-annual assessment period beginning January 1, 2006, BIF assessment rates will continue to range from 0% of deposits to 0.27% of deposits.

FICO Assessments. Since 1987, a portion of the deposit insurance assessments paid by members of the FDIC's Savings Association Insurance Fund ("SAIF") has been used to cover interest payments due on the outstanding obligations of the Financing Corporation ("FICO"). FICO was created in 1987 to finance the recapitalization of the Federal Savings and Loan Insurance Corporation, the SAIF's predecessor insurance fund. As a result of federal legislation enacted in 1996, beginning as of January 1, 1997, both SAIF members and BIF members became subject to assessments to cover the interest payments on outstanding FICO obligations until the final maturity of such obligations in 2019. These FICO assessments are in addition to amounts assessed by the FDIC for deposit insurance. During the year ended December 31, 2005, the FICO assessment rate for BIF and SAIF members was approximately 0.01% of deposits.

Supervisory Assessments. All Illinois banks are required to pay supervisory assessments to the DFPR to fund its operations. The amount of the assessment paid by an Illinois bank to the DFPR is calculated on the basis of the institution's total assets, including consolidated subsidiaries, as reported to the DFPR. During the year ended December 31, 2005, the Bank paid supervisory assessments to the DFPR totaling \$188,000.

Capital Requirements. Banks are generally required to maintain capital levels in excess of other businesses. The FDIC has established the following minimum capital standards for insured state non-member banks, such as the Bank: (i) a leverage requirement consisting of a minimum ratio of Tier 1 capital to total assets of 3% for the most highly-rated banks with a minimum requirement of at least 4% for all others; and (ii) a risk-based capital requirement consisting of a minimum ratio of total capital to total risk-weighted assets of 8% and a minimum ratio of Tier 1 capital to total risk-weighted assets of 4%. In general, the components of Tier 1 capital and total capital are the same as those for bank holding companies discussed above.

The capital requirements described above are minimum requirements. Higher capital levels will be required if warranted by the particular circumstances or risk profiles of individual institutions. For example, regulations of the FDIC provide that additional capital may be required to take adequate account of, among other things, interest rate risk or the risks posed by concentrations of

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credit, nontraditional activities or securities trading activities.

Further, federal law and regulations provide various incentives for financial institutions to maintain regulatory capital at levels in excess of minimum regulatory requirements. For example, a financial institution that is "well-capitalized" may qualify for exemptions from prior notice or application requirements otherwise applicable to certain types of activities and may qualify for expedited processing of other required notices or applications. Additionally, one of the criteria that determines a bank holding company's eligibility to operate as a financial holding company is a requirement that all of its financial institution subsidiaries be "well-capitalized". Under the regulations of the FDIC, in order to be "well-capitalized", a financial institution must maintain a ratio of total capital to total risk-weighted assets of 10% or greater, a ratio of Tier 1 capital to total risk-weighted assets of 6% or greater and a ratio of Tier 1 capital to total assets of 5% or greater.

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Federal law also provides the federal banking regulators with broad power to take prompt corrective action to resolve the problems of undercapitalized institutions. The extent of the regulators' powers depends on whether the institution in question is "adequately capitalized", "undercapitalized", "significantly undercapitalized", or "critically undercapitalized", in each case as defined by regulation. Depending upon the capital category to which an institution is assigned, the regulators' corrective powers include: (i) requiring the institution to submit a capital restoration plan; (ii) limiting the institution's asset growth and restricting its activities; (iii) requiring the institution to issue additional capital stock (including additional voting stock) or to be acquired; (iv) restricting transactions between the institution and its affiliates; (v) restricting the interest rate the institution may pay on deposits; (vi) ordering a new election of directors of the institution; (vii) requiring that senior executive officers or directors be dismissed; (viii) prohibiting the institution from accepting deposits from correspondent banks; (ix) requiring the institution to divest certain subsidiaries; (x) prohibiting the payment of principal or interest on subordinated debt; and (xi) ultimately, appointing a receiver for the institution.

As of December 31, 2005: (i) the Bank was not subject to a directive from the FDIC to increase its capital to an amount in excess of the minimum regulatory capital requirements; (ii) the Bank exceeded its minimum regulatory capital requirements under FDIC capital adequacy guidelines; and (iii) the Bank was "well-capitalized", as defined by applicable regulations.

Dividend Payments. The primary source of funds for the Company is dividends from the Bank. Under the Illinois Banking Act, the Bank generally may not pay dividends in excess of its net profits.

The payment of dividends by any financial institution or its holding company is affected by the requirement to maintain adequate capital pursuant to applicable capital adequacy guidelines and regulations, and a financial institution generally is prohibited from paying any dividends if, following payment thereof, the institution would be undercapitalized. As described above, the Bank exceeded its minimum capital requirements under applicable guidelines as of December 31, 2005. As of December 31, 2005, approximately \$51.826 million was available to be paid as dividends by the Bank. Notwithstanding the availability of funds for dividends, however, the FDIC may prohibit the payment of dividends if it determines such payment would constitute an unsafe or unsound practice.

Insider Transactions. The Bank is subject to certain restrictions imposed by federal law on extensions of credit to the Company and its subsidiaries, on investments in the stock or other securities of the Company and its subsidiaries

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and the acceptance of the stock or other securities of the Company or its subsidiaries as collateral for loans made by the Bank. Certain limitations and reporting requirements are also placed on extensions of credit by the Bank to its directors and officers, to directors and officers of the Company and its subsidiaries, to principal shareholders of the Company and to "related interests" of such directors, officers and principal shareholders. In addition, federal law and regulations may affect the terms upon which any person who is a director or officer of the Company or one of its subsidiaries or a principal shareholder of the Company may obtain credit from banks with which the Bank maintains correspondent relationships.

Safety and Soundness Standards. The federal banking agencies have adopted guidelines that establish operational and managerial standards to promote the safety and soundness of federally insured depository institutions. The guidelines set forth standards for internal controls, information systems, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, compensation, fees and benefits, asset quality and earnings.

In general, the safety and soundness guidelines prescribe the goals to be achieved in each area, and each institution is responsible for establishing its own procedures to achieve those goals. If an institution fails to comply with any of the standards set forth in the guidelines, the institution's primary federal regulator may require the institution to submit a plan for achieving and maintaining compliance. If an institution fails to submit an acceptable compliance plan, or fails in any material respect to implement a compliance plan that has been accepted by its primary federal regulator, the regulator is required to issue an order directing the institution to cure the deficiency. Until the deficiency cited in the regulator's order is cured, the regulator may restrict the institution's rate of growth, require the institution to increase its capital, restrict the rates the institution pays on deposits or require the institution to take any action the regulator deems appropriate under the circumstances. Noncompliance with the standards established by the safety and soundness guidelines may also constitute grounds for other enforcement action by the federal banking regulators, including cease and desist orders and civil money penalty assessments.

Branching Authority. Illinois banks have the authority under Illinois law to establish branches anywhere in the State of Illinois, subject to receipt of all required regulatory approvals.

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Federal law permits state and national banks to merge with banks in other states subject to: (i) regulatory approval; (ii) federal and state deposit concentration limits; and (iii) state law limitations requiring the merging bank to have been in existence for a minimum period of time (not to exceed five years) prior to the merger. The establishment of new interstate branches or the acquisition of individual branches of a bank in another state (rather than the acquisition of an out-of-state bank in its entirety) is permitted only in those states the laws of which expressly authorize such expansion.

State Bank Investments and Activities. The Bank generally is permitted to make investments and engage in activities directly or through subsidiaries as authorized by Illinois law. However, under federal law and FDIC regulations, FDIC-insured state banks are prohibited, subject to certain exceptions, from making or retaining equity investments of a type, or in an amount, that are not permissible for a national bank. Federal law and FDIC regulations also prohibit FDIC-insured state banks and their subsidiaries, subject to certain exceptions, from engaging as principal in any activity that is not permitted for a national bank unless the bank meets, and continues to meet, its minimum regulatory

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capital requirements and the FDIC determines the activity would not pose a significant risk to the deposit insurance fund of which the bank is a member. These restrictions have not had, and are not currently expected to have, a material impact on the operations of the Bank.

Federal Reserve System. Federal Reserve regulations, as presently in effect, require depository institutions to maintain non-interest earning reserves against their transactions accounts (primarily NOW and regular checking accounts), as follows: for transaction accounts aggregating \$48.3 million or less, the reserve requirement is 3% of total transaction accounts; and for transaction accounts aggregating in excess of \$48.3 million, the reserve requirement is \$1.215 million plus 10% of the aggregate amount of total transaction accounts in excess of \$48.3 million. The first \$7.8 million of otherwise reservable balances are exempted from the reserve requirements. These reserve requirements are subject to annual adjustment by the Federal Reserve. The Bank is in compliance with the foregoing requirements.

Recent Regulatory Developments. On February 8, 2006, President Bush signed the Federal Deposit Insurance Reform Act of 2005 ("FDIRA") into law as part of the Deficit Reduction Act of 2005. On February 15, 2006, President Bush signed into law the technical and conforming amendments designed to implement FDIRA. FDIRA provides for legislative reforms to modernize the federal deposit insurance system.

Among other things, FDIRA: (i) merges the BIF and the SAIF of the FDIC into a new Deposit Insurance Fund (the "DIF"); (ii) allows the FDIC, after March 31, 2010, to increase deposit insurance coverage by an adjustment for inflation and requires the FDIC's Board of Directors, not later than April 1, 2010 and every five years thereafter, to consider whether such an increase is warranted; (iii) increases the deposit insurance limit for certain employee benefit plan deposits from \$100,000 to \$250,000, subject to adjustments for inflation after March 31, 2010, and provides for pass-through insurance coverage for such deposits; (iv) increases the deposit insurance limit for certain retirement account deposits from \$100,000 to \$250,000, subject to adjustments for inflation after March 31, 2010; (v) allows the FDIC's Board of Directors to set deposit insurance premium assessments in any amount the Board of Directors deems necessary or appropriate, after taking into account various factors specified in FDIRA; (vi) replaces the fixed designated reserve ratio of 1.25% with a reserve ratio range of 1.15%-1.50%, with the specific reserve ratio to be determined annually by the FDIC by regulation; (vii) permits the FDIC to revise the risk-based assessment system by regulation; (viii) requires the FDIC, at the end of any year in which the reserve ratio of the DIF exceeds 1.50% of estimated insured deposits, to declare a dividend payable to insured depository institutions in an amount equal to 100% of the amount held by the DIF in excess of the amount necessary to maintain the DIF's reserve ratio at 1.50% of estimated insured deposits or to declare a dividend equal to 50% of the amount in excess of the amount necessary to maintain the reserve ratio at 1.35% if the reserve ratio is between 1.35%-1.50% of estimated insured deposits; and (ix) provides a one-time credit based upon the assessment base of the institution on December 31, 1996 to each insured depository institution that was in existence as of December 31, 1996 and paid a deposit insurance assessment prior to that date (or a successor to any such institution).

The merger of the BIF and the SAIF will take effect no later than July 1, 2006, while the remaining provisions are not effective until the FDIC issues final regulations. FDIRA requires the FDIC to issue final regulations no later than 270 days after enactment: (i) designating a reserve ratio; (ii) implementing increases in deposit insurance coverage; (iii) implementing the dividend requirement; (iv) implementing the one-time assessment credit; and (v) providing for assessments in accordance with FDIRA.

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F. Employees

The Company had a total of 499 employees at December 31, 2005, consisting of 399 full-time employees and 100 part-time. The Company places a high priority on staff development, which involves extensive training, including customer service training. New employees are selected on the basis of both technical skills and consumer service capabilities. None of the Company's employees are covered by a collective bargaining agreement with the Company or its subsidiaries. The Company offers a variety of employee benefits, and management considers its employee relations to be good.

G. Internet Website

The Company maintains an internet site for its subsidiary bank at www.mainstreettrust.com. The Company makes available free of charge on these sites its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and other reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after it electronically files such material with, or furnishes it to, the Securities and Exchange Commission.

Item 1.a. Risk Factors

In addition to the other information in this Annual Report on Form 10-K, shareholders or prospective investors should carefully consider the following risk factors:

Our business is concentrated in and dependent upon the continued growth and welfare of central Illinois:

We operate primarily in central Illinois, with branch locations in eight central Illinois communities, including our headquarters located in Champaign, Illinois. As a result, our financial condition, results of operations and cash flows are subject to changes in the economic conditions in central Illinois and our success depends upon the business activity, population, income levels, deposits and real estate activity in this area. Although our customers' business and financial interests may extend well beyond central Illinois, adverse economic conditions that affect this area could reduce our growth rate, affect the ability of our customers to repay their loans and generally affect our financial condition and results of operations. Because of our geographic concentration, we are less able than other regional or national financial institutions to diversify our credit risks across multiple markets.

We may experience difficulties in managing our growth and our growth strategy involves risks that may negatively impact our net income:

As part of our general strategy, we may acquire banks and related businesses that we believe provide a strategic fit with our business. To the extent that we grow through acquisitions, we cannot assure you that we will be able to adequately and profitably manage this growth. Acquiring other banks and businesses will involve risks commonly associated with acquisitions, including:

- o potential exposure to unknown or contingent liabilities of banks and businesses we acquire;
- o exposure to potential asset quality issues of the acquired bank or related business;
- o difficulty and expense of integrating the operations and personnel of banks and businesses we acquire;

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- o potential disruption to our business;
- o potential diversion of our management's time and attention; and
- o the possible loss of key employees and customers of the banks and businesses we acquire.

In addition to acquisitions, we may expand into additional communities or attempt to strengthen our position in our current markets by undertaking de novo bank formations or branch openings. Generally, it may take several years for new banking facilities to first achieve operational profitability, due to the impact of organization and overhead expenses and the start-up phase of generating loans and deposits. To the extent that we undertake branching and de novo bank and business formations, we are likely to continue to experience the effects of higher operating expenses relative to operating income from the new operations, which may have an adverse effect on our levels of reported net income, return on average equity and return on average assets.

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Our continued pace of growth may require us to raise additional capital in the future, but that capital may not be available when it is needed:

We are required by federal and state regulatory authorities to maintain adequate levels of capital to support our operations. We anticipate that our existing capital resources will satisfy our capital requirements for the foreseeable future. However, we may at some point need to raise additional capital to support continued growth, both internally and through acquisitions. Our ability to raise additional capital, if needed, will depend on conditions in the capital markets at that time, which are outside our control, and on our financial performance. Accordingly, we cannot assure you of our ability to raise additional capital if needed on terms acceptable to us. If we cannot raise additional capital, when needed, our ability to further expand our operations through internal growth and acquisitions could be materially impaired.

We face intense competition in all phases of our business from other banks and financial institutions:

As described in the business section of this Form 10-K, the banking and financial services business in our market is highly competitive. Our competitors include large regional banks, local community banks, savings and loan associations, securities and brokerage companies, mortgage companies, insurance companies, finance companies, money market mutual funds, credit unions and other non-bank financial service providers. Increased competition in our market may result in a decrease in the amounts of our loans and deposits, reduced spreads between loan rates and deposit rates or loan terms that are more favorable to the borrower. Any of these results could have a material adverse effect on our ability to grow and remain profitable. If increased competition causes us to significantly discount the interest rates we offer on loans or increase the amount we pay on deposits, our net interest income could be adversely impacted. If increased competition causes us to relax our underwriting standards, we could be exposed to higher losses from lending activities. Additionally, many of our competitors are much larger in total assets and capitalization, have greater access to capital markets and offer a broader range of financial services than we can offer.

Interest rates and other conditions impact our results of operations:

Our profitability is in part a function of the spread between the interest rates earned on investments and loans and the interest rates paid on deposits and

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other interest-bearing liabilities. Like most banking institutions, our net interest spread and margin will be affected by general economic conditions and other factors, including fiscal and monetary policies of the federal government, that influence market interest rates and our ability to respond to changes in such rates. At any given time, our assets and liabilities will be such that they are affected differently by a given change in interest rates. As a result, an increase or decrease in rates, the length of loan terms or the mix of adjustable and fixed rate loans in our portfolio could have a positive or negative effect on our net income, capital and liquidity. We measure interest rate risk under various rate scenarios and using specific criteria and assumptions. A summary of this process is presented under "Interest Rate Sensitivity" included under Item 7 of Part II of this Form 10-K. Although we believe our current level of interest rate sensitivity is reasonable and effectively managed, significant fluctuations in interest rates may have an adverse effect on our business, financial condition and results of operations.

Our community banking strategy relies heavily on our management team, and the unexpected loss of key managers may adversely affect our operations:

Much of our success to date has been influenced strongly by our ability to attract and to retain senior management experienced in banking and financial services and familiar with the communities in our market area. Our ability to retain executive officers, the current management teams, branch managers and loan officers will continue to be important to the successful implementation of our strategy. It is also critical, as we grow, to be able to attract and retain qualified additional management and loan officers with the appropriate level of experience and knowledge about our market area to implement our community-based operating strategy. The unexpected loss of services of any key management personnel, or the inability to recruit and retain qualified personnel in the future, could have an adverse effect on our business, financial condition and results of operations.

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Government regulation can result in limitations on our operations:

We operate in a highly regulated environment and are subject to supervision and regulation by a number of governmental regulatory agencies, including the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, and the Illinois Department of Financial and Professional Regulation. Regulations adopted by these agencies, which are generally intended to provide protection for depositors and customers rather than for the benefit of shareholders, govern a comprehensive range of matters relating to ownership and control of our shares, our acquisition of other companies and businesses, permissible activities for us to engage in, maintenance of adequate capital levels and other aspects of our operations. These bank regulators possess broad authority to prevent or remedy unsafe or unsound practices or violations of law. The laws and regulations applicable to the banking industry could change at any time and we cannot predict the effects of these changes on our business and profitability. Increased regulation could increase our cost of compliance and adversely affect profitability. For example, new legislation or regulation may limit the manner in which we may conduct our business, including our ability to offer new products, obtain financing, attract deposits, make loans and achieve satisfactory interest spreads.

We have a continuing need for technological change and we may not have the resources to effectively implement new technology:

The financial services industry is undergoing rapid technological changes with frequent introductions of new technology-driven products and services. In addition to better serving customers, the effective use of technology increases

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efficiency and enables financial institutions to reduce costs. Our future success will depend in part upon our ability to address the needs of our customers by using technology to provide products and services that will satisfy customer demands for convenience as well as to create additional efficiencies in our operations as we continue to grow and expand our market area. Many of our larger competitors have substantially greater resources to invest in technological improvements. As a result, they may be able to offer additional or superior products to those that we will be able to offer, which would put us at a competitive disadvantage. Accordingly, we cannot provide you with assurance that we will be able to effectively implement new technology-driven products and services or be successful in marketing such products and services to our customers.

We are subject to certain operational risks, including, but not limited to, customer or employee fraud and data processing system failures and errors:

Employee errors and misconduct could subject us to financial losses or regulatory sanctions and seriously harm our reputation. Misconduct by our employees could include hiding unauthorized activities from us, improper or unauthorized activities on behalf of our customers or improper use of confidential information. It is not always possible to prevent employee errors and misconduct, and the precautions we take to prevent and detect this activity may not be effective in all cases. Employee errors could also subject us to financial claims for negligence.

We maintain a system of internal controls and insurance coverage to mitigate against operational risks, including data processing system failures and errors and customer or employee fraud. Should our internal controls fail to prevent or detect an occurrence, or if any resulting loss is not insured or exceeds applicable insurance limits, it could have a material adverse effect on our business, financial condition and results of operations.

System failure or breaches of our network security could subject us to increased operating costs as well as litigation and other liabilities:

The computer systems and network infrastructure we use could be vulnerable to unforeseen problems. Our operations are dependent upon our ability to protect our computer equipment against damage from physical theft, fire, power loss, telecommunications failure or a similar catastrophic event, as well as from security breaches, denial of service attacks, viruses, worms and other disruptive problems caused by hackers. Any damage or failure that causes an interruption in our operations could have a material adverse effect on our financial condition and results of operations. Computer break-ins, phishing and other disruptions could also jeopardize the security of information stored in and transmitted through our computer systems and network infrastructure, which may result in significant liability to us and may cause existing and potential customers to refrain from doing business with us. Although we, with the help of third-party service providers, intend to continue to implement security technology and establish operational procedures to prevent such damage, there can be no assurance that these security measures will be successful. In addition, advances in computer capabilities, new discoveries in the field of cryptography or other developments could result in a compromise or breach of the algorithms we and our third-party service providers use to encrypt and protect customer transaction data. A failure of such security measures could have a material adverse effect on our financial condition and results of operations.

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We must effectively manage our credit risk:

There are risks inherent in making any loan, including risks inherent in dealing

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with individual borrowers, risks of nonpayment, risks resulting from uncertainties as to the future value of collateral and risks resulting from changes in economic and industry conditions. We attempt to minimize our credit risk through prudent loan application approval procedures, careful monitoring of the concentration of our loans within specific industries and periodic independent reviews of outstanding loans by our credit review department. However, we cannot assure you that such approval and monitoring procedures will reduce these credit risks.

Commercial, financial and agricultural loans make up a significant portion of our loan portfolio:

Commercial, financial and agricultural loans were \$319.861 million, or approximately 31.5% of our total loan portfolio as of December 31, 2005. These loans are primarily made based on the identified cash flow of the borrower and secondarily on the underlying collateral provided by the borrower. Most often, this collateral is accounts receivable, inventory, machinery or real estate. Credit support provided by the borrower for most of these loans and the probability of repayment is based on the liquidation of the pledged collateral and enforcement of a personal guarantee, if any exists. As a result, in the case of loans secured by accounts receivable, the availability of funds for the repayment of these loans may be substantially dependent on the ability of the borrower to collect amounts due from its customers. The collateral securing these loans may depreciate over time, may be difficult to appraise and may fluctuate in value based on the success of the business.

Our loan portfolio has a large concentration of commercial real estate loans, which involve risks specific to real estate value:

Commercial real estate lending (including \$119.673 million in commercial construction loans discussed in the Commercial Construction Loan section below) is a large portion of our loan portfolio. These categories were \$469.506 million, or approximately 46.2% of our total loan portfolio as of December 31, 2005. The market value of real estate can fluctuate significantly in a short period of time as a result of market conditions in the geographic area in which the real estate is located. Although a significant portion of such loans are secured by real estate as a secondary form of collateral, adverse developments affecting real estate values in one or more of our markets could increase the credit risk associated with our loan portfolio. Additionally, real estate lending typically involves higher loan principal amounts and the repayment of the loans generally is dependent, in large part, on sufficient income from the properties securing the loans to cover operating expenses and debt service. Economic events or governmental regulations outside of the control of the borrower or lender could negatively impact the future cash flow and market values of the affected properties.

If the loans that are collateralized by real estate become troubled during a time when market conditions are declining or have declined, then we may not be able to realize the amount of security that we anticipated at the time of originating the loan, which could cause us to increase our provision for loan losses and adversely affect our operating results and financial condition.

Our commercial construction loans are based upon estimates of costs and value associated with the complete project. These estimates may be inaccurate and we may be exposed to more losses on these projects than on other loans:

At December 31, 2005, commercial construction loans, including land acquisition and development, totaled \$119.673 million, or 11.8%, of our total loan portfolio. Construction and land acquisition and development lending involve additional risks because funds are advanced upon the security of the project, which is of uncertain value prior to its completion. Because of the uncertainties inherent in estimating construction costs, as well as the market

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value of the completed project and the effects of governmental regulation of real property, it is relatively difficult to evaluate accurately the total funds required to complete a project and the related loan-to-value ratio. As a result, commercial construction loans often involve the disbursement of substantial funds with repayment dependent, in part, on the success of the ultimate project and the ability of the borrower to sell or lease the property, rather than the ability of the borrower or guarantor to repay principal and interest. If our appraisal of the value of the completed project proves to be overstated, we may have inadequate security for the repayment of the loan upon completion of construction of the project.

Our concentration of one-to-four family residential mortgage loans may result in lower yields and profitability:

One-to-four family residential mortgage loans comprised \$140.304 million, or 13.8%, and home equity lines of credit (included in installment and consumer loans) comprised \$39.078 million, or 3.8%, of our loan and lease portfolio at December 31, 2005, and are secured primarily by properties located in the counties of Champaign, Macon, Shelby, Tazewell, McLean, Livingston, and contiguous counties. Our concentration of these loans results in lower yields and lower profitability for us. These loans are generally made on the basis of the borrower's ability to make repayments from his or her employment and the value of the property securing the loan.

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Our allowance for loan losses may prove to be insufficient to absorb potential losses in our loan portfolio:

Our management establishes our allowance for loan losses and maintains it at a level considered adequate to absorb loan losses that are inherent in the portfolio. The allowance for loan losses is a material estimate that is particularly susceptible to significant changes in the near term relating to economic, operating and other conditions, including changes in interest rates, which may be beyond our control, and such losses may exceed current estimates. At December 31, 2005, our allowance for loan losses as a percentage of total loans was 1.32% and as a percentage of total non-performing loans was approximately 449.07%. Although management believes that the allowance for loan losses is adequate to absorb probable losses inherent in the loan portfolio, we cannot predict loan losses with certainty, and we cannot assure you that our allowance for loan losses will prove sufficient to cover actual loan losses in the future. Loan losses in excess of our reserves may adversely affect our business, financial condition and results of operations.

Item 1.b. Unresolved Staff Comments

None

Item 2. Properties

The Company and its subsidiaries conduct business in twenty-three locations. The Company's and Main Street Bank & Trust's headquarters are located at 100 W. University Ave. in Champaign, Illinois. The Company and/or its subsidiaries own the land and buildings for fifteen locations and lease eight locations, three of which are located in supermarkets. The company has plans to construct an additional facility in Peoria, Illinois and to lease a new facility in Normal, Illinois which would replace its current location.

Item 3. Legal Proceedings

In the course of business, the Company and its subsidiaries become involved in

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various legal proceedings, claims and litigation arising out of the ordinary course of business. As of the date of filing this report, there were no causes of action which would have a material adverse effect on the consolidated financial position of the Company.

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

There were no items submitted to a vote of security holders in the fourth quarter of 2005.

PART II

Item 5. Market for Registrant's Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities

The Company's common stock was held by approximately 700 shareholders of record as of March 1, 2006 and is traded in the over-the-counter market.

The following table shows, for the periods indicated, the range of closing prices per share of the Company's common stock in the over-the-counter market, as reported to the Company by the brokers known to the Company to regularly follow the market for the common stock. Certain other private transactions may have occurred during the periods indicated of which the Company has no knowledge. The following prices represent inter-dealer prices without retail markups, markdowns or commissions.

		High	Low	Cash Dividends

2004	First quarter	\$ 31.25	\$ 30.60	\$ 0.21
	Second quarter	32.00	30.25	0.21
	Third quarter	32.00	30.30	0.21
	Fourth quarter	32.50	28.50	0.21
2005	First quarter	\$ 30.00	\$ 28.90	\$ 0.22
	Second quarter	30.00	28.65	0.22
	Third quarter	29.40	28.55	0.22
	Fourth quarter	30.00	29.30	0.22

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During the fourth quarter of 2005, the Company declared a \$0.23 per share cash dividend, which was paid on January 27, 2006. The ability of the Company to pay dividends in the future will be primarily dependent upon its receipt of dividends from the Bank. In determining cash dividends, the Board of Directors considers the earnings, capital requirements, debt and dividend servicing requirements, financial ratio guidelines it has established, the financial condition of the Company and other relevant factors. The Bank's ability to pay dividends to the Company and the Company's ability to pay dividends to its shareholders are also subject to certain regulatory restrictions. See "Business - Supervision and Regulation - The Company - Dividend Payments" and "Business - Supervision and Regulation - The Bank Subsidiaries - Dividend Payments" for a more detailed description of these limitations.

On October 27, 2003, the Company announced that its Board of Directors had

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reinstated the Stock Repurchase Program (the "Program"), allowing the purchase of up to 500,000 shares of the Company's outstanding stock. 82,712 shares were repurchased during the fourth quarter of 2005.

Issuer Purchases of Equity Securities

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	(d) Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
October 1 - October 31, 2005	6,400	\$ 29.50	6,400	243,912
November 1 - November 30, 2005	46,312	\$ 29.62	46,312	197,600
December 1 - December 31, 2005	30,000	\$ 30.00	30,000	167,600
Total	82,712	\$ 29.75	82,712	167,600

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Item 6. Selected Consolidated Financial Data

The following table presents selected consolidated financial information for the Company for each of the five years ended December 31, 2005. The selected consolidated financial data should be read in conjunction with the Consolidated Financial Statements of the Company, including the related notes, presented elsewhere herein.

	Year Ended December		
	2005	2004	2003
	(dollars in thousands, except per share amounts)		
Interest income	\$ 76,992	\$ 54,805	\$ 55,686
Interest expense	27,479	16,852	16,723
Net interest income	49,513	37,953	38,963
Provision for loan losses	1,530	1,100	1,470
Net interest income after provision for loan losses	47,983	36,853	37,493
Non-interest income	20,477	19,847	20,294
Non-interest expense	39,779	33,879	32,341
Income tax expense	10,373	8,043	8,841
Net income	\$ 18,308	\$ 14,778	\$ 16,605

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Basic earnings per share	\$ 1.82	\$ 1.56	\$ 1.62	\$
Diluted earnings per share	\$ 1.80	\$ 1.54	\$ 1.60	\$
Return on average total assets	1.24%	1.22%	1.47%	
Return on average shareholders' equity	13.40%	13.08%	12.67%	
Dividend payout ratio	48.90%	54.49%	46.91%	
Cash dividends declared per common share	\$ 0.89	\$ 0.85	\$ 0.76	\$
Total assets	\$1,625,137	\$1,228,118	\$1,154,174	\$
Investment in debt and equity securities	444,623	358,726	370,726	
Loans held for investment, net	1,002,927	761,227	666,259	
Deposits	1,275,972	974,577	898,472	
Borrowings	185,838	126,782	132,978	
Total shareholders' equity	143,769	113,975	111,450	
Total shareholders' equity to total assets	8.85%	9.28%	9.66%	
Average shareholders' equity to average assets	9.26%	9.34%	11.63%	

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis is designed to provide the reader with a comprehensive review of the consolidated results of operations for 2005, 2004 and 2003 for the Company, including all subsidiaries, and an analysis of the Company's financial condition at December 31, 2005 compared to December 31, 2004 and at December 31, 2004 compared to December 31, 2003. This discussion and analysis should be read in conjunction with the consolidated financial statements and related notes, which begin at page 34 of this report.

Overview

Net income increased from \$14.778 million in 2004 to \$18.308 million in 2005, and diluted earnings per share increased from \$1.54 in 2004 to \$1.80 in 2005, due in part to the acquisition of Citizens on April 1, 2005. The net interest margin increased during 2005 as a result of eight rate hikes by the Federal Reserve during 2005 and an increase of \$1.253 million in income from investments in venture capital funds in 2005 compared to 2004. Due to the nature of venture capital investments, future results cannot be predicted based on past results. Loan demand grew during 2005 and loan quality remained strong, with non-performing loans as a percentage of gross loans at 0.29% in 2005 and 2004 and 0.15% in 2003. Net income declined slightly, from \$16.605 million in 2003 to \$14.778 million in 2004, due to the compression of the Company's net interest margin; one-time expenses associated with the merger and name change of our subsidiary banks, The First National Bank of Decatur and BankIllinois, in the fourth quarter; and a decline in mortgage loan sales and related income. Interest rates remained at unprecedented low levels during the first half of 2004 and they increased in the second half of 2004 as a result five rate hikes by the Federal Reserve. However, the net interest margin showed a pattern of increasing during the fourth quarter of 2004, a trend that continued into 2005.

On April 1, 2005, the Company acquired all of the outstanding stock of Citizens. 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.

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Segment Operations

FirstTech, Inc. operates as a separate segment of the Company. Results of Firsttech's operations are included as non-interest income and non-interest expense of the Company.

Critical Accounting Policies

The Company's significant accounting policies are more fully described in Note 1 to the Company's consolidated financial statements located in Item 8 of this Annual Report on form 10-K. The preparation of financial statements in conformity with accounting principles 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 or conditions. The Company believes that it has one critical accounting policy that is subject to estimates and judgements used in the preparation of its consolidated financial statements.

Allowance for Loan Losses. The allowance for loan losses is a material estimate that is particularly susceptible to significant changes in the near term. The allowance for loan losses is increased by provisions charged to operations and is reduced by loan charge-offs less recoveries. Management utilizes an approach, which provides for general and specific valuation allowances, that is based on current economic conditions, past losses, collection experience, risk characteristics of the portfolio, assessment of collateral values by obtaining independent appraisals for significant properties, and such other factors which, in management's judgment, deserve current recognition in estimating loan losses, to determine the appropriate level of the allowance for loan losses.

The allowance for loan losses related to impaired loans that are identified for evaluation is based on discounted cash flow using the loan's initial effective interest rate or the fair value, less selling costs, of the collateral for collateral dependent loans. Loans are categorized as "impaired" when, based on current information or events, it is probable that the Company will be unable to collect all amounts due, including principal and interest, in accordance with the contractual terms of the loan agreement. The Company reviews all non-accrual and substantially delinquent loans, as well as problem loans identified by management, for impairment as defined above. A specific allowance amount will be established for impaired loans in which the present value of the expected cash flows to be generated is less than the amount of the loan recorded on the Company's books. As an alternative to discounting, the Company may use the "fair value" of any collateral supporting a collateral-dependent loan in reviewing the necessity for establishing a specific loan loss allowance amount. Specific allowances will be established for accounts having a collateral deficiency estimated to be \$50,000 or more. The Company's general allowance is maintained at an adequate level to cover accounts having a collateral deficiency of less than \$50,000. Loans evaluated as groups or homogeneous pools of loans will be excluded from this analysis.

The Company utilizes its data processing system to identify loan payments not made by their contractual due date and to calculate the number of days each loan exceeds the contractual due date. The accrual of interest on any loan is discontinued when, in the opinion of management, there is reasonable doubt as to the collectibility of interest or principal. Management believes the allowance for loan losses is adequate to absorb probable credit losses inherent in the loan portfolio. However, there can be no assurance that the allowance for loan losses will be adequate to cover all losses. While management uses available information to recognize loan losses, future additions to the allowance for loan losses may be necessary based on changes in economic conditions. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the adequacy of the allowance for loan losses. Such agencies

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may require the Company to recognize additions to the allowance for loan losses based on their judgments of information available to them at the time of their examination.

Results of Operations

The Company had earnings of \$18.308 million in 2005 compared to \$14.778 million in 2004 and \$16.605 million in 2003. The Company had a return on average assets of 1.24%, 1.22% and 1.47% in 2005, 2004 and 2003, respectively. Basic earnings per share were \$1.82, \$1.56 and \$1.62 in 2005, 2004 and 2003, respectively. Diluted earnings per share was \$1.80, \$1.54 and \$1.60 in 2005, 2004 and 2003, respectively. Management believes that a strong balance sheet and earnings are critical to success.

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Net Interest Income

Interest rates and fees charged on loans are affected primarily by the market demand for loans and the supply of money available for lending purposes. These factors are affected by, among other things, general economic conditions and the policies of the Federal government, including the Board of Governors of the Federal Reserve, legislative tax policies and governmental budgetary matters.

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%. The adjustment to net interest income for the tax effect of tax-exempt assets is shown in the following schedule.

Net Interest Income on a Tax Equivalent Basis (in thousands)

	2005	2004	2003
Total interest income	\$76,992	\$54,805	\$55,686
Total interest expense	27,479	16,852	16,723
Net interest income	49,513	37,953	38,963
Tax equivalent adjustment:			
Tax-exempt investments	816	993	1,222
Tax-exempt loans	15	12	16
Total adjustment	831	1,005	1,238
Net interest income (TE)	\$50,344	\$38,958	\$40,201

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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 I					
(dollars in thousand					
2005			2004		
	Average Balance	Interest	Rate	Average Balance	Interest
Assets					
Taxable investment securities(1) ...	\$ 326,932	\$ 12,465	3.81%	\$ 327,064	\$ 10,793
Tax-exempt investment securities(1) (TE)	39,195	2,332	5.95%	46,214	2,837
Federal funds sold and interest bearing deposits(2)	49,020	2,023	4.13%	37,910	600
Loans (3),(4) (TE)	945,089	61,003	6.45%	711,986	41,580
Total interest earning assets and interest income (TE)	\$1,360,236	\$ 77,823	5.72%	\$1,123,174	\$ 55,810
Cash and due from banks	\$ 44,210			\$ 44,965	
Premises and equipment	21,239			17,184	
Other assets	49,006			23,944	
Total assets	\$1,474,691			\$1,209,267	
Liabilities and Shareholders' Equity					
Interest bearing demand deposits ...	\$ 74,976	\$ 426	0.57%	\$ 93,315	\$ 635
Savings	427,341	7,529	1.76%	345,624	3,432
Time deposits	440,592	13,634	3.09%	352,596	9,905
Federal funds purchased, repurchase agreements and notes payable	115,679	3,097	2.68%	97,503	1,271
FHLB advances & other borrowings	60,351	2,793	4.63%	29,925	1,609
Total interest bearing liabilities and interest expense	\$1,118,939	\$ 27,479	2.46%	\$ 918,963	\$ 16,852
Non-interest bearing demand deposits	132,982			100,913	
Non-interest bearing savings deposits	71,535			66,163	
Other liabilities	14,614			10,260	
Total liabilities	\$1,338,070			\$1,096,299	
Shareholders' equity	136,621			112,968	
Total liabilities and shareholders' equity	\$1,474,691			\$1,209,267	
Interest spread (average rate earned minus average rate paid) (TE)			3.26%		
Net interest income (TE)		\$ 50,344			\$ 38,958

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Net yield on interest earnings assets (TE) 3.70%

Notes: see next page for notes 1-4.

Notes to Consolidated Average Balance Sheet and Interest Rates Table:

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The following table presents, on a fully taxable 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)				
	2005			2004	
	Increase (Decrease) from Previous Year	Due to Volume	Due to Rate	Increase (Decrease) from Previous Year	Due to Volume
Interest Income					
Taxable investment securities	\$ 1,672	\$ (4)	\$ 1,676	\$ (709)	\$ 788
Tax-exempt investment securities ..	(505)	(420)	(85)	(655)	(578)
Federal funds sold and interest bearing deposits	1,423	219	1,204	153	14
Loans	19,423	14,697	4,726	97	4,063
Total interest income	\$ 22,013	\$ 14,492	\$ 7,521	\$ (1,114)	\$ 4,287
Interest Expense					
Interest bearing demand and savings deposits	\$ 3,888	\$ 393	\$ 3,495	\$ 840	\$ 609
Time deposits	3,729	2,650	1,079	(938)	461
Federal funds purchased, repurchase agreements and notes payable	1,826	275	1,551	177	29
Federal Home Loan Bank advances and other borrowings	1,184	1,435	(251)	50	77
Total interest expense	\$ 10,627	\$ 4,753	\$ 5,874	\$ 129	\$ 1,176
Net Interest Income (TE)	\$ 11,386	\$ 9,739	\$ 1,647	\$ (1,243)	\$ 3,111

Total average earning assets increased from \$1.123 billion in 2004 to \$1.360 billion in 2005 and generated higher interest income on a tax equivalent (TE) basis, mainly as a result of the Citizens acquisition along with increased interest rates in 2005 compared to 2004. Average loans increased \$233.103 million, resulting in an increase in interest income (TE) of \$19.423 million, of

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which \$14.697 million was due to higher volume and \$4.726 million due to an increase in rates. Average federal funds sold and interest-bearing deposits increased \$11.110 million and generated \$1.423 million more interest income than in 2004, of which \$1.204 million was due to an increase in rates and \$219,000 due to higher volume. Somewhat offsetting these increases in average balances was a decrease in average tax-exempt investment securities of \$7.019 million, resulting in a decrease in interest income of \$505,000, mainly due to lower volume. Average taxable investment securities decreased \$132,000, but generated \$1.672 million more interest income, primarily due to higher rates.

Total average earning assets increased from \$1.043 billion in 2003 to \$1.123 billion in 2004, but generated lower interest income mainly as a result of reduced interest rates in 2004 compared to 2003. Average loans increased \$66.443 million, resulting in an increase in interest income of \$97,000, of which \$4.063 million was due to volume, offset somewhat by \$3.966 million due to a decrease in interest rates. Average taxable investment securities increased \$21.918 million, but generated \$709,000 less interest income, of which \$1.497 million was due to lower rates, offset somewhat by \$788,000 due to an increase in volume. Average federal funds sold and interest-bearing deposits increased \$1.124 million and generated \$153,000 more interest income, mainly due to an increase in rates. Somewhat offsetting these increases in average balances was a decrease in average tax-exempt investment securities of \$9.387 million, resulting in a decrease in interest income of \$655,000, of which \$578,000 was due to lower volume and \$77,000 was attributable to a decrease in rates.

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The following table summarizes the quarterly increase (decrease) in total interest income, total interest expense and net interest income in 2005 and 2004 compared to the same periods the prior year. Between July 1, 2004 and December 31, 2005, there were 13 increases in the prime interest rate of 25 basis points each.

		Total Interest Income (TE)	Total Interest Expense	Net Interest Income (TE)
2004	First quarter	\$ (1,232)	\$ (638)	\$ (594)
	Second quarter	(824)	(264)	(560)
	Third quarter	(83)	376	(459)
	Fourth quarter	1,025	655	370
	Year-to-date	\$ (1,114)	\$ 129	\$ (1,243)
2005	First quarter	\$ 956	\$ 611	\$ 345
	Second quarter	6,818	2,923	3,895
	Third quarter	7,415	3,166	4,249
	Fourth quarter	6,824	3,927	2,897
	Year-to-date	\$ 22,013	\$ 10,627	\$ 11,386

The Company establishes interest rates on loans and deposits based on market rates such as the 91-day Treasury Bill rate and the national prime rate, while at the same time being mindful of interest rates offered by other financial institutions in the local community. The level of risk and the value of

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collateral also are evaluated when determining loan rates. Rates were generally higher in 2005 compared to 2004. The average yield on federal funds sold and interest bearing-deposits increased 255 basis points, from 1.58% in 2004 to 4.13% in 2005. The average rate earned on loans increased 61 basis points from 5.84% in 2004 to 6.45% in 2005. The average yield on taxable investment securities increased 51 basis points, from 3.30% in 2004 to 3.81% in 2005. These higher average yields were primarily due to eight interest rate hikes initiated by the Federal Reserve during 2005. Somewhat offsetting these higher yields was a decrease in the average yield on tax-exempt investment securities of 19 basis points from 6.14% in 2004 to 5.95% in 2005.

The total actual balance of loans at December 31, 2005 was higher than at December 31, 2004. Commercial, financial and agricultural loans increased \$5.204 million from 2004 to 2005. Commercial real estate loans increased \$159.676 million from 2004 to 2005. Residential real estate loans increased \$77.840 million from 2004 to 2005. Installment and consumer loans increased \$2.802 million from 2004 to 2005.

Average rates on total interest bearing liabilities increased 63 basis points, from 1.83% in 2004 to 2.46% in 2005 and interest expense increased \$10.627 million in 2005 compared to 2004 due to increases in both rates and volume. The overall increase in interest expense was caused by an increase in interest expense on all categories of interest bearing liabilities. The average rate paid on federal funds purchased, repurchase agreements and notes payable increased 138 basis points from 1.30% in 2004 to 2.68% in 2005. This resulted in an increase in interest expense of \$1.826 million, of which \$1.551 million was due to higher rates and \$275,000 was due to an increase in volume. The average rate paid on interest bearing demand and savings deposits increased 65 basis points, from 0.93% in 2004 to 1.58% in 2005. This resulted in an increase in interest expense of \$3.888 million in 2005, of which \$3.495 million was attributable to increased rates and \$393,000 was due to higher rates. The average rate paid on time deposits increased 28 basis points, from 2.81% in 2004 to 3.09% in 2005. This resulted in an increase of \$3.729 million in interest expense, of which \$2.650 million was due to an increase in volume and \$1.079 million was due to higher rates. Although the average rate paid on Federal Home Loan Bank advances and other borrowings decreased 75 basis points, from 5.38% in 2004 to 4.63% in 2005, interest expense increased a total of \$1.184 million, of which \$1.435 million was due to higher volume, offset somewhat by \$251,000 due to a decrease in rates.

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Average rates on total interest bearing liabilities decreased 18 basis points, from 2.01% in 2003 to 1.83% in 2004, but interest expense increased \$129,000 in 2004 compared to 2003 due to an increase in volume, offset somewhat by a decrease in rates. The overall increase in interest expense was caused by an increase in interest expense on interest bearing demand and savings deposits, federal funds purchased, repurchase agreements and notes payable and Federal Home Loan Bank advances and other borrowings, offset somewhat by a decrease in interest expense on time deposits. The average rate paid on time deposits decreased 40 basis points, from 3.21% in 2003 to 2.81% in 2004. This resulted in a decrease of \$938,000 in interest expense, of which \$1.399 million was due to lower rates, offset somewhat by a \$461,000 increase in volume. The average rate paid on Federal Home Loan Bank advances and other borrowings decreased 9 basis points, from 5.47% in 2003 to 5.38% in 2004. However, interest expense increased a total of \$50,000, comprised of \$77,000 due to higher volume, which was offset somewhat by \$27,000 due to a decrease in rates. The average rate paid on federal funds purchased, repurchase agreements and notes payable increased 15 basis points from 1.15% in 2003 to 1.30% in 2004. This resulted in an increase in interest expense of \$177,000 of which \$148,000 was due to higher rates and \$29,000 was due to an increase in volume. The average rate paid on interest

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bearing demand and savings deposits increased 6 basis points, from 0.87% in 2003 to 0.93% in 2004. This resulted in an increase in interest expense of \$840,000 in 2004, of which \$609,000 was attributable to increased volume and \$231,000 was due to higher rates.

Provision for Loan Losses

The quality of the Company's loan portfolio is of prime importance to the Company's management and its board of directors, as loans are the largest component of the Company's assets. The Company maintains an independent credit administration function, which performs reviews of all large credit relationships and all loans that present indications of additional credit risk.

Net charge-offs decreased to \$1.142 million in 2005 from \$1.236 million in 2004. The Company charged off \$1.459 million in loans during 2005 compared to \$1.692 million in 2004. This was due to a decrease in charge-offs for installment and consumer loans of \$513,000 in 2005 compared to 2004. This decrease was primarily the result of a reduction in Owners Option indirect vehicle program charge-offs from \$415,000 in 2004 to \$5,000 in 2005. This decrease was offset somewhat by increases in charge-offs for commercial, financial and agricultural loans and residential real estate loans of \$264,000 and \$16,000, respectively. Recoveries of previously charged off loans decreased from \$456,000 in 2004 to \$317,000 in 2005, with the largest decrease in the area of commercial, financial and agricultural loans, which decreased \$180,000 from 2004 to 2005. The provision for loan losses increased \$430,000 from \$1.100 million in 2004 to \$1.530 million in 2005 and the ratio of net charge-offs to average net loans decreased to 0.12% in 2005 from 0.17% in 2004. The Company continues to emphasize credit analysis and early detection of problem loans.

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Noninterest Income and Expense

The following table summarizes selected categories of non-interest income and non-interest expense for the years ended December 31 2005, 2004 and 2003. The acquisition of Citizens on April 1, 2005, has been accounted for as a purchase. Results of operations of Citizens since the acquisition date have been included in the Company's consolidated financial statements. The Company's new banking center in East Peoria, Illinois became fully operational in the fourth quarter of 2004.

Noninterest Income and Expense for the Year Ended: December 31,			
-----	2005	2004	2003
Non-interest Income (in thousands)	-----	-----	-----
Remittance processing (1).....	\$ 6,748	\$ 7,201	\$ 7,211
Trust and brokerage fees (2)	7,599	6,492	5,783
Service charges on deposit accounts (3)	2,923	2,419	2,545
Securities transactions, net (4)	(586)	133	(12)
Gain on sales of mortgage loans, net (5)	886	997	2,536
Other (6)	2,907	2,605	2,231
	-----	-----	-----
Total non-interest income	\$ 20,477	\$ 19,847	\$ 20,294
	=====	=====	=====
Non-interest Expense (in thousands)	2005	2004	2003
	-----	-----	-----

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Salaries and employee benefits (7)	\$ 23,099	\$ 18,889	\$ 18,245
Occupancy (8)	3,074	2,669	2,489
Equipment	2,592	2,512	2,389
Data processing (9)	2,416	2,283	2,108
Office supplies	1,245	1,247	1,266
Service charges from correspondent banks (10)	513	781	931
Amortization of core deposit intangibles (11)	653	--	--
Other (12)	6,187	5,498	4,913

Total non-interest expense	\$ 39,779	\$ 33,879	\$ 32,341
	=====		

Income Tax Expense

Income tax expense increased \$2.330 million, or 29.0%, from \$8.043 million in 2004 to \$10.373 million in 2005. This was mainly due to an increase in taxable income. In 2004, income tax expense decreased \$798,000, or 9.0%, from \$8.841 million in 2003. The Company's effective tax rate was 36.2%, 35.2% and 34.7% for the years ended December 31, 2005, 2004 and 2003, respectively.

The tax effects of temporary differences, which gave rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2005 and 2004, are shown in note 11 in the Notes to Consolidated Financial Statements.

Financial Condition

Total assets increased \$397.019 million, or 32.3%, to \$1.625 billion at December 31, 2005 compared to \$1.228 billion at December 31, 2004. There were increases in all asset categories except investments in debt and equity securities held to maturity. Most of the change in total assets was attributable to the acquisition of Citizens. Assets and liabilities related to the acquisition of Citizens are reported as of the April 2005 acquisition date. On April 1, 2005, Citizens total assets were \$330.983 million.

Cash and due from banks increased \$18.874 million, or 57.0%, to \$52.007 million at December 31, 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.

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Federal funds sold and interest bearing deposits increased \$10.264 million, or 32.3%, to \$42.059 million at December 31, 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 increased \$85.897 million, or 23.9%, to \$444.623 million at December 31, 2005 compared to \$358.726 million at December 31, 2004. Included in the change were increases of \$73.507 million, or 27.3%, in investments in securities available for sale and \$17.012 million, or 213.1%, in non-marketable equity securities offset somewhat by a decrease of \$4.622 million, or 5.7%, in securities held to maturity. \$16.374 million of FHLB Stock owned by Citizens on April 1, 2005 is included in the increase in non-marketable equity securities. The Citizens acquisition contributed \$23.865 million of investments in securities available for sale. Investments fluctuate with loan demand, deposit volume and investment opportunities.

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Loans, net of allowance for loan losses, increased \$241.700 million, or 31.8%, to \$1.003 billion at December 31, 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 \$656,000, or 65.3%, to \$1.661 million at December 31, 2005 compared to \$1.005 million at December 31, 2004. The Citizens acquisition contributed \$282,000 to the increase.

The increase in year-end assets was primarily the result of the acquisition of Citizens which had total assets of \$330.983 million at April 1, 2005. Contributing to the increase in total assets was the \$301.395 million increase in total deposits at December 31, 2005 compared to December 31, 2004. Of this \$301.395 million increase in total deposits, \$232.089 million was attributable to the acquisition of Citizens. The increase in deposits included \$67.915 million in non-interest bearing deposits (\$28.496 million due to the acquisition of Citizens) and \$233.480 million in interest bearing deposits (\$203.593 million due to the acquisition of Citizens). Also contributing to the increase in year-end assets was a \$21.552 million increase in federal funds purchased, repurchase agreements and notes payable (none due to the Citizens acquisition), a \$37.504 million increase in Federal Home Loan Bank advances and other borrowings (\$37.599 million due to the acquisition of Citizens).

Average assets were \$265.424 million, or 21.9%, higher in 2005 than 2004. Included in the increase in average assets were increases in net loans of \$233.103 million, or 32.7%, other assets of \$25.062 million, or 104.7%, federal funds sold and interest bearing deposits of \$11.110 million, or 29.3%, and premises and equipment of \$4.055 million, or 23.6%. These increases were somewhat offset by average decreases of \$7.019 million, or 15.2%, in tax-exempt investment securities, a decrease of \$755,000, or 1.7%, in cash and due from banks, and a decrease of \$132,000 in taxable investment securities.

Shifts in funding sources occurred as total average deposits increased \$188.815 million, or 19.7%, total average federal funds purchased, repurchase agreements and notes payable increased \$18.176 million, or 18.6%, and average Federal Home Loan Bank advances and other borrowings increased \$30.426 million, or 101.7%, in 2005 from 2004. Included in the increase in average deposits was a shift in the average deposit mix in 2005 versus 2004. There were increases in four out of five categories of deposits. Average time deposits increased \$87.996 million, or 25.0%, average savings increased \$81.717 million, or 23.6%, average non-interest bearing demand deposits increased \$32.069 million, or 31.8%, and average non-interest bearing savings increased \$5.372 million, or 8.1%. Somewhat offsetting these increases in average deposits was a decrease in average interest bearing demand deposits of \$18.339 million, or 19.7%.

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Investment Securities

The carrying value of investments in debt and equity securities was as follows:

	Carrying Value of Securities(1)		
	(in thousands)		
December 31,	2005	2004	2003
Securities available-for-sale:			
Federal agencies	\$312,484	\$218,994	\$220,199

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Mortgage-backed securities	13,657	27,713	23,007
State and municipal	13,834	16,715	17,317
Marketable equity securities	3,112	6,158	5,391

Total	\$343,087	\$269,580	\$265,914
	=====		
Securities held-to-maturity:			
Federal agencies	\$ 38,650	\$ 40,931	\$ 10,704
Mortgage-backed securities	17,091	14,992	50,029
State and municipal	20,801	25,241	36,323

Total	\$ 76,542	\$ 81,164	\$ 97,056
	=====		
Non-marketable equity securities:			
FHLB and FRB stock(2)	\$ 21,450	\$ 4,279	\$ 4,259
Other equity investments	3,544	3,703	3,497

Total	\$ 24,994	\$ 7,982	\$ 7,756

Total securities	\$444,623	\$358,726	\$370,726
	=====		

The unrealized loss on securities available-for-sale, net of tax effect, increased \$1.379 million to a loss of \$1.597 million at December 31, 2005 from a loss of \$218,000 at December 31, 2004.

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The following table shows the maturities and weighted-average yields of investment securities at December 31, 2005:

Maturities and Weighted Average Yields of
(dollars in thousands)
December 31, 2005

1 year or less		1 to 5 years		5 to 10 years		Am
Amount	Rate	Amount	Rate	Amount	Rate	Am

Securi