

Edgar Filing: MAIN STREET TRUST INC - Form 10-K

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]

Edgar Filing: MAIN STREET TRUST INC - Form 10-K

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.

1

MAIN STREET TRUST, INC.

Form 10-K Annual Report

Table of Contents

Part I

Item 1.	Description of Business.....	3
	A. General	
	B. Business of the Company and Subsidiaries	
	C. Competition	
	D. Monetary Policy and Economic Conditions	
	E. Supervision and Regulation	
	F. Employees	
	G. Internet Website	
Item 1.a.	Risk Factors.....	10
Item 1.b.	Unresolved Staff Comments.....	14
Item 2.	Properties.....	14
Item 3.	Legal Proceedings.....	14
Item 4.	Submission of Matters to a Vote of Security Holders.....	14

Part II

Item 5.	Market for Registrant's Common Equity, Related Shareholder Matters And Issuer Purchases of Equity Securities.....	14
---------	--	----

Edgar Filing: MAIN STREET TRUST INC - Form 10-K

Item 6.	Selected Consolidated Financial Data.....	16
Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations.....	16
Item 7a.	Quantitative and Qualitative Disclosures about Market Risk.....	39
Item 8.	Financial Statements and Supplementary Data.....	40
Item 9.	Changes in and Disagreements on Accounting and Financial Disclosure.....	71
Item 9a.	Controls and Procedures.....	71
Item 9b.	Other Information.....	73

Part III

Item 10.	Directors and Executive Officers of the Registrant.....	73
Item 11.	Executive Compensation.....	73
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters.....	74
Item 13.	Certain Relationships and Related Transactions.....	74
Item 14.	Principal Accountant Fees and Services.....	74

Part IV

Item 15.	Exhibits and Financial Statement Schedules.....	74
----------	---	----

2

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

Edgar Filing: MAIN STREET TRUST INC - Form 10-K

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.

3

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

Edgar Filing: MAIN STREET TRUST INC - Form 10-K

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.

4

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

Edgar Filing: MAIN STREET TRUST INC - Form 10-K

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.

5

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

Edgar Filing: MAIN STREET TRUST INC - Form 10-K

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.

6

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

Edgar Filing: MAIN STREET TRUST INC - Form 10-K

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

Edgar Filing: MAIN STREET TRUST INC - Form 10-K

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.

7

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

Edgar Filing: MAIN STREET TRUST INC - Form 10-K

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.

8

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

Edgar Filing: MAIN STREET TRUST INC - Form 10-K

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.

Edgar Filing: MAIN STREET TRUST INC - Form 10-K

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;

Edgar Filing: MAIN STREET TRUST INC - Form 10-K

- 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.

10

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

Edgar Filing: MAIN STREET TRUST INC - Form 10-K

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.

11

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

Edgar Filing: MAIN STREET TRUST INC - Form 10-K

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.

12

We must effectively manage our credit risk:

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

Edgar Filing: MAIN STREET TRUST INC - Form 10-K

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

Edgar Filing: MAIN STREET TRUST INC - Form 10-K

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.

13

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

Edgar Filing: MAIN STREET TRUST INC - Form 10-K

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

14

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

Edgar Filing: MAIN STREET TRUST INC - Form 10-K

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

15

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

Edgar Filing: MAIN STREET TRUST INC - Form 10-K

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.

Edgar Filing: MAIN STREET TRUST INC - Form 10-K

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

Edgar Filing: MAIN STREET TRUST INC - Form 10-K

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.

17

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

18

Edgar Filing: MAIN STREET TRUST INC - Form 10-K

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

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

Edgar Filing: MAIN STREET TRUST INC - Form 10-K

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:

19

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

Edgar Filing: MAIN STREET TRUST INC - Form 10-K

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.

20

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

Edgar Filing: MAIN STREET TRUST INC - Form 10-K

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.

21

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

Edgar Filing: MAIN STREET TRUST INC - Form 10-K

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.

22

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
	-----	-----	-----

Edgar Filing: MAIN STREET TRUST INC - Form 10-K

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.

24

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.

Edgar Filing: MAIN STREET TRUST INC - Form 10-K

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%.

25

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

Edgar Filing: MAIN STREET TRUST INC - Form 10-K

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.

26

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		
	Amount	Rate	Amount	Rate	Amount	Rate	Am

Securities available-for-sale:							
Federal agencies	\$146,255	3.06%	\$164,779	3.87%	\$ 1,450	4.72%	\$
Mortgage-backed securities(1) ...	3,125	3.84%	10,016	4.46%	516	6.05%	
State and municipal (TE) (2)	3,638	5.07%	7,011	6.53%	2,711	7.59%	
Marketable equity securities(3) .	--	--	--	--	--	--	

Total	\$153,018		\$181,806		\$ 4,677		\$
	=====						
Average Yield (TE) (2)		3.12%		4.01%		6.53%	
	=====						
Securities held-to-maturity:							
Federal agencies	\$ 11,344	2.63%	\$ 22,581	3.04%	\$ 4,725	3.85%	\$
Mortgage-backed securities(1) ...	2,675	3.06%	10,614	4.60%	704	5.16%	3,
State and municipal (TE) (2)	9,475	5.21%	10,971	6.27%	195	7.31%	

Total	\$ 23,494		\$ 44,166		\$ 5,624		\$ 3,
	=====						

Edgar Filing: MAIN STREET TRUST INC - Form 10-K

Average Yield (TE) (2)	3.72%	4.22%	4.13%
Non-marketable equity securities(3)			
FHLB stock	--	--	--
Other equity investments	--	--	--
Total	\$ --	\$ --	\$ --

27

Loans

The following tables present the amounts and percentages of loans at December 31 for the years indicated according to the categories of commercial, financial and agricultural; real estate commercial; real estate residential; and installment and consumer loans.

	Amount of Loans Outstanding (dollars in thousands)			
	2005	2004	2003	2002
Commercial, financial and agricultural..	\$ 319,861	\$ 314,657	\$ 249,795	\$ 234,045
Real Estate - Commercial	469,506	309,830	298,075	265,970
Real Estate - Residential	140,304	62,464	50,922	77,857
Installment and consumer	86,728	83,926	77,253	95,529
Total loans	\$1,016,399	\$ 770,877	\$ 676,045	\$ 673,401

	Percentage of Loans Outstanding				
	2005	2004	2003	2002	2001
Commercial, financial and agricultural..	31.47%	40.82%	36.95%	34.75%	36.06%
Real Estate - Commercial	46.19%	40.19%	44.09%	39.50%	30.77%
Real Estate - Residential	13.81%	8.10%	7.53%	11.56%	15.64%
Installment and consumer	8.53%	10.89%	11.43%	14.19%	17.53%
Total	100.00%	100.00%	100.00%	100.00%	100.00%

The Company's loan portfolio totaled approximately \$1.016 billion at December 31, 2005, representing 62.5% of total assets at that date. Total loans increased \$245.522 million, or 31.8%, from December 31, 2004 to December 31, 2005 with increases in commercial, financial and agricultural loans, commercial real estate loans, residential real estate loans, and installment and consumer loans of \$5.204 million, \$159.676 million, \$77.840 and \$2.802 million, respectively.

Total loans increased \$94.832 million, or 14.0%, from December 31, 2003 to December 31, 2004, with increases in commercial, financial and agricultural loans, commercial real estate loans, residential real estate loans, and

Edgar Filing: MAIN STREET TRUST INC - Form 10-K

installment and consumer loans of \$64.862 million, \$11.755 million, \$11.542 million and \$6.673 million, respectively.

The balance of loans outstanding as of December 31, 2005 by maturities is shown in the following table:

	Maturity of Loans Outstanding (dollars in thousands)		
	December 31, 2005		
	1 year or less	1-5 years	Over 5 years
Commercial, financial and agricultural	\$ 192,458	\$ 93,223	\$ 34,180
Real Estate - Commercial	168,024	198,056	103,426
Real Estate - Residential	12,354	38,016	89,934
Installment and consumer	24,175	38,761	23,792
Total	\$ 397,011	\$ 368,056	\$ 251,332
Percentage of total loans outstanding	39.06%	36.21%	24.73%

As of December 31, 2005, commercial, financial and agricultural loans with maturities of greater than one year were comprised of \$41.572 million in fixed-rate loans and \$85.831 million in floating-rate loans. Commercial real estate loans with maturities greater than one year at December 31, 2005 were comprised of \$66.673 million in fixed-rate loans and \$234.809 million in floating-rate loans. Residential real estate loans with maturities greater than one year at December 31, 2005 included \$52.804 million in fixed-rate loans and \$75.146 million in floating-rate loans.

28

Allowance for Loan Losses and Loan Quality

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

	Allowance for Loan Losses (dollars in thousands)			
	2005	2004	2003	2002
Allowance for loan losses at beginning of year	\$ 9,650	\$ 9,786	\$ 9,259	\$ 9,259
Allocation for loan losses attributable to acquisition of Citizens	\$ 3,434	\$ --	\$ --	\$ --
Charge-offs during period:				
Commercial, financial and agricultural ..	\$ (552)	\$ (288)	\$ (148)	\$ (55)

Edgar Filing: MAIN STREET TRUST INC - Form 10-K

Real Estate - Commercial	--	--	--	(48)
Real Estate - Residential	(64)	(48)	(42)	(125)
Installment and consumer	(843)	(1,356)	(1,450)	(1,699)
Total	\$ (1,459)	\$ (1,692)	\$ (1,640)	\$ (1,927)
Recoveries of loans previously charged off:				
Commercial, financial and agricultural ..	\$ 34	\$ 214	\$ 452	\$ 245
Real Estate - Commercial	5	--	2	--
Real Estate - Residential	--	15	46	31
Installment and consumer	278	227	199	201
Total	\$ 317	\$ 456	\$ 699	\$ 477
Net charge-offs	\$ (1,142)	\$ (1,236)	\$ (941)	\$ (1,450)
Provision for loan losses	1,530	1,100	1,470	1,450
Allowance for loan losses at end of year ..	\$ 13,472	\$ 9,650	\$ 9,788	\$ 9,259
Ratio of net charge-offs to average net loans	0.12%	0.17%	0.15%	0.22%

Management reviews criteria such as the customer's historic loan payment performance, financial statements, financial ratios, cash flow, net worth, collateral and guaranties, as well as local and national economic factors, in determining whether loans should be written off as uncollectible. The Company records a loss if it is probable that a loss will occur and the amount can be reasonably estimated.

The Company's risk of loan loss is dependent on many factors: economic conditions, the extent and values of underlying collateral, significant concentrations of loans within the portfolio, the ability and willingness of borrowers to perform according to loan terms and management's competence and judgment in overseeing lending, collecting and loan-monitoring activities. The risk of loss from commercial, financial and agricultural loans is significantly impacted by economic factors and how these factors affect the particular industries involved. The risk of loss from commercial real estate loans is impacted by the value of real estate, which can fluctuate significantly in a short period of time. 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.

An analysis of the allowance for loan loss adequacy is performed on a quarterly basis by the Company's credit administration department. This analysis is reported to executive management and discussed at a quarterly meeting where specific allocations for problem credits, charge-offs and monthly provisions for loan losses are reviewed and revised, as necessary. The results are reported to the board of directors. The analysis includes assessment of the allowance for loan loss adequacy based on historic loan losses and current quality grades of specific credits reviewed, credit concentrations, current delinquent and nonperforming loans, current economic conditions, peer group information and results of recent audits or regulatory examinations. Charged off commercial, financial and agricultural loans in 2001 included two agricultural credits totaling \$847,000. The level of charge-offs of installment and consumer loans reported between 2001 and 2004 were reflective of the significant growth of the indirect loan portfolio in 1999 and 2000. The level of charge-offs of installment and consumer loans decreased in 2005 compared to 2004 as a result of a reduction in Owners Option indirect vehicle program charge-offs from \$415,000 in 2004 to \$5,000 in 2005.

Edgar Filing: MAIN STREET TRUST INC - Form 10-K

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

Allocation of the Allowance for Loan Losses (in thousands)					
	2005	2004	2003	2002	2001
Allocated:					
Commercial, financial and agricultural	\$ 4,433	\$ 2,945	\$ 2,540	\$ 2,438	\$ 2,333
Real Estate - Commercial	5,991	3,981	3,433	3,294	3,154
Real Estate - Residential	424	198	153	345	419
Installment and consumer	1,447	1,605	2,428	1,763	2,000
Total allocated allowance	\$12,295	\$ 8,729	\$ 8,554	\$ 7,840	\$ 7,906
Unallocated allowances	1,177	921	1,232	1,419	1,353
Total	\$13,472	\$9,650	\$ 9,786	\$ 9,259	\$ 9,259

The allocated portion of the allowance for loan losses increased \$3.566 million from \$8.729 million at December 31, 2004 to \$12.295 million at December 31, 2005. Of this increase, the allowance for commercial, financial and agricultural loans increased \$1.488 million from \$2.945 million at December 31, 2004 to \$4.433 million at December 31, 2005. The allowance for loan losses for commercial real estate loans increased \$2.010 million from \$3.981 million at December 31, 2004 to \$5.991 million at December 31, 2005, which was reflective of the increase in commercial real estate loans in 2005 compared to 2004. The allowance for residential real estate loans increased \$226,000 from \$198,000 at December 31, 2004 to \$424,000 at December 31, 2005. Somewhat offsetting these increases was a decrease in the allowance for installment and consumer loans of \$158,000 from \$1.605 million at December 31, 2004 to \$1.447 million at December 31, 2005. The portion of the allowance for loan losses that was unallocated increased by \$256,000 to \$1.177 million at December 31, 2005 from \$921,000 a year earlier. The unallocated amount is determined based on management's judgment, which considers, in addition to the other factors previously discussed, the risk of error in the specific allocation.

Management believes that nonperforming and potential problem loans are appropriately identified and monitored based on the extensive loan analysis performed by the credit administration department, the internal loan committees and the board of directors. Historically, there has not been a significant amount of loans charged off which had not been previously identified as problem loans by the credit administration department or the loan committees.

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

Edgar Filing: MAIN STREET TRUST INC - Form 10-K

	Nonperforming Loans (in thousands)				
	2005	2004	2003	2002	2001
Nonaccrual loans(1)	\$2,234	\$1,689	\$ 399	\$1,392	\$3,341
Loans past due 90 days or more	\$ 766	\$ 547	\$ 621	\$ 829	\$1,774
Restructured loans	\$ 324	\$ 497	\$ 18	\$ 20	\$ 67

30

	Other Nonperforming Assets (in thousands)				
	2005	2004	2003	2002	2001
Other real estate owed	\$188	\$ --	\$ --	\$ 58	\$ --
Nonperforming other assets	\$ 36	\$ 33	\$ 55	\$ 94	\$153

There were no other interest earning assets that would be required to be disclosed as being nonperforming if such other assets were loans.

At December 31, 2005, the Company had \$21.410 million in potential problem loans, excluding nonperforming loans. Potential problem loans are those loans identified by management as being worthy of special attention, and although currently performing, may have some underlying weaknesses. None of these potential problem loans were considered impaired as defined in SFAS 114. The \$21.410 million of potential problem loans have either had timely payments or are adequately secured and loss of principal or interest is determined to be unlikely.

Loans over 90 days past due, which are not well secured and in the process of collection, are placed on nonaccrual status. There were \$2.234 million of nonaccrual loans at December 31, 2005 compared to \$1.689 million at December 31, 2004. Included in nonaccrual loans at December 31, 2005 was \$599,000 attributable to one commercial loan. As of December 31, 2005, a specific valuation allowance of \$250,000 had been assigned to this loan, and the remaining balance was considered adequately collateralized. Loans past due 90 days or more but still accruing interest increased by \$219,000 in 2005 to a balance of \$766,000 at December 31, 2005, from \$547,000 at December 31, 2004. These loans are well secured and in the process of collection.

The following table categorizes nonaccrual loans as of December 31, 2005 based on levels of performance and also details the allocation of interest collected during the period in 2005 in which the loans were on nonaccrual. Substantial performance, yet contractually past due, includes borrowers making sizable periodic payments relative to the required periodic payments due. A borrower that is not making substantial payments but is making periodic payments would be included in the limited performance category.

Edgar Filing: MAIN STREET TRUST INC - Form 10-K

Nonaccrual and Related Interest Payments
(in thousands)

	Cash Interest Payments Applied As				
	At December 31, 2005				
	Book Balance	Contractual Balance	Interest Income	Recovery of Prior Partial Charge-offs	Reduction of Principal
Not contractually past due	\$ 179	\$ 179	\$ 16	\$ --	\$ 1
Contractually past due with:					
Substantial performance	--	--	--	--	--
Limited performance	411	411	6	--	8
No performance	1,644	1,649	--	--	--
Total	\$ 2,234	\$ 2,239	\$ 22	\$ --	\$ 9

The difference between the book balance and the contractual balance represents charge-offs made since the loans were funded.

Management believes that the allowance for loan losses at December 31, 2005 was adequate to absorb credit losses in the total loan portfolio and that the policies and procedures in place to identify potential problem loans are being effectively implemented. However, there can be no assurance that the allowance for loan losses will be adequate to cover all losses.

Premises and Equipment

Total premises and equipment increased \$5.960 million, or 34.9%, from \$17.087 million at December 31, 2004 to \$23.047 million at December 31, 2005. The increase included the acquisition of Citizens, which contributed \$5.993 million and purchases of \$2.516 million offset somewhat by depreciation and amortization expense of \$2.533 million, loss on disposal of property of \$8,000 and proceeds from sale of property of \$8,000.

31

Goodwill

Goodwill of \$20.736 million at December 31, 2005, was due to the acquisition of Citizens.

Core Deposit Intangibles

Core deposit intangibles of \$4.569 million at December 31, 2005, were due to the acquisition of Citizens.

Other Assets

Other assets increased \$6.472 million, or 34.8%, to \$25.047 million at December 31, 2005 compared to \$18.575 million at December 31, 2004. The Citizens acquisition contributed \$6.174 million to the increase in other assets.

Deposits

The following table shows the average balance and weighted average rate of deposits at December 31 for the years indicated:

Edgar Filing: MAIN STREET TRUST INC - Form 10-K

	Average Balance and Weighted Average Rate of D (dollars in thousands)				
	2005		2004		2003
	Average Balance	Weighted Average Rate	Average Balance	Weighted Average Rate	Average Balance
Demand					
Non-interest bearing	\$ 132,982	--	\$ 100,913	--	\$ 89,000
Interest bearing	74,976	0.57%	93,315	0.68%	87,000
Savings					
Non-interest bearing	71,535	--	66,163	--	62,000
Interest bearing	427,341	1.76%	345,624	0.99%	284,000
Time					
\$100,000 and more	126,344	3.17%	111,317	2.64%	113,000
Under \$100,000	314,248	3.06%	241,279	2.89%	224,000
Totals	\$1,147,426		\$ 958,611		\$ 861,000

In analyzing its deposit activity, management has noted that average total deposits increased \$188.815 million, or 19.7%, during 2005. Included in this increase were shifts in the average deposit mix in 2005 versus 2004. There were increases in average non-interest bearing deposits of \$32.069 million, or 31.8%, average non-interest bearing savings deposits of \$5.372 million, or 8.1%, average interest bearing savings deposits of \$81.717 million, or 23.6%, average time deposits of \$100,000 and more of \$15.027 million, or 13.5%, and average time deposits under \$100,000 of \$72.969 million, or 30.2%. Slightly offsetting these increases in average deposits was a decrease in average interest bearing demand deposits of \$18.339 million, or 19.7%.

The table below sets forth the maturity of time deposits greater than \$100,000 at December 31, 2005:

Maturity at December 31, 2005:	Maturity of Time Deposits of \$100,000 or More (in thousands)				
	State of Illinois Time Deposits	Brokered CDs	CDs	IRAs	Total Time Deposits of \$100,000 or More
3 months or less	\$ 3,070	\$ --	\$ 27,524	\$ 900	\$ 31,494
3 to 6 months	--	--	17,511	473	17,984
6 to 12 months	5,000	1,477	30,957	1,557	38,991
Over 12 months	575	--	36,332	4,827	41,734
Total	\$ 8,645	\$ 1,477	\$112,324	\$ 7,757	\$130,203

Edgar Filing: MAIN STREET TRUST INC - Form 10-K

Federal Funds Purchased, Repurchase Agreements and Notes Payable

This category includes federal funds purchased, which are generally overnight transactions and securities sold under repurchase agreements, which mature from one day to three years from the date of sale. The table in note 8 in the Notes to Consolidated Financial Statements shows the balances of federal funds purchased and repurchase agreements at December 31, 2005 and 2004, the average balance for the years ended December 31, 2005, 2004 and 2003, and the maximum month-end value during each year.

Fair Values of Financial Instruments

The estimated fair values of financial instruments for which no listed market exists and the fair values of investment securities, which are based on listed market quotes at December 31, 2005 and 2004, are disclosed in note 17 in the Notes to Consolidated Financial Statements.

Capital

Total shareholders' equity increased \$29.794 million from \$113.975 million at December 31, 2004 to \$143.769 million at December 31, 2005. Net income of \$18.308 million and an increase of \$27.804 million due to the issuance of treasury stock for the acquisition of Citizens, were offset somewhat by cash dividends declared of \$8.926 million, a decrease of \$6.013 million as a result of net treasury stock transactions, and a decrease in accumulated other comprehensive income of \$1.379 million.

Financial institutions are required by regulatory agencies to maintain minimum levels of capital based on asset size and risk characteristics. Currently, the Company and the Bank are required by their primary regulators to maintain adequate capital based on two measurements: the total assets leverage ratio and the risk-weighted assets ratio.

Based on Federal Reserve guidelines, a bank holding company generally is required to maintain a leverage ratio of 3% plus an additional cushion of at least 100 to 200 basis points. The Company's total assets leverage ratio at both December 31, 2005 and 2004 was 7.8% and 9.2%, respectively. The leverage ratio for the Bank is disclosed in note 19 in the Notes to the Consolidated Financial Statements and is well above the regulatory minimum.

The minimum risk-weighted assets ratio for bank holding companies is 8%. The Company's total risk-weighted assets ratio at both December 31, 2005 and 2004 was 11.7% and 13.3%, respectively - significantly higher than the regulatory minimum. The Bank's total risk-weighted assets ratio is disclosed in note 19 in the Notes to the Consolidated Financial Statements and is significantly higher than the regulatory minimum.

Inflation and Changing Prices

Changes in interest rates and a bank's ability to react to interest rate fluctuations have a much greater impact on a bank's balance sheet and net income than inflation. A review of net interest income, liquidity and rate sensitivity should assist in the understanding of how well the Company is positioned to react to changes in interest rates.

Liquidity and Cash Flows

The Company requires cash to fund loan growth and deposit withdrawals. Cash flows fluctuate with changes in economic conditions, current interest rate trends and as a result of management strategies and programs. In general, funds provided by customer deposits, federal funds purchased, repurchase agreements and notes payable, and maturities, calls and paydowns of investment securities

Edgar Filing: MAIN STREET TRUST INC - Form 10-K

are used to fund loans and purchase investment securities. Available funds are used to fund demand for loans that meet the Company's credit quality guidelines, with the remaining funds used to purchase investment securities and/or federal funds sold. The Company monitors the demand for cash and initiates programs and policies as considered necessary to meet funding gaps.

33

The Company was able to adequately fund loan demand and meet liquidity needs in 2005. A review of the consolidated statement of cash flows in the accompanying financial statements shows that the Company's cash and cash equivalents increased \$29.138 million from December 31, 2004 to December 31, 2005. The increase in 2005 resulted from cash provided by financing and operating activities, offset somewhat by cash used in investing activities. There were differences in sources and uses of cash during 2005 compared to 2004. Cash provided by financing activities during 2005 was \$76.079 million compared to \$59.981 million during the same period in 2004, primarily due to an increase in federal funds purchased, repurchase agreements and notes payable during 2005 of \$21.552 million, mainly as a result of an increase in repurchase agreements compared to a decrease of \$6.098 million in federal funds purchased, repurchase agreements and notes payable during the same period in 2004 primarily due to a decrease in repurchase agreements. Less cash was provided by deposit growth during 2005 compared to 2004 at the Company's Main Street Bank & Trust subsidiary. The Company expected deposits to decrease during the first half of 2005 due to a planned outflow of short-term deposits attributable to the Company's Wealth Management division which had grown approximately \$43 million during the second half of 2004. More cash was used in 2005 for treasury stock transactions compared to 2004. Cash provided by Federal Home Loan Bank advances and other borrowings of \$39.000 million during 2005 was used mainly as a source of working capital and \$39.095 million was repaid during the year. More cash was provided by operating activities in 2005 compared to 2004 primarily due to an increase in net income.

Less cash was used by investing activities during 2005 compared to the same period in 2004, primarily due to differences in investments in debt and equity securities and volume of loan growth. Cash used by investing activities during 2005 was \$47.272 million compared to cash provided of \$6.702 million during the same period in 2004. In 2005, cash used to purchase debt and equity securities of \$335.505 million was somewhat offset by proceeds of \$288.233 million from maturities, calls and sales of debt and equity securities, principal paydowns on mortgage-backed securities and return of equity on other equity securities. In 2004, proceeds of \$275.371 million from maturities, calls and sales of debt and equity securities, principal paydowns on mortgage-backed securities, return of equity on other equity securities and proceeds from redemption of non-marketable equity securities were offset somewhat by cash used to purchase debt and equity securities of \$268.669 million. Also contributing to the difference in investing activities was the difference in loan growth during these two periods. Cash used to fund loan growth during 2005 was \$15.116 million compared to \$96.108 million during the same period in 2004. In addition, \$6.385 million was used to fund the acquisition of Citizens in 2005.

On April 1, 2005, the Company borrowed \$6.000 million, to be repaid within 3 years, to fund a portion of the Citizens acquisition cost. In addition, the Company negotiated an increase of its \$10.000 million line of credit from a third party lender to \$15.000 million and immediately advanced \$4.000 million. At December 31, 2005, the Company had \$1.500 million outstanding on its \$15.000 million line of credit which was repaid in January 2006. The Company's future short-term cash requirements are expected to be provided by maturities and sales of investments, sales of loans and deposits. Cash required to meet longer-term liquidity requirements will mostly depend on future goals and strategies of management, the competitive environment, economic factors and changes in the

Edgar Filing: MAIN STREET TRUST INC - Form 10-K

needs of customers. If current sources of liquidity cannot provide needed cash in the future, the Company can obtain long-term funds from several sources, including, but not limited to, utilizing the Company's remaining \$13.500 million line of credit from a third party lender, FHLB borrowings and brokered CDs. To meet short-term liquidity needs, the Company is able to borrow funds on a temporary basis from the Federal Reserve Bank, the FHLB and correspondent banks. With sound capital levels, the Company continues to have several options for longer-term cash needs, such as for future expansion and acquisitions.

Management is not aware of any current recommendations by the Company's primary regulators which if implemented would have a material effect on the Company's liquidity, capital resources or operations.

34

The following table summarizes significant obligations and other commitments at December 31, 2005 (in thousands):

Years Ended December 31,	Time Deposits	FHLB and Other borrowings(1)	Operating Leases	Total
2006	\$330,335	\$ 29,910	\$ 266	\$360,511
2007	84,915	2,453	189	\$ 87,557
2008	35,000	35,023	16	\$ 70,039
2009	13,810	--	12	\$ 13,822
2010	10,382	--	9	\$ 10,391
Thereafter	15	--	--	\$ 15
Total	\$474,457	\$ 67,386	\$ 492	\$542,335
Commitments to extend credit:				
Commitments				\$279,647
Standby letters of credit				34,512

Interest Rate Sensitivity

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

35

The following table shows the Company's interest rate sensitivity position at various intervals at December 31, 2005:

Edgar Filing: MAIN STREET TRUST INC - Form 10-K

	Rate Sensitivity of Earning Assets and Inter			
	(in thousands)			
	1 - 30	31 - 90	91 - 180	181 - 36
	Days	Days	Days	Days
Interest earning assets:				
Federal funds sold and interest bearing deposits	\$ 42,059	\$ --	\$ --	\$ --
Debt and equity securities(1)	23,101	4,350	36,901	60,04
Loans(2)	346,663	55,395	51,134	97,07
Total interest earning assets	\$ 411,823	\$ 59,745	\$ 88,035	\$157,11
Interest bearing liabilities:				
Savings and interest bearing demand deposits	\$ 63,750	\$ 1,700	\$ 2,550	\$ 8,69
Money market savings deposits	293,828	--	--	--
Time deposits	38,913	63,227	66,121	162,04
Federal funds purchased, repurchase agreements and notes payable	96,314	7,759	5,156	9,22
FHLB Advances and other borrowings	15,575	34,069	75	10,15
Total interest bearing liabilities	\$ 508,380	\$ 106,755	\$ 73,902	\$190,11
Net asset (liability) funding gap	\$ (96,557)	\$ (47,010)	\$ 14,133	\$ (33,00)
Repricing gap	0.81	0.56	1.19	0.8
Cumulative repricing gap	0.81	0.77	0.81	0.8

36

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

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

At December 31, 2005, the Company tended to be somewhat liability sensitive due to the levels of savings and interest bearing demand deposits, time deposits, federal funds purchased, repurchase agreements and notes payable. As such, the effect of a decrease in the prime rate of 100 basis points would increase net interest income by approximately \$966,000 in 30 days and \$1.436 million in 90 days assuming no management intervention. A rise in interest rates would have the opposite effect for the same periods. The Company's Asset and Liability

Edgar Filing: MAIN STREET TRUST INC - Form 10-K

Management Policy states that the cumulative ratio of rate-sensitive assets ("RSA") to rate-sensitive liabilities ("RSL") for the 12-month period shall fall within the range of 0.75-1.25. As of December 31, 2005, the Company's RSA/RSL was 0.82, which was within the established guidelines.

In addition to managing interest sensitivity and liquidity through the use of gap reports, the Company has provided for emergency liquidity situations with informal agreements with correspondent banks, which permit the Company to borrow federal funds on an unsecured basis. The Company has a \$15.000 million unsecured line of credit with a correspondent bank, of which \$13.500 million was available at December 31, 2005. Additionally, the Company has sufficient borrowing capacity to permit it to borrow additional funds from the Federal Home Loan Bank on a secured basis.

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

The following table shows projected results at December 31, 2005 and December 31, 2004 of the impact on net interest income from an immediate change in interest rates. The results are shown as a percentage change in net interest income over the next twelve months.

	+200	+100	-100	-200
December 31, 2005	8.9%	4.7%	(4.7%)	(9.4%)
December 31, 2004	10.3%	5.1%	(5.1%)	(10.3%)

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

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

Emerging Accounting Standards

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

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

The impact of this Statement on the Company after the effective date and beyond will depend upon various factors, among them being the future compensation strategy. The pro forma compensation costs presented in Note 1 in the Notes to Consolidated Financial Statements and in prior filings for the Company have been calculated using the Black-Scholes option pricing model and may not be indicative of amounts which should be expected in future periods.

In May 2005, the FASB issued SFAS No. 154, Accounting Changes and Error Corrections, which provides guidance on the accounting for and reporting of accounting changes and error corrections. It establishes, unless impracticable, retrospective application as the required method for reporting a change in accounting principle in the absence of explicit transition requirements specific to the newly adopted accounting principle. The reporting of a correction of an error by restating previously issued financial statements is also addressed by this statement. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. Management does not believe that this statement will have a material impact on the Company's financial statements.

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 and 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

Edgar Filing: MAIN STREET TRUST INC - Form 10-K

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 1.5% 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 1.5% 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).

38

The merger of the BIF and SAIF takes 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.

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

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

The Company's ability to predict results or the actual effect of future plans or strategies is inherently uncertain. The factors, which could have a material adverse effect on the operations and future prospects of the Company and its subsidiaries are detailed in the "Risk Factors" section included under Item 1A. of Part I of this Form 10-K. In addition to the risk factors described in that section, there are other factors that may impact any public company, including ours, which could have a material adverse effect on the operations and future prospects of the Company and its subsidiaries. These additional factors include, but are not limited to, the following:

- o The economic impact of past and any future terrorist attacks, acts of

Edgar Filing: MAIN STREET TRUST INC - Form 10-K

war or threats thereof and the response of the United States to any such threats and attacks.

- o The costs, effects and outcomes of existing or future litigation.
- o Changes in accounting policies and practices, as may be adopted by state and federal regulatory agencies, the Financial Accounting Standards Board, the Securities and Exchange Commission and the Public Company Accounting Oversight Board.
- o The ability of the Company to manage the risks associated with the foregoing as well as anticipated.

These risks and uncertainties should be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements.

Item 7a. Quantitative and Qualitative Disclosures about Market Risk

See the "Interest Rate Sensitivity" section contained in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations.

Item 8. Financial Statements and Supplementary Data

The financial statements begin on page 40.

39

MAIN STREET TRUST, INC. AND SUBSIDIARIES

Consolidated Financial Statements

December 31, 2005, 2004 and 2003

40

MAIN STREET TRUST, INC. AND SUBSIDIARIES

TABLE OF CONTENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM	42
---	----

Edgar Filing: MAIN STREET TRUST INC - Form 10-K

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Balance Sheets	43
Consolidated Statements of Income	44
Consolidated Statements of Changes in Shareholders' Equity	45
Consolidated Statements of Cash Flows	46-47
Notes to Consolidated Financial Statements	48-70

41

McGladrey & Pullen, LLP
Certified Public Accountants

Report of Independent Registered Public Accounting Firm

The Board of Directors
Main Street Trust, Inc.
Champaign, Illinois

We have audited the accompanying consolidated balance sheets of Main Street Trust, Inc. and subsidiaries as of December 31, 2005 and 2004, and the related consolidated statements of income, changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2005. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Main Street Trust, Inc. and subsidiaries as of December 31, 2005 and 2004, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2005, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with standards of the Public Accounting Oversight Board (United States), the effectiveness of Main Street Trust, Inc. and subsidiaries' internal control over financial reporting as of December 31, 2005 based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 7, 2006 expressed an unqualified opinion on

Edgar Filing: MAIN STREET TRUST INC - Form 10-K

management's assessment of the effectiveness of Main Street Trust, Inc. and subsidiaries' internal control over financial reporting and an unqualified opinion on the effectiveness of Main Street Trust, Inc. and subsidiaries' internal control over financial reporting.

/s/ McGladrey & Pullen, LLP

Champaign, Illinois
March 7, 2006

McGladrey & Pullen, LLP is a member firm of RSM International - an affiliation of separate and independent legal rights

42

MAIN STREET TRUST, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2005 and 2004
(in thousands, except share data)

	2005	2004
Assets		
Cash and due from banks	\$ 52,007	\$ 33,133
Federal funds sold and interest bearing deposits	42,059	31,795
Cash and cash equivalents	94,066	64,928
Investments in debt and equity securities:		
Available-for-sale, at fair value	343,087	269,580
Held-to-maturity, at cost (fair value of \$75,665 and \$81,099 at December 31, 2005 and 2004, respectively)	76,542	81,164
Non-marketable equity securities	24,994	7,982
Total investments in debt and equity securities	444,623	358,726
Loans, net of allowance for loan losses of \$13,472 and \$9,650 at December 31, 2005 and 2004, respectively	1,002,927	761,227
Mortgage loans held for sale	1,661	1,005
Premises and equipment	23,047	17,087
Goodwill	20,736	--
Core deposit intangibles	4,569	--
Accrued interest receivable	8,461	6,570
Other assets	25,047	18,575
Total assets	\$ 1,625,137	\$ 1,228,118
Liabilities and Shareholders' Equity		
Liabilities:		
Deposits:		
Non-interest bearing	\$ 240,823	\$ 172,908
Interest bearing	1,035,149	801,669

Edgar Filing: MAIN STREET TRUST INC - Form 10-K

Total deposits	1,275,972	974,577
Federal funds purchased, repurchase agreements and notes payable	118,452	96,900
Federal Home Loan Bank advances and other borrowings	67,386	29,882
Accrued interest payable	4,657	2,601
Other liabilities	14,901	10,183
	-----	-----
Total liabilities	1,481,368	1,114,143
	-----	-----
Commitments and Contingencies (Notes 17 and 18)		
Shareholders' equity:		
Preferred stock, no par value; 2,000,000 shares authorized	--	--
Common stock, \$0.01 par value; 15,000,000 shares authorized;		
11,219,319 shares issued	112	112
Paid in capital	55,189	55,189
Retained earnings	120,238	108,071
Accumulated other comprehensive loss	(1,597)	(218)
	-----	-----
	173,942	163,154
Less: treasury stock, at cost, 1,072,644 and 1,770,329 shares		
at December 31, 2005 and 2004, respectively	(30,173)	(49,179)
	-----	-----
Total shareholders' equity	143,769	113,975
	-----	-----
Total liabilities and shareholders' equity	\$ 1,625,137	\$ 1,228,118
	=====	=====

See accompanying notes to consolidated financial statements.

43

MAIN STREET TRUST, INC.
AND SUBSIDIARIES

Consolidated Statements of Income

Years Ended December 31, 2005, 2004 and 2003
(in thousands, except share and per share data)

	2005	2004
	-----	-----
Interest income:		
Loans and fees on loans	\$ 60,988	\$ 41,568
Investments in debt and equity securities		
Taxable	12,465	10,793
Tax-exempt	1,516	1,844
Federal funds sold and interest bearing deposits	2,023	600
	-----	-----
Total interest income	76,992	54,805
Interest expense:		
Deposits	21,589	13,972
Federal funds purchased, repurchase agreements and notes payable	3,097	1,271
Federal Home Loan Bank advances and other borrowings	2,793	1,609
	-----	-----
Total interest expense	27,479	16,852

Edgar Filing: MAIN STREET TRUST INC - Form 10-K

Net interest income	49,513	37,953
Provision for loan losses	1,530	1,100
Net interest income after provision for loan losses	47,983	36,853
Non-interest income:		
Remittance processing	6,748	7,201
Trust and brokerage fees	7,599	6,492
Service charges on deposit accounts	2,923	2,419
Securities transactions, net	(586)	133
Gain on sales of mortgage loans, net	886	997
Other	2,907	2,605
Total non-interest income	20,477	19,847
Non-interest expense:		
Salaries and employee benefits	23,099	18,889
Occupancy	3,074	2,669
Equipment	2,592	2,512
Data processing	2,416	2,283
Office supplies	1,245	1,247
Service charges from correspondent banks	513	781
Amortization of core deposit intangibles	653	--
Other	6,187	5,498
Total non-interest expense	39,779	33,879
Income before income taxes	28,681	22,821
Income taxes	10,373	8,043
Net income	\$ 18,308	\$ 14,778
Per share data:		
Basic earnings per share	\$ 1.82	\$ 1.56
Weighted average shares of common stock outstanding	10,060,032	9,481,034
Diluted earnings per share	\$ 1.80	\$ 1.54
Weighted average shares of common stock and dilutive potential common shares outstanding	10,157,409	9,594,148
Dividends declared per share	\$ 0.89	\$ 0.85

See accompanying notes to consolidated financial statements.

MAIN STREET TRUST, INC.
AND SUBSIDIARIES

Consolidated Statements of Changes in Shareholders' Equity

Years Ended December 31, 2005, 2004 and 2003

Edgar Filing: MAIN STREET TRUST INC - Form 10-K

(in thousands, except share and per share data)

	Common Shares	Stock Amount	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)
Balance, December 31, 2002	11,219,319	\$ 112	\$ 55,337	\$ 92,853	\$ 3,776
Comprehensive Income:					
Net income	--	--	--	16,605	--
Net change in unrealized gain (loss) on securities available-for-sale, net of taxes of (\$1,228)	--	--	--	--	(1,842)
Reclassification adjustment, net of tax of \$5	--	--	--	--	7
Comprehensive income					
Stock appreciation rights	--	--	(66)	--	--
Cash dividends declared (\$0.76 per share)	--	--	--	(7,567)	--
Treasury stock transactions, net	--	--	--	(370)	--
Balance, December 31, 2003	11,219,319	112	55,271	101,521	1,941
Comprehensive Income:					
Net income	--	--	--	14,778	--
Net change in unrealized gain (loss) on securities available-for-sale, net of taxes of (\$1,386)	--	--	--	--	(2,079)
Reclassification adjustment, net of tax of (\$53)	--	--	--	--	(80)
Comprehensive income					
Stock appreciation rights	--	--	(82)	--	--
Cash dividends declared (\$0.85 per share)	--	--	--	(8,056)	--
Treasury stock transactions, net	--	--	--	(172)	--
Balance, December 31, 2004	11,219,319	112	55,189	108,071	(218)
Comprehensive Income:					
Net income	--	--	--	18,308	--
Net change in unrealized gain (loss) on securities available-for-sale, net of taxes of (\$1,154)	--	--	--	--	(1,731)
Reclassification adjustment, net of tax of \$234	--	--	--	--	352
Comprehensive income					
Cash dividends declared (\$0.89 per share)	--	--	--	(8,926)	--
Acquisition of Citizens First Financial Corp.	--	--	--	2,888	--
Treasury stock transactions, net	--	--	--	(103)	--
Balance, December 31, 2005	11,219,319	\$ 112	\$ 55,189	\$120,238	\$ (1,597)

Edgar Filing: MAIN STREET TRUST INC - Form 10-K

See accompanying notes to consolidated financial statements.

45

MAIN STREET TRUST, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows Years Ended December 31, 2005, 2004 and 2003 (in thousands)

	2005	2004
Cash flows from operating activities:		
Net income	\$ 18,308	\$ 14,778
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,533	2,544
Amortization of bond premiums, net of accretion	1,082	2,386
Amortization of core deposit intangibles	653	--
Provision for loan losses	1,530	1,100
Deferred income taxes	(13)	208
Securities transactions, net	586	(133)
Federal Home Loan Bank stock dividend	(797)	(250)
Undistributed earnings from non-marketable equity securities	(1,555)	(304)
Gain on sales of mortgage loans, net	(886)	(997)
Loss (gain) on disposal of premises and equipment	8	(236)
Proceeds from sales of mortgage loans originated for sale	65,334	76,864
Mortgage loans originated for sale	(64,822)	(76,240)
Other, net	2,527	503
	24,488	20,223
Cash flows from investing activities:		
Net increase in loans	(15,264)	(96,108)
Proceeds from maturities and calls of investments in debt securities:		
Held-to-maturity	9,549	20,793
Available-for-sale	194,110	192,975
Proceeds from sales of investments in debt and equity securities:		
Available-for-sale	56,245	3,223
Purchases of investments in debt and equity securities:		
Held-to-maturity	(17,377)	(49,029)
Available-for-sale	(317,443)	(219,215)
Non-marketable equity securities	(685)	(425)
Principal paydowns from mortgage-backed securities:		
Held-to-maturity	11,752	42,967
Available-for-sale	14,777	14,660
Return of principal on non-marketable equity securities	1,800	522
Proceeds from redemption of non-marketable equity securities	--	231
Purchases of premises and equipment	(2,516)	(2,396)
Proceeds from disposal of premises and equipment	8	623
Acquisition of Citizens First Financial Corporation, net of cash and cash equivalents acquired	(6,385)	--
	(71,429)	(91,179)

Edgar Filing: MAIN STREET TRUST INC - Form 10-K

Cash flows from financing activities:		
Net increase in deposits	69,306	76,105
Net increase (decrease) in federal funds purchased, repurchase agreements, and notes payable	21,552	(6,098)
Advances from Federal Home Loan Bank advances and other borrowings ..	39,000	--
Payments on Federal Home Loan Bank advances and other borrowings	(39,095)	(98)
Cash dividends paid	(8,671)	(7,972)
Treasury stock transactions, net	(6,013)	(1,956)
<hr/>		
Net cash provided by financing activities	76,079	59,981
<hr/>		
Net increase (decrease) in cash and cash equivalents	29,138	(10,975)
Cash and cash equivalents at beginning of year	64,928	75,903
<hr/>		
Cash and cash equivalents at end of period	\$ 94,066	\$ 64,928
<hr/> <hr/>		

See accompanying notes to consolidated financial statements.

46

MAIN STREET TRUST, INC.
AND SUBSIDIARIES
Supplemental Disclosure of Cash Flow Information
Years Ended December 31, 2005, 2004 and 2003
(in thousands)

	2005	2004
Cash paid during the year for:		
Interest	\$ 25,616	\$ 15,920
Income Taxes	8,931	6,780
Real estate acquired through or in lieu of foreclosure	148	40
Dividends declared not paid	2,334	2,079
Acquisition of Citizens First Financial Corporation:		
Stock issued	27,804	
Cash paid	28,416	
Capitalized expenses	621	
Total cost of acquisition	56,841	
Assets acquired:		
Cash and due from banks	6,022	
Federal funds sold and interest bearing deposits	16,630	
Cash and cash equivalents	22,652	
Investments in debt and equity securities:		
Available-for-sale, at fair value	23,865	
Non-marketable equity securities	16,374	

Edgar Filing: MAIN STREET TRUST INC - Form 10-K

Loans, net of allowance for loan losses	228,114
Mortgage loans held for sale	282
Premises and equipment	5,993
Accrued interest receivable	1,571
Goodwill	20,736
Core deposit intangibles	5,222
Other assets	6,174
Liabilities assumed:	
Deposits	(232,089)
Federal Home Loan Bank advances and other borrowings ...	(37,599)
Accrued interest payable	(193)
Other liabilities	(4,261)

Net assets acquired	56,841
	=====

See accompanying notes to consolidated financial statements

47

MAIN STREET TRUST, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies

(a) Nature of Operations

Through Main Street Bank & Trust (the "Bank"), Main Street Trust, Inc. (the "Company") provides a full range of banking services to individual and corporate customers located within Champaign, Decatur, Peoria, Bloomington, and Shelbyville, Illinois, and the surrounding communities. In addition, the Company provides retail payment processing services through FirsTech, Inc. The subsidiaries are subject to competition from other financial institutions and nonfinancial institutions providing financial products and similar payment processing services. Additionally, the Company is subject to the regulations of certain regulatory agencies and undergo periodic examinations by those regulatory agencies.

(b) Use of Estimates

The consolidated financial statements of the company have been prepared in conformity with accounting principles generally accepted in the United States of America and conform to predominant practices within the banking industry. The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions, including the determination of the allowance for loan losses, impairment of goodwill and the valuation of real estate acquired in connection with foreclosure or in satisfaction of loans, that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ

Edgar Filing: MAIN STREET TRUST INC - Form 10-K

from those estimates.

(c) Principles of Consolidation

The consolidated financial statements include the accounts of Main Street Trust, Inc. and its wholly owned subsidiaries, Main Street Bank & Trust and FirsTech, Inc., a retail payment processing company. On April 1, 2005, the Company purchased Citizens First Financial Corp., which was the parent company of Citizens Savings Bank, based in Bloomington, Illinois. At the close of business on October 7, 2005, Citizens Savings Bank was merged into Main Street Bank & Trust. During 2004, the Company's subsidiary banks, BankIllinois and The First National Bank of Decatur, were merged to form Main Street Bank & Trust. Significant intercompany accounts and transactions have been eliminated in consolidation.

Property held in fiduciary or agency capacities for its customers is not included in the accompanying consolidated balance sheets, since such items are not assets of the Company.

(d) Segment Information

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

Company information is provided for informational purposes only, since it is not considered a separate segment for reporting purposes. Effective January 1, 2003, certain administrative, audit, compliance, accounting, finance, property management, human resources, courier, information systems and other support services previously included in the budgets of the Company's subsidiary banks were moved to the Company. During this process, approximately 80 full time equivalent employees were moved from the banks to the Company. The net expenses of these functions were allocated to the subsidiaries by charging a monthly management fee. Effective January 1, 2005, these functions were moved to the Banking Services Segment. During this process, approximately 77 full time equivalent employees were moved from the Company to Main Street Bank & Trust. The net expenses of these functions were allocated to the Company and FirsTech by charging a

Edgar Filing: MAIN STREET TRUST INC - Form 10-K

monthly management fee.

The following is a summary of selected data for the various business segments as of and for the year ending December 31 (in thousands):

	Banking Services	Remittance Services	Company	Eliminations	Total
2005					
Total interest income	\$ 75,087	\$ 14	\$ 1,935	\$ (44)	\$ 76,992
Total interest expense	27,180	--	343	(44)	27,479
Provision for loan losses ..	1,530	--	--	--	1,530
Total non-interest income ..	15,238	6,899	(592)	(1,068)	20,477
Total non-interest expense .	35,199	4,281	1,367	(1,068)	39,779
Income before income tax ...	26,416	2,632	(367)	--	28,681
Income tax expense	9,428	1,107	(162)	--	10,373
Net income	16,988	1,525	(205)	--	18,308
Goodwill	20,736	--	--	--	20,736
Total assets	1,610,026	3,365	153,974	(142,228)	1,625,137
Depreciation and amortization	2,126	354	53	--	2,533
2004					
Total interest income	\$ 54,383	\$ 23	\$ 497	\$ (98)	\$ 54,805
Total interest expense	16,876	--	74	(98)	16,852
Provision for loan losses ..	1,100	--	--	--	1,100
Total non-interest income ..	12,779	7,283	4,697	(4,912)	19,847
Total non-interest expense .	27,120	5,012	6,659	(4,912)	33,879
Income before income tax ...	22,066	2,294	(1,539)	--	22,821
Income tax expense	7,709	963	(629)	--	8,043
Net income	14,357	1,331	(910)	--	14,778
Total assets	1,209,207	3,936	121,348	(106,373)	1,228,118
Depreciation and amortization	1,535	623	386	--	2,544
2003					
Total interest income	\$ 55,288	\$ 46	\$ 466	\$ (114)	\$ 55,686
Total interest expense	16,816	--	21	(114)	16,723
Provision for loan losses ..	1,470	--	--	--	1,470
Total non-interest income ..	13,314	7,294	4,653	(4,967)	20,294
Total non-interest expense .	26,486	5,014	5,808	(4,967)	32,341
Income before income tax ...	23,830	2,326	(710)	--	25,446
Income tax expense	8,185	942	(286)	--	8,841
Net income	15,645	1,384	(424)	--	16,605
Total assets	1,136,418	3,740	118,241	(104,225)	1,154,174
Depreciation and amortization	1,542	429	482	--	2,453

(e) Comprehensive Income

Accounting principles generally require that recognized revenue, expenses, gains, and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported as a separate component of the equity section of the balance sheet, such items, along with net income, are components of comprehensive income.

(f) Investments in Debt and Equity Securities

Edgar Filing: MAIN STREET TRUST INC - Form 10-K

Debt securities classified as held-to-maturity are those securities which the Company has the ability and intent to hold until maturity. These securities are carried at amortized cost, in which the amortization of premiums and accretion of discounts, which are recognized as adjustments to interest income, are recorded using methods which approximate the interest method. These methods consider the timing and amount of prepayments of underlying mortgages in estimating future cash flows on individual mortgage-related securities. Unrealized holding gains and losses for held-to-maturity securities are excluded from earnings and shareholders' equity.

49

Debt and equity securities classified as available-for-sale are those securities that the Company intends to hold for an indefinite period of time but not necessarily to maturity. Any decision to sell a security classified as available-for-sale is based on various factors, including significant movements in interest rates, changes in the maturity mix of the Company's assets and liabilities, liquidity needs, regulatory capital considerations, and other similar factors. Securities available-for-sale are carried at fair value. The difference between fair value and cost, adjusted for amortization of premium and accretion of discounts, results in an unrealized gain or loss. Unrealized gains or losses are reported as accumulated other comprehensive income (loss), net of the related deferred tax effect. Gains or losses from the sale of securities are determined using the specific identification method. Premiums and discounts are recognized in interest income using methods, which approximate the interest method over their amortization periods. Amortization period is defined as call date if the security was purchased at a premium or maturity date if purchased at a discount.

Declines in the fair value of held-to-maturity and available-for-sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

Effective for the period ended December 31, 2005, the Company modified its policy for evaluating investments for other-than-temporary impairment. Under its new policy, investments, other than debt security investments where the impairment is deemed to be due solely to interest rate movements, are assumed to be impaired and the impairment recognized through earnings no later than twelve months from the date the security was first impaired, unless there is "overwhelming evidence to the contrary." Under the policy, "overwhelming evidence to the contrary" is a rare instance, but might include, among other things, an announced sale soon after a reporting period where the price would cause an impairment to reverse. Further, under certain circumstances, including a bankruptcy, catastrophic event or other circumstances which cause the Company to determine, after analyzing the specific facts, that the decline in the fair value is other than temporary, the Company would recognize an other than temporary impairment write-down upon such occurrence or determination, and not wait twelve months from the time of the impairment.

Non-marketable equity securities include other investments which are carried at fair value as well as the Bank's required investment in the

Edgar Filing: MAIN STREET TRUST INC - Form 10-K

capital stock of the Federal Home Loan Bank which is carried at cost which approximates fair value.

(g) Loans

Loans are stated at the principal amount outstanding, net of the allowance for loan losses. Interest is credited to income as earned, based upon the principal amount outstanding.

The accrual of interest on loans is discontinued when, in the opinion of management, the borrower is unable to meet payments as they become due. Interest accrued in the current year is reversed against interest income, and prior years' interest is charged to the allowance for loan losses. Interest income on impaired loans is recognized to the extent interest payments are received and the principal is considered fully collectible.

Mortgage loans held for sale are carried at the lower of aggregate cost or estimated market value. Gains or losses on sales of loans held for sale are computed using the specific-identification method and are reflected in income at the time of sale.

Loan origination fees and certain direct origination costs are being amortized as an adjustment of the yield over the contractual life of the related loan, adjusted for prepayments, using the interest method.

(h) Mortgage Servicing Rights

The fair market value of servicing rights on mortgage loans that are sold with servicing retained is capitalized. The capitalized servicing rights are amortized against income based on the estimated lives of the loans. Capitalized servicing rights are evaluated for impairment based on the fair value of the servicing rights and any impairment is reflected in income.

50

(i) Allowance for Loan Losses

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

Edgar Filing: MAIN STREET TRUST INC - Form 10-K

specific reserve 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 reserve amount. Specific reserves will be established for accounts having a collateral deficiency estimated to be \$50,000 or more. The Company's general reserve 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 calculate the number of days each loan exceeds the contractual due dates. 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. 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 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.

(j) Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization applicable to furniture and equipment and buildings and leasehold improvements is charged to the related occupancy or equipment expense using straight-line and accelerated methods over the estimated useful lives of the assets. Estimated lives are 2 to 39 years for buildings and leasehold improvements and 1 to 10 years for furniture and equipment.

(k) Other Real Estate

Other real estate, included in other assets in the accompanying consolidated balance sheets, is initially recorded at fair value, if it will be held and used, or at its fair value less costs to sell if it will be disposed of. If, subsequent to foreclosure, the fair value is less than the carrying amount, the carrying value is reduced through a charge to income. Expenses incurred in maintaining the properties are charged to operations. The Company had \$188,000 of other real estate at December 31, 2005 and none at December 31, 2004.

(l) Income Taxes

Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

(m) Earnings Per Share

Basic earnings per share is computed by dividing net income by the weighted average number of commo. stock shares outstanding. Diluted earnings per share is computed by dividing net income by the weighted average number of common stock and dilutive potential common shares outstanding. Options to purchase shares of the Company's common stock are the only dilutive potential common shares. The weighted average number of dilutive potential common shares is calculated using the treasury stock method.

Earnings per share has been computed as follows:

	2005	2004	2003
Net Income	\$18,308,000	\$14,778,000	\$16,605,000
Shares:			
Weighted average common shares outstanding	10,060,032	9,481,034	10,242,929
Dilutive effect of outstanding options, as determined by the application of the treasury stock method ...	97,377	113,114	116,907
Weighted average common shares outstanding, as adjusted	10,157,409	9,594,148	10,359,836
Basic earnings per share	\$ 1.82	\$ 1.56	\$ 1.62
Diluted earnings per share	\$ 1.80	\$ 1.54	\$ 1.60

(n) Cash and Cash Equivalents

For purposes of the consolidated statements of cash flows, cash and cash equivalents include cash and due from banks and federal funds sold and interest bearing deposits. Generally, federal funds are sold for one-day periods. Cash flows from loans, deposits, and federal funds purchased, repurchase agreements and notes payable are reported net.

(o) Emerging Accounting Standards

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

Edgar Filing: MAIN STREET TRUST INC - Form 10-K

beginning January 1, 2006.

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

The impact of this Statement on the Company after the effective date and beyond will depend upon various factors, among them being the future compensation strategy. The SFAS 123 pro forma compensation costs presented (see Note 1(p) below) to the financial statements have been calculated using the Black-Scholes option-pricing model and may not be indicative of amounts which may be recognized as expense in future periods.

52

In May 2005, the FASB issued SFAS No. 154, Accounting Changes and Error Corrections, which provides guidance on the accounting for and reporting of accounting changes and error corrections. It establishes, unless impracticable, retrospective application as the required method for reporting a change in accounting principle in the absence of explicit transition requirements specific to the newly adopted accounting principle. The reporting of a correction of an error by restating previously issued financial statements is also addressed by this statement. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. Management does not believe that this statement will have a material impact on the Company's financial statements.

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 and 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

Edgar Filing: MAIN STREET TRUST INC - Form 10-K

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 1.5% 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 1.5% 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%-1.5% 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 SAIF takes effect June 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.

53

(p) Stock Option Plans

The Company has a stock-based compensation plan which has been in existence for all periods presented, and is more fully described in Note 13. As permitted under accounting principles generally accepted in the United States of America, grants of options under the plans are accounted for under the recognition and measurement principles of APB Opinion No 25, Accounting for Stock Issued to Employees, and related interpretations. Because options granted under the plans had an exercise price equal to market value of the underlying common stock on the grant date, no stock-based employee compensation cost is included in determining net income. The following table illustrates the effect on net income (in thousands) and earnings per share if the Company had applied the fair value recognition provisions of FASB Statement No. 123, Accounting for Stock-Based Compensation, to stock-based employee compensation.

	2005	2004	2003
Net income on common stock:			
As reported	\$ 18,308	\$ 14,778	\$ 16,605
Deduct total stock-based compensation expense determined under the fair value method for all awards, net of related tax effects	(365)	(366)	(263)
Pro forma	\$ 17,943	\$ 14,412	\$ 16,342
Basic earnings per share:			
As reported	\$ 1.82	\$ 1.56	\$ 1.62

Edgar Filing: MAIN STREET TRUST INC - Form 10-K

Pro forma		1.78		1.52		1.60
Diluted earnings per share:						
As reported	\$	1.80	\$	1.54	\$	1.60
Pro forma		1.77		1.50		1.58

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

	2005	2004	2003
Number of options granted	137,500	140,500	135,000
Risk-free interest rate	3.83% - 4.08%	3.94%	3.64%
Expected life, in years	7.00 - 8.00	8.00	8.00
Expected volatility	15.05% - 15.42%	15.95%	13.35%
Expected dividend yield	2.97% - 3.06%	2.75%	2.42%

(q) Acquired Goodwill and Intangible Assets

Goodwill of \$20.736 million resulted from the acquisition of Citizens First Financial Corp. in 2005. Goodwill was tested for impairment on October 31, 2005. No impairment was found.

54

Intangible assets consist of core deposit intangibles from business acquisitions. This amount is amortized into other expense on a straight-line basis over a six year period. On a periodic basis, the Company reviews the intangible assets for events or circumstances that may indicate a change in recoverability of the underlying basis.

	As of December 31, 2005	
	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets		
Core deposit intangibles	\$ 5,222	\$ 653
Unamortized intangible assets		
Goodwill	\$ 20,736	\$ --
Aggregate Amortization Expense:		

Edgar Filing: MAIN STREET TRUST INC - Form 10-K

For the year ended 12/31/05	\$ 653
For the year ended 12/31/06	870
For the year ended 12/31/07	871
For the year ended 12/31/08	870
For the year ended 12/31/09	870
For the year ended 12/31/10	870
For the year ended 12/31/11	218

2. Acquisition of Citizens First Financial

On April 1, 2005, the Company acquired all of the outstanding stock of Citizens First Financial Corp. ("Citizens"), which was the parent company of Citizens Savings Bank, based in Bloomington, Illinois. The transaction has been accounted for as a purchase. Assets and liabilities related to the acquisition of Citizens are reported as of the April 2005 acquisition date. Results of operations of Citizens since the acquisition date have been included in the Company's consolidated financial statements. The Company merged Citizens Savings Bank into the Bank as of the close of business on October 7, 2005. The Citizens acquisition purchase price of approximately \$56.841 million was allocated based upon the fair value of the assets acquired and liabilities assumed. The Citizens excess purchase price has been allocated to goodwill and identifiable intangible assets in accordance with current accounting literature, to the extent that supportable documentation was available at December 31, 2005. Such amounts are subject to minor adjustments in the near term as additional analysis is performed or obtained from third party sources. \$5.222 million was allocated to core deposit intangibles at acquisition and is being amortized over a period of six years.

Proforma unaudited operating results for the year ended December 31, 2005 and 2004, giving effect to the Citizens acquisition as if it had occurred as of January 1, 2004 are as follows:

	2005	2004

	(in thousands, except per share data)	

Interest Income	\$81,160	\$72,854
Interest Expense	29,074	23,952
Net Income	18,297	17,393
Basic EPS	1.82	1.68
Diluted EPS	1.80	1.66

These unaudited proforma results have been prepared for comparative purposes only and include certain adjustments, such as additional amortization expense on revalued purchased assets and implied interest on additional borrowings to fund the acquisition. In addition, 2005 merger related expenses were reallocated to a period prior to the pro forma dates presented. All adjustments were tax effected. They do not purport to be indicative of the results of operations that actually would have resulted had the combination occurred on January 1, 2004 or of future results of operations of the consolidated entities.

Edgar Filing: MAIN STREET TRUST INC - Form 10-K

3. Cash and Due from Banks

The compensating balances held at correspondent banks were \$35.711 million and \$20.845 million at December 31, 2005 and 2004, respectively. The Bank maintains such compensating balances with correspondent banks to offset charges for services rendered by those banks. In addition, the Bank was required by the Federal Reserve Bank to maintain reserves in the form of cash on hand or balances at the Federal Reserve Bank. The balance of reserves held was \$12.014 million and \$6.341 million at December 31, 2005 and 2004, respectively.

4. Investments in Debt and Equity Securities

The amortized cost and fair values of investments in debt and equity securities (in thousands) were as follows:

	Amortized	Ava
	Cost	un
December 31, 2005		
U.S. Treasury and other government agencies	\$315,930	\$
Mortgage-backed securities	13,729	
Obligations of state and political subdivisions	13,539	
Other	2,551	
	\$345,749	\$
	\$345,749	\$
December 31, 2004		
U.S. Treasury and other government agencies	\$220,718	\$
Mortgage-backed securities	27,731	
Obligations of state and political subdivisions	16,037	
Other	5,457	
	\$269,943	\$
	\$269,943	\$
December 31, 2005		
U.S. Treasury and other government agencies	\$ 38,650	\$
Mortgage-backed securities	17,091	
Obligations of state and political subdivisions	20,801	
	\$ 76,542	\$
	\$ 76,542	\$
December 31, 2004		
U.S. Treasury and other government agencies	\$ 40,931	\$

Edgar Filing: MAIN STREET TRUST INC - Form 10-K

Mortgage-backed securities	14,992	
Obligations of state and political subdivisions	25,241	
	\$ 81,164	\$
	\$ 81,164	\$

56

Unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, as of December 31, 2005 are summarized as follows:

	Continuous unrealized losses existing for less than 12 months		Continuous unrealized losses existing greater than 12 months		
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value
Available-for-Sale:					
U.S. Treasury and other government agencies	\$149,575	\$ 420	\$139,128	\$ 3,041	\$288,7
Mortgage-backed securities	2,511	22	6,654	129	\$ 9,1
Obligations of state and political subdivisions	--	--	3,188	68	\$ 3,1
Subtotal, debt securities	\$152,086	\$ 442	\$148,970	\$ 3,238	\$301,0
Other	847	58	--	--	8
Total temporarily impaired securities	\$152,933	\$ 500	\$148,970	\$ 3,238	\$301,9
Held-to-Maturity:					
U.S. Treasury and other government agencies	\$ 492	\$ 8	\$ 37,239	\$ 911	\$ 37,7
Mortgage-backed securities	8,708	90	3,321	72	\$ 12,0
Obligations of state and political subdivisions	3,996	39	3,332	42	\$ 7,3
Total temporarily impaired securities	\$ 13,196	\$ 137	\$ 43,892	\$ 1,025	\$ 57,0

Unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, as of December 31, 2004, are summarized as follows:

	Continuous unrealized losses existing for less than 12 months		Continuous unrealized losses existing greater than 12 months		
	Fair Value	Unrealized	Fair Value	Unrealized	Fair

Edgar Filing: MAIN STREET TRUST INC - Form 10-K

	Losses		Losses	
Available-for-Sale:				
U.S. Treasury and other				
government agencies	\$153,851	\$ 1,591	\$ 18,537	\$ 459
Mortgage-backed securities	9,016	58	7,862	269
Obligations of state and				
political subdivisions	3,575	20	--	--
Subtotal, debt securities	\$166,442	\$ 1,669	\$ 26,399	\$ 728
Other	764	74	1,056	749
Total temporarily impaired	\$167,206	\$ 1,743	\$ 27,455	\$ 1,477
securities				\$194
Held-to-Maturity:				
U.S. Treasury and other				
government agencies	\$ 37,098	\$ 506	\$ 2,506	\$ 119
Mortgage-backed securities	6,069	71	6,963	152
Obligations of state and				
political subdivisions	2,195	15	--	--
Total temporarily impaired	\$ 45,362	\$ 592	\$ 9,469	\$ 271
securities				\$ 54

57

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

For the period ended December 31, 2005, the \$3.238 million continuous unrealized loss greater than 12 months on available-for-sale securities was made up of forty two debt securities and was believed to be a temporary loss. Other securities, which were comprised of equity securities, have no continuous unrealized loss greater than 12 months, a reduction of \$749,000 from the loss on December 31, 2004. The \$1.025 million continuous unrealized loss greater than 12 months on held-to-maturity securities was made up of thirty one debt securities and was believed to be a temporary loss.

For the period ended December 31, 2004, the \$1.477 million continuous unrealized loss greater than 12 months on available-for-sale securities was made up of four debt securities and seven other securities which were comprised of equity securities. Equity securities represented \$749,000 of the continuous unrealized loss on available-for-sale securities, which was a reduction of \$232,000 from the loss on equity securities of \$981,000 on December 31, 2003. The \$271,000 continuous unrealized loss greater than 12 months on held-to-maturity securities was made up of four debt securities.

Unrealized losses on debt securities are generally due to changes in interest rates and, as such, are considered by the Company to be temporary. Because of the nature of U.S. Agency securities, most of which are single pay at maturity,

Edgar Filing: MAIN STREET TRUST INC - Form 10-K

and because the Company has the ability to hold these investments until a recovery of market value, which may be maturity, the Company does not consider these investments to be other than temporarily impaired. Because the Company believes the decline in market value of mortgage-backed securities is attributable to changes in interest rates and not credit quality and because the Company has the ability to hold these investments until recovery of market value, the Company does not consider these investments to be other than temporarily impaired.

Management has analyzed the equity securities to determine whether an other than temporary loss exists and considered several factors, including, but not limited to, the length of time and the extent to which the market value of the security has been less than cost, the financial condition and near-term prospects of the issuer and the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in market value. Effective for the period ended December 31, 2005, the Company modified its policy for evaluating investments for other-than-temporary impairment. Under its new policy, investments, other than debt security investments where the impairment is deemed to be due solely to interest rate movements, are assumed to be impaired and the impairment recognized through earnings no later than twelve months from the date the security was first impaired, unless there is "overwhelming evidence to the contrary." Under the policy, "overwhelming evidence to the contrary" is a rare instance, but might include, among other things, an announced sale soon after a reporting period where the price would cause an impairment to reverse. Further, under certain circumstances, including a bankruptcy, catastrophic event or other circumstances which cause the Company to determine, after analyzing the specific facts, that the decline in the fair value is other than temporary, the Company would recognize an other than temporary impairment write-down upon such occurrence or determination, and not wait twelve months from the time of the impairment.

A summary of non-marketable equity securities (in thousands) at December 31, 2005 and 2004 is as follows:

	2005	2004
	-----	-----
Federal Home Loan Bank Stock, at cost	\$21,450	\$ 4,279
Other investments, at fair value	3,544	3,703
	-----	-----
	\$24,994	\$ 7,982
	=====	=====

58

Realized gains and (losses) (in thousands) on sales, maturities and impairment losses for the years ended December 31, 2005, 2004 and 2003 were as follows:

	2005	2004	2003
	-----	-----	-----
Gross gains	\$ 1,228	\$ 380	\$ 173
Gross (losses)	(1,814)	(247)	(185)
	-----	-----	-----
Net gains (losses)	\$ (586)	\$ 133	\$ (12)
	=====	=====	=====

Edgar Filing: MAIN STREET TRUST INC - Form 10-K

Applicable income taxes (benefit)	\$ (234)	\$ 53	\$ (5)
	=====		

Investments in debt and equity securities with a carrying value of \$275.609 million and \$280.851 million were pledged at December 31, 2005 and 2004, respectively, to secure public deposits, repurchase agreements, and for other purposes as required or permitted by law.

The amortized cost and fair value of investments in debt and marketable equity securities (in thousands) at December 31, 2005, by amortization date, are shown below. Amortization date is defined as call date if the security was purchased at a premium or maturity date if purchased at a discount. Borrowers may have the right to call or prepay obligations with or without call or prepayment penalties and certain securities require principal repayments prior to maturity. Therefore, these securities and equity securities with no stated maturities are not included in the following maturity summary.

	Available-for-sale	Held-to-
	Amortized	Amortized
	Cost	Cost
	Fair	
	Value	Cost

Due in one year or less	\$150,661	\$ 20,819
Due after one year through five years	174,293	33,552
Due after five years through ten years	4,077	4,920
Due after ten years	438	160

	\$329,469	\$ 59,451
Mortgage-backed securities	13,729	17,091
Marketable equity securities	2,551	--

Total	\$345,749	\$ 76,542
	=====	

5. Loans

A summary of loans (in thousands), by classification, at December 31, 2005 and 2004 is as follows:

	2005	2004

Commercial, financial, and agricultural	\$ 319,861	\$ 314,657
Real Estate - Commercial	469,506	309,830
Real Estate - Residential	140,304	62,464
Installment and consumer	86,728	83,926

	\$1,016,399	\$ 770,877
Less:		
Allowance for loan losses	13,472	9,650

	\$1,002,927	\$ 761,227
	=====	

Edgar Filing: MAIN STREET TRUST INC - Form 10-K

The Company makes commercial, financial, and agricultural; commercial real estate; residential real estate; and installment and consumer loans to customers located in central Illinois and the surrounding communities. As such, the Company is susceptible to changes in the economic environment in central Illinois.

59

The loan portfolio includes a concentration of loans in commercial real estate amounting to \$459.506 million and \$309.830 million at of December 31, 2005 and 2004, respectively. The loans are expected to be repaid from cash flows or from proceeds from the sale of selected assets of the borrowers. The concentration of credit with commercial real estate is taken into consideration by management in determining the allowance for loan losses. The Company's opinion as to the ultimate collectibility of these loans is subject to estimates regarding future cash flows from operations and the value of the property, real and personal, pledged as collateral. These estimates are affected by changing economic conditions and the economic prospects of the borrowers.

During 2005, 2004 and 2003, the Company sold approximately \$65.334 million, \$76.864 million and \$209.192 million, respectively, of residential mortgage loans in the secondary market with servicing released on approximately \$19.982 million, \$28.860 million and \$50.595 million, respectively. Capitalized mortgage servicing rights totaled \$1.311 million and \$992,000 at December 31, 2005 and 2004, respectively. The fair values of these rights were \$1.938 million and \$1.378 million at December 31, 2005 and 2004, respectively. An independent evaluation was performed on the loan portfolio to assess the fair value of the servicing rights in each year reported.

Mortgage loans serviced for others are not included in the accompanying consolidated financial statements. The unpaid balances of these loans consisted of the following (in thousands) at December 31, 2005, 2004 and 2003:

	2005	2004	2003
Fannie Mae	\$186,840	\$196,174	\$191,505
Freddie Mac	81,643	9,564	10,287
Illinois Housing Development Authority	758	939	1,219

In the normal course of business, loans are made to directors, executive officers, and principal shareholders of the Company and to parties which the Company or its directors, executive officers, and shareholders have the ability to significantly influence its management or operating policies (related parties). The terms of these loans, including interest rates and collateral, are similar to those prevailing for comparable transactions with other customers and do not involve more than a normal risk of collectibility. Activity associated with loans (in thousands) made to related parties during 2005 was as follows:

	2005
Balance, January 1	\$ 40,408
Change of relationship	3,663
New loans	22,314
Repayments	(13,718)
Balance, December 31	\$ 52,667

At December 31, 2005 one to four family real estate mortgage loans of

Edgar Filing: MAIN STREET TRUST INC - Form 10-K

approximately \$180.088 million were pledged to secure advances from the Federal Home Loan Bank.

Activity in the allowance for loan losses (in thousands) for 2005, 2004 and 2003 was as follows:

	2005	2004	2003
Balance, beginning of year	\$ 9,650	\$ 9,786	\$ 9,259
Balance, acquisition of Citizens	\$ 3,434	\$ --	\$ --
Provision charged to expense	1,530	1,100	1,470
Loans charged off	(1,459)	(1,692)	(1,640)
Recoveries on loans previously charged off .	317	456	697
Balance, end of year	\$ 13,472	\$ 9,650	\$ 9,786

60

The following table presents summary data on nonaccrual and other impaired loans (in thousands) at December 31, 2005, 2004 and 2003:

	2005	2004	2003
Impaired loans on nonaccrual	\$1,144	\$1,126	\$ 130
Impaired loans continuing to accrue interest	324	1,005	288
Total impaired loans	\$1,468	\$2,131	\$ 418
Other non-accrual loans not classified as impaired	\$1,090	\$ 563	\$ 269
Loans contractually past due 90 days or more, still accruing interest and not classified as impaired	\$ 664	\$ 547	\$ 590
Allowance for loan losses on impaired loans	\$ 374	\$ 491	\$ 63
Impaired loans for which there is no related allowance for loan losses	\$ 545	\$ 863	\$ --
Average recorded investment in impaired loans	\$2,005	\$2,336	\$ 847
Interest income recognized from impaired loans	\$ 67	\$ 68	\$ 13
Cash basis interest income recognized from impaired loans	\$ 34	\$ 16	\$ 10

6. Premises and Equipment

A summary of premises and equipment (in thousands) at December 31, 2005 and 2004 is as follows:

	2005	2004
Land	\$ 7,257	\$ 4,488
Furniture and equipment	15,191	14,715
Buildings and leasehold improvements	28,517	24,431

Edgar Filing: MAIN STREET TRUST INC - Form 10-K

	\$50,965	\$43,634
Less: accumulated depreciation and amortization	27,918	26,547
	\$23,047	\$17,087
	\$23,047	\$17,087

The Company leases various operating facilities and equipment under noncancellable operating lease arrangements. These leases expire at various dates through November 2010 and have renewal options to extend the lease terms for various dates. The rental expense for these operating leases was \$270,000, \$222,000 and \$218,000 in 2005, 2004 and 2003, respectively.

Minimum annual rental payments required under the operating leases (in thousands), which have initial or remaining terms in excess of one year at December 31, 2005 are as follows:

2006	\$266
2007	189
2008	16
2009	12
2010	9

	\$492
	=====

7. Deposits

The aggregate amount of time certificate of deposits in denominations of \$100,000 or more was \$130.203 million and \$107.125 million at December 31, 2005 and 2004, respectively. As of December 31, 2005, the scheduled maturities of time deposits (in thousands) were as follows:

2006	\$330,335
2007	84,915
2008	35,000
2009	13,810
2010 and thereafter	10,397

	\$474,457
	=====

61

8. Federal Funds Purchased, Repurchase Agreements, and Notes Payable

A summary of short-term borrowings (in thousands) at December 31, 2005 and 2004 is as follows:

	2005	2004
	-----	-----
Federal funds purchased	\$ 4,100	\$ 3,300
Securities sold under agreements to repurchase	114,352	93,600
	\$118,452	\$ 96,900
	\$118,452	\$ 96,900

Information relating to short-term borrowings (dollars in thousands) is as follows:

Edgar Filing: MAIN STREET TRUST INC - Form 10-K

	2005	2004	2003
Federal funds purchased:			
Average daily balance	\$ 5,869	\$ 3,515	\$ 5,004
Maximum balance at month-end	\$ 24,225	\$ 5,575	\$ 7,550
Weighted average interest rate at year-end ..	3.56%	1.75%	0.56%
Weighted average interest rate for the year .	3.08%	0.94%	0.81%
Securities sold under agreements to repurchase:			
Average daily balance	\$ 109,810	\$ 93,246	\$ 89,261
Maximum balance at month-end	\$ 119,845	\$ 112,052	\$ 100,448
Weighted average interest rate at year-end ..	3.31%	1.65%	1.06%
Weighted average interest rate for the year .	2.66%	1.32%	1.17%

The securities underlying the agreements to repurchase are under the control of the Bank.

9. Federal Home Loan Bank Advances and Other Borrowings

A summary of Federal Home Loan Bank (FHLB) advances and other borrowings (dollars in thousands) at December 31, 2005 and 2004 is as follows:

	December 31				
	2005			2004	
	FHLB Advances	Other Borrowings	Total	Weighted Average Rate	Total
Maturing in year ending:					
2005	\$ --	\$ --	\$ --	--	\$ 93
2006	28,387	1,523	29,910	3.55%	7,221
2007	2,430	23	2,453	6.83%	2,545
2008	29,000	6,023	35,023	5.25%	20,023
	\$59,817	\$ 7,569	\$ 67,386	4.56%	\$ 29,882

The terms of a security agreement with the FHLB require the Bank to pledge as collateral for advances both qualifying first mortgage loans in an amount equal to at least 167% of these advances and all stock of the FHLB. Advances are subject to restrictions or penalties in the event of prepayment. At December 31, 2005, the Company had sufficient borrowing capacity to permit it to borrow additional funds from the FHLB at a rate equal to the FHLB's current advance rates.

The other borrowings included \$7.500 million to help fund the acquisition of Citizens and general operating needs and \$69,000 for the purchase of the land. Of the \$7.500 million, \$6.000 million was a term loan due March 31, 2008 and floats quarterly based on the 90-day LIBOR rate plus 1.15%. The loan rate at December 31, 2005 was 5.67%. The remaining \$1.500 million were advances on the Company's line of credit (see Note 10 below). The land was originally purchased in 1999 at a cost of \$266,000, with principal of \$23,000 and annual interest due March 8th of each year until the balance has been paid in full. Interest is based on the prime rate at March 8th of each year. The rate at December 31, 2005 was 5.50%.

Edgar Filing: MAIN STREET TRUST INC - Form 10-K

62

10. Line of Credit

The Company has an unsecured line of credit of \$15.000 million from a third party lender. As of December 31, 2005, the Company had borrowed \$1.000 million at 5.58% and \$500,000 at 5.52%, both of which were paid off in January 2006. As of December 31, 2005, \$13.500 million of this line was available.

11. Income Taxes

Income tax expense (in thousands) for 2005, 2004 and 2003 is summarized as follows:

	2005	2004	2003

Federal	\$ 9,560	\$ 7,029	\$ 8,480
State	826	806	998

Current	10,386	7,835	9,478
Deferred	(13)	208	(637)

Total	\$ 10,373	\$ 8,043	\$ 8,841
	=====		

Actual income tax expense (in thousands) for 2005, 2004 and 2003 differ from the "expected" income taxes (computed by applying the maximum U.S. federal corporate income tax rate of 35% to earnings before income taxes) as follows:

	2005	2004	2003

Computed "expected" income taxes	\$ 10,038	\$ 7,987	\$ 8,906
Tax-exempt interest income, net of disallowed interest expense	(488)	(607)	(744)
State tax, net of federal benefit	537	524	649
Other, net	286	139	30

	\$ 10,373	\$ 8,043	\$ 8,841
	=====		

The tax effects of temporary differences (in thousands) that give rise to significant portions of the deferred tax assets and deferred tax liabilities, included in other assets, at December 31, 2005 and 2004 are as follows:

	2005	2004

Deferred tax assets:		
Unrealized holding loss on available-for-sale securities	\$ 1,065	\$ 145
Allowance for loan losses	5,238	3,835
Deferred compensation	1,943	1,622
Other employee benefits	348	310
Phantom stock	242	253
Net Operating Loss Carryforward	148	--
Other	434	271

Total deferred tax assets	\$ 9,418	\$ 6,436

Deferred tax liabilities:

Edgar Filing: MAIN STREET TRUST INC - Form 10-K

Premises and equipment	\$ (817)	\$ (373)
Mortgage servicing rights	(481)	(348)
Deferred loan fees	(394)	(369)
Discount accretion	(75)	(56)
FHLB Stock Dividend	(1,867)	(459)
Prepaid Expenses	(258)	(222)
Purchase Accounting	(1,286)	--
	-----	-----
Total deferred tax liabilities	\$ (5,178)	\$ (1,827)
	-----	-----
Net deferred tax assets	\$ 4,240	\$ 4,609
	=====	=====

At December 31, 2005, the Company had Federal net operating loss carryforwards of approximately \$423,000 for income tax purposes. The difference between book and tax net operating income results from interest income from certain loans and investments which are exempt for state income tax purposes. The net operating loss carryforwards expire through 2024.

12. Retirement Plans

The Company has established a profit sharing plan and a 401(k) plan for substantially all employees who meet the eligibility requirements. The 401(k) plan allowed for participant contributions up to the maximum amount allowed by IRS regulations, of which, the first 6% of gross salary was available for the Company's 50% match. The profit sharing plan is non-contributory. All contributions to the profit sharing plan are at the discretion of the Company. Contributions by the Company totaled \$1.101 million, \$927,000 and \$887,000 for 2005, 2004 and 2003, respectively.

63

Certain key officers and directors participate in various deferred compensation or supplemental retirement agreements with the Company. The Company accrues the liability for these agreements based on the present value of the amount the employee or director is currently eligible to receive. The Company recorded expenses of \$281,000, \$277,000 and \$288,000 in 2005, 2004 and 2003, respectively, related to these agreements. At December 31, 2005 and 2004, the Company had a recorded liability in the amount of approximately \$3.868 million and \$3.769 million, respectively for these plans. The Company has purchased life insurance policies, which are reported as other assets, to cover the aforementioned liabilities and other employee benefits, with recorded cash surrender values in 2005 and 2004 of approximately \$10.533 million and \$5.852 million, respectively.

Additionally, in connection with the merger of BankIllinois Financial Corporation and First Decatur Bancshares, Inc., the Company assumed the outstanding liability for a deferred compensation plan for nonemployee directors of the Company which allowed participating directors to defer directors' fees in a fixed income fund or, alternatively, in the form of "phantom stock units." For directors that elected to receive phantom stock, a deferred compensation account, included in other liabilities on the consolidated balance sheet, was credited with phantom stock units. After the merger, no additional contributions were allowed to these plans, however, phantom stock units continue to be increased by any dividends or stock splits declared by the Company. At December 31, 2005 and 2004, \$296,000 and \$305,000 had been deferred for the phantom stock plan, which represented 20,708 and 21,977 phantom stock units. At December 31, 2005 and 2004, the Company had a recorded liability in the amount of \$618,000 and \$651,000, respectively for these plans.

Additionally, in connection with the acquisition of Citizens First Financial Corp., the Company assumed the outstanding liability for the Director Emeritus

Edgar Filing: MAIN STREET TRUST INC - Form 10-K

Plan. At December 31, 2005, the Company had a recorded liability in the amount of \$1.263 million which is fully funded through single premium insurance annuities.

13. Stock Options and Related Plans

In 2000, after the merger of BankIllinois Financial Corporation and First Decatur Bancshares, Inc. to form the Company, the Company established a stock incentive plan, which provides for the granting of options of the Company's common stock to certain directors, officers and employees. This plan provides for the granting of both qualified and non-qualified options. Existing director options granted prior to 2003 are fully vested and exercisable on the date granted while director options granted in or after 2003 vest, and thus become exercisable, ratably over a one-year period from the date granted. Existing officer and employee options vest, and thus become exercisable, ratably over a three-year period from the date granted. Under the 2000 incentive plan, the Company has outstanding options of 767,413 shares and 1,359,018 shares remain eligible for grant. The following is a summary of the changes in options outstanding under the stock incentive and stock option plans:

	2005		2004	
	Shares	Grant Price Range	Shares	Grant Price Range
Options outstanding, beginning of year	661,465	\$17.50 - \$30.60	581,780	\$ 6.92 - \$24.80
Granted	137,500	\$28.80 - \$29.60	140,500	\$30.60 - \$30.60
Exercised	(22,886)	\$17.50 - \$24.80	(58,921)	\$ 6.92 - \$24.80
Options forfeited	(8,666)	\$18.60 - \$30.60	(1,894)	\$18.60 - \$30.60
Options outstanding, end of year	767,413	\$17.50 - \$30.60	661,465	\$17.50 - \$30.60
Options exercisable, end of year	654,463	\$17.50 - \$30.60	547,769	\$17.50 - \$30.60
Weighted average fair value of options granted		\$4.71		\$4.71

64

	Options Outstanding			Options Ex
	Outstanding as of December 31, 2005	Weighted average remaining contractual life	Weighted average exercise price	Exercisable as of December 31, 2005
Range of Exercise price				
\$17.50 - \$17.50	130,530	4.8 \$	17.50	130,530
\$18.37 - \$18.60	239,196	5.1	18.50	239,196
\$24.80 - \$24.85	127,846	7.0	24.80	121,840
\$28.80 - \$30.60	269,841	8.4	30.10	162,897
	767,413	6.5 \$	23.46	654,463

Edgar Filing: MAIN STREET TRUST INC - Form 10-K

14. Dividend Restrictions

Federal and state banking regulations place certain restrictions on dividends paid and loans or advances made by the Bank to the Company. Without prior approval, the Bank is restricted by Illinois law and regulations of the Illinois Department of Financial and Professional Regulation and the Federal Deposit Insurance Corporation as to the maximum amount of dividends it can pay to its parent to the balance of the retained earnings account, as adjusted (as defined). At December 31, 2005, the Bank had available retained earnings of approximately \$51.826 million for the payment of dividends without obtaining prior regulatory approval. In addition, dividends paid by the Bank to the Company would be prohibited if the effect thereof would cause the Bank's capital to be reduced below applicable minimum capital requirements.

15. Condensed Financial Information of Parent Company

Following are the condensed balance sheets as of December 31, 2005 and 2004 and the related condensed statements of income and cash flows for the years ended December 31, 2005, 2004 and 2003 for Main Street Trust, Inc.:

Condensed Balance Sheets (in thousands)		
	2005	2004

Assets:		
Cash	\$ 342	\$ 9,208
Investment in Bank	136,399	91,182
Investment in FirsTech	3,264	3,739
Investment in other securities	6,303	9,571
Loans, net of allowance for loan losses	2,682	--
Other assets	6,000	7,648
	-----	-----
	\$154,990	\$121,348
	=====	
Liabilities and shareholders' equity:		
Dividend payable	\$ 2,334	\$ 2,079
Other borrowings	7,500	2,268
Other liabilities	1,387	3,026
Shareholders' equity	143,769	113,975
	-----	-----
	\$154,990	\$121,348
	=====	

65

Condensed Statements of Income (in thousands)

	2005	2004	2003

Revenue:			

Edgar Filing: MAIN STREET TRUST INC - Form 10-K

Equity in net income of subsidiaries	\$ 18,512	\$ 15,688	\$ 17,029
Interest income on deposits	174	102	77
Income on securities	1,622	395	389
Interest income on loans	139	--	--
Securities transactions, net	(598)	(1)	(106)
Other	6	4,698	4,759
	-----	-----	-----
Total revenue	19,855	20,882	22,148
	-----	-----	-----
Expenses:			
Salary and benefits	17	4,433	4,066
Interest expense on other borrowings	343	74	21
Other	1,349	2,226	1,742
	-----	-----	-----
Total expenses	1,709	6,733	5,829
	-----	-----	-----
Income before applicable income tax benefit	18,146	14,149	16,319
	-----	-----	-----
Applicable income tax benefit	(162)	(629)	(286)
	-----	-----	-----
Net income	\$ 18,308	\$ 14,778	\$ 16,605
	=====	=====	=====

Condensed Statements of Cash Flows
(in thousands)

	2005	2004
	-----	-----
Cash flows from operating activities:		
Net income	\$ 18,308	\$ 14,778
Adjustments to reconcile net income to net cash provided by operating activities:		
Distributions in excess of (less than) net income of subsidiaries	7,488	(5,688)
Depreciation	53	386
Other, net	2,073	(509)
	-----	-----
Net cash provided by operating activities:	27,922	8,967
	-----	-----
Cash flows from investing activities:		
Acquisition of Citizens First Financial Corporation	(28,738)	--
Securities transactions, net	3,065	(273)
Proceeds from sales of premises and equipment	558	--
Net decrease in loans	780	--
Purchases of premises and equipment	(2)	(316)
	-----	-----
Net cash used in investing activities	(24,337)	(589)
	-----	-----
Cash flows from financing activities:		
Stock transactions, net	(6,013)	(1,956)
Proceeds from other borrowings, net	2,233	--
Cash dividends paid	(8,671)	(7,972)
Other, net	--	(83)
	-----	-----
Net cash used in financing activities	(12,451)	(10,011)
	-----	-----
Net increase (decrease) in cash and cash equivalents	(8,866)	(1,633)
	-----	-----
Cash at beginning of year	9,208	10,841
	-----	-----
Cash at end of year	\$ 342	\$ 9,208

Edgar Filing: MAIN STREET TRUST INC - Form 10-K

66

16. Quarterly Results of Operations (Unaudited) (in thousands, except per share data)

	Year Ended Dec Three Mon	
	December 31	September 30
Interest income	\$21,354	\$21,116
Interest expense	8,495	7,550
Net interest income	12,859	13,566
Provision for losses on loans	450	450
Net interest income after provision for losses on loans	12,409	13,116
Non-interest income	5,106	5,298
Non-interest expense	10,465	10,311
Income before income taxes	7,050	8,103
Income taxes	2,553	2,952
Net income	\$ 4,497	\$ 5,151
Basic earnings per share	\$ 0.44	\$ 0.50
Diluted earnings per share	\$ 0.44	\$ 0.50

	Year Ended Dec Three Mon	
	December 31	September 30
Interest income	\$14,498	\$13,663
Interest expense	4,568	4,384
Net interest income	9,930	9,279
Provision for losses on loans	110	330
Net interest income after provision for losses on loans	9,820	8,949
Non-interest income	4,570	4,958
Non-interest expense	8,922	8,442
Income before income taxes	5,468	5,465
Income taxes	1,906	1,910
Net income	\$ 3,562	\$ 3,555
Basic earnings per share	\$ 0.38	\$ 0.38
Diluted earnings per share	\$ 0.37	\$ 0.37

=====

17. Disclosures About Commitments and Financial Instruments

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

67

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

The following table summarizes these financial instruments and commitments (in thousands) at December 31, 2005 and 2004:

	2005	2004

Financial instruments whose contract amounts represent credit risk:		
Commitments	\$279,647	\$239,074
Standby letters of credit	34,512	33,897

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

The majority of commitments are agreements to extend credit to a customer as long as there is no violation of any condition established in the contract. Commitments, principally variable interest rates, generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. For commitments to extend credit, the Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation. Collateral held varies, but may include accounts receivable; inventory; property, plant and equipment; and income-producing commercial properties. Also included in commitments at December 31, 2005 was \$2.330 million to purchase other equity securities.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements and, generally, have terms of one year or less. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Bank may hold collateral, which include accounts receivables, inventory, property and equipment, and income producing properties, supporting those commitments, if deemed necessary. In the event the customer

Edgar Filing: MAIN STREET TRUST INC - Form 10-K

does not perform in accordance with the terms of the agreement with the third party, the Bank would be required to fund the commitment. The maximum potential amount of future payments the Bank could be required to make is represented by the contractual amount shown in the summary above. If the commitment is funded, the Bank would be entitled to seek recovery from the customer. At December 31, 2005 and 2004, no amounts have been recorded as liabilities for the Bank's potential obligations under these guarantees.

Following is a summary of the carrying amounts and fair values of the Company's financial instruments at December 31, 2005 and 2004:

	2005		
	Carrying amount	Fair Value	Carry amou
Assets:			
Cash and cash equivalents	\$ 94,066	\$ 94,066	\$ 64
Investments in debt and equity securities	444,623	443,746	358
Mortgage loans held for sale	1,661	1,661	1
Loans	1,002,927	1,000,301	761
Accrued interest receivable	8,461	8,461	6
Liabilities:			
Deposits	\$1,275,972	1,272,296	\$ 974
Federal funds purchased, repurchase agreements, and notes payable	118,452	118,436	96
FHLB advances and other borrowings	67,386	67,559	29
Accrued interest payable	4,657	4,657	2

68

Management's fair value estimates, methods, and assumptions are set forth below for the Company's financial instruments.

Cash and Cash Equivalents

The carrying value of cash and cash equivalents approximates fair value due to the relatively short period of time between the origination of the instrument and its expected realization.

Investments in Debt and Equity Securities

The fair value of investments in debt and equity securities is estimated based on bid prices received from securities dealers. Venture capital investments are valued at fair value based upon their financial statements. FHLB stock is valued at cost which approximates fair value.

Mortgage Loans Held For Sale

Fair values of mortgage loans held for sale are based on commitments on hand from investors or prevailing market prices.

Loans

Edgar Filing: MAIN STREET TRUST INC - Form 10-K

Fair values are estimated for portfolios of loans with similar financial characteristics. Loans are segregated by type such as commercial, commercial real estate, residential mortgage, and consumer. Each loan category is further segmented into fixed and adjustable rate interest terms and by performing and nonperforming categories. The fair value of performing loans is calculated by discounting scheduled cash flows through the estimated maturity using estimated market discount rates equal to rates at which loans, similar in type, would be originated at December 31, 2005 and 2004. Estimated maturities are based upon the average remaining contractual lives for each loan classification. Fair value for nonperforming loans is based on the use of discounted cash flow techniques.

Accrued Interest Receivable

The carrying value of accrued interest receivable approximates fair value due to the relatively short period of time between the origination of the instrument and its expected realization.

Deposit Liabilities

The fair value of deposits with no stated maturity, such as non-interest bearing and interest bearing demand deposits and savings deposits is the amount payable on demand. The fair value of time deposits is based on the discounted value of contractual cash flows. The discount rate is estimated using rates currently offered for deposits of similar remaining maturities. The fair value estimates do not include the benefit that results from the low-cost funding provided by the deposit liabilities compared to the cost of borrowing funds in the market nor the benefit derived from the customer relationship inherent in existing deposits.

Federal Funds Purchased, Repurchase Agreements, and Notes Payable

The carrying values of federal funds purchased, daily repurchase agreements and notes payable, approximate fair value due to the relatively short period of time between the origination of the instruments and their expected realization. The fair value of term repurchase agreements is based on the discounted value of contractual cash flows. The discount rate is estimated using rates currently offered for comparable instruments of similar remaining maturities.

Federal Home Loan Bank Advances and Other Borrowings

The fair value of FHLB advances is based on the discounted value of contractual cash flows. The discount rate is estimated using rates on current FHLB advances with similar remaining maturities.

Accrued Interest Payable

The carrying value of accrued interest payable approximates fair value due to the relatively short period of time between the origination of the instrument and its expected realization.

Commitments to Extend Credit and Standby Letters of Credit

The fair value of commitments to extend credit is generally estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates. The fair value of letters of credit is based on fees currently charged for similar agreements or on the estimated cost to terminate them or otherwise settle the obligations with the counterparties. The estimated fair value of commitments to extend credit and standby letters of credit approximates the balances of such commitments.

18. Litigation

The Company and its subsidiaries are involved in various legal proceedings, claims and litigation arising out of the ordinary course of business.

It is the opinion of management that the disposition or ultimate resolution of any other claims and lawsuits arising out of the ordinary course of business will not have a material adverse effect on the consolidated financial position of the Company.

19. Regulatory Capital

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

Quantitative measures established by regulation to ensure capital adequacy require the Company and its subsidiary bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined). Management believes, as of December 31, 2005, that the Company and its subsidiary bank exceeded all capital adequacy requirements to which they are subject.

As of December 31, 2005, the most recent notifications from primary regulatory agencies categorized the Company's subsidiary bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, banks must maintain minimum total capital to risk-weighted assets, Tier I capital to risk-weighted assets, and Tier I capital to average assets ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed any of the Company's subsidiary bank's categories.

The Company's and the Bank's actual capital amounts and ratios as of December 31, 2005 and 2004 are presented in the following tables:

	Actual		For capital
	Amount	Ratio	purpose
As of December 31, 2005:			
Total capital			
(to risk-weighted assets)			
Consolidated	\$135,368	11.7%	\$ 92,324
Main Street Bank & Trust	\$128,227	11.3%	\$ 91,010
Tier I capital			

Edgar Filing: MAIN STREET TRUST INC - Form 10-K

(to risk-weighted assets)			
Consolidated	\$121,644	10.5%	\$ 46,162
Main Street Bank & Trust	\$114,652	10.1%	\$ 45,505
Tier I capital			
(to average assets)			
Consolidated	\$121,644	7.8%	\$ 62,693
Main Street Bank & Trust	\$114,652	7.4%	\$ 62,162
As of December 31, 2004:			
Total capital			
(to risk-weighted assets)			
Consolidated	\$123,656	13.3%	\$ 74,513
Main Street Bank & Trust	\$101,381	11.1%	\$ 73,008
Tier I capital			
(to risk-weighted assets)			
Consolidated	\$113,691	12.2%	\$ 37,257
Main Street Bank & Trust	\$ 91,607	10.0%	\$ 36,504
Tier I capital			
(to average assets)			
Consolidated	\$113,691	9.2%	\$ 49,595
Main Street Bank & Trust	\$ 91,607	7.5%	\$ 48,865

70

Item 9. Changes in and Disagreements on Accounting and Financial Disclosure

None.

Item 9a. Controls and Procedures

A. Disclosure Controls

As of the date of the end of the period covered by this Annual Report on Form 10-K, the Company carried out an evaluation under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer along with the Company's Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Rule 13a-15(b), as adopted by the Securities and Exchange Commission (SEC) under the Securities Exchange Act of 1934 (Exchange Act). Based upon that evaluation, the Company's Chief Executive Officer along with the Company's Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective to timely alert them to material information relating to the Company (including its consolidated subsidiaries) required to be included in the Company's periodic SEC filings.

Disclosure controls and procedures are the controls and other procedures that are designed to ensure that information required to be disclosed in the reports that the Company files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in the reports that the Company files or submits under the Exchange Act is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Edgar Filing: MAIN STREET TRUST INC - Form 10-K

There have been no changes in the Company's internal controls, or in other factors which could significantly affect these controls, over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

B. Management's Report on Internal Control Over Financial Reporting

The management of Main Street Trust, Inc. (the Company) is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control over financial reporting is a process designed under the supervision of the Company's Chief Executive and Chief Financial officers to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's financial statements for external reporting purposes in accordance with U.S. generally accepted accounting principles.

As of December 31, 2005, management assessed the effectiveness of the Company's internal control over financial reporting based on the criteria for effective internal control over financial reporting established in "Internal Control - Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on the assessment, management determined that the Company maintained effective internal control over financial reporting as of December 31, 2005, based on those criteria

The Company acquired Citizens First Financial and its subsidiary, Citizens Savings Bank (Citizens) on April 1, 2005 and merged the subsidiary banks at the close of business on October 7, 2005. Management has excluded from its assessment of the effectiveness of Main Street Trust, Inc's internal control over financial reporting as of December 31, 2005, Citizen's internal control over financial reporting included in the consolidated financial statements of Main Street Trust, Inc for the period of April 1, 2005 until October 8, 2005. While the acquisition was considered material to the Company, it did not result in a material change in our internal controls over financial reporting.

McGladrey & Pullen, LLP, the independent registered public accounting firm that audited the consolidated financial statements of the Company included in this Annual Report on Form 10-K, has issued an attestation report on management's assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2005. The report, which expresses unqualified opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting as of December 31, 2005, is included in this Item under the heading "Report of Independent Registered Public Accounting Firm."

71

McGladrey & Pullen, LLP
Certified Public Accountants

Report of Independent Registered Public Accounting Firm

To the Board of Directors
Main Street Trust, Inc.
Champaign, Illinois

We have audited management's assessment, included in the accompanying Management's Report on Internal Control over Financial Reporting, that Main

Edgar Filing: MAIN STREET TRUST INC - Form 10-K

Street Trust, Inc. maintained effective internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control- Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Main Street Trust, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and the receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that Main Street Trust, Inc. maintained effective internal control over financial reporting as of December 31, 2005, is fairly stated, in all material respects, based on criteria established in Internal Control- Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Also, in our opinion, Main Street Trust, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control- Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

The Company acquired Citizens First Financial and its subsidiary, Citizens Savings Bank (Citizens) on April 1, 2005 and merged the subsidiary banks at the close of business on October 7, 2005. Management excluded from its assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2005, Citizen's internal control over financial reporting included in the consolidated financial statements of Main Street Trust, Inc for the period of April 1, 2005 until October 8, 2005. Our audit of internal control over financial reporting of the Company also excluded an evaluation of the internal control over financial reporting of Citizens from the period of April 1, 2005 to October 8, 2005.

Edgar Filing: MAIN STREET TRUST INC - Form 10-K

We have also audited, in accordance with the standards of the Public Company Oversight Board (United States), the consolidated balance sheets of Main Street Trust, Inc. and subsidiaries as of December 31, 2005 and 2004 and the related consolidated statements of income, changes in shareholders' equity, and cash flows for each of the three years ended December 31, 2005 and our report dated March 7, 2006 expressed an unqualified opinion.

/s/ McGladrey & Pullen, LLP

Champaign, Illinois
March 7, 2006

McGladrey & Pullen, LLP is a member firm of RSM International - an affiliation of separate and independent legal rights

72

Item 9b. Other Information

None.

PART III

Item 10. Directors and Executive Officers of the Registrant

The information in the Company's 2006 Proxy Statement under the caption "Election of Directors" and under the caption "Security Ownership of Certain Beneficial Owners and Management" is incorporated by reference. The information regarding executive officers not provided in the 2006 Proxy Statement is noted below.

Executive Officers

The term of office for the executive officers of the Company is from the date of election until the next annual organizational meeting of the Board of Directors. In addition to the information provided in the 2006 Proxy Statement, the names and ages of the executive officers of the Company as of December 31, 2005, as well as the offices of the Company and the Subsidiaries held by these officers on that date, and principal occupations for the past five years are set forth below.

Name (Age)	Position with Main Street, its subsidiaries and occupation for the last five years
Paul C. Donohue (Age 42)	Executive Vice President of Sales & Marketing for Main Street and Main Street Bank & Trust; General Manager, WSMH-TV, Flint, MI (2003-2004); Station Manager, WICD-TV, Champaign, IL (2001-2003)
Donna R. Greene (Age 52)	Executive Vice President of Main Street and President of Main Street Bank & Trust Wealth Management; Senior Vice President and Certified Financial Planner with First Busey Securities, Inc. (1998-2004)
Leanne C. Heacock (Age 40)	Executive Vice President, Management Information Systems for Main Street and Main Street Bank & Trust and Director of

Edgar Filing: MAIN STREET TRUST INC - Form 10-K

FirsTech; Executive Vice President, Management Information Systems, BankIllinois and The First National Bank of Decatur (2001-2002)

Howard F. Mooney II
(Age 41)

President, FirsTech and Executive Vice President for Main Street and Director of FirsTech;

Robert F. Plecki, Jr.
(Age 45)

Executive Vice President of Main Street and President of Main Street Bank & Trust Retail Banking; President and Director of BankIllinois (2001-2004)

Christopher M. Shroyer
(Age 40)

Executive Vice President of Main Street and President of Main Street Bank & Trust Commercial Banking; President, Chief Executive Officer and Director of The First National Bank of Decatur (2001-2004)

David B. White
(Age 54)

Executive Vice President and Chief Financial Officer of Main Street and Main Street Bank & Trust and Director of FirsTech

Phillip C. Wise
(Age 67)

Executive Vice President of Main Street Bank & Trust and Chairman of FirsTech; Director and Executive Vice President of Main Street and Chairman of the Board of The First National Bank of Decatur (2001-2004)

Section 16(a) Beneficial Ownership Compliance

Section 16(a) of the Securities Exchange Act requires that the directors, executive officers and persons who own more than 10% of our common stock file reports of ownership and changes in ownership with the Securities and Exchange Commission. These persons are also required to furnish us with copies of all Section 16(a) forms they file. Based solely on our review of the copies of such forms furnished to us and representations made by any reporting person concerning whether a Form 5 was required to be filed for 2004, we are not aware of any failures to comply with the filing requirements of Section 16(a) during 2004 except for Mr. Kenney and Mr. Sloan, who each filed a Form 4 one day late.

Item 11. Executive Compensation

The information in the 2006 Proxy Statement under the caption "Executive Compensation" is incorporated by reference.

73

Item 12. Security Ownership Of Certain Beneficial Owners and Management and Related Shareholder Matters

The information in the 2006 Proxy Statement under the caption "Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters" is incorporated by reference.

Equity Compensation Plan Information

The table below sets forth the following information as of December 31, 2005 for all compensation plans previously approved by our shareholders:

- (a) the number of securities to be issued upon the exercise of outstanding options, warrants and rights;
- (b) the weighted-average exercise price of such outstanding options,

Edgar Filing: MAIN STREET TRUST INC - Form 10-K

warrants and rights;

- (c) other than securities to be issued upon the exercise of such outstanding options, warrants and rights, the number of securities remaining available for future issuance under the plans.

EQUITY COMPENSATION PLAN INFORMATION

Plan category	Number of securities to be issued upon exercise of outstanding options	Weighted-average exercise price of outstanding options
Equity compensation plans approved by security holders.....	767,413	\$23.46
Equity compensation plans not approved by security holders.....	0	0
Total.....	767,413	\$23.46

Item 13. Certain Relationships And Related Transactions

The information in the 2006 Proxy Statement under the caption "Transactions with Management" is incorporated by reference.

Item 14. Principal Accountant Fees and Services

The information in the 2006 Proxy Statement under the caption "Independent Registered Public Accounting Firm" is incorporated by reference.

PART IV

Item 15. Exhibits and Financial Statement Schedules

- (a) (1) Index to Financial Statements

See page 35.

- (a) (2) Financial Statement Schedules

N/A

- (a) (3) Schedule of Exhibits

The Exhibit Index which immediately follows the signature page to this Form 10-K is incorporated by reference.

- (b) Exhibits

The exhibits required to be filed with this Form 10-K are included with this Form 10-K and are located immediately following the Exhibit Index to this Form 10-K.

Edgar Filing: MAIN STREET TRUST INC - Form 10-K

74

MAIN STREET TRUST, INC.

EXHIBIT INDEX
TO
ANNUAL REPORT ON FORM 10-K

Exhibit No.	Description	Incorporated Herein by Reference To	Filed Herewith
3.1	Amended and Restated Articles of Incorporation	Exhibit 3.1 to the Form S-4 filed with the Commission on December 23, 2004 (SEC File No. 333-121579)	
3.2	Amendment to Articles of Incorporation of Main Street Trust, Inc.	Exhibit 3.2 to the Form S-4 filed with the Commission on December 23, 2004 (SEC File No. 333-121579)	
3.3	Bylaws	Exhibit 3.3 to the Form S-4 filed with the Commission on December 23, 2004 (SEC File No. 333-121579)	
4.1	Specimen common stock certificate	Exhibit 4.1 to the Form 10-K filed with the Commission on March 30, 2001 (SEC File No.000-30031)	
4.2	Second Amended and Restated Shareholders' Agreement, dated as of November 1, 2000	Exhibit 4.2 to the Form 10-K filed with the Commission on March 30, 2001 (SEC File No. 000-30031)	
10.1	Employment Agreement by and between the Company and Gregory B. Lykins	Exhibit 10.1 to the Form 10-K filed with the Commission on March 29, 2002 (SEC File No. 000-30031)	
10.2	Employment Agreement by and between the Company and Van A. Dukeman	Exhibit 10.2 to the Form 10-K filed with the Commission on March 29, 2002 (SEC File No. 000-30031)	
10.3	Employment Agreement by and between the Company and David B. White	Exhibit 10.5 to the Registration Statement on Form S-4 filed with the Commission on March 15, 1996, as amended (SEC File No. 33-90342)	
10.4	Employment Agreement by and between the Company, FirsTech, Inc. and Phillip C. Wise	Exhibit 10.4 to the Form 10-K filed with the Commission on March 29, 2002 (SEC File No. 000-30031)	
10.5	Employment Agreement by and between The First National Bank of Decatur and Chris Shroyer	Exhibit 10.5 to the Form 10-K filed with the Commission on March 24, 2003 (SEC File No. 000-30031)	
10.6	Employment Agreement by and between the Company	Exhibit 10.6 to the Form 10-K filed with the Commission on March 15,	

Edgar Filing: MAIN STREET TRUST INC - Form 10-K

	and Robert F. Plecki	2004 (SEC File No. 000-30031)	
10.7	Employment Agreement by and between the Company and Paul E. Donohue	Exhibit 10.5 to the Form 10-K filed with the Commission on March 15, 2005 (SEC File No. 000-30031)	
10.8	Employment Agreement by and between the Company and Donna R. Greene	Exhibit 10.5 to the Form 10-K filed with the Commission on March 15, 2005 (SEC File No. 000-30031)	
10.9	Main Street Trust, Inc. 2000 Stock Incentive Plan	Exhibit 10.1 to the Form S-8 filed with the Commission on November 29, 2000 (SEC File No. 333-50890)	
10.10	Main Street Trust, Inc. 2000 Stock Incentive Plan Director Stock Option Agreement	Exhibit 10.5 to the Form 10-K filed with the Commission on March 15, 2005 (SEC File No. 000-30031)	
10.11	Main Street Trust, Inc. 2000 Stock Incentive Plan Employee Stock Option Agreement	Exhibit 10.5 to the Form 10-K filed with the Commission on March 15, 2005 (SEC File No. 000-30031)	
10.12	Credit Agreement dated as of March 31, 2005 between JP Morgan Chase Bank, N.A. and Main Street Trust, Inc.	Exhibit 10.1 to the Form 10-Q filed with the Commission on May 10, 2005 (SEC File No. 000-30031)	
	75		
10.13	Main Street Trust, Inc. Summary of Director Compensation		X
10.14	Agreement and Plan of Merger dated as of December 7, 2004	Exhibit 2.1 to the Form S-4 filed with the Commission on December 23, 2004 (SEC File No. 333-121579)	
21.1	Subsidiaries of the Registrant		X
23.1	Consent of McGladrey & Pullen, LLP		X
31.1	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a)/15d-14(a)		X
31.2	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a)/15d-14(a)		X
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002		X
32.2	Certification of Chief		X

Edgar Filing: MAIN STREET TRUST INC - Form 10-K

Executive Officer Pursuant
to 18 U.S.C. Section 1350,
as adopted Pursuant to
Section 906 of the
Sarbanes-Oxley Act of 2002

76

SIGNATURES

Pursuant to the requirements of Section 13 of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on March 16, 2006.

By: /s/ Van A. Dukeman

Van A. Dukeman
President, CEO and Director

By: /s/ David B. White

David B. White
Executive Vice President and
Principal Financial and
Accounting Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on March 16, 2006.

/s/ Gregory B. Lykins

Gregory B. Lykins

Chairman and Director

/s/ Van A. Dukeman

Van A. Dukeman

President, CEO and Director

/s/ David J. Downey

David J. Downey

Director

/s/ Larry D. Haab

Larry D. Haab

Director

/s/ Frederic L. Kenney

Frederic L. Kenney

Director

August C. Meyer, Jr.

Director

/s/ George T. Shapland

George T. Shapland

Director

Edgar Filing: MAIN STREET TRUST INC - Form 10-K

/s/ Thomas G. Sloan

Thomas G. Sloan

Director

/s/ H. Gale Zacheis

H. Gale Zacheis

Director