MAIN STREET TRUST INC
Form 10-K
March 24, 2003

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, 2002

Commission File Number: 33-90342

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

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

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

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

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

Title of Exchange 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 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 amendment to this Form 10-K. [ ]

The index to exhibits is located on page 68 of 68 total sequentially numbered pages.

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes [X] No [ ]

As of March 17, 2003, the Registrant had issued and outstanding 10,499,599 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 28, 2002, the last business day of the registrant's most recently completed second fiscal quarter, was approximately $159,630,562*.

* Based on the last reported price ($22.75) of an actual transaction in Registrant's Common Stock on June 28, 2002, 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 6, 2003.

MAIN STREET TRUST, INC.

Form 10-K Annual Report

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PART I

Item 1. Description of Business

A. General

MAIN STREET TRUST, INC. (the "Company"), an Illinois corporation, is a bank holding company registered under the Bank Holding Company Act of 1956, as amended (the "BHCA"). The Company was incorporated on August 12, 1999, and is the parent company of BankIllinois, The First National Bank of Decatur and FirsTech, 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 FirsTech, Inc. following the merger of BankIllinois Financial Corporation and First Decatur Bancshares, Inc. into the Company. The merger, which was accounted for as a pooling of interests, was completed on March 23, 2000. Accordingly, prior period consolidated financial data has been restated as though the prior entities had been consolidated for all periods presented. The Company subsequently merged the Company's former banking subsidiary, First Trust Bank of Shelbyville, into BankIllinois effective June 19, 2002.

B. Business of the Company and Subsidiaries

General

The Company conducts the business of banking and offers trust services through BankIllinois and The First National Bank of Decatur (the "Banks"), and retail payment processing through FirsTech, Inc., its wholly owned subsidiaries. As of December 31, 2002, the Company had consolidated total assets of $1.123 billion, shareholders' equity of $134.470 million and trust assets under administration of approximately $1.415 billion. Substantially all of the income of the Company is currently derived from dividends received from the Banks. The amount of these dividends is directly related to the earnings of the Banks and is subject to various regulatory restrictions. See "Regulation and Supervision."

Banking Segment

The Banks conduct 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 the PrimeVest Investment Center and through Raymond James, which services include a broad spectrum of investment products, including stocks, bonds, mutual funds and tax advantaged investments. In addition, the trust & investments 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 Banks 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 Banks' loan portfolios. The Banks' retail banking divisions make loans to consumers for various purposes, including home equity and automobile loans. The consumer mortgage loan departments, which are part of the retail banking divisions, specialize in real estate loans to individuals. The Banks also purchase installment obligations from retailers, primarily without recourse.

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

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, 2002, 2001 and 2000, FirsTech, Inc. accounted for $7.5 million (9%), $7.7 million (9%), and $7.6 million (8%), respectively, of the consolidated total revenues of the Company and accounted for $2.4 million (9%), $2.1 million (9%), and $1.7 million (9%), respectively, of the consolidated income before income tax of the Company. See Note 2 to the Consolidated Financial Statements for an analysis of segment operations.

FirsTech, Inc. provides retail lockbox processing for organizations. In 2002, 2001 and 2000, remittance processing for these companies accounted for approximately 41%, 42% and 52%, respectively, of the total revenue of FirsTech, Inc.

FirsTech, Inc. 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 2002, 2001 and 2000, the remittance collection business for these companies accounted for approximately 54%, 53% and 41%, respectively, of the total revenue of FirsTech, Inc.

FirsTech, Inc. 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 FirsTech, Inc. 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. The Company competes for real estate and other loans principally 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 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 and savings institutions located in the same communities. The Company competes for these deposits by offering a variety of deposit accounts at competitive rates, convenient business hours 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. This may significantly change the competitive environment in which the Company and the Banks 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.

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 Commissioner of Banks and Real Estate (the "Commissioner"), the Office of the Comptroller of the Currency (the "OCC"), 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 Subsidiaries, 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 Subsidiaries, 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 Company is expected to act as a source of financial strength to the Bank Subsidiaries and to commit resources to support the Bank Subsidiaries 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 acquisition involving a 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.

The BHCA generally prohibits the 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 received approval 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 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 shareholders' 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 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, 2002, 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 prohibits 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.

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 Subsidiaries

General. BankIllinois 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, BankIllinois is subject to the examination, supervision, reporting and enforcement requirements of the Commissioner, the chartering authority for Illinois banks, and the FDIC, designated by federal law as the primary federal regulator of insured state banks that, like BankIllinois, are not members of the Federal Reserve System. BankIllinois is a member of the Federal Home Loan Bank System, which provides a central credit facility primarily for member institutions.

The First National Bank of Decatur ("Decatur") is a national bank, chartered by the OCC under the National Bank Act. The deposit accounts of Decatur are insured by the BIF, and Decatur is a member of the Federal Reserve System and the Federal Home Loan Bank System. Decatur is subject to the examination, supervision, reporting and enforcement requirements of the OCC, the chartering authority for national banks. The FDIC, as administrator of the BIF, also has regulatory authority over Decatur.

Deposit Insurance. As FDIC-insured institutions, the Banks are 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.

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During the year ended December 31, 2002, BIF assessments ranged from 0% of deposits to 0.27% of deposits. For the semi-annual assessment period beginning January 1, 2003, 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, 2002 the FICO assessment rate for BIF and SAIF members was approximately 0.02% of deposits.

Supervisory Assessments. All Illinois banks and national banks are required to pay supervisory assessments to the Commissioner and the OCC, respectively, to fund the operations of such agencies. The amount of the assessment paid by an Illinois bank to the Commissioner is calculated on the basis of the institution's total assets, including consolidated subsidiaries, as reported to the Commissioner. In the case of a national bank, the amount of the assessment paid to the OCC is calculated using a formula that takes into account the bank's size and its supervisory condition (as determined by the composite rating assigned to the bank as a result of its most recent OCC examination). During the year ended December 31, 2002, BankIllinois paid supervisory assessments to the Commissioner totaling $104,000 and Decatur paid supervisory assessments to the OCC totaling $107,000.

Capital Requirements. Banks are generally required to maintain capital levels in excess of other businesses. The federal bank regulatory agencies have established the following minimum capital standards for insured state and national banks, such as the Bank Subsidiaries: (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%. For purposes of these capital standards, 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, the regulations of the FDIC and the OCC 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 credit, nontraditional activities or securities trading activities.

Further, federal law and regulations provide various incentives to 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 which 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 and the OCC, in order to be "well-capitalized", a financial institution must maintain a ratio of total capital to total risk-weighted assets of 10% or greater, a ratio of Tier 1 capital to total risk-weighted assets of 6% or greater and a ratio of Tier 1 capital to total assets of 5% or greater.

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

As of December 31, 2002: (i) none of the Bank Subsidiaries were subject to a directive from the FDIC (in the case of BankIllinois) or the OCC (in the case of Decatur) to increase its capital to an amount in excess of the minimum regulatory capital requirements; (ii) each of the Bank Subsidiaries exceeded its minimum regulatory capital requirements under applicable capital adequacy guidelines; and (iii) each of the Bank Subsidiaries was well-capitalized", as defined by applicable regulations.

Liability of Commonly Controlled Institutions. Institutions insured by the FDIC may be liable for any loss incurred by, or reasonably expected to be incurred by, the FDIC in connection with the default of commonly controlled FDIC-insured depository institutions or any assistance provided by the FDIC to commonly controlled FDIC insured depository institutions in danger of default. Because the Company controls each of the Bank Subsidiaries, the Bank Subsidiaries are commonly controlled.

Dividend Payments. The primary source of funds for the Company is dividends from the Banks. Under the Illinois Banking Act, BankIllinois generally may not pay dividends in excess of their net profits. Under the National Bank Act, Decatur may pay dividends out of its undivided profits in such amounts and at such times as its board of directors deemed prudent. Without prior OCC approval, Decatur may not pay dividends in any calendar year that, in the aggregate, exceed its year-to-date net income plus its retained net income for the two preceding years.

The payment of dividends by any financial institution or its holding company is affected by the requirements 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, each of the Bank Subsidiaries exceeded its minimum capital requirements under applicable guidelines as of December 31, 2002. As of December 31, 2002, approximately $51,808,000 was available to be paid as dividends by the Bank Subsidiaries. Notwithstanding the availability of funds for dividends, however, the FDIC (in the case of BankIllinois) and the OCC (in the case of Decatur) may prohibit the payment of any dividends by the Bank Subsidiaries if the agency determines such payment would constitute an unsafe or unsound practice.

Insider Transactions. The Bank Subsidiaries are 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 and the acceptance of the stock or other securities of the Company or its subsidiaries as collateral for loans made by the Bank Subsidiaries. Certain limitations and reporting requirements are also placed on extensions of credit by the Bank Subsidiaries to their 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 Subsidiaries maintain 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.

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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, such as BankIllinois, have the authority under Illinois law to establish branches anywhere in the State of Illinois, subject to receipt of all required regulatory approvals. National banks

headquartered in Illinois, such as Decatur, have the same branching rights in Illinois as banks chartered under Illinois law, subject to OCC approval.

State and national banks are allowed to establish interstate branch networks through acquisitions of other banks, subject to certain conditions, including certain limitations on the aggregate amount of deposits that may be held by the surviving bank and all of its insured depository institution affiliates. 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 allowed only if specifically authorized by state law. Illinois law permits interstate mergers subject to certain conditions, including a condition requiring an Illinois bank involved in an interstate merger to have been in existence and continuous operation for more than five years.

State Bank Investments and Activities. BankIllinois 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 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 BankIllinois.

Financial Subsidiaries. Under Federal law and OCC regulations, national banks are authorized to engage, through "financial subsidiaries", in any activity that is permissible for a financial holding company and any activity that the Secretary of the Treasury, in consultation with the Federal Reserve, determines is financial in nature or incidental to any such financial activity, except (i) insurance underwriting, (ii) real estate development or real estate investment activities (unless otherwise permitted by law), (iii) insurance company portfolio investments and (iv) merchant banking. The authority of a national bank to invest in a financial subsidiary is subject to a number of conditions, including, among other things, requirements that the bank must be well-managed and well-capitalized (after deducting from capital the bank's outstanding investments in financial subsidiaries). Federal law also provides that state banks may invest in financial subsidiaries (assuming they have the requisite investment authority under applicable state law) subject to substantially the same conditions that apply to national bank investments in financial subsidiaries. None of the Bank Subsidiaries has applied for or received approval to establish any financial subsidiaries.

Federal Reserve System. Federal Reserve regulations, as presently in effect, require depository institutions to maintain non-interest earning reserves against their transaction accounts (primarily NOW and regular checking accounts), as follows: for transaction accounts aggregating $42.1 million or less, the reserve requirement is 3% of total transaction accounts; and for transaction accounts aggregating in excess of $42.1 million, the reserve requirement is $1.083 million plus 10% of the aggregate amount of total transaction accounts in excess of $42.1 million. The first $6.0 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 Subsidiaries are in compliance with the foregoing requirements.

F. Employees

The Company had a total of 439 employees at December 31, 2002, consisting of 330 full-time employees and 109 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 customer 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 excellent.

G. Internet Website

The Company maintains internet sites for its subsidiary banks at www.bankillinois.com and www.1stdecatur.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 2. Properties

The Company and its subsidiaries conduct business in seventeen locations. The Company and BankIllinois' headquarters are located at 100 W. University Ave. in Champaign, Illinois. The Company and/or its subsidiaries own the land and buildings for eleven locations and lease six locations, three of which are located in supermarkets.

All of the Banks own their main banking facilities. The Company believes that its facilities are adequate to serve its present needs.

Item 3. Legal Proceedings

In the course of business, the Company and its subsidiaries become involved in 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 2002.

PART II

Item 5. Market For Registrant's Common Equity And Related Shareholder Matters

The Company's common stock was held by approximately 700 shareholders of record as of March 17, 2003 and is traded in the over-the-counter market.

The following table shows, for the periods indicated, the range of 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, and have not been adjusted to reflect the 5% stock dividends paid by the Company in the third quarter of 2001.

	High	Low	Cash Dividends

2001	First quarter	$ 18.88	$ 16.63	$ 0.10
	Second quarter	19.25	18.33	0.11
	Third quarter	19.25	17.50	0.11
	Fourth quarter	18.70	17.55	0.11
2002	First quarter	$ 18.95	$ 17.85	$ 0.13
	Second quarter	24.00	18.70	0.13
	Third quarter	24.30	22.60	0.13
	Fourth quarter	24.95	24.00	0.13

During the fourth quarter of 2002, the Company declared a $0.15 per share cash dividend, which was paid on January 24, 2003. The ability of the Company to pay dividends in the future will be primarily dependent upon its receipt of dividends from the Banks. 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 Banks' 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.

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Item 6. Selected Consolidated Financial Data

The following table presents selected consolidated financial information for the Company for each of the five years ended December 31, 2002. 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		
	2002	2001	
	(dollars in thousands		
Interest income	$ 63,363	$ 73,195	$
Interest expense	21,717	33,598	
Net interest income	41,646	39,597	
Provision for loan losses	1,450	2,670	
Net interest income after provision for loan losses	40,196	36,927	
Non-interest income	18,866	17,266	
Non-interest expense	33,161	30,286	
Income tax expense	8,520	7,736	
Net income	$ 17,381	$ 16,171	$
Basic earnings per share	$ 1.61	$ 1.48	$
Diluted earnings per share	$ 1.60	$ 1.45	$
Return on average total assets	1.58%	1.47%	
Return on average shareholders' equity	12.79%	12.32%	
Cash dividends declared per common share1	$ 0.54	$ 0.45	$

Total assets	$1,122,728	$1,151,511	$1,0
Investment in debt and equity securities	316,210	335,422	3
Loans held for investment, net	664,142	673,061	6
Deposits	868,586	884,109	8
Borrowings	108,457	120,102	1
Total shareholders' equity	134,470	135,993	1
Total shareholders' equity to total assets	11.98%	11.81%	
Average shareholders' equity to average assets	12.35%	11.91%	

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 2002, 2001 and 2000 for the Company, including all subsidiaries, and an analysis of the Company's financial condition at December 31, 2002 compared to December 31, 2001 and at December 31, 2001 compared to December 31, 2000. This discussion and analysis should be read in conjunction with the consolidated financial statements and related notes, which begin at page 38 of this report.

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Overview

The years ended December 31, 2002, 2001 and 2000 were years of transition for the Company involving fundamental reorganization of the consolidated organization. During the first quarter of 2000, the Company was formed as a result of the "merger of equals" of two strong financial services companies. Despite being in this post-merger transitional period, and facing a worsening economic environment and sagging consumer confidence, the Company posted record results during 2001 and 2002. Each of the last three years had non-recurring items. Non-recurring items during 2001 and 2000, many of which were merger related, had significant effects on the Company's reported results.

Merger and related non-recurring restructuring expenses incurred in 2002 consisted of $529,000 of termination of employment contracts, $40,000 of professional fees and $38,000 of data processing expenses, offset by $243,000 of tax benefit. The resulting effect of these items on basic and diluted earnings per share was a decrease of $0.03 for the year 2002. Merger and related non-recurring restructuring expenses incurred in 2001 consisted of $70,000 of data processing expense and $256,000 of termination of employment contracts, offset by $111,000 of tax benefit. Also during 2001, a $2,500,000 reconciliation liability expense, net of tax of $1,000,000, was reversed against non-interest expense. The resulting effect of these items on basic and diluted earnings per share for 2001, was an increase of approximately $0.12 and $0.11 respectively. Costs incurred in 2000 associated with the merger and related non-recurring restructuring consisted of $2,544,000 of professional fees, $1,036,000 of early retirement and termination of employment contracts and $587,000 of expense related to computer equipment write-down, offset by $639,000 of tax benefit. The resulting effect of these costs on basic and diluted earnings per share was a decrease of approximately $0.32 and $0.31 respectively, for 2000.

During the second quarter of 2002, the Company completed a tender offer in which 711,832 of its shares of common stock were acquired for an aggregate cost of $16.556 million. Also in the second quarter of 2002, one of the Company's bank subsidiaries, First Trust Bank of Shelbyville, was merged into BankIllinois.

Segment Operations

FirsTech, Inc. operates as a separate segment of the Company. Results of FirsTech, Inc.'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 2 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 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 dates and 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 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 record earnings of $17,381,000 in 2002 compared to $16,171,000 in 2001 and $11,989,000 in 2000. The Company had a return on average assets of 1.58%, 1.47% and 1.15% in 2002, 2001 and 2000, respectively. The rates of return in 2001 and 2000 were significantly affected by non-recurring events discussed above. Basic earnings per share was $1.61, $1.48 and $1.08 in 2002, 2001 and 2000, respectively. Diluted earnings per share was $1.60, $1.45 and $1.06 in 2002, 2001 and 2000 respectively. Management believes that a strong balance sheet and excellent profitability are critical to success, particularly when the economy experiences a slowdown.

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 System (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)	2002	2001	2000
Total interest income	$63,363	$73,195	$74,271
Total interest expense	21,717	33,598	36,599
Net interest income	41,646	39,597	37,672
Tax equivalent adjustment:			
Tax-exempt investments	1,279	1,210	1,046
Tax-exempt loans	19	59	52
Total adjustment	1,298	1,269	1,098
Net interest income (TE)	$42,944	$40,866	$38,770

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)

	2002			2001		
	Average Balance	Interest	Rate	Average Balance	Interest	Rat
Assets						
Taxable investment						
securities1	$ 262,275	$ 12,471	4.75%	$ 250,890	$13,831	5.5
Tax-exempt investment securities1 (TE)	55,134	3,654	6.63%	52,836	3,557	6.7
Federal funds sold and interest bearing deposits2	25,602	437	1.71%	39,526	1,737	4.3
Loans 3,4 (TE)	673,423	48,099	7.14%	669,702	55,339	8.2
Total interest earning assets and interest income (TE) ..	$1,016,434	$ 64,661	6.36%	$1,012,954	$74,464	7.3
Cash and due from banks	$ 46,771			$ 49,282		
Premises and equipment	18,928			20,336		
Other assets	18,149			20,013		
Total assets	$1,100,282			$1,102,585		
Liabilities and Shareholders' Equity						
Interest bearing demand deposits	$ 90,916	$ 944	1.04%	$ 107,992	$ 2,229	2.0
Savings	261,063	3,689	1.41%	229,493	6,743	2.9
Time deposits	350,353	14,081	4.02%	360,590	19,859	5.5
Federal funds purchased, repurchase agreements and notes payable	68,615	1,169	1.70%	74,918	2,550	3.4
FHLB advances & other borrowings ...	32,889	1,834	5.58%	38,980	2,217	5.6
Total interest bearing liabilities and interest expense	$ 803,836	$ 21,717	2.70%	$ 811,973	$ 33,598	4.1
Non-interest bearing demand deposits	$ 93,590			$ 102,136		
Non-interest bearing savings deposits	56,204			42,810		
Other liabilities	10,738			14,375		
Total liabilities	$ 964,368			$ 971,294		
Shareholders' equity	135,914			131,291		
Total liabilities and shareholders' equity	$1,100,282			$1,102,585		
Interest spread (average						

rate earned minus average rate paid) (TE)		3.66%	3.2
Net interest income (TE)	$ 42,944		$ 40,866
Net yield on interest earnings assets (TE)		4.22%	4.0

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Notes to Consolidated Average Balance Sheet and Interest Rates Table:

1 Investments in debt securities are included at carrying value.
2 Federal funds sold and interest earning deposits include approximately $61,000, $114,000 and $154,000 in 2002, 2001 and 2000, respectively, of interest income from third party processing of cashier checks.
3 Loans are net of allowance for loan losses and include mortgage loans held for sale. Nonaccrual loans are included in the total.
4 Loan fees of approximately $1,269,000, $1,058,000, and $1,061,000 in 2002, 2001 and 2000, respectively, are included in total loan income.

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)

	2002			
	Increase (Decrease) from Previous Year	Due to Volume	Due to Rate	Increa (Decrea from Previo Year
Interest Income				
Taxable investment securities	($ 1,360)	$ 606	($ 1,966)	($ 1,7
Tax-exempt investment securities	(97)	153	(56)	4
Federal funds sold and interest bearing deposits	(1,300)	(475)	(825)	1
Loans	(7,240)	306	(7,546)	1
Total interest income	($ 9,803)	$ 590	($10,393)	($ 9
Interest Expense				
Interest bearing demand and savings deposits	($ 4,339)	$ 370	($ 4,709)	($ 2,1
Time deposits	(5,778)	(550)	(5,228)	3
Federal funds purchased, repurchase agreements and notes payable	(1,381)	(199)	(1,182)	(1,2
Federal Home Loan Bank advances and other borrowings	(383)	(341)	(42)	

Total interest expense	($11,881)	($ 720)	($11,161)	($ 3,0
Net Interest Income (TE)	$ 2,078	$ 1,310	$ 768	$ 2,0

Total average earning assets increased from $1.013 billion in 2001 to $1.016 billion in 2002, but generated lower levels of interest income due to a significant decrease in interest rates during 2002. Average taxable investment securities increased $11.385 million, but generated $1,360,000 less interest income, of which $1,966,000 was due to lower rates, offset somewhat by $606,000 due to an increase in volume. Average loans increased $3.721 million, but generated $7,240,000 less interest income, of which $7,546,000 was due to lower rates, offset slightly by a $306,000 increase attributable to an increase in volume. Average tax-exempt investment securities increased $2.298 million in 2002, resulting in an increase of $97,000 in interest income. Of this increase, $153,000 was due to an increase in volume, offset somewhat by $56,000 due to lower rates. Somewhat offsetting these increases in average balances was a decrease in average federal funds sold and interest-bearing deposits of $13.924 million, resulting in a decrease in interest income in this category of $1,300,000. Of this decrease, $825,000 was due to lower rates and $475,000 was due to a decrease in volume.

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Total average earning assets increased from $950.950 million in 2000 to $1.013 billion in 2001, but generated lower levels of interest income due to a significant decrease in interest rates during 2001. Average loans increased $46.050 million, resulting in an increase of $133,000 in interest income, of which $3,933,000 was due to an increase in volume, mostly offset by a $3,800,000 decrease attributable to lower rates. Average federal funds sold and interest-bearing deposits increased $16.838 million in 2001, resulting in an increase in interest income in this category of $184,000. Of this increase, $874,000 was due to an increase in volume, offset substantially by $690,000 due to lower rates. Average tax-exempt investment securities increased $8.206 million, resulting in an increase of $480,000 in interest income, of which $554,000 was due to an increase in volume, offset slightly by $74,000 due to lower rates. These increases in average balances were offset by a decrease in average taxable investment securities of $9.090 million, resulting in a decrease of $1,702,000 in interest income in this category, of which $530,000 was due to lower volume and $1,172,000 was due to a decrease in rates.

The Company establishes interest rates on loans and deposits based on market rates - such as the 91-day Treasury Bill rate and the prime rate - and interest rates offered by other financial institutions in the local community. The level of risk and the value of collateral also are evaluated when determining loan rates. Rates were generally lower in 2002 compared to 2001. The average rate earned on loans decreased 112 basis points from 8.26% in 2001 to 7.14% in 2002. The yield on tax-exempt investment securities decreased 10 basis points from 6.73% in 2001 to 6.63% in 2002. The yield on taxable investment securities decreased 76 basis points from 5.51% for the year ended December 31, 2002 to 4.75% for the year ended December 31, 2002. The yield on federal funds sold and interest-bearing deposits decreased 268 basis points from 4.39% in 2001 to 1.71% in 2002.

The total actual balance of loans at December 31, 2002 was lower than at December 31, 2001. Installment and consumer loans decreased $24.056 million from 2001 to 2002. This was primarily caused by a $26.778 million decrease in

installment loans due to competition from special financing offered by the auto manufacturers' captive financing companies. Commercial, financial and agricultural loans decreased $11.997 million from 2001 to 2002 as a result of the slowdown of the economy. Somewhat offsetting these decreases was an increase of $27.134 million in real estate loans. Of this increase, $56.020 million was attributable to commercial real estate loans, offset somewhat by a $28.886 million decrease in residential mortgage loans. The decrease in residential mortgage loans was caused by a dramatic increase in refinancings to long-term fixed rate loans, which were subsequently sold on the secondary market.

Average rates on total interest bearing liabilities decreased 144 basis points, from 4.14% in 2001 to 2.70% in 2002, resulting in a decrease in interest expense of $11,881,000 in 2002 compared to 2001, due to the low rate environment throughout 2002. This was caused by a decrease in interest expense on all categories of interest bearing liabilities. The average rates paid on federal funds purchased, repurchase agreements and notes payable decreased 170 basis points from 3.40% in 2001 to 1.70% in 2002. This resulted in a decrease in interest expense of $1,381,000, of which $1,182,000 was due to rate decreases and $199,000 was due to lower volume. The average rate paid on time deposits decreased 149 basis points, from 5.51% in 2001 to 4.02% in 2002. This resulted in a decrease of $5,778,000 in interest expense, of which $5,228,000 was due to lower rates and $550,000 was due to a decrease in volume. The average rate paid on interest bearing demand and savings deposits decreased 134 basis points, from 2.66% in 2001 to 1.32% in 2002. This resulted in a decrease in interest expense of $4,339,000 in 2002, of which $4,709,000 was attributable to lower rates, offset slightly by a $370,000 increase in volume. The average rate paid on Federal Home Loan Bank advances and other borrowings decreased 11 basis points, from 5.69% in 2001 to 5.58% in 2002. This resulted in a decrease in interest expense of $383,000, of which $42,000 was due to lower rates and $341,000 was due to a decrease in volume.

Interest expense decreased $3,001,000 in 2001 compared to 2000. This was mainly caused by a decrease in interest expense on interest bearing demand and savings deposits of $2,161,000 in 2001, of which $2,832,000 was due to a decrease in rates, offset somewhat by $671,000 due to increased volume. The average rates paid on federal funds purchased, repurchase agreements and notes payable decreased 159 basis points from 4.99% in 2000 to 3.40% in 2001. This resulted in a decrease in interest expense of $1,214,000, of which $1,191,000 was due to rate decreases and $23,000 was due to lower volume. These decreases were offset somewhat by an increase of $328,000 in interest expense on time deposits. Of this increase, $907,000 was due to an increase in volume, offset somewhat by $579,000 due to lower rates. Interest expense on Federal Home Loan Bank advances and other borrowings increased $46,000, with $131,000 attributable to volume increases, offset somewhat by $85,000 due to lower 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 loans and all loans that present indications of additional credit risk.

Continued emphasis on loan quality was reflected in the ratio of net charge-offs to average net loans of 0.22% in 2002, compared to 0.34% in 2001. Net charge-offs decreased to $1,450,000 in 2002 from $2,290,000 in 2001. The Company charged off $1,927,000 in loans during 2002 compared to $2,673,000 in 2001. This was due to decreases in charge-offs for commercial, financial and agricultural loans of $1,062,000 in 2002 compared to 2001. The decreased charge-offs were due

largely to charge-offs on two agriculture credits totaling $847,000 in 2001. These decreases were offset somewhat by increases in charge-offs of installment and consumer loans of $218,000 and in residential real estate loans of $98,000. The increased charge-offs of installment and consumer loans were in the retail lending area, particularly in indirect vehicle loans. Recoveries of previously charged off loans increased from $383,000 in 2001 to $477,000 in 2002, with the largest increase in the area of commercial, financial and agricultural loans that increased $66,000 from 2001 to 2002. The provision for loan losses decreased $1,220,000 from $2,670,000 in 2001 to $1,450,000 in 2002. This decrease was mainly due to the reduction in net charge-offs. The Company continues to emphasize credit analysis and early detection of problem loans.

Along with other financial institutions, management shares a concern for the outlook of the economy in 2003. A slowdown in economic activity beginning in 2001 severely impacted several major industries as well as the economy as a whole. Even though there are indications of emerging strength, it is not certain that this strength is sustainable. In addition, consumer confidence may be negatively impacted by the decline in equity prices. These events could still adversely affect cash flows for both commercial and individual borrowers, as a result of which, the Company could experience increases in problem assets, delinquencies and losses on loans.

Non-interest Income

Non-interest income increased $1,600,000, or 9.3%, from 2001 to 2002. Included in this increase was an increase of $702,000, or 13.4%, in income from trust and brokerage fees from $5,227,000 in 2001 to $5,929,000 in 2002. This was primarily the result of the adoption of a uniform trust fee schedule throughout the Company in 2002 that resulted in the recognition of increased fees as well as a $29,000,000 increase in assets under management in 2002 compared to 2001. Gains on sales of mortgage loans held-for-sale increased $540,000, or 65.2%, from $828,000 in 2001 to $1,368,000 in 2002. This increase resulted from a $34,743,000, or 33.4%, increase in mortgage loans sold during 2002 compared to 2001 due to the low interest rate environment. Service charges on deposit accounts increased $156,000, or 7.0%, in 2002 compared to 2001. Income from securities transactions increased $101,000, or 91.8%, in 2002 compared to 2001. This was the result of the sale of some securities to reposition the portfolio in the low rate environment. Remittance processing income increased $90,000, or 1.3%, during 2002 compared to 2001. Other non-interest income increased $11,000, or 0.6%, in 2002 compared to 2001.

Non-interest income increased $950,000, or 5.8%, from 2000 to 2001. Included in this increase was an increase of $616,000, or 290.6%, from gains on sales of mortgage loans held-for-sale. This increase resulted from a $78,618,000, or 307.9%, increase in mortgage loans sold during 2001 compared to 2000 due to the falling interest rate environment. Remittance processing income increased $582,000, or 8.8%, during 2001 compared to 2000. This increase was due to increased volume coupled with restructured pricing for some customers. Service charges on deposit accounts increased $130,000, or 6.2%, in 2001 compared to 2000. Also contributing to the increase in non-interest income was an $89,000, or 423.8%, increase in income from securities transactions. This was the result of the sale of some securities to reposition the portfolio in the changing rate environment. Somewhat offsetting these increases was a decrease in other non-interest income of $220,000, or 11.5%, from $1,917,000 in 2000 to $1,697,000 in 2001. Proceeds from a life insurance policy of approximately $81,000 along with $22,000 in one-time fee income during 2000, contributed to this decrease. Also, income from trust and brokerage fees decreased $247,000, or 4.5%, from $5,474,000 in 2000 to $5,227,000 in 2001. This was due, in part, to the downturn in the stock market during late 2000 and 2001. Market values were depressed causing fee income, which is based on market valuation, to decline in this area.

Non-interest Expense

During 2002, non-interest expense increased $2,875,000, or 9.5%, to $33,161,000 in 2002 from $30,286,000 in 2001. The 2001 expense was a decrease of $4,483,000, or 12.9%, compared to 2000 non-interest expense of $34,769,000. During 2001, there were no merger related professional fees compared to $2,544,000 in 2000. During 1999, the Company investigated reconciliation differences, which involved the Company's subsidiary, FirsTech, Inc. in connection with its commercial remittance processing services. After consultation with its professional advisors, the Company's Board of Directors directed that a liability in the amount of $2.5 million be recorded in the fourth quarter of 1999. Investigation of these differences was completed during the fourth quarter of 2001. It was determined that no liability existed and the $2.5 million liability was reversed in non-interest expense in 2001. In 2002, there was no reconciliation liability effect. During 2002, salaries and employee benefits expense increased $960,000, or 5.4%, data processing expense increased $357,000, or 18.4%, occupancy expense increased $79,000, or 3.4%, and service charges from correspondent banks increased $47,000, or 5.3%. Somewhat offsetting these increases were decreases in equipment expense of $626,000, or 18.4%, office supplies expense of $274,000, or 17.9%, and other non-interest expense of $168,000, or 3.4%. During 2001, salaries and employee benefits expense decreased $513,000, or 2.8%, equipment expense decreased $247,000, or 6.8%, and service charges from correspondent banks decreased $113,000, or 11.3%. Somewhat offsetting these decreases were increases in other non-interest expense of $585,000, or 13.4%, data processing expense of $473,000, or 32.2%, office supplies expense of $299,000, or 24.2%, and occupancy expense of $77,000, or 3.5%.

Salaries and employee benefits increased $960,000, or 5.4%, from $17,761,000 in 2001 to $18,721,00 in 2002. Contributing to the increase in salaries and employee benefits expense was an increase of $273,000 in salaries and benefits related to organizational restructuring that resulted in termination of employment contracts, and an increase of $288,000 in group health insurance costs. Salaries and employee benefits in 2001 decreased $513,000, or 2.8%, from $18,274,000 in 2000. Salaries and employee benefits in 2001 included $256,000 of expenses related to the termination of employment contracts compared to $1,034,000 in expenses in 2000 related to early retirement and termination of employment contracts as a result of the merger.

Data processing expense increased $357,000, or 18.4%, from $1,943,000 in 2001 to $2,300,000 in 2002. Contributing to this increase were a computer system conversion at the Company's Decatur bank late in the first quarter of 2001 from in-house data processing to third party service bureau data processing, conversion to a new system and a software upgrade at the Company's remittance processing subsidiary FirsTech, costs to merge First Trust Bank of Shelbyville and BankIllinois computer records, as well as a continuation in development of the Company's internet services during 2002 compared 2001. In 2001, data processing expense increased $473,000, or 32.2%, from $1,470,000 in 2000. Included in data processing expense were expenses associated with conversion to third party service bureau data processing from in-house processing, and $70,000 in expenses related to computer system conversion and early contract termination as a result of the computer system conversion.

Occupancy expense increased $79,000, or 3.4%, from $2,297,000 in 2001 to $2,376,000 in 2002. In 2001, occupancy expense increased $77,000, or 3.5%, from $2,220,000 in 2000.

Services charges from correspondent banks increased $47,000, or 5.3%, from $885,000 in 2001 to $932,000 in 2002. This increase was mainly due to a reduction in monthly earnings credits, which offset a portion of the charges, due to the falling rate environment. Earnings credits are typically indexed to a

key government rate, like the monthly average 91-day Treasury bill rate. The average 91-day T-bill rate dropped from 3.43% in 2001 to 1.64% in 2002. In 2001, services charges from correspondent banks decreased $113,000, or 11.3%, from $998,000 in 2000. The decrease in 2001 reflected a shift from lockbox payments to mechanized payments at the Company's FirsTech subsidiary, which have lower costs.

Equipment expense decreased $626,000, or 18.4%, from $3,405,000 in 2001 to $2,779,000 in 2002. This decrease was due, in part, to conversion to third party service bureau data processing from in-house data processing at the Company's Decatur bank during 2001. In 2001, equipment expense decreased $247,000, or 6.8%, from $3,652,000 in 2000. This was primarily due to $587,000 in merger related write-downs of computer equipment and software in 2000.

Office supplies expense decreased $274,000, or 17.9%, from $1,535,000 in 2001 to $1,261,000 in 2002. In 2001, office supplies expense increased $299,000, or 24.2%, from $1,236,000 in 2000. Included in office supplies expense in 2001 were additional printing and mailing expenses and additional supplies purchased to support and announce a computer system conversion necessary to move the Company's subsidiaries toward the same data processing system.

In 2002, other non-interest expense decreased $168,000, or 3.4%, from $4,960,000 in 2001 to $4,792,000 in 2002. In 2001, other non-interest expense increased $585,000, or 13.4%, from $4,375,000 in 2000. Included in this change was $461,000 in other real estate income in 2000 from the sale of a property that had been previously written down.

Income Tax Expense

Income tax expense increased $784,000, or 10.1%, from $7,736,000 in 2001 to $8,520,000 in 2002. This was mainly due to an increase in taxable income. In 2001, income tax expense increased $1,310,000, or 20.4%, from $6,426,000 in 2000. This was due to an increase in taxable income. The Company's effective tax rate was 32.9%, 32.4% and 34.9% for the years ended December 31, 2002, 2001 and 2000, respectively. The effective tax rate was higher in 2000 due to non-deductible merger related expenses.

The tax effects of temporary differences, which gave rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2002 and 2001, are shown in note 11 in the Notes to Consolidated Financial Statements.

Financial Condition

Total assets decreased $28.783 million, or 2.5%, from $1.152 billion at December 31, 2001 to $1.123 billion at December 31, 2002. Decreases in cash and due from banks, investments in debt and equity securities available-for-sale, loans, mortgage loans held-for-sale, accrued interest receivable and premises and equipment were somewhat offset by increases in federal funds sold and interest earning deposits, investments in debt and equity securities held-to-maturity, non-marketable equity securities and other assets.

Cash and due from banks decreased $28.151 million, or 32.0%, at December 31, 2002 compared to December 31, 2001, primarily due to the purchase of $16.556 million of the Company's common stock into treasury as a result of the second quarter 2002 tender offer, and a smaller dollar amount of deposit items in process of collection at December 31, 2002 compared to December 31, 2001.

Total investment in debt and equity securities decreased $19.212 million, or

5.7%, at December 31, 2002 compared to December 31, 2001. Investments in debt and equity securities available-for-sale decreased $25.880 million, or 9.7%, at December 31, 2002 compared to December 31, 2001. Somewhat offsetting this decrease was an increase in investments in debt and equity securities held-to-maturity of $4.745 million, or 7.4%, and an increase in investments in non-marketable equity securities of $1.923 million, or 37.6%, at December 31, 2002 compared to December 31, 2001.

Loans, net of loan allowance, decreased $8.919 million, or 1.3%, at December 31, 2002 compared to December 31, 2001. Installment and consumer loans decreased $24.056 million from 2001 to 2002. This was primarily caused by a $26.778 million decrease in installment loans due to competition from special financing offered by the auto manufacturers' captive financing companies. Commercial, financial and agricultural loans decreased $11.997 million from 2001 to 2002 primarily as a result of the slowdown of the economy. Somewhat offsetting these decreases was an increase of $27.134 million in real estate loans. Of this increase, $56.020 million was attributable to commercial real estate loans, offset somewhat by a $28.886 million decrease in residential mortgage loans. The decrease in residential mortgage loans was caused by a dramatic increase in refinancings to long-term fixed rate loans, which were subsequently sold on the secondary market.

Mortgage loans held-for-sale decreased $5.803 million, or 66.1%, at December 31, 2002 compared to December 31, 2001, accrued interest receivable decreased $1.575 million, or 17.7%, and premises and equipment decreased $0.910 million, or 4.7%, at December 31, 2002 compared to December 31, 2001.

Federal funds sold and interest earning deposits increased $35.518 million, or 474.6%, at December 31, 2002 compared to December 31, 2001. Federal funds sold and interest earning deposits fluctuate with loan demand, deposit volume and investment opportunities. Other assets increased $0.269 million, or 2.5%, at December 31, 2002 compared to December 31, 2001.

The decrease in year-end assets was a result of total deposits being $15.523 million, or 1.8%, lower at December 31, 2002 compared to December 31, 2001. This was primarily due to the maturity of a large short-term deposit at the beginning of 2002. Also, Federal Home Loan Bank advances and other borrowings were $7.089 million, or 20.3%, lower and federal funds purchased, repurchase agreements and other notes were $4.556 million, or 5.3%, lower at December 31, 2002 than at December 31, 2001.

Average assets were $2.303 million, or 0.2%, lower in 2002 than 2001. Included in the decrease in average assets was a decrease of $13.924 million, or 35.2%, in average federal funds sold and interest earning deposits, a decrease of $2.511 million, or 5.1%, in cash and due from banks, a decrease of $1.864 million, or 9.3% in other assets, and a decrease of $1.408 million, or 6.9%, in premises and equipment. These decreases were somewhat offset by increases of $11.385 million, or 4.5%, in taxable investment securities, an increase of $3.721 million, or 0.6%, in average net loans including mortgage loans held-for-sale, and an increase of $2.298 million, or 4.3%, in tax-exempt investment securities.

There were shifts in funding sources as total average deposits increased $9.105 million, or 1.1%, while average federal funds purchased, repurchase agreements and other notes decreased $6.303 million, or 8.4%, and average Federal Home Loan Bank advances and other borrowings decreased $6.091 million, or 15.6%, in 2002 from 2001. Included in the increase in average deposits was a shift in the average deposit mix in 2002 versus 2001. Average interest bearing savings increased $31.570 million, or 13.8%, and average non-interest bearing savings

increased $13.394 million, or 31.3%. Somewhat offsetting these increases were decreases in average interest bearing demand deposits of $17.076 million, or 15.8%, average time deposits of $10.237 million, or 2.8%, and average non-interest bearing demand deposits of $8.546 million, or 8.4%.

Investment Securities

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

Carrying Value of Securities1
(in thousands)

December 31,	20
Securities available-for-sale:	
U.S. Treasury	$ 3
Federal agencies	185
Mortgage-backed securities	30
State and municipal	16
Corporate and other obligations	1
Marketable equity securities	4
Total	$240
Securities held-to-maturity:	
Federal agencies	$ 1
Mortgage-backed securities	23
State and municipal	43
Total	$ 68
Non-marketable equity securities:	
FHLB and FRB stock2	$ 3
Other equity investments	3
Total	$ 7
Total securities	$316

The unrealized gain on securities available-for-sale, net of tax effect, increased $1,026,000, to a gain of $3,776,000 at December 31, 2002 from a gain of $2,750,000 at December 31, 2001.

The following table shows the maturities and weighted-average yields of investment securities at December 31, 2002:

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

	December 31, 2002		
	1 year	1 to 5	5 to 10

	or less		years		years	
	Amount	Rate	Amount	Rate	Amount	Rate
Securities available-for-sale:						
U.S. Treasury	$ 3,066	3.94%	$ --	--	$ --	--
Federal agencies	44,977	4.80%	140,492	4.24%	--	--
Mortgage-backed securities1	9,263	3.28%	19,282	5.23%	2,257	8.07%
State and municipal	769	4.74%	8,271	4.54%	5,335	4.99%
Other securities	1,008	4.26%	--	--	--	--
Marketable equity securities2 ..	--	--	--	--	--	--
Total	$ 59,083		$ 168,045		$ 7,592	
Average Yield		4.51%		4.37%		5.90%
Securities held-to maturity:						
Federal agencies	$ 1,750	6.03%	$ --	--	$ --	--
Mortgage-backed securities1	8,043	2.75%	11,400	4.38%	275	4.57%
State and municipal	8,161	4.01%	30,729	4.02%	4,328	4.79%
Total	$ 17,954		$ 42,129		$ 4,603	
Average Yield		3.64%		4.12%		4.77%
Non-marketable equity securities2						
FHLB and FRB stock	$ --	--	$ --	--	$ --	--
Other equity investments	--	--	--	--	--	--
Total	$ --	--	--	--	$ --	--

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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; and installment and consumer loans.

Amount of Loans Outstanding
(dollars in thousands)

	2002	2001	2000	1999
Commercial, financial and agricultural	$234,045	$246,042	$219,541	$188,430
Real estate	343,827	316,693	319,412	293,761
Installment and consumer	95,529	119,585	129,775	128,085
Total loans	$673,401	$682,320	$668,728	$610,276

Percentage of Loans Outstanding

	2002	2001	2000	1999	1998
Commercial, financial and agricultural	34.75%	36.06%	32.83%	30.88%	33.05
Real estate	51.06%	46.41%	47.76%	48.13%	47.07
Installment and consumer	14.19%	17.53%	19.41%	20.99%	19.88
Total	100.00%	100.00%	100.00%	100.00%	100.00

The Company's loan portfolio totaled approximately $673.401 million at December 31, 2002, representing 60.0% of total assets at that date. Total loans decreased $8.919 million, or 1.3%, from December 31, 2001 to December 31, 2002, with decreases in installment and consumer loans and in commercial, financial and agricultural loans of $24.056 million and $11.997 million, respectively, offset somewhat by an increase in real estate loans of $27.134 million.

Total loans increased $13.592 million, or 2.0%, from December 31, 2000 to December 31, 2001, with increases in commercial, financial and agricultural loans of $26.501 million, offset somewhat by decreases in installment and consumer loans and real estate loans of $10.190 million and $2.719 million, respectively.

The balance of loans outstanding as of December 31, 2002 by maturities is shown in the following table:

Maturity of Loans Outstanding
(dollars in thousands)

		D
	1 year or less	1-5 years
Commercial, financial and agricultural	$119,886	$ 96,823
Real estate	51,436	146,490
Installment and consumer	33,689	54,141
Total	$205,011	$297,454
Percentage of total loans outstanding	30.45%	44.17%

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As of December 31, 2002, commercial, financial and agricultural loans with maturities of greater than one year were comprised of $49.319 million in fixed-rate loans and $64.840 million in floating-rate loans. Real estate loans with maturities greater than one year at December 31, 2002 included $101.656 million in fixed-rate loans and $190.735 million in floating-rate loans.

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)

	2002	2001	2000	1
Allowance for loan losses at beginning of year	$ 9,259	$ 8,879	$ 8,682	$
Charge-offs during period:				
Commercial, financial and agricultural	$ (103)	$(1,165)	$ (99)	$
Residential real estate	(125)	(27)	(34)	
Installment and consumer	(1,699)	(1,481)	(1,119)	
Total	$(1,927)	$(2,673)	$(1,252)	$(
Recoveries of loans previously charged off:				
Commercial, financial and agricultural	$ 245	$ 179	$ 463	$
Residential real estate	31	37	9	
Installment and consumer	201	167	173	
Total	$ 477	$ 383	$ 645	$
Net charge-offs	$(1,450)	$(2,290)	$ (607)	$
Provision for loan losses	1,450	2,670	804	
Allowance for loan losses at end of year	$ 9,259	$ 9,259	$ 8,879	$
Ratio of net charge-offs to average net loans	0.22%	0.34%	0.10%	

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.

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 boards 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. Charge-offs in commercial, financial, and agricultural loans during 2002 decreased to $103,000 from $1,165,000 in 2001, when two agricultural credits totaling $847,000 were charged off. The level of charge-offs of installment and consumer loans in 2000, 2001,

and 2002 were reflective of the significant growth of the indirect loan portfolio in 1999 and 2000.

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)

	2002	2001	20
Allocated:			
Commercial, financial and agricultural	$5,732	$5,487	$3,
Residential real estate	345	419	
Installment and consumer	1,763	2,000	1,
Total allocated allowance	$7,840	$7,906	$5,
Unallocated allowances	1,419	1,353	2,
Total	$9,259	$9,259	$8,

The allocated portion of the allowance for loan losses decreased $66,000 from $7,906,000 at December 31, 2001 to $7,840,000 at December 31, 2002. Of this decrease, the allowance for installment and consumer loans decreased $237,000, from $2,000,000 at December 31, 2001 to $1,763,000 at December 31, 2002 and the allowance for residential real estate loans decreased $74,000 from $419,000 to $345,000 during the same period as total loans in both retail categories decreased during 2002. Somewhat offsetting these decreases was an increase in the allowance for commercial, financial and agricultural loans of $245,000 from $5,487,000 at December 31, 2001 to $5,732,000 at December 31, 2002 as commercial real estate loans increased during 2002. The portion of the allowance for loan losses which was unallocated increased by $66,000 to $1,419,000 at December 31, 2002 from $1,353,000 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 boards 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."

Nonperforming Loans
(in thousands)

	2002	2001	2000	1999	1998

Nonaccrual loans1	$1,392	$3,341	$ 602	$ 112	$1,507
Loans past due 90 days or more	$ 829	$1,774	$ 846	$ 440	$1,084
Renegotiated loans	$ 20	$ 67	$ 88	$ 104	$ 121

Other Nonperforming Assets
(in thousands)

	2002	2001	2000	1999	1998
Other real estate owned	$58	$ --	$ 7	$246	$276
Nonperforming other assets	$94	$153	$192	$132	$ 20

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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, 2002, the Company had approximately $7,393,000 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 $7,393,000 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 $1,392,000 of nonaccrual loans at December 31, 2002 compared to $3,341,000 at December 31, 2001. The decrease in nonaccrual loans was primarily due to the successful resolution of a $1.8 million agricultural credit. Loans past due 90 days or more but still accruing interest decreased by $945,000 in 2002 to a balance of $829,000 at December 31, 2002, from $1,774,000 at December 31, 2001. These loans are well secured and in the process of collection.

The following table categorizes nonaccrual loans as of December 31, 2002 based on levels of performance and also details the allocation of interest collected during the period in 2002 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 some periodic payments would be included in the limited performance category.

Nonaccrual and Related Interest Payments
(in thousands)