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MAIN STREET TRUST INC  
Form 10-K  
March 16, 2007

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, 2006

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<br>of incorporation or organization) | (I.R.S. Employer Identification<br>Number) |
| 100 West University, Champaign, Illinois                          | 61820                                      |
| (Address of principal executive offices)                          | (Zip Code)                                 |

(217) 351-6500

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(Registrant's telephone number, including area code)

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

|                     |  |
|---------------------|--|
| Title of Each Class | Name of each exchange<br>on which registered |
| None                | None   |

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

Common Stock, \$.01 par value per share

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(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes                      No                      X  
-----                      -----

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act.

Yes                      No                      X  
-----                      -----

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

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Yes X No  
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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendments to this Form 10-K.

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

Large accelerated filer Accelerated filer X Non-accelerated filer  
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Indicate by check mark whether the registrant is a shell company (as defined by Exchange Act Rule 12b-2).

Yes No X  
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As of March 6, 2007, the Registrant had issued and outstanding 10,033,986 shares of the Registrant's Common Stock.

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant, based on the last reported price on June 30, 2006, the last business day of the registrant's most recently completed second fiscal quarter, was approximately \$211,790,078\*.

\* Based on the last reported price (\$30.50) of an actual transaction in Registrant's Common Stock on June 30, 2006, 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

None.

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MAIN STREET TRUST, INC.

Form 10-K Annual Report

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## PART I

### Item 1. Description of Business

#### A. General

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

On March 23, 2000, the Company acquired all of the outstanding stock of BankIllinois, The First National Bank of Decatur, First Trust Bank of Shelbyville and FirstTech, Inc. following the merger of BankIllinois Financial Corporation and First Decatur Bancshares, Inc. into the Company. The merger, which was accounted for as a pooling of interests, was completed on March 23, 2000. The Company subsequently merged the Company's former banking subsidiary, First Trust Bank of Shelbyville, into BankIllinois effective June 19, 2002. On November 10, 2004, the Company merged The First National Bank of Decatur into BankIllinois and renamed the bank Main Street Bank & Trust.

On April 1, 2005, the Company acquired all of the outstanding stock of Citizens First Financial Corp. ("Citizens"), which was the parent company of Citizens Savings Bank, based in Bloomington, Illinois. The transaction has been accounted for as a purchase. The Company merged Citizens Savings Bank into Main Street Bank & Trust as of the close of business on October 7, 2005.

On September 21, 2006, the Company announced its intent to merge with First Busey Corporation in Urbana, Illinois. The combined company will operate under the name First Busey Corporation and will list its common stock on the Nasdaq Global Select Market and trade under the symbol BUSE. Under terms of the agreement, Main Street shareholders will receive shares of First Busey common stock, using a fixed exchange ratio of 1.55 shares of First Busey common stock for each share of Main Street common stock. As of December 31, 2006, First Busey Corporation had consolidated assets of \$2.510 billion, consolidated total deposits of \$2.015 billion and consolidated stockholders equity of \$185.274 million. At separate special meetings of their respective shareholders on February 28, 2007, a majority of the shareholders of Main Street and First Busey voted to approve the merger. The merger is still subject to regulatory approval and other customary conditions. The transaction is expected to be completed during the second quarter of 2007. Following the merger of the two holding companies, it will be their intent to merge their Illinois-based banking subsidiaries, Busey Bank and Main Street Bank & Trust. The two banks will be merged under Busey Bank's state charter, and the bank name will remain Busey Bank.

#### B. Business of the Company and Subsidiaries

##### General

The Company conducts the business of banking and offers trust services through Main Street Bank & Trust ("the Bank"), and retail payment processing through FirstTech, Inc., its wholly owned subsidiaries. As of December 31, 2006, the Company had consolidated total assets of \$1.537 billion, shareholders' equity of \$150.355 million and Wealth Management assets under administration of approximately \$2.345 billion. Substantially all of the income of the Company is currently derived from dividends received from the subsidiaries and income from other investments. The amount of these dividends is directly related to the earnings of the subsidiaries and is subject to various regulatory restrictions.

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See "Regulation and Supervision".

### Banking Segment

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

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

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

### 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; online payments processed through a biller's web site, electronic processing of payments delivered by customers to pay agents such as grocery stores, convenience stores and currency exchanges; concentration of payments delivered by the Automated Clearing House network, and payments processed through networks such as Mastercard RPS. For the years ended December 31, 2006, 2005 and 2004, FirsTech accounted for \$7.7 million (7%), \$6.9 million (7%) and \$7.3 million (10%), respectively, of the consolidated total revenues of the Company and accounted for \$3.1 million (11%), \$2.6 million (9%), and \$2.3 million (10%), respectively, of the consolidated income before income tax of the Company. See Note 1 to the Consolidated Financial Statements for an analysis of segment operations.

Over the past three years, FirsTech's sources of processing revenue have shifted toward the processing of in-person payments through paying agents. FirsTech's retail lockbox processing for organizations provided approximately 19%, 20% and 30% of the total revenue of FirsTech in 2006, 2005 and 2004. FirsTech 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 2006, 2005 and 2004, the remittance collection business for these companies accounted

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for approximately 76%, 79% and 69%, respectively, of the total revenue of FirstTech.

In June of 2006, FirstTech began offering its new Online Bill Pay product which generated \$123,000 during the remainder of the year. Management expects that this new product will generate new revenue opportunities as more consumers migrate towards more automated payment options.

FirstTech has leased office space in Clayton, Missouri due to the expansion of existing customer relationships and the development of new clients. It will also serve as a back up processing facility.

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

### C. Competition

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

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

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

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### D. Monetary Policy and Economic Conditions

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

### E. Supervision and Regulation

#### General

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

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

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

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#### The Company

General. The Company, as the sole shareholder of the Bank, is a bank holding company. As a bank holding company, the Company is registered with, and is subject to regulation by, the Federal Reserve under the Bank Holding Company Act of 1956, as amended (the "BHCA"). In accordance with Federal Reserve policy, the Company is expected to act as a source of financial strength to the Bank and to commit resources to support the Bank in circumstances where the Company might

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not otherwise do so. Under the BHCA, the Company is subject to periodic examination by the Federal Reserve. The Company is also required to file with the Federal Reserve periodic reports of the Company's operations and such additional information regarding the Company and its subsidiaries as the Federal Reserve may require.

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

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 elected (and the Federal Reserve has accepted the Company's election) to operate as a financial holding company.

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

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



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

The risk-based and leverage standards described above are minimum requirements. Higher capital levels will be required if warranted by the particular circumstances or risk profiles of individual banking organizations. For example, the Federal Reserve's capital guidelines contemplate that additional capital may be required to take adequate account of, among other things, interest rate risk, or the risks posed by concentrations of credit, nontraditional activities or securities trading activities. Further, any banking organization experiencing or anticipating significant growth would be expected to maintain capital ratios, including tangible capital positions (i.e., Tier 1 capital less all intangible assets), well above the minimum levels. As of December 31, 2006, the Company had regulatory capital in excess of the Federal Reserve's minimum requirements.

Dividend Payments. The Company's ability to pay dividends to its shareholders may be affected by both general corporate law considerations and policies of the Federal Reserve applicable to bank holding companies. As an Illinois corporation, the Company is subject to the limitations of the Illinois Business Corporation Act, as amended, which prohibit the Company from paying a dividend if, after giving effect to the dividend: (i) the Company would be insolvent; or (ii) the net assets of the Company would be less than zero; or (iii) the net assets of the Company would be less than the maximum amount then payable to shareholders of the Company who would have preferential distribution rights if the Company were liquidated. Additionally, policies of the Federal Reserve caution that a bank holding company should not pay cash dividends unless its net income available to common shareholders over the past year has been sufficient to fully fund the dividends and the prospective rate of earnings retention appears consistent with its capital needs, asset quality, and overall financial condition. 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

General. The Bank is an Illinois-chartered bank, the deposit accounts of which are insured by the FDIC's Deposit Insurance Fund ("DIF"). As an Illinois-chartered FDIC-insured bank, the Bank is subject to the examination, supervision, reporting and enforcement requirements of the DFPR, the chartering

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authority for Illinois banks, and the FDIC, designated by federal law as the primary federal regulator of insured state banks that, like the Bank, are not members of the Federal Reserve System ("non-member banks"). The Bank is a member of the Federal Home Loan Bank System, which provides a central credit facility primarily for member institutions.

Deposit Insurance. As an FDIC-insured institution, the Bank is required to pay deposit insurance premium assessments to the FDIC. The FDIC has adopted a risk-based assessment system under which insured depository institutions are assigned to one of four risk assessment categories based upon their respective levels of capital, supervisory evaluations and other financial factors. Institutions that are well-capitalized and exhibit minimal or no supervisory weaknesses pay the lowest premium while institutions that are less than adequately capitalized and considered of substantial supervisory concern pay the highest premium. An institution's risk-classification is determined by the FDIC.

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For the past several years, FDIC insurance assessments ranged from 0% to 0.27% of total deposits. Pursuant to regulatory amendments adopted by the FDIC, effective January 1, 2007, insurance assessments will range from 0.05% to 0.43% of total deposits (unless subsequently adjusted by the FDIC). FDIC-insured institutions that were in existence as of December 31, 1996, and paid an FDIC-insurance assessment prior to that date ("eligible institutions"), as well as successors to eligible institutions, will be entitled to a credit that may be applied to offset insurance premium assessments due for assessment periods beginning on and after January 1, 2007. The amount of an eligible institution's assessment credit will be equal to the institution's pro rata share (based on its assessment base as of December 31, 1996, as compared to the aggregate assessment base of all eligible institutions as of December 31, 1996) of the aggregate amount the FDIC would have collected if it had imposed an assessment of 10.5 basis points on the combined assessment base of all institutions insured by the FDIC as of December 31, 2001. Subject to certain statutory limitations, an institution's assessment credit may be applied to offset the full amount of premiums assessed in 2007, but may not be applied to more than 90% of the premiums assessed in 2008, 2009 or 2010. The FDIC will track the amount of an institution's assessment credit and automatically apply it to the institution's premium assessment to the maximum extent permitted by federal law.

FICO Assessments. The Financing Corporation ("FICO") is a mixed-ownership governmental corporation chartered by the former Federal Home Loan Bank Board pursuant to the Federal Savings and Loan Insurance Corporation Recapitalization Act of 1987 to function as a financing vehicle for the recapitalization of the former Federal Savings and Loan Insurance Corporation. FICO issued 30-year non-callable bonds of approximately \$8.2 billion that mature by 2019. Since 1996, federal legislation has required that all FDIC-insured depository institutions pay assessments to cover interest payments on FICO's outstanding obligations. These FICO assessments are in addition to amounts assessed by the FDIC for deposit insurance. During the year ended December 31, 2006, the FICO assessment rate was approximately 0.01% of deposits.

Supervisory Assessments. All Illinois banks are required to pay supervisory assessments to the DFPR to fund its operations. The amount of the assessment paid by an Illinois bank to the DFPR is calculated on the basis of the institution's total assets, including consolidated subsidiaries, as reported to the DFPR. During the year ended December 31, 2006, the Bank paid supervisory assessments to the DFPR totaling \$164,000.

Capital Requirements. Banks are generally required to maintain capital levels in excess of other businesses. The FDIC has established the following minimum capital standards for insured state non-member banks, such as the Bank: (i) a

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leverage requirement consisting of a minimum ratio of Tier 1 capital to total assets of 3% for the most highly-rated banks with a minimum requirement of at least 4% for all others; and (ii) a risk-based capital requirement consisting of a minimum ratio of total capital to total risk-weighted assets of 8% and a minimum ratio of Tier 1 capital to total risk-weighted assets of 4%. In general, the components of Tier 1 capital and total capital are the same as those for bank holding companies discussed above.

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

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

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

As of December 31, 2006: (i) the Bank was not subject to a directive from the FDIC to increase its capital to an amount in excess of the minimum regulatory capital requirements; (ii) the Bank exceeded its minimum regulatory capital requirements under FDIC capital adequacy guidelines; and (iii) the Bank was "well-capitalized," as defined by applicable regulations.

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

The payment of dividends by any financial institution is affected by the

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requirement to maintain adequate capital pursuant to applicable capital adequacy guidelines and regulations, and a financial institution generally is prohibited from paying any dividends if, following payment thereof, the institution would be undercapitalized. As described above, the Bank exceeded its minimum capital requirements under applicable guidelines as of December 31, 2006. As of December 31, 2006, approximately \$53.368 million was available to be paid as dividends by the Bank. Notwithstanding the availability of funds for dividends, however, the FDIC may prohibit the payment of dividends if it determines such payment would constitute an unsafe or unsound practice.

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

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

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

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

Federal law permits state and national banks to merge with banks in other states subject to: (i) regulatory approval; (ii) federal and state deposit concentration limits; and (iii) state law limitations requiring the merging bank to have been in existence for a minimum period of time (not to exceed five years) prior to the merger. The establishment of new interstate branches or the

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acquisition of individual branches of a bank in another state (rather than the acquisition of an out-of-state bank in its entirety) is permitted only in those states the laws of which expressly authorize such expansion.

State Bank Investments and Activities. The Bank generally is permitted to make investments and engage in activities directly or through subsidiaries as authorized by Illinois law. However, under federal law and FDIC regulations, FDIC-insured state banks are prohibited, subject to certain exceptions, from making or retaining equity investments of a type, or in an amount, that are not permissible for a national bank. Federal law and FDIC regulations also prohibit FDIC-insured state banks and their subsidiaries, subject to certain exceptions, from engaging as principal in any activity that is not permitted for a national bank unless the bank meets, and continues to meet, its minimum regulatory capital requirements and the FDIC determines the activity would not pose a significant risk to the deposit insurance fund of which the bank is a member. These restrictions have not had, and are not currently expected to have, a material impact on the operations of the Bank.

Federal Reserve System. Federal Reserve regulations, as presently in effect, require depository institutions to maintain non-interest earning reserves against their transaction accounts (primarily NOW and regular checking accounts), as follows: for transaction accounts aggregating \$45.8 million or less, the reserve requirement is 3% of total transaction accounts; and for transaction accounts aggregating in excess of \$45.8 million, the reserve requirement is \$1.119 million plus 10% of the aggregate amount of total transaction accounts in excess of \$45.8 million. The first \$8.5 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 Subsidiary is in compliance with the foregoing requirements.

### F. Employees

The Company had a total of 491 employees at December 31, 2006, consisting of 399 full-time employees and 92 part-time. The Company places a high priority on staff development, which involves extensive training, including customer service training. New employees are selected on the basis of both technical skills and consumer service capabilities. None of the Company's employees are covered by a collective bargaining agreement with the Company or its subsidiaries. The Company offers a variety of employee benefits, and management considers its employee relations to be good.

### G. Internet Website

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

### Item 1A. Risk Factors

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

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

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

Failure to complete the proposed merger with First Busey may have an adverse effect on the Company.

There can be no assurance that the conditions to the completion of the proposed merger with First Busey will be satisfied. Consummation of the proposed merger is subject to the receipt of required regulatory approvals and the satisfaction of other customary closing conditions. In connection with the proposed merger, the Company is subject to several risks, including the following:

- o The current price of the Company's common stock may reflect a market assumption that the proposed merger will close. If the proposed merger is not consummated, the stock price may retreat from its current trading range.
- o Certain costs relating to the proposed merger, including legal, accounting and other fees, are payable by the Company whether or not the proposed merger is completed.
- o Under circumstances set out in the agreement and plan of merger, upon termination under specified circumstances related to a competing acquisition proposal, the Company may be required to pay First Busey a termination fee of between \$7.5 million and \$15 million.

Obtaining required approvals and satisfying closing conditions may delay or prevent completion of the proposed merger.

Completion of the proposed merger is conditioned upon the receipt of all material governmental authorizations, consents, orders and approvals. No assurance can be given that the required consents and approvals will be obtained or that the required conditions to closing will be satisfied, and, if all such consents and approvals are obtained and the conditions are satisfied, no assurance can be given as to the terms, conditions and timing of the approvals or that they will satisfy the terms of the merger agreement. The terms and conditions of such consents, orders and approvals may require the divestiture of certain assets or operations of the combined company following the proposed merger or may impose other conditions that affect the future business and operations of the combined company.

Uncertainties associated with the proposed merger may cause a loss of employees and may otherwise affect the Company's future business and operations.

Current and prospective employees of the Company may experience uncertainty about their roles with the combined company following the proposed merger. This may adversely affect the ability of the Company to attract and retain key management, sales, marketing, technical and other personnel. In addition, key employees may depart because of issues relating to the uncertainty and difficulty of integration or a desire not to remain with the combined company following the proposed merger. Accordingly, no assurance can be given that the

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combined company will be able to attract or retain key employees of the Company to the same extent that it has been able to attract or retain employees in the past.

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

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

- o potential exposure to unknown or contingent liabilities of banks and businesses we acquire;
- o exposure to potential asset quality issues of the acquired bank or related business;
- o difficulty and expense of integrating the operations and personnel of banks and businesses we acquire;
- o potential disruption to our business;
- o potential diversion of our management's time and attention; and
- o the possible loss of key employees and customers of the banks and businesses we acquire.

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

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

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

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

As described in the business section of this Form 10-K, the banking and financial services business in our market is highly competitive. Our competitors include large regional banks, local community banks, savings and loan associations, securities and brokerage companies, mortgage companies, insurance companies, finance companies, money market mutual funds, credit unions and other non-bank financial service providers. Increased competition in our market may result in a decrease in the amounts of our loans and deposits, reduced spreads

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between loan rates and deposit rates or loan terms that are more favorable to the borrower. Any of these results could have a material adverse effect on our ability to grow and remain profitable. If increased competition causes us to significantly discount the interest rates we offer on loans or increase the amount we pay on deposits, our net interest income could be adversely impacted. If increased competition causes us to relax our underwriting standards, we could be exposed to higher losses from lending activities. Additionally, many of our competitors are much larger in total assets and capitalization, have greater access to capital markets and offer a broader range of financial services than we can offer.

Interest rates and other conditions impact our results of operations.

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

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

Commercial, financial and agricultural loans were \$312.873 million, or approximately 31.2% of our total loan portfolio as of December 31, 2006. These loans are primarily made based on the identified cash flow of the borrower and secondarily on the underlying collateral provided by the borrower. Most often, this collateral is accounts receivable, inventory, machinery or real estate. Credit support provided by the borrower for most of these loans and the probability of repayment is based on the liquidation of the pledged collateral and enforcement of a personal guarantee, if any exists. As a result, in the case of loans secured by accounts receivable, the availability of funds for the repayment of these loans may be substantially dependent on the ability of the borrower to collect amounts due from its customers. The collateral securing other loans may depreciate over time, may be difficult to appraise and may fluctuate in value based on the success of the business.

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

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Commercial real estate lending is a large portion of our loan portfolio. These categories were \$484.003 million, or 48.3% of our total loan portfolio as of December 31, 2006. The market value of real estate can fluctuate significantly in a short period of time as a result of market conditions in the geographic area in which the real estate is located. Although a significant portion of such loans are secured by real estate as a secondary form of collateral, adverse developments affecting real estate values in one or more of our markets could increase the credit risk associated with our loan portfolio. Additionally, real



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estate lending typically involves higher loan principal amounts and the repayment of the loans generally is dependent, in large part, on sufficient income from the properties securing the loans to cover operating expenses and debt service. Economic events or governmental regulations outside of the control of the borrower or lender could negatively impact the future cash flow and market values of the affected properties.

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

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

At December 31, 2006, construction loans, including land acquisition and development, totaled \$123.350 million, or approximately 12.3%, of our total loan portfolio. These loans are included primarily in our commercial financial and agricultural, and commercial real estate portfolios. Construction and land acquisition and development lending involve additional risks because funds are advanced upon the security of the project, which is of uncertain value prior to its completion. Because of the uncertainties inherent in estimating construction costs, as well as the market value of the completed project and the effects of governmental regulation of real property, it is relatively difficult to evaluate accurately the total funds required to complete a project and the related loan-to-value ratio. As a result, commercial construction loans often involve the disbursement of substantial funds with repayment dependent, in part, on the success of the ultimate project and the ability of the borrower to sell or lease the property, rather than the ability of the borrower or guarantor to repay principal and interest. If our appraisal of the value of the completed project proves to be overstated, we may have inadequate security for the repayment of the loan upon completion of construction of the project.

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

One-to-four family residential mortgage loans comprised \$127.200 million, or approximately 12.7%, of our loan and lease portfolio at December 31, 2006, and are secured primarily by properties located in the counties of Champaign, Macon, Shelby, Tazewell, McLean, Livingston, and contiguous counties. Our concentration of these loans results in lower yields and lower profitability for us. These loans are generally made on the basis of the borrower's ability to make repayments from his or her employment and the value of the property securing the loan. The market value of real estate can fluctuate significantly in a short period of time as a result of market conditions in the geographic area in which the real estate is located. Adverse developments affecting real estate values in one or more of our markets could increase the credit risk associated with our loan portfolio.

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

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

Our management establishes our allowance for loan losses and maintains it at a level considered adequate to absorb loan losses that are inherent in the

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portfolio. The allowance for loan losses is a material estimate that is particularly susceptible to significant changes in the near term relating to economic, operating and other conditions, including changes in interest rates, which may be beyond our control, and such losses may exceed current estimates. At December 31, 2006, our allowance for loan losses as a percentage of total loans was 1.44% and as a percentage of total non-performing loans was approximately 175.8%. Although management believes that the allowance for loan losses is adequate to absorb probable losses inherent in the loan portfolio, we cannot predict loan losses with certainty, and we cannot assure you that our allowance for loan losses will prove sufficient to cover actual loan losses in the future. Loan losses in excess of our reserves may adversely affect our business, financial condition and results of operations.

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

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

Government regulation can result in limitations on our operations.

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

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

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

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

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

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

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

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

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

We must effectively manage our credit risk.

There are risks inherent in making any loan, including risks inherent in dealing with individual borrowers, risks of nonpayment, risks resulting from

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

### Item 1B. Unresolved Staff Comments

None.

### Item 2. Properties

The Company and its subsidiaries conduct business in twenty-three locations. The Company's and the Bank's headquarters are located at 100 W. University Ave. in Champaign, Illinois. The Company and/or its subsidiaries own the land and buildings for fifteen locations and lease eight locations, three of which are located in supermarkets. The Bank is in the process of constructing an additional facility in Peoria, Illinois and has contracted to lease a new facility in Normal, Illinois which would replace its current location. Additionally, FirstTech has contracted to lease office space in Clayton, Missouri.

### 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 claims or litigation 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 2006. At a special meeting of its shareholders held on February 28, 2007, a majority of the Company's shareholders voted to approve the merger with First Busey Corporation.

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## PART II

### Item 5. Market for Registrant's Common Equity and Related Shareholder Matters

The Company's common stock was held by approximately 800 shareholders of record as of March 6, 2007 and is traded in the over-the-counter market.

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

|      |                      | High     | Low      | Cash<br>Dividends |
|------|----------------------|----------|----------|-------------------|
| 2006 | First quarter .....  | \$ 31.50 | \$ 29.25 | \$ 0.23           |
|      | Second quarter ..... | 31.00    | 30.00    | 0.23              |
|      | Third quarter .....  | 34.45    | 30.00    | 0.23              |

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|      |                      |          |          |         |
|------|----------------------|----------|----------|---------|
|      | Fourth quarter ..... | 36.00    | 34.15    | 0.23    |
| 2005 | First quarter .....  | \$ 30.00 | \$ 28.90 | \$ 0.22 |
|      | Second quarter ..... | 30.00    | 28.65    | 0.22    |
|      | Third quarter .....  | 29.40    | 28.55    | 0.22    |
|      | Fourth quarter ..... | 30.00    | 29.30    | 0.22    |

During the fourth quarter of 2006 the Company declared a \$0.25 per share cash dividend, which was paid on January 26, 2007. The ability of the Company to pay dividends in the future will be primarily dependent upon its receipt of dividends from the Bank. Pursuant to the terms of the Agreement and Plan of Merger entered into with First Busey, the Company is able to make its regular quarterly dividend up to \$0.25 per share per quarter. Additionally, the Company must coordinate its dividend payments with First Busey so that the Company's shareholders will not receive more than one dividend, or fail to receive one dividend, in any single calendar quarter. In determining cash dividends, the Board of Directors considers the earnings, capital requirements, debt and dividend servicing requirements, financial ratio guidelines it has established, the financial condition of the Company and other relevant factors. The Bank's ability to pay dividends to the Company and the Company's ability to pay dividends to its shareholders are also subject to certain regulatory restrictions. See "Business - Supervision and Regulation - The Company - Dividend Payments" and "Business - Supervision and Regulation - The Bank Subsidiaries - Dividend Payments" for a more detailed description of these limitations.

On October 27, 2003, the Company announced that its Board of Directors had reinstated the Stock Repurchase Program (the "Program"), allowing the purchase of up to 500,000 shares of the Company's outstanding stock. During the fourth quarter of 2006, the Company purchased 24,710 shares, of which 4,863 were purchased under the Program. The remaining shares purchased were approved by the Board of Directors on November 21, 2006. The following table summarizes these transactions:

| -----<br>Issuer Purchases of Equity Securities<br>----- |   |  |  |   |
|---|---|--|--|---|
| Period  | (a) Total<br>Number of<br>Shares<br>Purchased | (b) Average<br>Price Paid per<br>Share | (c) Total<br>Number of<br>Shares<br>Purchased as<br>Part of<br>Publicly<br>Announced<br>Plans or<br>Programs | (d) Maxi<br>Number<br>of Shar<br>of Shar<br>that M<br>Yet B<br>Purchase<br>Under th<br>Plans<br>Program |
| -----   |   |  |  |   |
| October 1 -<br>October 31, 2006 .....                   | --  | \$ --                                  | --   | 4,863   |
| November 1 -<br>November 30, 2006 .....                 | 24,710  | \$ 34.40                               | 4,863  | --  |
| December 1 -<br>December 31, 2006 .....                 | --  | \$ --                                  | --   | --  |
| -----   |   |  |  |   |
| Total .....   | 24,710  | \$ 34.40                               | 4,863  | --  |
| =====   |   |  |  |   |

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The graphical presentation omitted herein showed, for the periods indicated, the Company's common stock total return performance compared to the NASDAQ Composite and the SNL Midwest Bank Index:

The data points used for the omitted graph were as follows:

| Index .....             | Period Ending: |          |          |          |          |          |
|-------------------------|----------------|----------|----------|----------|----------|----------|
|                         | 12/31/01       | 12/31/02 | 12/31/03 | 12/31/04 | 12/30/05 | 12/31/06 |
| Main Street Trust, Inc. | 100.00         | 133.23   | 174.40   | 167.62   | 177.80   | 216.29   |
| NASDAQ Composite .....  | 100.00         | 68.76    | 103.67   | 113.16   | 115.57   | 127.58   |
| SNL Midwest Bank Index  | 100.00         | 96.47    | 123.48   | 139.34   | 134.26   | 155.19   |

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, 2006. The selected consolidated financial data should be read in conjunction with the Consolidated Financial Statements of the Company, including the related notes, presented elsewhere herein.

|   | Year Ended December 31                           |             |             |
|---|--|-------------|-------------|
|   | 2006   | 2005        | 2004        |
|   | (dollars in thousands, except per share amounts) |             |             |
| Interest income .....                                     | \$ 90,759  | \$ 76,992   | \$ 54,805   |
| Interest expense .....                                    | 41,212   | 27,479      | 16,852      |
| Net interest income .....                                 | 49,547   | 49,513      | 37,953      |
| Provision for loan losses .....                           | 1,800  | 1,530       | 1,100       |
| Net interest income after provision for loan losses ..... | 47,747   | 47,983      | 36,853      |
| Non-interest income .....                                 | 22,583   | 20,477      | 19,847      |
| Non-interest expense .....                                | 40,948   | 39,779      | 33,879      |
| Income tax expense .....                                  | 10,145   | 10,373      | 8,043       |
| Net income .....  | \$ 19,237  | \$ 18,308   | \$ 14,778   |
| Basic earnings per share .....                            | \$ 1.91  | \$ 1.82     | \$ 1.56     |
| Diluted earnings per share .....                          | \$ 1.88  | \$ 1.80     | \$ 1.54     |
| Return on average total assets .....                      | 1.23%  | 1.24%       | 1.22%       |
| Return on average shareholders' equity .....              | 13.10%   | 13.40%      | 13.08%      |
| Dividend payout ratio .....                               | 49.21%   | 48.90%      | 54.49%      |
| Cash dividends declared per common share .....            | \$ 0.94  | \$ 0.89     | \$ 0.85     |
| Total assets .....  | \$1,536,601                                      | \$1,625,137 | \$1,228,118 |
| Investment in debt and equity securities .....            | 402,695  | 444,623     | 358,726     |

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|   |           |           |         |
|---|-----------|-----------|---------|
| Loans held for investment, net .....                | 987,485   | 1,002,927 | 761,227 |
| Deposits .....                                      | 1,233,487 | 1,275,972 | 974,577 |
| Borrowings .....                                    | 132,800   | 185,838   | 126,782 |
| Total shareholders' equity .....                    | 150,355   | 143,769   | 113,975 |
| Total shareholders' equity to total assets .....    | 9.78%     | 8.85%     | 9.28%   |
| Average shareholders' equity to average assets .... | 9.36%     | 9.26%     | 9.34%   |

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

The following discussion and analysis is designed to provide the reader with a comprehensive review of the consolidated results of operations for 2006, 2005 and 2004 for the Company, including all subsidiaries, and an analysis of the Company's financial condition at December 31, 2006 compared to December 31, 2005 and at December 31, 2005 compared to December 31, 2004. This discussion and analysis should be read in conjunction with the consolidated financial statements and related notes, which begin at page 41 of this report.

#### Overview

Net income increased from \$18.308 million in 2005 to \$19.237 million in 2006, and diluted earnings per share increased from \$1.80 in 2005 to \$1.88 in 2006. The net interest margin decreased during 2006 due, in part, to being somewhat liability sensitive in a rising rate environment. The Federal Reserve raised interest rates four times during the first half of 2006. Also affecting the net interest margin was a decrease of \$1.160 million in income from investments in venture capital funds in 2006 compared to 2005. Due to the nature of venture capital investments, future results cannot be predicted based on past results. Loan demand declined slightly in 2006 while loan quality remained relatively strong, with non-performing loans as a percentage of gross loans at 0.82%, compared to 0.29% in both 2005 and 2004. Net income increased from \$14.778 million in 2004 to \$18.308 million in 2005, and diluted earnings per share increased from \$1.54 in 2004 to \$1.82 in 2005, due in part to the acquisition of Citizens and its Bloomington, Illinois locations on April 1, 2005. The net interest margin increased during 2005 as a result of eight rate hikes by the Federal Reserve during 2005 and an increase of \$1.253 million in income from investments in venture capital funds in 2005 compared to 2004.

On April 1, 2005, the Company acquired all of the outstanding stock of Citizens. The transaction has been accounted for as a purchase. Assets and liabilities related to the acquisition of Citizens are reported as of the April 2005 acquisition date. Results of operations of Citizens since the acquisition date have been included in the Company's consolidated financial statements.

On September 21, 2006, the Company announced an intendment to a merger of equals with First Busey Corporation in Urbana, Illinois. The combined company will operate under the name First Busey Corporation and will list its common stock on the Nasdaq Global Select Market and trade under the symbol BUSE. Under the terms of the Agreement and Plan of Merger, Main Street shareholders will receive shares of First Busey common stock, using a fixed exchange ratio of 1.55 shares of First Busey common stock for each share of Main Street common stock. As of December 31, 2006, First Busey Corporation reported consolidated assets of \$2.510 billion, consolidated total deposits of \$2.015 billion and consolidated stockholders equity of \$185.274 million. At separate special meetings of their respective shareholders on February 28, 2007, a majority of the shareholders of Main Street and First Busey voted to approve the merger. The merger is still subject to regulatory approval and other customary conditions. The transaction

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is expected to be completed during the second quarter of 2007. Following the merger of the two holding companies, it is their intent to merge their Illinois-based banking subsidiaries, Busey Bank and Main Street Bank & Trust. The two banks will be merged under Busey Bank's state charter, and the bank name will remain Busey Bank.

### Segment Operations

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

### Critical Accounting Policies

The Company's significant accounting policies are more fully described in Note 1 to the Company's consolidated financial statements located in Item 8 of this Annual Report on form 10-K. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses and the related disclosures of contingent assets and liabilities. Actual results could differ from those estimates under different assumptions or conditions. The Company believes that it has one critical accounting policy that is subject to estimates and judgements used in the preparation of its consolidated financial statements.

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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 Company maintains an independent credit administration function, which performs reviews of all large credit relationships and all loans that present indications of additional credit risk.

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.



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

### Results of Operations

The Company had earnings of \$19.237 million in 2006 compared to \$18.308 million in 2005 and \$14.778 million in 2004. The Company had a return on average assets of 1.23%, 1.24% and 1.22% in 2006, 2005 and 2004, respectively. Basic earnings per share were \$1.91, \$1.82 and \$1.56 in 2006, 2005 and 2004, respectively. Diluted earnings per share were \$1.88, \$1.80 and \$1.54 in 2006, 2005 and 2004, respectively. Management believes that a strong balance sheet and earnings are critical to success.

### Net Interest Income

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

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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)

|                              | 2006     | 2005     | 2004     |
|------------------------------|----------|----------|----------|
| Total interest income .....  | \$90,759 | \$76,992 | \$54,805 |
| Total interest expense ..... | 41,212   | 27,479   | 16,852   |
|                              | -----    |          |          |
| Net interest income .....    | 49,547   | 49,513   | 37,953   |

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|                               |          |          |          |
|-------------------------------|----------|----------|----------|
| Tax equivalent adjustment:    |          |          |          |
| Tax-exempt investments ...    | 637      | 816      | 993      |
| Tax-exempt loans .....        | 16       | 15       | 12       |
|                               | -----    |          |          |
| Total adjustment ....         | 653      | 831      | 1,005    |
|                               | -----    |          |          |
| Net interest income (TE) .... | \$50,200 | \$50,344 | \$38,958 |
|                               | =====    |          |          |

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

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

|   | 2006               |           |       | 2005               |           |       |
|---|--------------------|-----------|-------|--------------------|-----------|-------|
|   | Average<br>Balance | Interest  | Rate  | Average<br>Balance | Interest  | Rate  |
| <b>Assets</b>   |                    |           |       |                    |           |       |
| Taxable investment securities(1) ....                         | \$ 418,395         | \$ 17,742 | 4.24% | \$ 326,932         | \$ 12,465 | 3.81% |
| Tax-exempt investment securities (1) (TE) .....               | 30,001             | 1,820     | 6.07% | 39,195             | 2,332     | 5.94% |
| Federal funds sold and interest bearing deposits(2) .....     | 19,426             | 1,327     | 6.83% | 49,020             | 2,023     | 4.13% |
| Loans (3),(4) (TE) .....                                      | 974,958            | 70,523    | 7.23% | 945,089            | 61,003    | 6.45% |
|   | -----              |           |       |                    |           |       |
| Total interest earning assets and interest income (TE) .....  | \$1,442,780        | \$ 91,412 | 6.34% | \$1,360,236        | \$ 77,823 | 5.72% |
|   | -----              |           |       |                    |           |       |
| Cash and due from banks .....                                 | \$ 44,677          |           |       | \$ 44,210          |           |       |
| Premises and equipment .....                                  | 22,716             |           |       | 21,239             |           |       |
| Other assets .....  | 59,511             |           |       | 49,006             |           |       |
|   | -----              |           |       |                    |           |       |
| Total assets .....  | \$1,569,684        |           |       | \$1,474,691        |           |       |
|   | =====              |           |       |                    |           |       |
| <b>Liabilities and Shareholders' Equity</b>                   |                    |           |       |                    |           |       |
| Interest bearing demand deposits ....                         | \$ 70,281          | \$ 468    | 0.67% | \$ 74,976          | \$ 426    | 0.57% |
| Savings .....   | 474,518            | 14,205    | 2.99% | 427,341            | 7,529     | 1.76% |
| Time deposits .....   | 476,470            | 18,882    | 3.96% | 440,592            | 13,634    | 3.09% |
| Federal funds purchased and repurchase agreements .....       | 125,162            | 5,531     | 4.42% | 115,679            | 3,097     | 2.68% |
| FHLB advances & other borrowings .....                        | 41,511             | 2,126     | 5.12% | 60,351             | 2,793     | 4.64% |
|   | -----              |           |       |                    |           |       |
| Total interest bearing liabilities and interest expense ..... | \$1,187,942        | \$ 41,212 | 3.47% | \$1,118,939        | \$ 27,479 | 2.45% |
|   | -----              |           |       |                    |           |       |

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|  |             |             |
|--|-------------|-------------|
| Non-interest bearing demand deposits .....                               | 144,853     | 132,982     |
| Non-interest bearing savings deposits .....                              | 72,796      | 71,535      |
| Other liabilities .....  | 17,249      | 14,614      |
| -----  |             |             |
| Total liabilities .....  | \$1,422,840 | \$1,338,070 |
| Shareholders' equity .....   | 146,844     | 136,621     |
| -----  |             |             |
| Total liabilities and shareholders' equity .....                         | \$1,569,684 | \$1,474,691 |
| -----  |             |             |
| Interest spread (average rate earned minus average rate paid) (TE) ..... | 2.87%       | 3           |
| =====  |             |             |
| Net interest income (TE) .....   | \$ 50,200   | \$ 50,344   |
| =====  |             |             |
| Net yield on interest earnings assets (TE) .....                         | 3.48%       | 3           |
| =====  |             |             |

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Notes to Consolidated Average Balance Sheet and Interest Rates Table:

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)

|   | 2006   |                  |                |  |                  |
|---|--|------------------|----------------|--|------------------|
|   | Increase<br>(Decrease)<br>from<br>Previous<br>Year | Due to<br>Volume | Due to<br>Rate | Increase<br>(Decrease)<br>from<br>Previous<br>Year | Due to<br>Volume |
| -----   |  |                  |                |  |                  |
| Interest Income   |  |                  |                |  |                  |
| Taxable investment securities .....                       | \$ 5,277   | \$ 3,766         | \$ 1,511       | \$ 1,672   | \$ (4)           |
| Tax-exempt investment securities ..                       | (512)  | (557)            | 45             | (505)  | (420)            |
| Federal funds sold and interest<br>bearing deposits ..... | (696)  | (1,605)          | 909            | 1,423  | 219              |
| Loans .....   | 9,520  | 1,976            | 7,544          | 19,423   | 14,697           |
| -----   |  |                  |                |  |                  |

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|   |           |          |            |           |           |
|---|-----------|----------|------------|-----------|-----------|
| Total interest income ....                                    | \$ 13,589 | \$ 3,580 | \$ 10,009  | \$ 22,013 | \$ 14,492 |
| -----   |           |          |            |           |           |
| Interest Expense  |           |          |            |           |           |
| Interest bearing demand<br>and savings deposits .....         | \$ 6,718  | \$ 1,593 | \$ 5,125   | \$ 3,888  | \$ 393    |
| Time deposits .....   | 5,248     | 1,180    | 4,068      | 3,729     | 2,650     |
| Federal funds purchased and repurchase<br>agreements .....    | 2,434     | 272      | 2,162      | 1,826     | 275       |
| Federal Home Loan Bank advances<br>and other borrowings ..... | (667)     | (941)    | 274        | 1,184     | 1,435     |
| -----   |           |          |            |           |           |
| Total interest expense .....                                  | \$ 13,733 | \$ 2,104 | \$ 11,629  | \$ 10,627 | \$ 4,753  |
| -----   |           |          |            |           |           |
| Net Interest Income (TE) .....                                | \$ (144)  | \$ 1,476 | \$ (1,620) | \$ 11,386 | \$ 9,739  |
| =====   |           |          |            |           |           |

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Total average earning assets increased from \$1.360 billion in 2005 to \$1.443 billion in 2006 and generated higher interest income on a tax equivalent (TE) basis, mainly as a result of both higher rates and volume. Average loans increased \$29.869 million, resulting in an increase in interest income (TE) of \$9.520 million, of which \$7.544 million was due to higher rates and \$1.976 million due to an increase in volume. Average taxable investment securities increased \$91.463 million and generated \$5.277 million more interest income due to both higher volume and rates. Somewhat offsetting these increases in average balances were decreases in average federal funds sold and interest-bearing deposits and tax-exempt investment securities. Average federal funds sold and interest-bearing deposits decreased \$29.594 million and generated \$696,000 less interest income than in 2005, of which \$1.605 million was due to a decrease in volume, offset somewhat by a \$909,000 increase due to higher rates. Average tax-exempt investment securities decreased \$9.194 million and generated \$512,000 less interest income, mainly due to a decrease in volume.

Total average earning assets increased from \$1.123 billion in 2004 to \$1.360 billion in 2005 and generated higher interest income on a tax equivalent (TE) basis, mainly as a result of the Citizens acquisition along with increased interest rates in 2005 compared to 2004. Average loans increased \$233.103 million, resulting in an increase in interest income (TE) of \$19.423 million, of which \$14.697 million was due to higher volume and \$4.726 million due to an increase in rates. Average federal funds sold and interest-bearing deposits increased \$11.110 million and generated \$1.423 million more interest income than in 2004, of which \$1.204 million was due to an increase in rates and \$219,000 due to higher volume. Somewhat offsetting these increases in average balances was a decrease in average tax-exempt investment securities of \$7.019 million, resulting in a decrease in interest income of \$505,000, mainly due to lower volume. Average taxable investment securities decreased \$132,000, but generated \$1.672 million more interest income, primarily due to higher rates.

The Company establishes interest rates on loans and deposits based on market rates such as the 91-day Treasury Bill rate and the national prime rate, while at the same time being mindful of interest rates offered by other financial institutions in the local communities. The level of risk and the value of collateral also are evaluated when determining loan rates. Rates were generally higher in 2006 compared to 2005, primarily due to increases in the Treasury Bill rates and the national prime rate. The average yield on federal funds sold and interest bearing-deposits increased 270 basis points, from 4.13% in 2005 to 6.83% in 2006. The average rate earned on loans increased 78 basis points from 6.45% in 2005 to 7.23% in 2006. The average yield on taxable investment securities increased 43 basis points, from 3.81% in 2005 to 4.24% in 2006. The

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average yield on tax-exempt investment securities increased 12 basis points, from 5.95% in 2005 to 6.07% in 2006. These higher average yields were primarily due to four interest rate hikes initiated by the Federal Reserve during 2006.

The total actual balance of loans at December 31, 2006 was slightly lower than at December 31, 2005. Residential real estate loans decreased \$13.104 million from 2005 to 2006. Installment and consumer loans decreased \$8.882 million from 2005 to 2006. Commercial, financial and agricultural loans decreased \$6.988 million from 2005 to 2006. Somewhat offsetting these decreases was a \$14.497 million increase in commercial real estate loans from 2005 to 2006.

Average rates on total interest bearing liabilities increased 101 basis points, from 2.46% in 2005 to 3.47% in 2006 and total interest expense increased \$13.733 million in 2006 compared to 2005 due to an increase in both rates and volume. The overall increase in interest expense was caused by an increase in interest expense on interest bearing demand and savings deposits, time deposits, and federal funds purchased and repurchase agreements, offset somewhat by a decrease in interest expense on Federal Home Loan Bank advances and other borrowings. The average rate paid on federal funds purchased and repurchase agreements increased 174 basis points from 2.68% in 2005 to 4.42% in 2006. This resulted in an increase in interest expense of \$2.434 million, of which \$2.162 million was due to higher rates and \$272,000 was due to an increase in volume. The average rate paid on interest bearing demand and savings deposits increased 111 basis points, from 1.58% in 2005 to 2.69% in 2006. This resulted in an increase in interest expense of \$6.718 million in 2006, of which \$5.125 million was attributable to increased rates and \$1.593 million was due to higher volume. Interest expense on time deposits increased \$5.248 million primarily due to higher rates as the average rate paid on time deposits increased 87 basis points, from 3.09% in 2005 to 3.96% in 2006. Although the average rate paid on Federal Home Loan Bank advances and other borrowings increased 49 basis points, from 4.63% in 2005 to 5.12% in 2006, interest expense decreased \$667,000, of which \$941,000 was due to lower volume, offset somewhat by \$274,000 due to higher rates.

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

### 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

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component of the Company's assets. The Company maintains an independent credit administration function, which performs reviews of all large credit relationships and all loans that present indications of additional credit risk.

Net charge-offs decreased to \$835,000 in 2006 from \$1.142 million in 2005. The Company charged off \$1.317 million in loans during 2006 compared to \$1.459 million in 2005. This was due to a decrease in charge-offs for installment and consumer loans of \$473,000 in 2006 compared to 2005. This decrease was primarily due to a decreased emphasis on high-risk indirect lending since 2002. This decrease was offset somewhat by increases in charge-offs for commercial real estate loans, residential real estate loans and commercial, financial and agricultural loans of \$250,000, \$77,000 and \$4,000, respectively. Recoveries of previously charged off loans increased from \$317,000 in 2005 to \$482,000 in 2006, with the largest increase in the area of installment and consumer loans, which increased \$183,000 from 2005 to 2006. The provision for loan losses increased \$270,000 from \$1.530 million in 2005 to \$1.800 million in 2006. Loan quality continued to be manageable as the ratio of net charge-offs to average net loans decreased to 0.09% in 2006 from 0.12% in 2005. The Company continues to emphasize credit analysis and early detection of problem loans.

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### Non-interest Income and Expense

The following table summarizes selected categories of non-interest income and non-interest expense for 2006, 2005 and 2004. The acquisition of Citizens on April 1, 2005, has been accounted for as a purchase and the results of operations of Citizens since the acquisition date have been included in the Company's consolidated financial statements. Effective January 1, 2006, the Company adopted the fair value recognition provisions of FASB Statement No. 123(R), Share-Based Payment, using the modified-prospective-transition method. (Refer to Note 1(p) in the Notes to Consolidated financial Statements, Stock Option Plans, for additional information.) As a result, the Company recognized an additional \$659,000 in stock option expense in 2006, with \$484,000 being allocated to salaries and benefits expense and \$175,000 attributable to non-employee options being allocated to other non-interest expense.

#### Non-Interest Income and Expense for the Year Ended: December 31,

| Non-interest Income (in thousands)            | 2006      | 2005      | 2004      |
|---|-----------|-----------|-----------|
| Remittance processing (1) .....               | \$ 7,306  | \$ 6,748  | \$ 7,201  |
| Trust and brokerage fees (2) .....            | 8,235     | 7,599     | 6,492     |
| Service charges on deposit accounts (3) ..... | 2,719     | 2,923     | 2,419     |
| Securities transactions, net (4) .....        | 456       | (586)     | 133       |
| Gain on sales of mortgage loans, net (5) .... | 596       | 886       | 997       |
| Other (6) .....                               | 3,271     | 2,907     | 2,605     |
| Total non-interest income .                   | \$ 22,583 | \$ 20,477 | \$ 19,847 |
|   |           |           |           |
| Non-interest Expense (in thousands)           | 2006      | 2005      | 2004      |
| Salaries and employee benefits (7) .....      | \$ 23,572 | \$ 23,099 | \$ 18,889 |

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|   |           |           |           |
|---|-----------|-----------|-----------|
| Occupancy (8) .....                           | 3,049     | 3,074     | 2,669     |
| Equipment .....                               | 2,513     | 2,592     | 2,512     |
| Data processing (9) .....                     | 3,170     | 2,416     | 2,283     |
| Office supplies .....                         | 1,248     | 1,245     | 1,247     |
| Service charges from correspondent banks (10) | 284       | 513       | 781       |
| Amortization of core deposit intangibles (11) | 870       | 653       | --        |
| Other .....                                   | 6,242     | 6,187     | 5,498     |
|   | -----     |           |           |
| Total non-interest expense .                  | \$ 40,948 | \$ 39,779 | \$ 33,879 |
|   | =====     |           |           |

### Income Tax Expense

Income tax expense decreased \$228,000, or 2.2%, from \$10.373 million in 2005 to \$10.145 million in 2006. This decrease was partly due to a \$205,000 tax credit resulting from a low-income housing project investment in 2006. In 2005, income tax expense increased \$2.330 million, or 29.0%, from \$8.043 million in 2004. This was mainly due to an increase in taxable income. The Company's effective tax rate was 34.5%, 36.2% and 35.2% for the years ended December 31, 2006, 2005 and 2004, respectively.

The tax effects of temporary differences, which gave rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2006 and 2005, are shown in note 11 in the Notes to Consolidated Financial Statements.

### Financial Condition

Total assets decreased \$88.536 million, or 5.4%, to \$1.537 billion at December 31, 2006 compared to \$1.625 billion at December 31, 2005. There were decreases in every asset category except accrued interest receivable and other assets.

Cash and due from banks decreased \$3.399 million, or 6.5%, to \$48.608 million at December 31, 2006 compared to \$52.007 million at December 31, 2005.

Federal funds sold and interest bearing deposits decreased \$29.282 million, or 69.6%, to \$12.777 million at December 31, 2006 compared to \$42.059 million at December 31, 2005. Federal funds sold and interest bearing deposits fluctuate with loan demand, deposit volume and investment opportunities.

Total investments in debt and equity securities decreased \$41.928 million, or 9.4%, to \$402.695 million at December 31, 2006 compared to \$444.623 million at December 31, 2005. Included in the change were decreases of \$24.512 million, or 7.1%, in investments in securities available-for-sale and \$10.767 million, or 43.1%, in non-marketable equity securities, and \$6.649 million, or 8.7% in securities held-to-maturity. In response to the FHLB's decision to allow redemption of excess capital stock owned by member banks, the Company sold \$10.794 million of FHLB stock, which was classified as non-marketable equity securities. The Company will evaluate the feasibility of any redemption the FHLB may offer in the future. Investments fluctuate with loan demand, deposit volume, and investment opportunities.

Loans, net of allowance for loan losses, decreased \$15.442 million, or 1.5%, to \$987.485 million at December 31, 2006 compared to \$1.003 billion at December 31, 2005. Included in the change were decreases of \$13.104 million, or 9.3%, in residential real estate loans; \$8.882 million, or 10.2%, in installment and consumer loans; and \$6.988 million, or 2.2%, in commercial, financial and agricultural loans offset somewhat by an increase of \$14.497 million, or 3.1%, in commercial real estate loans. Management attributes the decrease in loans to

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the Company's unwillingness to meet some of the underwriting and pricing available in the market. Additionally, the Company has seen a slowdown in the residential real estate market during 2006 compared to 2005.

Mortgage loans held for sale decreased \$545,000, or 32.8%, to \$1.116 million at December 31, 2006 compared to \$1.661 million at December 31, 2005.

Premises and equipment decreased \$600,000, or 2.6%, to \$22.447 million at December 31, 2006 compared to \$23.047 million at December 31, 2005. The decrease included depreciation and amortization expense on fixed assets of \$2.563 million offset somewhat by purchases of \$1.997 million.

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Core deposit intangibles decreased \$871,000, or 19.1%, to \$3.698 million at December 31, 2006 compared to \$4.569 million at December 31, 2005 due to amortization related to the acquisition of Citizens in 2005.

Total liabilities decreased \$95.122 million, or 6.4%, to \$1.386 billion at December 31, 2006 compared to \$1.481 billion at December 31, 2005. There were decreases in all categories of liabilities, except accrued interest payable.

Total deposits decreased \$42.485 million, or 3.3%, to \$1.233 billion at December 31, 2006 from \$1.276 billion at December 31, 2005. Interest bearing deposits decreased \$26.987 million, or 2.6%, to \$1.008 billion at December 31, 2006 from \$1.035 billion at December 31, 2005. The \$26.987 million decrease in interest bearing deposits included a \$32.882 million decrease in savings and interest bearing demand deposits and an \$18.656 million decrease in money market savings deposits, offset somewhat by a \$24.551 million increase in time deposit accounts. Non-interest bearing deposits decreased \$15.498 million, or 6.4%, to \$225.325 million at December 31, 2006 from \$240.823 million at December 31, 2005. The decrease of \$15.498 million in non-interest bearing deposits included a \$16.574 million decrease in the balance of one account between December 31, 2005 and December 31, 2006.

Federal funds purchased and repurchase agreements decreased \$10.129 million, or 8.6%, to \$108.323 million at December 31, 2006 from \$118.452 million at December 31, 2005. This change was due to decreases of \$8.054 million in repurchase agreements and \$2.075 million in federal funds purchased.

Federal Home Loan Bank advances and other borrowings decreased \$42.909 million, or 63.7%, to \$24.477 million at December 31, 2006 compared to \$67.386 million at December 31, 2005 primarily due to \$36.386 million of matured FHLB advances, a \$5.000 million decrease in one term loan and a decrease of \$1.500 million on a line of credit from a correspondent bank.

### Investment Securities

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

#### Carrying Value of Securities(1) (in thousands)

| December 31,                   | 2006       | 2005       | 2004       |
|--------------------------------|------------|------------|------------|
| Securities available-for-sale: |            |            |            |
| Federal agencies .....         | \$ 299,275 | \$ 312,484 | \$ 218,994 |



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|                                   |            |            |            |
|-----------------------------------|------------|------------|------------|
| Mortgage-backed securities ....   | 8,947      | 13,657     | 27,713     |
| State and municipal .....         | 9,658      | 13,834     | 16,715     |
| Marketable equity securities ..   | 695        | 3,112      | 6,158      |
|                                   | -----      |            |            |
| Total .....                       | \$ 318,575 | \$ 343,087 | \$ 269,580 |
|                                   | =====      |            |            |
| Securities held-to-maturity:      |            |            |            |
| Federal agencies .....            | \$ 27,340  | \$ 38,650  | \$ 40,931  |
| Mortgage-backed securities ....   | 28,974     | 17,091     | 14,992     |
| State and municipal .....         | 13,579     | 20,801     | 25,241     |
|                                   | -----      |            |            |
| Total .....                       | \$ 69,893  | \$ 76,542  | \$ 81,164  |
|                                   | =====      |            |            |
| Non-marketable equity securities: |            |            |            |
| Federal Home Loan Bank Stock(2)   | \$ 10,656  | \$ 21,450  | \$ 4,279   |
| Other equity investments(3) ...   | 3,571      | 3,544      | 3,703      |
|                                   | -----      |            |            |
| Total .....                       | \$ 14,227  | \$ 24,994  | \$ 7,982   |
|                                   | =====      |            |            |
| Total securities .....            | \$ 402,695 | \$ 444,623 | \$ 358,726 |
|                                   | =====      |            |            |

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The unrealized loss on securities available-for-sale, net of tax effect, decreased \$442,000 to a loss of \$1.155 million at December 31, 2006 from a loss of \$1.597 million at December 31, 2005.

The following table shows the maturities and weighted-average yields of investment securities at December 31, 2006:

| Maturities and Weighted Average Yields of D |                   |       |                 |       |                  |       |    |
|---|-------------------|-------|-----------------|-------|------------------|-------|----|
| (dollars in thousands)                      |                   |       |                 |       |                  |       |    |
| -----                                       |                   |       |                 |       |                  |       |    |
| December 31, 2006                           |                   |       |                 |       |                  |       |    |
| -----                                       |                   |       |                 |       |                  |       |    |
|   | 1 year<br>or less |       | 1 to 5<br>years |       | 5 to 10<br>years |       |    |
|   | Amount            | Rate  | Amount          | Rate  | Amount           | Rate  | Am |
| -----                                       |                   |       |                 |       |                  |       |    |
| Securities available-for-sale:              |                   |       |                 |       |                  |       |    |
| Federal agencies .....                      | \$167,179         | 3.40% | \$117,143       | 4.56% | \$ 14,953        | 5.62% | \$ |
| Mortgage-backed securities(1) ..            | 1,842             | 3.89% | 3,130           | 5.68% | 3,860            | 5.14% |    |
| State and municipal (TE) (2) ....           | 3,416             | 6.47% | 5,582           | 6.98% | 660              | 7.62% |    |
| Marketable equity securities(3)             | --                | --    | --              | --    | --               | --    |    |
|   | -----             |       |                 | ----- |                  | ----- |    |
| Total .....                                 | \$172,437         |       | \$125,855       |       | \$ 19,473        |       | \$ |
|   | =====             |       |                 | ===== |                  | ===== |    |
| Average Yield (TE) (2) .....                |                   | 3.47% |                 | 4.69% |                  | 5.59% |    |
|   | =====             |       |                 | ===== |                  | ===== |    |
| Securities held-to-maturity:                |                   |       |                 |       |                  |       |    |
| Federal agencies .....                      | \$ 6,168          | 3.08% | \$ 20,322       | 3.18% | \$ 850           | 4.15% | \$ |
| Mortgage-backed securities(1) ..            | 1,746             | 2.97% | 25,729          | 5.31% | 1,441            | 5.24% |    |
| State and municipal (TE) (2) ....           | 7,847             | 5.92% | 4,417           | 6.71% | 565              | 7.37% |    |
|   | -----             |       |                 | ----- |                  | ----- |    |
| Total .....                                 | \$ 15,761         |       | \$ 50,468       |       | \$ 2,856         |       | \$ |

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|                                     |       |    |       |    |       |    |
|-------------------------------------|-------|----|-------|----|-------|----|
| Average Yield (TE) (2) .....        | 4.48% |    | 4.57% |    | 5.34% |    |
| Non-marketable equity securities(3) |       |    |       |    |       |    |
| FHLB 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; commercial real estate; residential real estate; and installment and consumer loans.

|  | Amount of Loans Outstanding<br>(dollars in thousands) |             |            |            |            |
|--|---|-------------|------------|------------|------------|
|  | 2006  | 2005        | 2004       | 2003       | 2002       |
| Commercial, financial and agricultural | \$ 312,873  | \$ 319,861  | \$ 314,657 | \$ 249,795 | \$ 249,795 |
| Real Estate - Commercial .....         | 484,003   | 469,506     | 309,830    | 298,075    | 298,075    |
| Real Estate - Residential .....        | 127,200   | 140,304     | 62,464     | 50,922     | 50,922     |
| Installment and consumer .....         | 77,846  | 86,728      | 83,926     | 77,253     | 77,253     |
| Total loans .....                      | \$1,001,922   | \$1,016,399 | \$ 770,877 | \$ 676,045 | \$ 676,045 |

  

|  | Percentage of Loans Outstanding |         |         |         |         |
|--|---------------------------------|---------|---------|---------|---------|
|  | 2006                            | 2005    | 2004    | 2003    | 2002    |
| Commercial, financial and agricultural | 31.23%                          | 31.47%  | 40.82%  | 36.95%  | 36.95%  |
| Real Estate - Commercial .....         | 48.31%                          | 46.19%  | 40.19%  | 44.09%  | 44.09%  |
| Real Estate - Residential .....        | 12.69%                          | 13.81%  | 8.10%   | 7.53%   | 7.53%   |
| Installment and consumer .....         | 7.77%                           | 8.53%   | 10.89%  | 11.43%  | 11.43%  |
| Total .....                            | 100.00%                         | 100.00% | 100.00% | 100.00% | 100.00% |

The Company's loan portfolio totaled approximately \$1.002 billion at December 31, 2006, representing 65.2% of total assets at that date. Total loans decreased \$14.477 million, or 1.4%, from December 31, 2005 to December 31, 2006 with decreases in commercial, financial and agricultural loans, residential real estate loans, and installment and consumer loans of \$6.988 million, \$13.104 million and \$8.882 million, respectively, offset somewhat by an increase in commercial real estate loans of \$14.497 million.

The Company's loan portfolio totaled approximately \$1.016 billion at December

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

The balance of loans outstanding as of December 31, 2006 by maturities is shown in the following table:

| Maturity of Loans Outstanding<br>(dollars in thousands) |                   |              |                 |             |
|---|-------------------|--------------|-----------------|-------------|
| -----   |                   |              |                 |             |
| December 31, 2006                                       |                   |              |                 |             |
| -----   |                   |              |                 |             |
|   | 1 year<br>or less | 1-5<br>years | Over 5<br>years | Total       |
| -----   |                   |              |                 |             |
| Commercial, financial and agricultural                  | \$ 188,720        | \$ 86,657    | \$ 37,496       | \$ 312,873  |
| Real Estate - Commercial .....                          | 118,971           | 245,836      | 119,196         | \$ 484,003  |
| Real Estate - Residential .....                         | 10,206            | 30,483       | 86,511          | \$ 127,200  |
| Installment and consumer .....                          | 17,844            | 25,918       | 34,084          | \$ 77,846   |
| -----   |                   |              |                 |             |
| Total .....   | \$ 335,741        | \$ 388,894   | \$ 277,287      | \$1,001,922 |
| =====   |                   |              |                 |             |
| Percentage of total loans outstanding                   | 33.51%            | 38.81%       | 27.68%          | 100.00%     |
| =====   |                   |              |                 |             |

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As of December 31, 2006, commercial, financial and agricultural loans with maturities of greater than one year were comprised of \$51.994 million in fixed-rate loans and \$72.159 million in floating-rate loans. Commercial real estate loans with maturities greater than one year at December 31, 2006 were comprised of \$178.829 million in fixed-rate loans and \$186.203 million in floating-rate loans. Residential real estate loans with maturities greater than one year at December 31, 2006 included \$54.838 million in fixed-rate loans and \$62.156 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<br>(in thousands) |          |
|--|---------------------------------|----------|
|  | 2006                            | 2005     |
| -----  |                                 |          |
| Allowance for loan losses at<br>beginning of year .....            | \$ 13,472                       | \$ 9,650 |
| Allocation for loan losses attributable to acquisition of Citizens | --                              | 3,434    |
| -----  |                                 |          |

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|  |    |         |            |
|--|----|---------|------------|
| Charge-offs during period:                     |    |         |            |
| Commercial, financial and agricultural .....   | \$ | (556)   | \$ (552)   |
| Real Estate - Commercial .....                 |    | (250)   | --         |
| Real Estate - Residential .....                |    | (141)   | (64)       |
| Installment and consumer .....                 |    | (370)   | (843)      |
| -----  |    |         |            |
| Total .....                                    | \$ | (1,317) | \$ (1,459) |
| -----  |    |         |            |
| Recoveries of loans previously charged off:    |    |         |            |
| Commercial, financial and agricultural .....   | \$ | 5       | \$ 34      |
| Real Estate - Commercial .....                 |    | --      | 5          |
| Real Estate - Residential .....                |    | 16      | --         |
| Installment and consumer .....                 |    | 461     | 278        |
| -----  |    |         |            |
| Total .....                                    | \$ | 482     | \$ 317     |
| -----  |    |         |            |
| Net charge-offs .....                          | \$ | (835)   | \$ (1,142) |
| Provision for loan losses .....                |    | 1,800   | 1,530      |
| -----  |    |         |            |
| Allowance for loan losses at end of year ..... | \$ | 14,437  | \$ 13,472  |
| =====  |    |         |            |
| Ratio of net charge-offs to                    |    |         |            |
| average net loans .....                        |    | 0.09%   | 0.12%      |
| =====  |    |         |            |

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 collecting and loan-monitoring activities. The risk of loss from commercial, financial and agricultural loans is significantly impacted by economic factors and how these factors affect the particular industries involved. The risk of loss from commercial real estate loans is impacted by the value of real estate, which can fluctuate significantly in a short period of time. Additionally, commercial real estate lending typically involves higher loan principal amounts and the repayment of the loans generally is dependent, in large part, on sufficient income from the properties securing the loans to cover operating expenses and debt service.

An analysis of the allowance for loan loss adequacy is performed on a quarterly basis by the Company's credit administration department. This analysis is reported to executive management and discussed at a quarterly meeting where specific allocations for problem credits, charge-offs and monthly provisions for loan losses are reviewed and revised, as necessary. The results are reported to the board of directors. The analysis includes assessment of the allowance for loan loss adequacy based on historic loan losses and current quality grades of specific credits reviewed, credit concentrations and current delinquent loans and nonperforming loans. The level of charge-offs of installment and consumer loans reported between 2002 and 2004 were reflective of the significant growth of the indirect loan portfolio in 1999 and 2000. The level of charge-offs of

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installment and consumer loans decreased in 2005 compared to 2004 as a result of a reduction in Owners Option indirect vehicle program charge-offs from \$415,000 in 2004 to \$5,000 in 2005. The level of charge-offs of installment and consumer loans decreased in 2006 compared to 2005 as a result of a change in loan mix out of indirect lending and improved underwriting.

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

|  | Allocation of the Allowance for Loan Losses<br>(in thousands) |          |          |          |          |
|--|---|----------|----------|----------|----------|
|  | 2006  | 2005     | 2004     | 2003     | 2002     |
| Allocated:                             |   |          |          |          |          |
| Commercial, financial and agricultural | \$ 5,245  | \$ 4,433 | \$ 2,945 | \$ 2,540 | \$ 2,438 |
| Real Estate - Commercial .....         | 6,772   | 5,991    | 3,981    | 3,433    | 3,294    |
| Real Estate - Residential .....        | 424   | 424      | 198      | 153      | 345      |
| Installment and consumer .....         | 1,218   | 1,447    | 1,605    | 2,428    | 1,763    |
|  |   |          |          |          |          |
| Total allocated allowance .....        | \$13,659  | \$12,295 | \$ 8,729 | \$ 8,554 | \$ 7,840 |
| Unallocated allowances .....           | 778   | 1,177    | 921      | 1,232    | 1,419    |
|  |   |          |          |          |          |
| Total .....                            | \$14,437  | \$13,472 | \$ 9,650 | \$ 9,786 | \$ 9,259 |
|  |   |          |          |          |          |

The allocated portion of the allowance for loan losses increased \$1.364 million from \$12.295 million at December 31, 2005 to \$13.659 million at December 31, 2006. Of this increase, the allowance for commercial, financial and agricultural loans increased \$812,000 from \$4.433 million at December 31, 2005 to \$5.245 million at December 31, 2006. The allowance for loan losses for commercial real estate loans increased \$781,000 from \$5.991 million at December 31, 2005 to \$6.772 million at December 31, 2006. Somewhat offsetting these increases was a decrease in the allowance for installment and consumer loans of \$229,000 from \$1.447 million at December 31, 2005 to \$1.218 million at December 31, 2006. The allowance for residential real estate loans remained the same at \$424,000 at December 31, 2006 and 2005. The portion of the allowance for loan losses that was unallocated decreased by \$399,000 to \$778,000 at December 31, 2006 from \$1.177 million a year earlier. The unallocated amount is determined based on management's judgment, which considers, in addition to the other factors previously discussed, the risk of error in the specific allocation.

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

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

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| Nonperforming Loans<br>(in thousands) |         |         |         |        |         |
|---------------------------------------|---------|---------|---------|--------|---------|
|                                       | 2006    | 2005    | 2004    | 2003   | 2002    |
| Nonaccrual loans(1) .....             | \$7,469 | \$2,234 | \$1,689 | \$ 399 | \$1,392 |
| Loans past due 90 days or more        | \$ 744  | \$ 766  | \$ 547  | \$ 621 | \$ 829  |
| Restructured loans(2) .....           | \$ 231  | \$ 324  | \$ 497  | \$ 18  | \$ 20   |

| Other Nonperforming Assets<br>(in thousands) |        |        |       |       |       |
|--|--------|--------|-------|-------|-------|
|  | 2006   | 2005   | 2004  | 2003  | 2002  |
| Other real estate owned ..                   | \$ 171 | \$ 188 | \$ -- | \$ -- | \$ 58 |
| Nonperforming other assets                   | \$ 6   | \$ 36  | \$ 33 | \$ 55 | \$ 94 |

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, 2006, the Company had \$21.877 million in potential problem loans, excluding nonperforming loans. Potential problem loans are those loans identified by management as being worthy of special attention, and although currently performing, may have some underlying weaknesses. None of these potential problem loans were considered impaired as defined in SFAS 114. The \$21.877 million of potential problem loans have either had timely payments or are adequately secured and loss of principal or interest is determined to be unlikely.

Loans over 90 days past due, which are not well secured and in the process of collection, are placed on nonaccrual status. There were \$7.469 million of nonaccrual loans at December 31, 2006 compared to \$2.234 million at December 31, 2005. Included in nonaccrual loans at December 31, 2006 was \$4.134 million attributable to three commercial real estate loans to a real estate developer. As of December 31, 2006, a specific valuation allowance of \$1.0 million had been assigned to these loans. Loans past due 90 days or more but still accruing interest increased by \$80,000 in 2006 to a balance of \$744,000 at December 31, 2006, from \$664,000 at December 31, 2005. These loans are well secured and in the process of collection.

The following table categorizes nonaccrual loans as of December 31, 2006 based

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on levels of performance and also details the allocation of interest collected during the period in 2006 in which the loans were on nonaccrual. Substantial performance, yet contractually past due, includes borrowers making sizable periodic payments relative to the required periodic payments due. A borrower that is not making substantial payments but is making periodic payments would be included in the limited performance category.

### Nonaccrual and Related Interest Payments (in thousands)

| Cash Interest Payments Applied As: |   |                        |                    |   |                              |
|------------------------------------|---|------------------------|--------------------|---|------------------------------|
|                                    | At December 31, 2006<br>Book<br>Balance | Contractual<br>Balance | Interest<br>Income | Recovery of<br>Prior Partial<br>Charge-offs | Reduction<br>of<br>Principal |
|                                    |   |                        |                    |   |                              |
| Not contractually past due .       | \$ 418                                  | \$ 418                 | \$ 7               | \$ --                                       | \$ --                        |
| Contractually past due with:       |   |                        |                    |   |                              |
| Substantial performance .          | 2,127                                   | 2,128                  | --                 | --  | 127                          |
| Limited performance . . . . .      | 1,553                                   | 1,560                  | 7                  | --  | 8                            |
| No performance . . . . .           | 3,371                                   | 3,517                  | --                 | --  | --                           |
|                                    |   |                        |                    |   |                              |
| Total . . . . .                    | \$ 7,469                                | \$ 7,623               | \$ 14              | \$ --                                       | \$ 135                       |
|                                    |   |                        |                    |   |                              |

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

Management believes that the allowance for loan losses at December 31, 2006 was adequate to absorb credit losses in the total loan portfolio and that the policies and procedures in place to identify potential problem loans are being effectively implemented. However, there can be no assurance that the allowance for loan losses will be adequate to cover all losses.

#### Premises and Equipment

Premises and equipment decreased \$600,000, or 2.6%, from \$23.047 million at December 31, 2005 to \$22.447 million at December 31, 2006. The decrease consisted primarily of depreciation and amortization expense of \$2.563 million offset somewhat by purchases of \$1.997 million.

#### Other Assets

Other assets increased \$2.329 million, or 9.3%, to \$27.376 million at December 31, 2006 compared to \$25.047 million at December 31, 2005.

#### Deposits

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

### Average Balance and Weighted Average Rate of Deposits (dollars in thousands)

| 2006 | 2005 | 2004 |
|------|------|------|
|      |      |      |

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|                       | Average<br>Balance | Weighted<br>Average<br>Rate | Average<br>Balance | Weighted<br>Average<br>Rate | Average<br>Balance | Weighted<br>Average<br>Rate |
|-----------------------|--------------------|-----------------------------|--------------------|-----------------------------|--------------------|-----------------------------|
| Demand                |                    |                             |                    |                             |                    |                             |
| Non-interest bearing  | \$ 144,853         | --                          | \$ 132,982         | --                          | \$ 100,913         | --                          |
| Interest bearing ...  | 70,281             | 0.67%                       | 74,976             | 0.57%                       | 93,315             | 0.6%                        |
| Savings               |                    |                             |                    |                             |                    |                             |
| Non-interest bearing  | 72,796             | --                          | 71,535             | --                          | 66,163             | --                          |
| Interest bearing ...  | 474,518            | 2.99%                       | 427,341            | 1.76%                       | 345,624            | 0.9%                        |
| Time                  |                    |                             |                    |                             |                    |                             |
| \$100,000 and more .. | 131,660            | 4.22%                       | 126,344            | 3.17%                       | 111,317            | 2.6%                        |
| Under \$100,000 ..... | 344,810            | 3.87%                       | 314,248            | 3.06 %                      | 241,279            | 2.8%                        |
| Totals                | \$ 1,238,918       |                             | \$ 1,147,426       |                             | \$ 958,611         |                             |

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In analyzing deposit activity, it should be noted that average total deposits increased \$91.492 million, or 8.0%, during 2006. Included in this increase were increases in average non-interest bearing demand deposits of \$11.871 million, or 8.9%, average non-interest bearing savings deposits of \$1.261 million, or 1.8%, average interest bearing savings deposits of \$47.177 million, or 11.0%, average time deposits of \$100,000 and more of \$5.316 million, or 4.2%, and average time deposits under \$100,000 of \$30.562 million, or 9.7%. Slightly offsetting these increases in average deposits was a decrease in average interest bearing demand deposits of \$4.695 million, or 6.3%.

The table below sets forth the maturity of time deposits greater than \$100,000 at December 31, 2006:

| Maturity at December 31, 2006: | Maturity of Time Deposits of \$100,000 or More<br>(in thousands) |           |           |  |
|--------------------------------|--|-----------|-----------|--|
|                                | State of Illinois<br>Time Deposits                               | CDs       | IRAs      | Total Time<br>Deposits of<br>\$100,000 or More |
| 3 months or less .....         | \$ 1,050   | \$ 41,276 | \$ 1,206  | \$ 43,532                                      |
| 3 to 6 months .....            | --   | 25,648    | 444       | 26,092   |
| 6 to 12 months .....           | --   | 32,330    | 2,895     | 35,225   |
| Over 12 months .....           | 2,750  | 32,324    | 5,957     | 41,031   |
| Total .....                    | \$ 3,800   | \$131,578 | \$ 10,502 | \$145,880                                      |

Federal Funds Purchased and Repurchase Agreements

This category includes federal funds purchased, which are generally overnight transactions, and securities sold under repurchase agreements, which mature from one day to one year from the date of sale. The table in note 8 in the Notes to Consolidated Financial Statements shows the balances of federal funds purchased and repurchase agreements at December 31, 2006 and 2005, the average balance for the years ended December 31, 2006, 2005 and 2004, and the maximum month-end



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value during each year.

### Fair Values of Financial Instruments

The estimated fair values of financial instruments for which no listed market exists and the fair values of investment securities, which are based on listed market quotes at December 31, 2006 and 2005, are disclosed in note 17 in the Notes to Consolidated Financial Statements.

### Capital

Total shareholders' equity increased \$6.586 million, from \$143.769 million at December 31, 2005 to \$150.355 million at December 31, 2006. Net income of \$19.237 million, and increases of \$659,000 in stock option expense, \$442,000 in accumulated other comprehensive income and \$241,000 in deferred tax benefit on stock option exercises were offset somewhat by cash dividends declared of \$9.470 million and a decrease of \$4.523 million as a result of net treasury stock transactions.

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

Based on Federal Reserve guidelines, a bank holding company generally is required to maintain a leverage ratio of 3% plus an additional cushion of at least 100 to 200 basis points. The Company's total assets leverage ratio at December 31, 2006 and 2005 was 8.4% and 7.8%, respectively. The leverage ratio for the Bank is disclosed in note 19 in the Notes to the Consolidated Financial Statements and is well above the regulatory minimum.

The minimum risk-weighted assets ratio for bank holding companies is 8%. The Company's total risk-weighted assets ratio at December 31, 2006 and 2005 was 12.5% and 11.7%, respectively - significantly higher than the regulatory minimum. The Bank's total risk-weighted assets ratio is disclosed in note 19 in the Notes to the Consolidated Financial Statements and is significantly higher than the regulatory minimum.

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### Inflation and Changing Prices

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

### Liquidity and Cash Flows

The Company requires cash to fund loan demand and deposit withdrawals. Cash flows fluctuate with changes in economic conditions, current interest rate trends and as a result of management strategies and programs. In general, funds provided by customer deposits, federal funds purchased and repurchase agreements, and maturities, calls and paydowns of investment securities are used to fund loans and purchase investment securities. Available funds are used to fund demand for loans that meet the Company's credit quality guidelines, with the remaining funds used to purchase investment securities and/or federal funds sold. The Company monitors the demand for cash and initiates programs and policies as considered necessary to meet funding gaps.

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The Company was able to adequately fund loan demand and meet liquidity needs in 2006. A review of the consolidated statement of cash flows in the accompanying financial statements shows that the Company's cash and cash equivalents decreased \$32.681 million from December 31, 2005 to December 31, 2006. The decrease in 2006 resulted from cash used in financing activities, offset somewhat by cash provided by operating and investing activities. There were differences in sources and uses of cash during 2006 compared to 2005. Cash used in financing activities during 2006 was \$109.103 million compared to cash provided of \$76.175 million during the same period in 2005, primarily due to a decrease in deposits during 2006 of \$42.485 million compared to an increase of \$69.306 million in 2005, a decrease in federal funds purchased and repurchase agreements of \$10.129 million during 2006 compared to an increase of \$21.552 million during 2005, advances from Federal Home Loan Bank advances and other borrowings of \$1.000 million during 2006 compared to \$39.000 million during 2005 and payments on Federal Home Loan Bank advances and other borrowings of \$43.909 million in 2006 compared to \$39.095 million in 2005. Less cash was used in 2006 for treasury stock transactions compared to 2005.

Cash was provided by investing activities during 2006 compared to cash used during the same period in 2005, primarily due to differences in investments in debt and equity securities. Cash provided by activities related to investments in debt and equity securities during 2006 was \$43.018 million compared to cash used of \$47.272 million during the same period in 2005. In 2006, proceeds of \$134.231 million from maturities, calls and sales of debt and equity securities, principal paydowns on mortgage-backed securities, and return of principal on non-marketable equity securities and proceeds from redemption of non-marketable equity securities were somewhat offset by cash used to purchase debt and equity securities of \$91.213 million. In 2005, cash used to purchase debt and equity securities of \$335.505 million was somewhat offset by proceeds of \$288.233 million from maturities, calls and sales of debt and equity securities, principal paydowns on mortgage-backed securities, and return of principal on non-marketable equity securities. There was also a difference in loan volume during 2006 compared to 2005. Cash of \$12.918 million was provided in 2006 by a decrease in loans compared to cash used of \$15.264 million in 2005 due to an increase in loans. The decrease in loans in 2006 was attributable to the Company's unwillingness to meet some of the underwriting and pricing available in the market. Less cash was provided by operating activities in 2006 compared to 2005.

The Company's future short-term cash requirements are expected to be provided by maturities and sales of investments, sales of loans and deposits. Cash required to meet longer-term liquidity requirements will mostly depend on future goals and strategies of management, the competitive environment, economic factors and changes in the needs of customers. If current sources of liquidity cannot provide needed cash in the future, the Company can obtain long-term funds from several sources, including, but not limited to, utilizing the Company's \$15.000 million line of credit from a third party lender, FHLB borrowings and brokered CDs. To meet short-term liquidity needs, the Company is able to borrow funds on a temporary basis from the Federal Reserve Bank, the FHLB and correspondent banks. With sound capital levels, the Company continues to have several options for longer-term cash needs that may arise.

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

The following table summarizes significant obligations and other commitments at December 31, 2006 (in thousands):

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| Years Ended December 31, | Time Deposits     | FHLB and Other borrowings (1) | Operating Leases | Total             |
|--------------------------|-------------------|-------------------------------|------------------|-------------------|
| 2007                     | \$ 330,652        | \$ 2,454                      | \$ 374           | \$ 333,480        |
| 2008                     | 77,298            | 22,023                        | 341              | 99,662            |
| 2009                     | 73,887            | --                            | 316              | 74,203            |
| 2010                     | 14,685            | --                            | 304              | 14,989            |
| 2011                     | 2,475             | --                            | 288              | 2,763             |
| Thereafter               | 10                | --                            | 147              | 157               |
| <b>Total</b>             | <b>\$ 499,007</b> | <b>\$ 24,477</b>              | <b>\$ 1,770</b>  | <b>\$ 525,254</b> |

Commitments to extend credit:

|                           |  |  |  |            |
|---------------------------|--|--|--|------------|
| Commitments               |  |  |  | \$ 333,416 |
| Standby letters of credit |  |  |  | 28,464     |

Interest Rate Sensitivity

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

The following table shows the Company's interest rate sensitivity position at various intervals at December 31, 2006:

|   | Rate Sensitivity of Earning Assets and |                  |                  |              |
|---|--|------------------|------------------|--------------|
|   | 1 - 30 Days                            | 31 - 90 Days     | 91 - 180 Days    | 180 Days     |
| <b>Interest earning assets:</b>                   |  |                  |                  |              |
| Federal funds sold and interest bearing deposits  | \$ 12,777                              | \$ --            | \$ --            | \$ --        |
| Debt and equity securities(1)                     | 14,453                                 | 38,734           | 46,140           | --           |
| Loans(2)  | 292,213                                | 46,924           | 41,597           | --           |
| <b>Total interest earning assets</b>              | <b>\$ 319,443</b>                      | <b>\$ 85,658</b> | <b>\$ 87,737</b> | <b>\$ --</b> |
| <b>Interest bearing liabilities:</b>              |  |                  |                  |              |
| Savings and interest bearing demand deposits      | \$ 43,512                              | \$ 1,594         | \$ 2,391         | \$ --        |
| Money market savings deposits                     | 275,172                                | --               | --               | --           |
| Time deposits                                     | 52,075                                 | 71,442           | 69,133           | --           |
| Federal funds purchased and repurchase agreements | 103,159                                | 2,009            | 104              | --           |
| FHLB Advances and other borrowings                | 3,431                                  | 16,046           | --               | --           |

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|  |              |            |           |    |
|--|--------------|------------|-----------|----|
| Total interest bearing liabilities ..... | \$ 477,349   | \$ 91,091  | \$ 71,628 | \$ |
|  |              |            |           |    |
| Net asset (liability) funding gap .....  | \$ (157,906) | \$ (5,433) | \$ 16,109 | \$ |
|  |              |            |           |    |
| Repricing gap .....                      | 0.67         | 0.94       | 1.22      |    |
| Cumulative repricing gap .....           | 0.67         | 0.71       | 0.77      |    |
|  |              |            |           |    |

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

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

At December 31, 2006, the Company tended to be somewhat liability sensitive due to the levels of savings and interest bearing demand deposits, time deposits, federal funds purchased and repurchase agreements. As such, the effect of a decrease in the prime rate of 100 basis points would increase net interest income by approximately \$1.579 million in 30 days and \$1.633 million in 90 days assuming no management intervention. A rise in interest rates would have the opposite effect for the same periods. The Company's Asset and Liability Management Policy states that the cumulative ratio of rate-sensitive assets ("RSA") to rate-sensitive liabilities ("RSL") for the 12-month period shall fall within the range of 0.75-1.25. As of December 31, 2006, the Company's RSA/RSL was 0.86, which was within the established guidelines.

In addition to managing interest rate sensitivity and liquidity through the use of gap reports, the Company has provided for emergency liquidity situations with informal agreements with correspondent banks that permit the Company to borrow federal funds on an unsecured basis. Additionally, at December 31, 2006, the Company had a \$15 million unsecured line of credit with a correspondent bank, all of which was available at that date. The Company also has sufficient capacity to permit it to borrow funds from the Federal Home Loan Bank on a secured basis (refer to the Liquidity and Cash Flows section for additional information).

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

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The software reprices the products based on current offering rates. The software performs interest rate sensitivity analysis by performing rate shocks of plus or minus 200 basis points in 100 basis point increments.

The following table shows projected results at December 31, 2006 and December 31, 2005 of the impact on net interest income from an immediate change in interest rates. The results are shown as a percentage change in net interest income over the next twelve months.

|                         | +200 | +100 | -100   | -200   |
|-------------------------|------|------|--------|--------|
|                         |      |      |        |        |
| December 31, 2006 ..... | 4.7% | 2.4% | (2.5%) | (5.2%) |
| December 31, 2005 ..... | 8.9% | 4.7% | (4.7%) | (9.4%) |

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

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

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### Emerging Accounting Standards

In July 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes." (FIN 48). FIN 48 clarifies the accounting and reporting for income taxes recognized in accordance with SFAS No. 109, "Accounting for Income Taxes." This interpretation prescribes a comprehensive model for the financial statement recognition, measurement, presentation and disclosure of uncertain tax positions taken or expected to be taken in income tax returns. The Company does not expect the adoption of FIN 48 to have a material impact on its financial statements. The Company will adopt FIN 48 in the first quarter of 2007.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements." This Statement defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. It clarifies that fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the market in which the reporting entity transacts. The Statement does not require any new fair value measurements, but rather, it provides enhanced guidance to other pronouncements that require or permit assets or liabilities to be measured at fair value. This Statement is effective for fiscal years beginning after November 15, 2007, with earlier adoption permitted. The Company does not expect that the adoption of this Statement will have a material impact on its financial position, results of operations and cash flows.

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In September 2006, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin (SAB) No. 108 to require quantification of financial statement misstatements under both the "rollover approach" and the "iron curtain approach". The "rollover approach" quantifies a misstatement based on the amount of the error originating in the current year income statement, but ignores the effects of correcting the portion of the current year balance sheet misstatement that originated in prior years. The "iron curtain approach" quantifies a misstatement based on the effects of correcting the misstatement existing in the balance sheet at the end of the current year, irrespective of the misstatement's year(s) of origination. The provisions of SAB No. 108 were applied to the Company for the year ended December 31, 2006 and adoption had no impact on the financial statements.

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

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

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

- o Unexpected results of the proposed merger with First Busey Corporation.
- o The economic impact of past and any future terrorist attacks, acts of war or threats thereof and the response of the United States to any such threats and attacks.
- o The costs, effects and outcomes of existing or future litigation.
- o Changes in accounting policies and practices, as may be adopted by state and federal regulatory agencies, the Financial Accounting Standards Board, the Securities and Exchange Commission and the Public Company Accounting Oversight Board.
- o The ability of the Company to manage the risks associated with the foregoing as well as anticipated.

In addition to the risk factors described above, there are other factors that may impact any public company, including ours, which could have a material adverse affect on the operations and future prospects of the Company and its subsidiaries. These risks and uncertainties should be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements.

Item 7a. Quantitative and Qualitative Disclosures about Market Risk

See the "Interest Rate Sensitivity" section contained in Item 7, Management's

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Discussion and Analysis of Financial Condition and Results of Operations.

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Item 8. Financial Statements and Supplementary Data

MAIN STREET TRUST, INC.  
AND SUBSIDIARIES

Consolidated Financial Statements

December 31, 2006, 2005 and 2004

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MAIN STREET TRUST, INC.  
AND SUBSIDIARIES

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### Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying consolidated balance sheets of Main Street Trust, Inc. and subsidiaries as of December 31, 2006 and 2005, and the related consolidated statements of income, changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2006. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Main Street Trust, Inc. and subsidiaries as of December 31, 2006 and 2005, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2006, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with standards of the Public Accounting Oversight Board (United States), the effectiveness of Main Street Trust, Inc. and subsidiaries' internal control over financial reporting as of December 31, 2006 based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 14, 2007 expressed an unqualified opinion on management's assessment of the effectiveness of Main Street Trust, Inc. and subsidiaries' internal control over financial reporting and an unqualified



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opinion on the effectiveness of Main Street Trust, Inc. and subsidiaries' internal control over financial reporting.

As described in Note 1 to the Consolidated Financial Statements, the Company adopted Financial Accounting Standards Board Statement No. 123(R), effective January 1, 2006.

/s/ McGladrey & Pullen, LLP  
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Champaign, Illinois  
March 14, 2007

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### MAIN STREET TRUST, INC. AND SUBSIDIARIES

#### Consolidated Balance Sheets

December 31, 2006 and 2005  
(in thousands, except share data)

|   | 2006         | 2005         |
|---|--------------|--------------|
|   | -----        | -----        |
| <b>Assets</b>   |              |              |
| Cash and due from banks .....   | \$ 48,608    | \$ 52,007    |
| Federal funds sold and interest bearing deposits .....  | 12,777       | 42,059       |
|   | -----        | -----        |
| Cash and cash equivalents .....   | 61,385       | 94,066       |
|   | -----        | -----        |
| Investments in debt and equity securities:  |              |              |
| Available-for-sale, at fair value .....   | 318,575      | 343,087      |
| Held-to-maturity, at cost (fair value of \$69,037 and \$75,665<br>at December 31, 2006 and 2005, respectively) .....  | 69,893       | 76,542       |
| Non-marketable equity securities .....  | 14,227       | 24,994       |
|   | -----        | -----        |
| Total investments in debt and equity securities .....   | 402,695      | 444,623      |
|   | -----        | -----        |
| Loans, net of allowance for loan losses of \$14,437 and \$13,472<br>at December 31, 2006 and 2005, respectively ..... | 987,485      | 1,002,927    |
| Mortgage loans held for sale .....  | 1,116        | 1,661        |
| Premises and equipment .....  | 22,447       | 23,047       |
| Goodwill .....  | 20,736       | 20,736       |
| Core deposit intangibles .....  | 3,698        | 4,569        |
| Accrued interest receivable .....   | 9,663        | 8,461        |
| Other assets .....  | 27,376       | 25,047       |
|   | -----        | -----        |
| Total assets .....  | \$ 1,536,601 | \$ 1,625,137 |
|   | =====        | =====        |
| <b>Liabilities and Shareholders' Equity</b>   |              |              |
| <b>Liabilities:</b>   |              |              |
| <b>Deposits:</b>  |              |              |
| Non-interest bearing .....  | \$ 225,325   | \$ 240,823   |

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|  |              |              |
|--|--------------|--------------|
| Interest bearing .....   | 1,008,162    | 1,035,149    |
|  | -----        | -----        |
| Total deposits .....   | 1,233,487    | 1,275,972    |
| Federal funds purchased and repurchase agreements .....  | 108,323      | 118,452      |
| Federal Home Loan Bank advances and other borrowings .....   | 24,477       | 67,386       |
| Accrued interest payable .....   | 5,187        | 4,657        |
| Other liabilities .....  | 14,772       | 14,901       |
|  | -----        | -----        |
| Total liabilities .....  | 1,386,246    | 1,481,368    |
|  | -----        | -----        |
| Commitments and Contingencies (Notes 17 and 18)  |              |              |
| Shareholders' equity:  |              |              |
| Preferred stock, no par value; 2,000,000 shares authorized ..  | --           | --           |
| Common stock, \$0.01 par value; 15,000,000 shares authorized;<br>11,219,319 shares issued .....                    | 112          | 112          |
| Paid in capital .....  | 56,089       | 55,189       |
| Retained earnings .....  | 129,539      | 120,238      |
| Accumulated other comprehensive loss .....   | (1,155)      | (1,597)      |
|  | -----        | -----        |
|  | 184,585      | 173,942      |
| Less: treasury stock, at cost, 1,196,950 and 1,072,644 shares<br>at December 31, 2006 and 2005, respectively ..... | (34,230)     | (30,173)     |
|  | -----        | -----        |
| Total shareholders' equity .....   | 150,355      | 143,769      |
|  | -----        | -----        |
| Total liabilities and shareholders' equity .....   | \$ 1,536,601 | \$ 1,625,137 |
|  | =====        | =====        |

See accompanying notes to consolidated financial statements.

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MAIN STREET TRUST, INC.  
AND SUBSIDIARIES

Consolidated Statements of Income

Years Ended December 31, 2006, 2005 and 2004 (in thousands,  
except share and per share data)

|  | 2006      | 2005      |
|--|-----------|-----------|
|  | -----     | -----     |
| Interest income:   |           |           |
| Loans and fees on loans .....                              | \$ 70,507 | \$ 60,988 |
| Investments in debt and equity securities                  |           |           |
| Taxable .....  | 17,742    | 12,465    |
| Tax-exempt .....   | 1,183     | 1,516     |
| Federal funds sold and interest bearing deposits .....     | 1,327     | 2,023     |
|  | -----     | -----     |
| Total interest income .....                                | 90,759    | 76,992    |
| Interest expense:  |           |           |
| Deposits .....   | 33,555    | 21,589    |
| Federal funds purchased and repurchase agreements .....    | 5,531     | 3,097     |
| Federal Home Loan Bank advances and other borrowings ..... | 2,126     | 2,793     |
|  | -----     | -----     |

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|   |            |            |
|---|------------|------------|
| Total interest expense .....  | 41,212     | 27,479     |
| <hr/>   |            |            |
| Net interest income .....   | 49,547     | 49,513     |
| Provision for loan losses .....   | 1,800      | 1,530      |
| <hr/>   |            |            |
| Net interest income after provision for loan losses ..  | 47,747     | 47,983     |
| Non-interest income:  |            |            |
| Remittance processing .....   | 7,306      | 6,748      |
| Trust and brokerage fees .....  | 8,235      | 7,599      |
| Service charges on deposit accounts .....   | 2,719      | 2,923      |
| Securities transactions, net .....  | 456        | (586)      |
| Gain on sales of mortgage loans, net .....  | 596        | 886        |
| Other .....   | 3,271      | 2,907      |
| <hr/>   |            |            |
| Total non-interest income .....   | 22,583     | 20,477     |
| Non-interest expense:   |            |            |
| Salaries and employee benefits .....  | 23,572     | 23,099     |
| Occupancy .....   | 3,049      | 3,074      |
| Equipment .....   | 2,513      | 2,592      |
| Data processing .....   | 3,170      | 2,416      |
| Office supplies .....   | 1,248      | 1,245      |
| Service charges from correspondent banks .....  | 284        | 513        |
| Amortization of core deposit intangibles .....  | 870        | 653        |
| Other .....   | 6,242      | 6,187      |
| <hr/>   |            |            |
| Total non-interest expense .....  | 40,948     | 39,779     |
| Income before income taxes .....  |            |            |
| Income taxes .....  | 29,382     | 28,681     |
|   | 10,145     | 10,373     |
| <hr/>   |            |            |
| Net income .....  | \$ 19,237  | \$ 18,308  |
| <hr/>   |            |            |
| Per share data:   |            |            |
| Basic earnings per share .....  | \$ 1.91    | \$ 1.82    |
| Weighted average shares of common stock outstanding .....   | 10,094,433 | 10,060,032 |
| Diluted earnings per share .....  |            |            |
| Weighted average shares of common stock and dilutive potential<br>common shares outstanding ..... | \$ 1.88    | \$ 1.80    |
|   | 10,222,543 | 10,157,409 |
| Dividends declared per share .....  | \$ 0.94    | \$ 0.89    |

See accompanying notes to consolidated financial statements.

MAIN STREET TRUST, INC.  
AND SUBSIDIARIES

Consolidated Statements of Changes in Shareholders' Equity

Years Ended December 31, 2006,  
2005 and 2004 (in thousands,  
except share and per share data)

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|   | Common<br>Shares | Stock<br>Amount | Paid-in<br>Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income<br>(Loss) |
|---|------------------|-----------------|--------------------|----------------------|---|
| Balance, December 31, 2003 .....  | 11,219,319       | \$ 112          | \$ 55,271          | \$ 101,521           | \$ 1,94   |
| Comprehensive Income:   |                  |                 |                    |                      |   |
| Net income .....  | --               | --              | --                 | 14,778               | --  |
| Net change in unrealized<br>gain (loss) on securities<br>available-for-sale, net of<br>taxes of (\$1,386) ..... | --               | --              | --                 | --                   | (2,07   |
| Reclassification adjustment,<br>net of tax of (\$53) .....  | --               | --              | --                 | --                   | (8  |
| Comprehensive income .....  |                  |                 |                    |                      |   |
| Stock appreciation rights .....   | --               | --              | (82)               | --                   | --  |
| Cash dividends declared (\$0.85<br>per share) .....   | --               | --              | --                 | (8,056)              | --  |
| Treasury stock transactions, net .....  | --               | --              | --                 | (172)                | --  |
| Balance, December 31, 2004 .....  | 11,219,319       | 112             | 55,189             | 108,071              | (21   |
| Comprehensive Income:   |                  |                 |                    |                      |   |
| Net income .....  | --               | --              | --                 | 18,308               | --  |
| Net change in unrealized<br>gain (loss) on securities<br>available-for-sale, net of<br>taxes of (\$1,154) ..... | --               | --              | --                 | --                   | (1,73   |
| Reclassification adjustment,<br>net of tax of \$234 .....   | --               | --              | --                 | --                   | 35  |
| Comprehensive income .....  |                  |                 |                    |                      |   |
| Cash dividends declared (\$0.89<br>per share) .....   | --               | --              | --                 | (8,926)              | --  |
| Acquisition of Citizens First<br>Financial Corp. ....   | --               | --              | --                 | 2,888                | --  |
| Treasury stock transactions, net .....  | --               | --              | --                 | (103)                | --  |
| Balance, December 31, 2005 .....  | 11,219,319       | 112             | 55,189             | 120,238              | (1,59   |
| Comprehensive Income:   |                  |                 |                    |                      |   |
| Net income .....  | --               | --              | --                 | 19,237               | --  |
| Net change in unrealized<br>gain (loss) on securities<br>available-for-sale, net of<br>taxes of \$478 .....     | --               | --              | --                 | --                   | 71  |
| Reclassification adjustment,<br>net of tax of (\$183) .....   | --               | --              | --                 | --                   | (27   |
| Comprehensive income .....  |                  |                 |                    |                      |   |
| Paid-in capital- stock options .....  | --               | --              | 659                | --                   | --  |
| Deferred tax benefit on stock option<br>exercises .....   | --               | --              | 241                | --                   | --  |
| Cash dividends declared (\$0.94<br>per share) .....   | --               | --              | --                 | (9,470)              | --  |
| Treasury stock transactions, net .....  | --               | --              | --                 | (466)                | --  |

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Balance, December 31, 2006 ..... 11,219,319 \$ 112 \$ 56,089 \$ 129,539 \$ (1,15

See accompanying notes to consolidated financial statements.

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MAIN STREET TRUST, INC.  
AND SUBSIDIARIES

Consolidated Statements of Cash Flows  
Years Ended December 31, 2006, 2005 and 2004  
(in thousands)

|  | 2006      |    |
|--|-----------|----|
|  | -----     |    |
| Cash flows from operating activities:  |           |    |
| Net income .....   | \$ 19,237 | \$ |
| Adjustments to reconcile net income to net cash<br>provided by operating activities: |           |    |
| Depreciation and amortization - fixed assets .....                                   | 2,563     |    |
| Amortization of bond premiums and accretion of discounts, net .....                  | 500       |    |
| Amortization of core deposit intangibles .....                                       | 870       |    |
| Provision for loan losses .....  | 1,800     |    |
| Deferred income taxes .....  | (2,191)   |    |
| Securities transactions, net .....   | (456)     |    |
| Federal Home Loan Bank stock dividend .....  | --        |    |
| Undistributed earnings from non-marketable equity securities .....                   | (397)     |    |
| Gain on sales of mortgage loans, net .....   | (596)     |    |
| Loss (gain) on disposal of premises and equipment .....                              | 13        |    |
| Proceeds from sales of mortgage loans originated for sale .....                      | 52,417    |    |
| Mortgage loans originated for sale .....   | (51,276)  |    |
| Stock based compensation plan expense .....  | 659       |    |
| Other, net .....   | (1,412)   |    |
|  | -----     |    |
| Net cash provided by operating activities .....                                      | 21,731    |    |
|  | -----     |    |
| Cash flows from investing activities:  |           |    |
| Net decrease (increase) in loans .....   | 12,918    |    |
| Proceeds from maturities and calls of investments in debt securities:                |           |    |
| Held-to-maturity .....   | 20,917    |    |
| Available-for-sale .....   | 84,805    |    |
| Proceeds from sales of investments in debt and equity securities:                    |           |    |
| Available-for-sale .....   | 6,078     |    |
| Purchases of investments in debt and equity securities:                              |           |    |
| Held-to-maturity .....   | (19,882)  |    |
| Available-for-sale .....   | (69,906)  |    |
| Non-marketable equity securities .....   | (1,425)   |    |
| Principal paydowns from mortgage-backed securities:                                  |           |    |
| Held-to-maturity .....   | 5,322     |    |
| Available-for-sale .....   | 4,520     |    |
| Return of principal on non-marketable equity securities .....                        | 1,795     |    |
| Proceeds from redemption of non-marketable equity securities .....                   | 10,794    |    |
| Purchases of premises and equipment .....  | (1,997)   |    |
| Proceeds from disposal of premises and equipment .....                               | 21        |    |
| Proceeds from sales of other real estate .....                                       | 731       |    |

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|   |           |    |
|---|-----------|----|
| Acquisition of Citizens First Financial Corporation, net of cash and cash equivalents ..... | --        |    |
| Net cash provided by (used in) investing activities .....                                   | 54,691    | (  |
| Cash flows from financing activities:   |           |    |
| Net (decrease) increase in deposits .....   | (42,485)  |    |
| Net (decrease) increase in federal funds purchased and repurchase agreements .....          | (10,129)  |    |
| Advances from Federal Home Loan Bank advances and other borrowings .....                    | 1,000     |    |
| Payments on Federal Home Loan Bank advances and other borrowings .....                      | (43,909)  | (  |
| Cash dividends paid .....   | (9,298)   |    |
| Excess tax benefit- stock based compensation plan .....                                     | 241       |    |
| Treasury stock transactions, net .....  | (4,523)   |    |
| Net cash (used in) provided by financing activities .....                                   | (109,103) |    |
| Net (decrease) increase in cash and cash equivalents .....                                  | (32,681)  |    |
| Cash and cash equivalents at beginning of year .....  | 94,066    |    |
| Cash and cash equivalents at end of period .....  | \$ 61,385 | \$ |
|   |           |    |

See accompanying notes to consolidated financial statements.

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### MAIN STREET TRUST, INC. AND SUBSIDIARIES

#### Supplemental Disclosure of Cash Flow Information Years Ended December 31, 2006, 2005 and 2004 (in thousands)

|  | 2006      | 2005      | 2004      |
|--|-----------|-----------|-----------|
|  |           |           |           |
| Cash paid during the year for:                               |           |           |           |
| Interest .....   | \$ 40,682 | \$ 25,616 | \$ 15,920 |
| Income Taxes .....   | 11,504    | 8,931     | 6,780     |
| Real estate acquired through or in lieu of foreclosure ..... | 704       | 148       | 40        |
| Dividends declared not paid .....                            | 2,506     | 2,334     | 2,079     |
| Acquisition of Citizens First Financial Corporation:         |           |           |           |
| Stock issued .....   |           | \$ 27,804 |           |
| Cash paid .....  |           | 28,416    |           |
| Capitalized expenses .....                                   |           | 621       |           |
| Total cost of acquisition .....                              |           | \$ 56,841 |           |
|  |           |           |           |
| Assets acquired:   |           |           |           |
| Cash and due from banks .....                                |           | \$ 6,022  |           |
| Federal funds sold and interest bearing deposits .....       |           | 16,630    |           |
|  |           |           |           |

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|  |           |
|--|-----------|
| Cash and cash equivalents .....                          | 22,652    |
| Investments in debt and equity securities:               |           |
| Available-for-sale, at fair value .....                  | 23,865    |
| Non-marketable equity securities .....                   | 16,374    |
| Loans, net of allowance for loan losses .....            | 228,114   |
| Mortgage loans held for sale .....                       | 282       |
| Premises and equipment .....                             | 5,993     |
| Accrued interest receivable .....                        | 1,571     |
| Goodwill .....   | 20,736    |
| Core deposit intangibles .....                           | 5,222     |
| Other assets .....                                       | 6,174     |
| Liabilities assumed:                                     |           |
| Deposits .....   | (232,089) |
| Federal Home Loan Bank advances and other borrowings ... | (37,599)  |
| Accrued interest payable .....                           | (193)     |
| Other liabilities .....                                  | (4,261)   |
|  | -----     |
| Net assets acquired .....                                | \$ 56,841 |
|  | =====     |

See accompanying notes to consolidated financial statements

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### MAIN STREET TRUST, INC. AND SUBSIDIARIES

#### Notes to Consolidated Financial Statements

##### 1. Summary of Significant Accounting Policies

###### (a) Nature of Operations

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

###### (b) Use of Estimates

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

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liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### (c) Principles of Consolidation

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

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

### (d) Segment Information

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

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



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charging a monthly management fee.

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

|  | Banking<br>Services | Remittance<br>Services | Com  |
|--|---------------------|------------------------|------|
| 2006   |                     |                        |      |
| Total interest income                        | \$ 90,139           | \$ 29                  | \$   |
| Total interest expense                       | 40,970              | --                     |      |
| Provision for loan losses                    | 1,800               | --                     |      |
| Total non-interest income                    | 15,754              | 7,693                  |      |
| Total non-interest expense                   | 35,988              | 4,605                  | 1    |
| Income before income tax                     | 27,135              | 3,117                  |      |
| Income tax expense                           | 9,593               | 1,309                  |      |
| Net income                                   | 17,542              | 1,808                  |      |
| Goodwill                                     | 20,736              | --                     |      |
| Total assets                                 | 1,524,734           | 4,506                  | 154  |
| Depreciation and amortization - fixed assets | 2,190               | 318                    |      |
| 2005   |                     |                        |      |
| Total interest income                        | \$ 75,087           | \$ 14                  | \$ 1 |
| Total interest expense                       | 27,180              | --                     |      |
| Provision for loan losses                    | 1,530               | --                     |      |
| Total non-interest income                    | 15,238              | 6,899                  |      |
| Total non-interest expense                   | 35,199              | 4,281                  | 1    |
| Income before income tax                     | 26,416              | 2,632                  |      |
| Income tax expense                           | 9,428               | 1,107                  |      |
| Net income                                   | 16,988              | 1,525                  |      |
| Goodwill                                     | 20,736              | --                     |      |
| Total assets                                 | 1,610,026           | 3,365                  | 153  |
| Depreciation and amortization - fixed assets | 2,126               | 354                    |      |
| 2004   |                     |                        |      |
| Total interest income                        | \$ 54,383           | \$ 23                  | \$   |
| Total interest expense                       | 16,876              | --                     |      |
| Provision for loan losses                    | 1,100               | --                     |      |
| Total non-interest income                    | 12,779              | 7,283                  | 4    |
| Total non-interest expense                   | 27,120              | 5,012                  | 6    |
| Income before income tax                     | 22,066              | 2,294                  | (1   |
| Income tax expense                           | 7,709               | 963                    |      |
| Net income                                   | 14,357              | 1,331                  |      |
| Total assets                                 | 1,209,207           | 3,936                  | 121  |
| Depreciation and amortization - fixed assets | 1,535               | 623                    |      |

(e) Comprehensive Income

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

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### (f) Investments in Debt and Equity Securities

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

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

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

Effective for the period ended December 31, 2005, the Company modified its policy for evaluating investments for other-than-temporary impairment. Under its new policy, investments, other than debt security investments where the impairment is deemed to be due solely to interest rate movements, are assumed to be impaired and the impairment recognized through earnings no later than twelve months from the date the security was first impaired, unless there is "overwhelming evidence to the contrary." Under the policy, "overwhelming evidence to the contrary" is a rare instance, but might include, among other things, an announced sale soon after a reporting period where the price would cause an impairment to reverse. Further, under certain circumstances, including a bankruptcy, catastrophic event or other circumstances which cause the Company to determine,

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after analyzing the specific facts, that the decline in the fair value is other than temporary, the Company would recognize an other than temporary impairment write-down upon such occurrence or determination, and not wait twelve months from the time of the impairment.

Non-marketable equity securities include other investments which are carried at fair value as well as the Bank's required investment in the capital stock of the Federal Home Loan Bank. No ready market exists for FHLB stock, and it has no quoted market value. For disclosure purpose, such stock is assumed to have a market value which is equal to cost. Dividends received on such stock are included with interest income in the consolidated statements of operations.

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On April 18, 2006, the Federal Home Loan Bank of Chicago ("FHLBC") announced plans to redeem excess (or "voluntary") capital stock held by its members. The FHLBC received regulatory approval to redeem approximately \$795 million of stock held by members in excess of the minimum required as a condition for membership. During the second quarter of 2006, the Company redeemed approximately \$7.397 million of excess stock (the Company's pro rata share). On November 8, 2006, the Federal Housing Finance Board authorized the FHLBC's redemption of an additional \$375 million of members' excess (or "voluntary") capital stock. The Company's pro-rata share of approximately \$3.397 million was redeemed during the fourth quarter. No gain or loss was recognized on the redemption.

### (g) Loans

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

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

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

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

### (h) Mortgage Servicing Rights

The fair market value of servicing rights on mortgage loans that are sold with servicing retained is capitalized. The capitalized servicing rights are amortized against income based on the

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estimated lives of the loans. Capitalized servicing rights are evaluated for impairment based on the fair value of the servicing rights and any impairment is reflected in income.

### (i) Allowance for Loan Losses

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

The allowance for loan losses related to impaired loans that are identified for evaluation is based on discounted cash flow using the loan's initial effective interest rate or the fair value, less selling costs, of the collateral for collateral dependent loans.

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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 date and calculate the number of days each loan exceeds the contractual due dates. The accrual of interest on any loan is discontinued when, in the opinion of management, there is reasonable doubt as to the collectibility of interest or principal.

Management believes the allowance for loan losses is adequate to absorb probable credit losses inherent in the loan portfolio. While management uses available information to recognize loan losses, future additions to the allowance for loan losses may be necessary based on changes in economic conditions. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the adequacy of the allowance for loan losses. Such agencies may require the Company to recognize additions to the allowance for loan losses based on

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their judgments of information available to them at the time of their examination.

(j) Premises and Equipment

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

(k) Other Real Estate

Other real estate, included in other assets in the accompanying consolidated balance sheets, is initially recorded at fair value, if it will be held and used, or at its fair value less costs to sell if it will be disposed of. If, subsequent to foreclosure, the fair value is less than the carrying amount, the carrying value is reduced through a charge to income. Expenses incurred in maintaining the properties are charged to operations. The Company had \$171,000 of other real estate at December 31, 2006 and \$188,000 of other real estate at December 31, 2005.

(l) Income Taxes

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

(m) Earnings Per Share

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

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Earnings per share has been computed as follows:

|            | 2006         | 2005         |
|------------|--------------|--------------|
| Net Income | \$19,237,000 | \$18,300,000 |
| Shares:    |              |              |

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|  |              |      |
|--|--------------|------|
| Weighted average common shares outstanding   | 10,094,433   | 10,0 |
| Dilutive effect of outstanding options, as determined<br>by the application of the treasury stock method | 128,110      |      |
|  |              |      |
| Weighted average common shares outstanding,<br>as adjusted   | \$10,222,543 | 10,1 |
|  |              |      |
| Basic earnings per share   | \$ 1.91      |      |
|  |              |      |
| Diluted earnings per share   | \$ 1.88      |      |
|  |              |      |

(n) Cash and Cash Equivalents

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

(o) Emerging Accounting Standards

In July 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes." (FIN 48). FIN 48 clarifies the accounting and reporting for income taxes recognized in accordance with SFAS No. 109, "Accounting for Income Taxes." This interpretation prescribes a comprehensive model for the financial statement recognition, measurement, presentation and disclosure of uncertain tax positions taken or expected to be taken in income tax returns. The Company does not expect the adoption of FIN 48 to have a material impact on its financial statements. The Company will adopt FIN 48 in the first quarter of 2007.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements." This Statement defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. It clarifies that fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the market in which the reporting entity transacts. The Statement does not require any new fair value measurements, but rather, it provides enhanced guidance to other pronouncements that require or permit assets or liabilities to be measured at fair value. This Statement is effective for fiscal years beginning after November 15, 2007, with earlier adoption permitted. The Company does not expect that the adoption of this Statement will have a material impact on its financial position, results of operations and cash flows.

In September 2006, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin (SAB) No. 108 to require quantification of financial statement misstatements under both the "rollover approach" and the "iron curtain approach". The "rollover approach" quantifies a misstatement based on the amount of the error originating in the current year income statement, but ignores the effects of correcting the portion of the current year balance sheet misstatement that originated in prior years. The "iron curtain approach" quantifies a misstatement based on the effects of correcting the misstatement existing in the

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balance sheet at the end of the current year, irrespective of the misstatement's year(s) of origination. The provisions of SAB No. 108 were applied to the Company for the year ended December 31, 2006 and adoption had no impact on the financial statements.

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### (p) Stock Option Plans

The Company has one share-based compensation plan. Prior to January 1, 2006, the Company accounted for that plan under the recognition and measurement provisions of APB Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations, as permitted by FASB Statement No. 123, Accounting for Stock-Based Compensation. No stock-based compensation cost was recognized in the Statements of Income for the periods ended prior to January 1, 2006, as all options granted under the plan had an exercise price equal to the market value of the underlying common stock on the date of grant. Effective January 1, 2006, the Company adopted the fair value recognition provisions of FASB Statement No. 123(R), Share-Based Payment, using the modified-prospective-transition method. Under that transition method, compensation cost recognized in 2006 includes: (a) compensation cost for all share-based payments granted prior to, but not yet vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of Statement 123, and (b) compensation cost for all share-based payments granted subsequent to January 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of Statement 123(R). Results for prior periods have not been restated.

As a result of adopting Statement 123(R) on January 1, 2006, the Company's income before income taxes and net income for the year ended December 31, 2006 were \$659,000 and \$396,000 lower, respectively, than if it had continued to account for share-based compensation under APB Opinion No. 25. Basic and diluted earnings per share for the year ended December 31, 2006 would have been \$1.94 and \$1.92, respectively, if the Company had not adopted Statement 123(R), compared to reported basic and diluted earnings per share of \$1.91 and \$1.88, respectively.

Prior to adoption of Statement 123(R), the Company presented all tax benefits of deductions resulting from the exercise of stock options as operating cash flows in the Statement of Cash Flows. Statement 123(R) requires the cash flows resulting from the tax benefits resulting from tax deductions in excess of compensation cost recognized for those options (excess tax benefits) to be classified as financing cash flows. The \$241,000 excess tax benefit classified as a financing cash inflow would have been classified as an operating cash flow if the Company had not adopted Statement 123(R).

The following table illustrates the effect on net income (in thousands) and earnings per share if the Company had applied the fair value recognition provisions of Statement 123 to options granted under the Company's stock option plan in all periods presented. For purposes of this pro forma disclosure, the value of the options is estimated using a Black-Scholes option-pricing formula and amortized over the options' vesting periods.

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|   | 2005      | 2004      |
|---|-----------|-----------|
|   | -----     | -----     |
| Net income, as reported .....   | \$ 18,308 | \$ 14,778 |
| Deduct total stock-based compensation expense<br>determined under the fair value method for all<br>awards, net of related tax effects ..... | (365)     | (366)     |
|   | -----     | -----     |
| Pro forma .....   | \$ 17,943 | \$ 14,412 |
|   | =====     | =====     |
| Basic earnings per share:   |           |           |
| As reported .....   | \$ 1.82   | \$ 1.56   |
| Pro forma .....   | 1.78      | 1.52      |
| Diluted earnings per share:   |           |           |
| As reported .....   | \$ 1.80   | \$ 1.54   |
| Pro forma .....   | 1.77      | 1.50      |

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The Main Street Trust, Inc. 2000 Stock Incentive Plan (the "Plan"), which is shareholder-approved, permits the grant of options for up to 2,205,000 shares of the Company's common stock. The Board of Directors, or a committee appointed by the Board, may issue options that constitute incentive stock options to officers and employees and nonqualified options to directors, officers, employees, consultants and advisors of the Company and its related corporations (provided that such consultants and advisors render bona fide services not in connection with the offer and sale of securities in a capital-raising transaction). Restricted stock and stock appreciation rights ("SARs") may also be granted. SARs may be granted separately or in tandem with or by reference to an option granted prior to or simultaneously with the grant of such rights, to such eligible directors, officers, employees, consultants and advisors as may be selected by the Board of Directors. The Plan is intended to provide a means whereby directors, officers, employees, consultants and advisors of the Company and its related corporations may sustain a sense of proprietorship and personal involvement in the continued development and financial success of the Company and its related corporations, and to encourage them to remain with and devote their best efforts to the business of the Company and its related corporations, thereby advancing the interests of the Company and its shareholders. Grants under the Plan to date have been nonqualified options granted to directors and officers. Options granted under the Plan have an exercise price equal to market value of the underlying common stock on the grant date. Existing director options granted prior to 2003 are fully vested and exercisable on the date granted while director options granted in or after 2003 vest ratably over a one-year period from the date granted. Existing officer options vest ratably over a three-year period from the date granted. All outstanding options have a 10 year contractual life. Dividends are not paid on unexercised options. In the event of a change of control, options and SARs become immediately and fully exercisable.

The fair value of the stock options granted has been estimated using the Black-Scholes option-pricing model with the following weighted average assumptions. The Black-Scholes option-pricing model was developed for use in estimating the fair value of



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traded options, which have no vesting restrictions. In addition, such models require the use of subjective assumptions, including expected stock price volatility. In management's opinion, such valuation models may not necessarily provide the best single measure of option value.

|                               | 2006          | 2005            |     |
|-------------------------------|---------------|-----------------|-----|
| Number of options granted ... | 150,500       | 137,500         | 140 |
| Risk-free interest rate ..... | 4.59% - 4.65% | 3.83% - 4.08%   | 3   |
| Expected life, in years ..... | 6.50 - 8.00   | 7.00 - 8.00     | 8   |
| Expected volatility .....     | 14.28%        | 15.05% - 15.42% | 15  |
| Expected dividend yield ..... | 3.06%         | 2.97% - 3.06%   | 2   |

Expected volatilities are based on historical volatility of the Company's stock. The Company uses historical data to estimate option exercises and terminations (turnover percentage) within the valuation method. The expected term of options granted is derived from the output of the options valuation model which uses historical data and represents the period of time that options granted are expected to be outstanding. Expected turnover percentage and expected term are estimated separately for directors and officers. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury Strips as of the grant date.

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(q) Acquired Goodwill and Intangible Assets

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

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

|  | As of December 31,          |                     |
|--|-----------------------------|---------------------|
|  | Gross<br>Carrying<br>Amount | Accumul<br>Amortiza |
| Amortized intangible assets            |                             |                     |
| Core deposit intangibles .....         | \$ 5,222                    | \$ 1,52             |
| Unamortized intangible assets          |                             |                     |
| Goodwill .....                         | \$20,736                    | \$ -                |
| Aggregate Future Amortization Expense: |                             |                     |

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|                                   |     |
|-----------------------------------|-----|
| For the year ended 12/31/07 ..... | 871 |
| For the year ended 12/31/08 ..... | 870 |
| For the year ended 12/31/09 ..... | 870 |
| For the year ended 12/31/10 ..... | 870 |
| For the year ended 12/31/11 ..... | 218 |

### 2. Mergers and Acquisitions

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

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

|  | 2005      | 2004      |
|--|-----------|-----------|
| -----                                    |           |           |
| (in thousands, except<br>per share data) |           |           |
| Interest Income .....                    | \$ 81,160 | \$ 72,854 |
| Interest Expense ....                    | 29,074    | 23,952    |
| Net Income .....                         | 18,297    | 17,393    |
| Basic EPS .....                          | 1.82      | 1.68      |
| Diluted EPS .....                        | 1.80      | 1.66      |

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

On September 21, 2006, the Company announced its intent to merge with First Busey Corporation in Urbana, Illinois. The combined company will operate under the name First Busey Corporation and will list its common stock on the Nasdaq Global Select Market and trade under the symbol BUSE. Under terms of the agreement, Main Street shareholders will receive shares of First Busey common stock, using a fixed exchange ratio of 1.55 shares of First Busey common stock

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for each share of Main Street common stock. At separate special meetings of their respective shareholders on February 28, 2007, a majority of the shareholders of Main Street and First Busey voted to approve the merger. The merger is subject to regulatory approval and other customary conditions. The transaction is expected to be completed during the first half of 2007. The combined company, First Busey Corporation, will have total assets of approximately \$4.2 billion. Following the merger of the two holding companies, it will be their intent to merge their Illinois-based banking subsidiaries, Busey Bank and Main Street Bank & Trust. The two banks will be merged under Busey Bank's state charter, and the bank name will remain Busey Bank. The merged bank will have total assets of approximately \$3.6 billion and total deposits exceeding \$2.7 billion. Wealth management assets under care for the combined organization will be approximately \$4.5 billion.

### 3. Cash and Due from Banks

The compensating balances held at correspondent banks were \$34.695 million and \$35.711 million at December 31, 2006 and 2005, respectively. The Bank maintains such compensating balances with correspondent banks to offset charges for services rendered by those banks. In addition, the Bank was required by the Federal Reserve Bank to maintain reserves in the form of cash on hand or balances at the Federal Reserve Bank. The balance of reserves held was \$14.063 million and \$12.014 million at December 31, 2006 and 2005, respectively.

### 4. Investments in Debt and Equity Securities

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

|   | Amortized<br>Cost | Available-fo<br>Gross<br>unrealized<br>gains |
|---|-------------------|--|
|   |                   |  |
| December 31, 2006                                     |                   |  |
| U.S. Treasury and other<br>government agencies .....  | \$ 301,507        | \$ 5   |
| Mortgage-backed securities .....                      | 9,116             | 36   |
| Obligations of state and political subdivisions ..... | 9,462             | 235  |
| Other .....   | 415               | 309  |
|   | \$ 320,500        | \$ 585                                       |
| December 31, 2005                                     |                   |  |
| U.S. Treasury and other<br>government agencies .....  | \$ 315,930        | \$ 15  |
| Mortgage-backed securities .....                      | 13,729            | 79   |
| Obligations of state and political subdivisions ..... | 13,539            | 363  |
| Other .....   | 2,551             | 619  |
|   | \$ 345,749        | \$ 1,076                                     |

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|   | Held-to-Maturity  |                              |
|---|-------------------|------------------------------|
|   | Amortized<br>Cost | Gross<br>unrealized<br>gains |
| December 31, 2006                                     |                   |                              |
| U.S. Treasury and other<br>government agencies .....  | \$ 27,340         | \$ --                        |
| Mortgage-backed securities .....                      | 28,974            | 5                            |
| Obligations of state and political subdivisions ..... | 13,579            | 172                          |
|   | \$ 69,893         | \$ 177                       |
| December 31, 2005                                     |                   |                              |
| U.S. Treasury and other<br>government agencies .....  | \$ 38,650         | \$ --                        |
| Mortgage-backed securities .....                      | 17,091            | 55                           |
| Obligations of state and political subdivisions ..... | 20,801            | 230                          |
|   | \$ 76,542         | \$ 285                       |

Unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, as of December 31, 2006 are summarized as follows:

|  | Continuous unrealized<br>losses existing for less<br>than 12 months |                      | Continuous unrealized<br>losses existing greater<br>than 12 months |                      | Fair Value |
|--|---|----------------------|--|----------------------|------------|
|  | Fair Value  | Unrealized<br>Losses | Fair Value   | Unrealized<br>Losses |            |
| Available-for-Sale:                                      |   |                      |  |                      |            |
| U.S. Treasury and other<br>government agencies .....     | \$ 42,002   | \$ 150               | \$253,782  | \$ 2,087             | \$295,7    |
| Mortgage-backed securities .....                         | 1,141   | 9                    | 5,541  | 196                  | 6,6        |
| Obligations of state and<br>political subdivisions ..... | --  | --                   | 1,590  | 39                   | 1,5        |
| Subtotal, debt securities                                | \$ 43,143   | \$ 159               | \$260,913  | \$ 2,322             | \$304,0    |
| Other .....  | 166   | 29                   | --   | --                   | 1          |
| Total temporarily impaired<br>securities .....           | \$ 43,309   | \$ 188               | \$260,913  | \$ 2,322             | \$304,2    |
| Held-to-Maturity:  |   |                      |  |                      |            |
| U.S. Treasury and other<br>government agencies .....     | \$ --   | \$ --                | \$ 26,655  | \$ 588               | \$ 26,6    |
| Mortgage-backed securities .....                         | 12,995  | 123                  | 14,578   | 287                  | 27,5       |
| Obligations of state and                                 |   |                      |  |                      |            |

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|   |           |        |           |        |         |
|---|-----------|--------|-----------|--------|---------|
| political subdivisions .....                | 1,025     | 1      | 2,986     | 34     | 4,0     |
| -----                                       |           |        |           |        |         |
| Total temporarily impaired securities ..... | \$ 14,020 | \$ 124 | \$ 44,219 | \$ 909 | \$ 58,2 |
| =====                                       |           |        |           |        |         |

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

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

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

For the period ended December 31, 2006 the \$2.322 million continuous unrealized loss greater than 12 months on available-for-sale securities was made up of 62

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debt securities and was believed to be a temporary loss. The continuous unrealized loss greater than 12 months on available-for-sale securities at December 31, 2006 was a reduction of \$916,000 from the \$3.238 million continuous unrealized loss greater than 12 months at December 31, 2005. None of the marketable equity securities available-for-sale had a continuous unrealized loss greater than 12 months. The \$909,000 continuous unrealized loss greater than 12 months on held-to-maturity securities was made up of 50 debt securities and was believed to be a temporary loss and is a reduction of \$116,000 from the unrealized continuous loss on held-to-maturity securities at December 31, 2005.

Unrealized losses on debt securities are generally due to changes in interest rates and, as such, are considered by the Company to be temporary. Because of the nature of U.S. Agency securities, most of which are single pay at maturity, and because the Company has the ability to hold these investments until a recovery of market value, which may be maturity, the Company does not consider these investments to be other than temporarily impaired. Because the Company believes the decline in market value of mortgage-backed securities is attributable to changes in interest rates and not credit quality and because the Company has the ability to hold these investments until recovery of market value, the Company does not consider these investments to be other than temporarily impaired.

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Management has analyzed the equity securities to determine whether an other than temporary loss exists and considered several factors, including, but not limited to, the length of time and the extent to which the market value of the security has been less than cost, the financial condition and near-term prospects of the issuer and the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in market value. Effective for the period ended December 31, 2005, the Company modified its policy for evaluating investments for other-than-temporary impairment. Under its new policy, investments, other than debt security investments where the impairment is deemed to be due solely to interest rate movements, are assumed to be impaired and the impairment recognized through earnings no later than 12 months from the date the security was first impaired, unless there is "overwhelming evidence to the contrary." Under the policy, "overwhelming evidence to the contrary" is a rare instance, but might include, among other things, an announced sale soon after a reporting period where the price would cause an impairment to reverse. Further, under certain circumstances, including a bankruptcy, catastrophic event or other circumstances which cause the Company to determine, after analyzing the specific facts, that the decline in the fair value is other than temporary, the Company would recognize an other than temporary impairment write-down upon such occurrence or determination, and not wait twelve months from the time of the impairment.

A summary of non-marketable equity securities (in thousands) at December 31, 2006 and 2005 is as follows:

|                                       | 2006      | 2005      |
|---------------------------------------|-----------|-----------|
|                                       | -----     | -----     |
| Federal Home Loan Bank Stock, at cost | \$ 10,656 | \$ 21,450 |
| Other investments, at fair value .... | 3,571     | 3,544     |
|                                       | -----     | -----     |
|                                       | \$ 14,227 | \$ 24,994 |
|                                       | =====     | =====     |

Realized gains and (losses) (in thousands) on sales, maturities and impairment losses for the years ended December 31, 2006, 2005 and 2004 were as follows:

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|                                   | 2006   | 2005     | 2004   |
|-----------------------------------|--------|----------|--------|
| Gross gains .....                 | \$ 693 | \$ 1,228 | \$ 380 |
| Gross (losses) .....              | (237)  | (1,814)  | (247)  |
| Net gains (losses) .....          | \$ 456 | \$ (586) | \$ 133 |
| Applicable income taxes (benefit) | \$ 183 | \$ (234) | \$ 53  |

Investments in debt and equity securities with a carrying value of \$242.599 million and \$275.609 million were pledged at December 31, 2006 and 2005, respectively, to secure public deposits, repurchase agreements, and for other purposes as required or permitted by law.

The amortized cost and fair value of investments in debt and marketable equity securities (in thousands) at December 31, 2006, by amortization date, are shown below. Amortization date is defined as call date if the security was purchased at a premium or maturity date if purchased at a discount. Borrowers may have the right to call or prepay obligations with or without call or prepayment penalties and certain securities require principal repayments prior to maturity. Therefore, these securities and equity securities with no stated maturities are not included in the following maturity summary.

|  | Available-for-sale |            | Held-to-maturity |            |
|--|--------------------|------------|------------------|------------|
|  | Amortized Cost     | Fair Value | Amortized Cost   | Fair Value |
| Due in one year or less .....          | \$ 171,548         | \$ 170,595 | \$ 14,015        | \$ 13,999  |
| Due after one year through five years  | 123,814            | 122,725    | 24,739           | 24,264     |
| Due after five years through ten years | 15,607             | 15,613     | 1,415            | 1,395      |
| Due after ten years .....              | --                 | --         | 750              | 810        |
| Mortgage-backed securities .....       | \$ 310,969         | \$ 308,933 | \$ 40,919        | \$ 40,468  |
| Marketable equity securities .....     | 9,116              | 8,947      | 28,974           | 28,569     |
|  | 415                | 695        | --               | --         |
| Total .....                            | \$ 320,500         | \$ 318,575 | \$ 69,893        | \$ 69,037  |

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5. Loans

A summary of loans (in thousands), by classification, at December 31, 2006 and 2005 is as follows:

|   | 2006        | 2005        |
|---|-------------|-------------|
| Commercial, financial, and agricultural | \$ 312,873  | \$ 319,861  |
| Real Estate - Commercial .....          | 484,003     | 469,506     |
| Real Estate - Residential .....         | 127,200     | 140,304     |
| Installment and consumer .....          | 77,846      | 86,728      |
|   | \$1,001,922 | \$1,016,399 |

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Less:

|                                 |            |             |
|---------------------------------|------------|-------------|
| Allowance for loan losses ..... | 14,437     | 13,472      |
|                                 | -----      | -----       |
|                                 | \$ 987,485 | \$1,002,927 |
|                                 | =====      | =====       |

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

The loan portfolio includes a concentration of loans in commercial real estate amounting to \$484.003 million and \$469.506 million at December 31, 2006 and 2005, respectively. The loans are expected to be repaid from cash flows or from proceeds from the sale of selected assets of the borrowers. The concentration of credit with commercial real estate is taken into consideration by management in determining the allowance for loan losses. The Company's opinion as to the ultimate collectibility of these loans is subject to estimates regarding future cash flows from operations and the value of the property, real and personal, pledged as collateral. These estimates are affected by changing economic conditions and the economic prospects of the borrowers.

During 2006, 2005 and 2004, the Company sold approximately \$52.417 million, \$65.334 million and \$76.864 million, respectively, of residential mortgage loans in the secondary market with servicing released on approximately \$24.840 million, \$19.982 million and \$28.860 million, respectively. Capitalized mortgage servicing rights totaled \$1.282 million and \$1.311 million at December 31, 2006 and 2005, respectively. The fair values of these rights were \$1.937 million and \$1.938 million at December 31, 2006 and 2005, respectively. An independent evaluation was performed to assess the fair value of the servicing rights in each year reported.

Mortgage loans serviced for others are not included in the accompanying consolidated financial statements. The unpaid balances of these loans consisted of the following (in thousands) at December 31, 2006, 2005 and 2004:

|  | 2006      | 2005      | 2004      |
|--|-----------|-----------|-----------|
|  | -----     | -----     | -----     |
| Fannie Mae .....                       | \$172,550 | \$186,840 | \$196,174 |
| Freddie Mac .....                      | 72,367    | 81,643    | 9,564     |
| Illinois Housing Development Authority | 687       | 758       | 939       |

In the normal course of business, loans are made to directors, executive officers, and principal shareholders of the Company and to parties which the Company or its directors, executive officers, and shareholders have the ability to significantly influence its management or operating policies (related parties). The terms of these loans, including interest rates and collateral, are similar to those prevailing for comparable transactions with other customers and do not involve more than a normal risk of collectibility. Activity associated with loans (in thousands) made to related parties during 2006 was as follows:

|                        | 2006      |
|------------------------|-----------|
|                        | -----     |
| Balance, January 1 ... | \$ 52,667 |
| Change of relationship | (3,388)   |
| New loans .....        | 19,384    |
| Repayments .....       | (18,721)  |
|                        | -----     |
| Balance, December 31 . | \$ 49,942 |
|                        | =====     |



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At December 31, 2006 and 2005, one to four family real estate mortgage loans of approximately \$167.886 million and \$188.088 million, respectively, were pledged to secure advances from the Federal Home Loan Bank.

Activity in the allowance for loan losses (in thousands) for 2006, 2005 and 2004 was as follows:

|  | 2006      | 2005      | 2004     |
|--|-----------|-----------|----------|
| Balance, beginning of year .....           | \$ 13,472 | \$ 9,650  | \$ 9,786 |
| Balance, acquisition of Citizens .....     | --        | 3,434     | --       |
| Provision charged to expense .....         | 1,800     | 1,530     | 1,100    |
| Loans charged off .....                    | (1,317)   | (1,459)   | (1,692)  |
| Recoveries on loans previously charged off | 482       | 317       | 456      |
| Balance, end of year .....                 | \$ 14,437 | \$ 13,472 | \$ 9,650 |

The following table presents summary data on nonaccrual and other impaired loans (in thousands) at December 31, 2006, 2005 and 2004:

|  | 2006    | 2005    | 2004    |
|--|---------|---------|---------|
| Impaired loans on nonaccrual .....   | \$4,998 | \$1,144 | \$1,126 |
| Impaired loans continuing to accrue interest .....   | 231     | 324     | 1,005   |
| Total impaired loans .....   | \$5,229 | \$1,468 | \$2,131 |
| Other non-accrual loans not classified<br>as impaired .....  | \$2,471 | \$1,090 | \$ 563  |
| Loans contractually past due 90 days or<br>more, still accruing interest and not classified<br>as impaired ..... | \$ 744  | \$ 664  | \$ 547  |
| Allowance for loan losses on impaired loans .....  | \$1,297 | \$ 374  | \$ 491  |
| Impaired loans for which there is no related<br>allowance for loan losses .....                                  | \$ 539  | \$ 545  | \$ 863  |
| Average recorded investment in impaired<br>loans .....   | \$4,459 | \$2,005 | \$2,336 |
| Interest income recognized from impaired<br>loans .....  | \$ 10   | \$ 67   | \$ 68   |
| Cash basis interest income recognized from<br>impaired loans .....   | \$ 3    | \$ 34   | \$ 16   |

6. Premises and Equipment

A summary of premises and equipment (in thousands) at December 31, 2006 and 2005 is as follows:

|            | 2006     | 2005     |
|------------|----------|----------|
| Land ..... | \$ 7,282 | \$ 7,257 |

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|   |          |          |
|---|----------|----------|
| Furniture and equipment .....                   | 14,351   | 15,191   |
| Buildings and leasehold improvements .....      | 28,946   | 28,517   |
|   | -----    | -----    |
|   | \$50,579 | \$50,965 |
| Less: accumulated depreciation and amortization | 28,132   | 27,918   |
|   | -----    | -----    |
|   | \$22,447 | \$23,047 |
|   | =====    | =====    |

The Company leases various operating facilities and equipment under noncancellable operating lease arrangements. These leases expire at various dates through September 2012 and have renewal options to extend the lease terms for various dates. The Company also leases an ATM location as well as some parking and record storage space on a month-to-month lease. The rental expense for these leases was \$355,000, \$270,000 and \$222,000 in 2006, 2005 and 2004, respectively.

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Minimum annual rental payments required under the operating leases (in thousands), which have initial or remaining terms in excess of one year at December 31, 2006 are as follows:

|            |    |       |
|------------|----|-------|
| 2007       | \$ | 374   |
| 2008       |    | 341   |
| 2009       |    | 316   |
| 2010       |    | 304   |
| 2011       |    | 288   |
| Thereafter |    | 147   |
|            |    | ----- |
|            | \$ | 1,770 |
|            |    | ===== |

### 7. Deposits

The aggregate amount of time certificate of deposits in denominations of \$100,000 or more was \$145.880 million and \$130.203 million at December 31, 2006 and 2005, respectively. As of December 31, 2006, the scheduled maturities of time deposits (in thousands) were as follows:

|            |           |  |
|------------|-----------|--|
| 2007       | \$330,652 |  |
| 2008       | 77,298    |  |
| 2009       | 73,887    |  |
| 2010       | 14,685    |  |
| 2011       | 2,475     |  |
| Thereafter | 10        |  |
|            | -----     |  |
|            | \$499,007 |  |
|            | =====     |  |

### 8. Federal Funds Purchased and Repurchase Agreements

A summary of short-term borrowings (in thousands) at December 31, 2006 and 2005 is as follows:

|  | 2006      | 2005      |
|--|-----------|-----------|
|  | -----     | -----     |
| Federal funds purchased .....                  | \$ 2,025  | \$ 4,100  |
| Securities sold under agreements to repurchase | 106,298   | 114,352   |
|  | -----     | -----     |
|  | \$108,323 | \$118,452 |

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

|   | 2006       | 2005       | 2004       |
|---|------------|------------|------------|
|   |            |            |            |
| Federal funds purchased:                        |            |            |            |
| Average daily balance .....                     | \$ 6,292   | \$ 5,869   | \$ 3,515   |
| Maximum balance at month-end .....              | \$ 31,650  | \$ 24,225  | \$ 5,575   |
| Weighted average interest rate at year-end ..   | 4.69%      | 3.56%      | 1.75%      |
| Weighted average interest rate for the year .   | 4.90%      | 3.08%      | 0.94%      |
| Securities sold under agreements to repurchase: |            |            |            |
| Average daily balance .....                     | \$ 118,870 | \$ 109,810 | \$ 93,246  |
| Maximum balance at month-end .....              | \$ 125,150 | \$ 119,845 | \$ 112,052 |
| Weighted average interest rate at year-end ..   | 4.67%      | 3.31%      | 1.65%      |
| Weighted average interest rate for the year .   | 4.39%      | 2.66%      | 1.32%      |

Securities sold under agreements to repurchase ("repos") amounted to \$106.298 million at December 31, 2006, of which \$12.004 million were term repos with maturities of 1 year or less and \$94.294 million were repos which mature on a daily basis. Securities which are under the control of the Bank with a fair value of \$109.716 million were pledged to these repurchase agreements at December 31, 2006.

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### 9. Federal Home Loan Bank Advances and Other Borrowings

A summary of Federal Home Loan Bank (FHLB) advances and other borrowings (dollars in thousands) at December 31, 2006 and 2005 is as follows:

|                          | December 31      |                     |           |                             |           |
|--------------------------|------------------|---------------------|-----------|-----------------------------|-----------|
|                          | 2006             |                     |           | 2005                        |           |
|                          | FHLB<br>Advances | Other<br>Borrowings | Total     | Weighted<br>Average<br>Rate | Total     |
| Maturing in year ending: |                  |                     |           |                             |           |
| 2006                     | \$ --            | \$ --               | \$ --     | --                          | \$ 29,910 |
| 2007                     | 2,431            | 23                  | 2,454     | 6.84%                       | 2,453     |
| 2008                     | 21,000           | 1,023               | 22,023    | 5.38%                       | 35,023    |
|                          | \$ 23,431        | \$ 1,046            | \$ 24,477 | 5.53%                       | \$ 67,386 |
|                          |                  |                     |           |                             |           |

The terms of a security agreement with the FHLB require the Bank to pledge as collateral for advances both qualifying first mortgage loans in an amount equal

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to at least 167% of these advances and all stock of the FHLB. Advances are subject to restrictions or penalties in the event of prepayment. At December 31, 2006, the Company had sufficient borrowing capacity to permit it to borrow additional funds from the FHLB at a rate equal to the FHLB's current advance rates.

### 10. Line of Credit

The Company has an unsecured line of credit of \$15.000 million from a third party lender. As of December 31, 2006, the entire line was available.

### 11. Income Taxes

Income tax expense (in thousands) for 2006, 2005 and 2004 is summarized as follows:

|                | 2006      | 2005      | 2004     |
|----------------|-----------|-----------|----------|
|                |           |           |          |
| Federal .....  | \$ 11,274 | \$ 9,560  | \$ 7,029 |
| State .....    | 1,062     | 826       | 806      |
|                |           |           |          |
| Current .....  | 12,336    | 10,386    | 7,835    |
| Deferred ..... | (2,191)   | (13)      | 208      |
|                |           |           |          |
| Total .....    | \$ 10,145 | \$ 10,373 | \$ 8,043 |
|                |           |           |          |

Actual income tax expense (in thousands) for 2006, 2005 and 2004 differ from the "expected" income taxes (computed by applying the maximum U.S. federal corporate income tax rate of 35% to earnings before income taxes) as follows:

|   | 2006      | 2005      | 2004     |
|---|-----------|-----------|----------|
|   |           |           |          |
| Computed "expected" income taxes .                                  | \$ 10,284 | \$ 10,038 | \$ 7,987 |
| Tax-exempt interest income, net of disallowed interest expense .... | (363)     | (488)     | (607)    |
| State tax, net of federal benefit                                   | 690       | 537       | 524      |
| Other, net .....  | (466)     | 286       | 139      |
|   |           |           |          |
|   | \$ 10,145 | \$ 10,373 | \$ 8,043 |
|   |           |           |          |

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The tax effects of temporary differences (in thousands) that give rise to significant portions of the deferred tax assets and deferred tax liabilities, included in other assets, at December 31, 2006 and 2005 are as follows:

|  | 2006   | 2005     |
|--|--------|----------|
|  |        |          |
| Deferred tax assets:   |        |          |
| Unrealized holding loss on available-for-sale securities ..... | \$ 770 | \$ 1,065 |
| Allowance for loan losses .....                                | 5,738  | 5,238    |
| Deferred compensation .....                                    | 1,939  | 1,943    |
| Other employee benefits .....                                  | 310    | 348      |
| Phantom stock .....  | 194    | 242      |
| Net Operating Loss Carryforward .....                          | --     | 148      |
| Nonqualified Stock Options .....                               | 261    | --       |
| Other .....  | 1,035  | 434      |

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|                                      |            |            |
|--------------------------------------|------------|------------|
| Total deferred tax assets .....      | \$ 10,247  | \$ 9,418   |
| -----                                |            |            |
| Deferred tax liabilities:            |            |            |
| Premises and equipment .....         | \$ (916)   | \$ (817)   |
| Mortgage servicing rights .....      | (486)      | (481)      |
| Deferred loan fees .....             | (470)      | (394)      |
| Discount accretion .....             | (42)       | (75)       |
| FHLB Stock Dividend .....            | (608)      | (1,867)    |
| Prepaid Expenses .....               | (312)      | (258)      |
| Purchase Accounting .....            | (1,276)    | (1,286)    |
| -----                                |            |            |
| Total deferred tax liabilities ..... | \$ (4,110) | \$ (5,178) |
| -----                                |            |            |
| Net deferred tax assets .....        | \$ 6,137   | \$ 4,240   |
| =====                                |            |            |

12. Retirement Plans

The Company has established a profit sharing plan and a 401(k) plan for substantially all employees who meet the eligibility requirements. The 401(k) plan allowed for participant contributions up to the maximum amount allowed by IRS regulations, of which, the first 6% of gross salary was available for the Company's 50% match. The profit sharing plan is non-contributory. All contributions to the profit sharing plan are at the discretion of the Company. Contributions by the Company totaled \$1.163 million, \$1.101 million and \$927,000 for 2006, 2005 and 2004, respectively.

Certain key officers and directors participate in various deferred compensation or supplemental retirement agreements with the Company. The Company accrues the liability for these agreements based on the present value of the amount the employee or director is currently eligible to receive. The Company recorded expenses of \$278,000, \$281,000 and \$277,000 in 2006, 2005 and 2004, respectively, related to these agreements. At December 31, 2006 and 2005, the Company had a recorded liability in the amount of approximately \$4.027 million and \$3.868 million, respectively for these plans. The Company has purchased life insurance policies, which are reported as other assets, to assist in funding the aforementioned liabilities and other employee benefits, with recorded cash surrender values in 2006 and 2005 of approximately \$11.124 million and \$10.533 million, respectively.

The Company has an outstanding liability for a deferred compensation plan for nonemployee directors of the Company which allowed participating directors to defer directors' fees in a fixed income fund or, alternatively, in the form of "phantom stock units." For directors that elected to receive phantom stock, a deferred compensation account, included in other liabilities on the consolidated balance sheet, was credited with phantom stock units. No additional contributions were allowed to these plans since 2000, however, phantom stock units continue to be increased by any dividends or stock splits declared by the Company. At December 31, 2006 and 2005, \$200,000 and \$296,000 had been deferred for the phantom stock plan, which represented 13,822 and 20,708 phantom stock units. At December 31, 2006 and 2005, the Company had a recorded liability in the amount of \$492,000 and \$618,000, respectively for these plans.

Additionally, in connection with the acquisition of Citizens First Financial Corp., the Company assumed the outstanding liability for the Director Emeritus Plan. At both December 31, 2006 and 2005, the Company had a recorded liability in the amount of \$1.263 million which is fully funded through single premium insurance annuities.

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### 13. Stock Options and Related Plans

In 2000, the Company established a stock incentive plan, which provides for the granting of options of the Company's common stock to certain directors, officers and employees. This plan provides for the granting of both qualified and non-qualified options. Existing director options granted prior to 2003 are fully vested and exercisable on the date granted while director options granted in or after 2003 vest, and thus become exercisable, ratably over a one-year period from the date granted. Existing officer and employee options vest, and thus become exercisable, ratably over a three-year period from the date granted. Under the 2000 incentive plan, the Company has outstanding options of 845,381 shares and 1,217,873 shares remain eligible for grant.

The following is a summary of the changes in options outstanding under the stock incentive and stock option plans:

|  | 2006     |                   | 2005     |                   | Shares |
|--|----------|-------------------|----------|-------------------|--------|
|  | Shares   | Grant Price Range | Shares   | Grant Price Range |        |
| Options outstanding, beginning of year .....         | 767,413  | \$17.50 - \$30.60 | 661,465  | \$17.50 - \$30.60 | 58     |
| Granted .....  | 150,500  | \$ 30.10          | 137,500  | \$28.80 - \$29.60 | 14     |
| Exercised .....                                      | (63,177) | \$17.50 - \$30.60 | (22,886) | \$17.50 - \$24.80 | (5)    |
| Options forfeited .....                              | (9,355)  | \$24.80 - \$30.60 | (8,666)  | \$18.60 - \$30.60 | ( )    |
| Options outstanding, end of year                     | 845,381  | \$17.50 - \$30.60 | 767,413  | \$17.50 - \$30.60 | 66     |
| Options exercisable, end of year                     | 722,759  | \$17.50 - \$30.60 | 654,463  | \$17.50 - \$30.60 | 54     |
| Weighted average fair value of options granted ..... |          | \$4.79            |          | \$4.71            |        |

The total intrinsic value of options exercised during the years ended December 31, 2006 and 2005 was \$605,000 and \$235,000, respectively. The fair value of nonvested shares is determined based on the market price of the Company's shares on the grant date.

#### Options Outstanding

| Range of Exercise price | Outstanding as of December 31, 2006 | Weighted average remaining contractual life | Aggregate Intrinsic Value (\$'000) | Weighted average exercise price | Exercisable as of December 31, 2006 |
|-------------------------|-------------------------------------|---|------------------------------------|---------------------------------|-------------------------------------|
| \$17.50 - \$17.50 ..... | 111,441                             | 4.2   |                                    | \$ 17.50                        | 1                                   |
| \$18.37 - \$18.60 ..... | 213,967                             | 4.4   |                                    | 18.50                           | 2                                   |
| \$24.80 - \$24.85 ..... | 117,930                             | 6.2   |                                    | 24.80                           | 1                                   |
| \$28.80 - \$30.60 ..... | 402,043                             | 8.2   |                                    | 30.10                           | 2                                   |
|                         | 845,381                             | 6.4   | \$ 8,865                           | \$ 24.76                        | 7                                   |

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A summary of the status of the Company's nonvested shares as of December 31, 2006 and changes since January 1, 2006 is presented below:

| Nonvested shares               | Shares  | Weighted-Average<br>Grant-Date<br>Fair Value |
|--------------------------------|---------|--|
| Nonvested at January 1, 2006 . | 112,950 | 4.83   |
| Granted .....                  | 150,500 | 4.79   |
| Vested .....                   | 133,284 | 4.90   |
| Forfeited .....                | 7,544   | 4.75   |
|                                |         |  |
| Nonvested at December 31, 2006 | 122,622 | 4.71   |

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As of December 31, 2006, there was \$586,000 of total unrecognized compensation cost related to nonvested stock option compensation arrangements granted under the Plan. That cost is expected to be recognized over a weighted-average period of 1.6 years. The weighted average grant date fair value of shares vested during the years ended 2006 and 2005 was \$4.90 and \$4.72, respectively.

#### 14. Dividend Restrictions

Federal and state banking regulations place certain restrictions on dividends paid and loans or advances made by the Bank to the Company. Without prior approval, the Bank is restricted by Illinois law and regulations of the Illinois Department of Financial and Professional Regulation and the Federal Deposit Insurance Corporation as to the maximum amount of dividends it can pay to its parent to the balance of the retained earnings account, as adjusted (as defined). At December 31, 2006, the Bank had available retained earnings of approximately \$53.368 million for the payment of dividends without obtaining prior regulatory approval. In addition, dividends paid by the Bank to the Company would be prohibited if the effect thereof would cause the Bank's capital to be reduced below applicable minimum capital requirements.

#### 15. Condensed Financial Information of Parent Company

Following are the condensed balance sheets as of December 31, 2006 and 2005 and the related condensed statements of income and cash flows for the years ended December 31, 2006, 2005 and 2004 for Main Street Trust, Inc.:

#### Condensed Balance Sheets (in thousands)

|                              | 2006     | 2005    |
|------------------------------|----------|---------|
|                              |          |         |
| Assets:                      |          |         |
| Cash .....                   | \$ 2,034 | \$ 342  |
| Investment in Bank .....     | 138,507  | 136,399 |
| Investment in FirsTech ..... | 4,072    | 3,264   |

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|   |           |           |
|---|-----------|-----------|
| Investment in other securities .....    | 3,987     | 6,303     |
| Loans, net of allowance for loan losses | 2,241     | 2,682     |
| Other assets .....                      | 4,119     | 6,000     |
|   | -----     | -----     |
|   | \$154,960 | \$154,990 |
|   | =====     | =====     |

|                                       |           |           |
|---------------------------------------|-----------|-----------|
| Liabilities and shareholders' equity: |           |           |
| Dividend payable .....                | \$ 2,506  | \$ 2,334  |
| Other borrowings .....                | 1,000     | 7,500     |
| Other liabilities .....               | 1,099     | 1,387     |
| Shareholders' equity .....            | 150,355   | 143,769   |
|                                       | -----     | -----     |
|                                       | \$154,960 | \$154,990 |
|                                       | =====     | =====     |

Condensed Statements of Income  
(in thousands)

|   | 2006      | 2005      | 2004      |
|---|-----------|-----------|-----------|
|   | -----     | -----     | -----     |
| Revenue:                                    |           |           |           |
| Equity in net income of subsidiaries .....  | \$ 19,349 | \$ 18,512 | \$ 15,688 |
| Interest income on deposits .....           | 36        | 174       | 102       |
| Income on securities .....                  | 449       | 1,622     | 395       |
| Interest income on loans .....              | 172       | 139       | --        |
| Securities transactions, net .....          | 418       | (598)     | (1)       |
| Other .....                                 | 10        | 6         | 4,698     |
|   | -----     | -----     | -----     |
| Total revenue .....                         | 20,434    | 19,855    | 20,882    |
|   | -----     | -----     | -----     |
| Expenses:                                   |           |           |           |
| Salary and benefits .....                   | --        | 17        | 4,433     |
| Interest expense on other borrowings .....  | 308       | 343       | 74        |
| Other .....                                 | 1,646     | 1,349     | 2,226     |
|   | -----     | -----     | -----     |
| Total expenses .....                        | 1,954     | 1,709     | 6,733     |
|   | -----     | -----     | -----     |
| Income before applicable income tax benefit | 18,480    | 18,146    | 14,149    |
| Applicable income tax benefit .....         | (757)     | (162)     | (629)     |
|   | -----     | -----     | -----     |
| Net income .....                            | \$ 19,237 | \$ 18,308 | \$ 14,778 |
|   | =====     | =====     | =====     |

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Condensed Statements of Cash Flows  
(in thousands)

|   | 2006      | 2005      |
|---|-----------|-----------|
|   | -----     | -----     |
| Cash flows from operating activities:   |           |           |
| Net income .....  | \$ 19,237 | \$ 18,308 |
| Adjustments to reconcile net income to net cash provided by operating activities: |           |           |
| Distributions in excess of (less than) net income of subsidiaries                 | (2,349)   | 7,488     |



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|   |          |          |
|---|----------|----------|
| Depreciation .....  | 55       | 53       |
| Other, net .....  | 1,695    | 2,073    |
|   | <hr/>    |          |
| Net cash provided by operating activities: .....            | 18,638   | 27,922   |
|   | <hr/>    |          |
| Cash flows from investing activities:                       |          |          |
| Acquisition of Citizens First Financial Corporation .....   | --       | (28,738) |
| Securities transactions, net .....                          | 2,925    | 3,065    |
| Proceeds from sales of premises and equipment .....         | --       | 558      |
| Net decrease in loans .....                                 | 479      | 780      |
| Purchases of premises and equipment .....                   | (29)     | (2)      |
|   | <hr/>    |          |
| Net cash provided by (used by) investing activities .....   | 3,375    | (24,337) |
|   | <hr/>    |          |
| Cash flows from financing activities:                       |          |          |
| Stock transactions, net .....                               | (4,523)  | (6,013)  |
| Proceeds from and (payments) on other borrowings, net ..... | (6,500)  | 2,233    |
| Cash dividends paid .....                                   | (9,298)  | (8,671)  |
| Other, net .....  | --       | --       |
|   | <hr/>    |          |
| Net cash used in financing activities .....                 | (20,321) | (12,451) |
|   | <hr/>    |          |
| Net increase (decrease) in cash and cash equivalents .....  | 1,692    | (8,866)  |
| Cash at beginning of year .....                             | 342      | 9,208    |
|   | <hr/>    |          |
| Cash at end of year .....                                   | \$ 2,034 | \$ 342   |
|   | <hr/>    |          |

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

|   | Year Ended  |           |
|---|-------------|-----------|
|   | Three       |           |
|   | December 31 | September |
|   | <hr/>       |           |
| Interest income .....   | \$ 23,360   | \$ 23,2   |
| Interest expense .....  | 11,013      | 10,7      |
|   | <hr/>       |           |
| Net interest income .....                                     | 12,347      | 12,5      |
| Provision for losses on loans .....                           | 450         | 4         |
|   | <hr/>       |           |
| Net interest income after provision for losses on loans ..... | 11,897      | 12,0      |
| Non-interest income .....                                     | 6,071       | 5,4       |
| Non-interest expense .....                                    | 10,179      | 10,4      |
|   | <hr/>       |           |
| Income before income taxes .....                              | 7,789       | 7,1       |
| Income taxes .....  | 2,720       | 2,4       |
|   | <hr/>       |           |
| Net income .....  | \$ 5,069    | \$ 4,6    |
|   | <hr/>       |           |

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|                                  |         |       |
|----------------------------------|---------|-------|
| Basic earnings per share .....   | \$ 0.51 | \$ 0. |
| Diluted earnings per share ..... | \$ 0.49 | \$ 0. |

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|   | Year Ended  |              |
|---|-------------|--------------|
|   | December 31 | September 30 |
| Interest income .....   | \$ 21,354   | \$ 21,100    |
| Interest expense .....  | 8,495       | 7,500        |
| Net interest income .....   | 12,859      | 13,500       |
| Provision for losses on loans .....                                 | 450         | 400          |
| Net interest income after<br>provision for losses<br>on loans ..... | 12,409      | 13,100       |
| Non-interest income .....   | 5,106       | 5,200        |
| Non-interest expense .....  | 10,465      | 10,300       |
| Income before income taxes .....                                    | 7,050       | 8,100        |
| Income taxes .....  | 2,553       | 2,900        |
| Net income .....  | \$ 4,497    | \$ 5,100     |
| Basic earnings per share .....                                      | \$ 0.44     | \$ 0.        |
| Diluted earnings per share .....                                    | \$ 0.44     | \$ 0.        |

17. Disclosures About Commitments and Financial Instruments

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

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

The following table summarizes these financial instruments and commitments (in thousands) at December 31, 2006 and 2005:

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|   | 2006      | 2005      |
|---|-----------|-----------|
| Financial instruments whose contract amounts represent credit risk: |           |           |
| Commitments .....   | \$333,416 | \$279,647 |
| Standby letters of credit .....                                     | 28,464    | 34,512    |

The majority of commitments are agreements to extend credit to a customer as long as there is no violation of any condition established in the contract. Commitments, principally variable interest rates, generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. For commitments to extend credit, the Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation. Collateral held varies, but may include accounts receivable; inventory; property, plant and equipment; and income-producing commercial properties. Also included in commitments at December 31, 2006 was \$3.655 million to purchase other equity securities and \$1.619 million for construction of new branches.

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Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements and, generally, have terms of one year or less. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Bank may hold collateral, which include accounts receivables, inventory, property and equipment, and income producing properties, supporting those commitments, if deemed necessary. In the event the customer does not perform in accordance with the terms of the agreement with the third party, the Bank would be required to fund the commitment. The maximum potential amount of future payments the Bank could be required to make is represented by the contractual amount shown in the summary above. If the commitment is funded, the Bank would be entitled to seek recovery from the customer. At December 31, 2006 and 2005, no amounts have been recorded as liabilities for the Bank's potential obligations under these guarantees.

Following is a summary of the carrying amounts and fair values of the Company's financial instruments at December 31, 2006 and 2005:

|   | 2006               |               | 2005               |         |
|---|--------------------|---------------|--------------------|---------|
|   | Carrying<br>amount | Fair<br>Value | Carrying<br>amount | F<br>Va |
| <b>Assets:</b>                                    |                    |               |                    |         |
| Cash and cash equivalents .....                   | \$ 61,385          | \$ 61,385     | \$ 94,066          | \$      |
| Investments in debt and equity securities .....   | 402,695            | 401,839       | 444,623            | 4       |
| Mortgage loans held for sale .....                | 1,116              | 1,116         | 1,661              |         |
| Loans .....                                       | 987,485            | 972,284       | 1,002,927          | 1,0     |
| Accrued interest receivable .....                 | 9,663              | 9,663         | 8,461              |         |
| <b>Liabilities:</b>                               |                    |               |                    |         |
| Deposits .....                                    | \$1,233,487        | \$1,232,895   | \$1,275,972        | \$1,2   |
| Federal funds purchased and repurchase agreements | 108,323            | 108,322       | 118,452            | 1       |

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|  |        |        |        |
|--|--------|--------|--------|
| FHLB advances and other borrowings ..... | 24,477 | 24,478 | 67,386 |
| Accrued interest payable .....           | 5,187  | 5,187  | 4,657  |

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

### Cash and Cash Equivalents

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

### Investments in Debt and Equity Securities

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

### Mortgage Loans Held For Sale

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

### Loans

Fair values are estimated for portfolios of loans with similar financial characteristics. Loans are segregated by type such as commercial, commercial real estate, residential mortgage, and consumer. Each loan category is further segmented into fixed and adjustable rate interest terms and by performing and nonperforming categories. The fair value of performing loans is calculated by discounting scheduled cash flows through the estimated maturity using estimated market discount rates equal to rates at which loans, similar in type, would be originated at December 31, 2006 and 2005. Estimated maturities are based upon the average remaining contractual lives for each loan classification. Fair value for nonperforming loans is based on the use of discounted cash flow techniques.

### Accrued Interest Receivable

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

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### Deposit Liabilities

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

### Federal Funds Purchased and Repurchase Agreements

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

### Federal Home Loan Bank Advances and Other Borrowings

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

### Accrued Interest Payable

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

### Commitments to Extend Credit and Standby Letters of Credit

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

## 18. Litigation

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

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

## 19. Regulatory Capital

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

Quantitative measures established by regulation to ensure capital adequacy

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require the Company and its subsidiary bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined). Management believes, as of December 31, 2006, that the Company and its subsidiary bank exceeded all capital adequacy requirements to which they are subject.

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As of December 31, 2006, the most recent notifications from primary regulatory agencies categorized the Company's subsidiary bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, banks must maintain minimum total capital to risk-weighted assets, Tier I capital to risk-weighted assets, and Tier I capital to average assets ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed any of the Company's subsidiary bank's categories.

The Company's and the Bank's actual capital amounts and ratios as of December 31, 2006 and 2005 are presented in the following tables:

|  | Actual    |       | For capital adequacy purposes: |       | To be well capitalized under prompt corrective action provisions: |       |
|--|-----------|-------|--------------------------------|-------|---|-------|
|  | Amount    | Ratio | Amount                         | Ratio | Amount  | Ratio |
| As of December 31, 2006:                 |           |       |                                |       |   |       |
| Total capital (to risk-weighted assets)  |           |       |                                |       |   |       |
| Consolidated .....                       | \$142,741 | 12.5% | \$ 91,673                      | 8.0%  |   | N/A   |
| Main Street Bank & Trust                 | \$131,005 | 11.6% | \$ 90,662                      | 8.0%  | \$113,327   | 100%  |
| Tier I capital (to risk-weighted assets) |           |       |                                |       |   |       |
| Consolidated .....                       | \$128,290 | 11.2% | \$ 45,837                      | 4.0%  |   | N/A   |
| Main Street Bank & Trust                 | \$116,716 | 10.3% | \$ 45,331                      | 4.0%  | \$ 67,996   | 100%  |
| Tier I capital (to average assets)       |           |       |                                |       |   |       |
| Consolidated .....                       | \$128,290 | 8.4%  | \$ 60,779                      | 4.0%  |   | N/A   |
| Main Street Bank & Trust                 | \$116,716 | 7.7%  | \$ 60,474                      | 4.0%  | \$ 75,593   | 100%  |
| As of December 31, 2005:                 |           |       |                                |       |   |       |
| Total capital (to risk-weighted assets)  |           |       |                                |       |   |       |
| Consolidated .....                       | \$135,368 | 11.7% | \$ 92,324                      | 8.0%  |   | N/A   |
| Main Street Bank & Trust                 | \$128,227 | 11.3% | \$ 91,010                      | 8.0%  | \$113,762   | 100%  |
| Tier I capital (to risk-weighted assets) |           |       |                                |       |   |       |
| Consolidated .....                       | \$121,644 | 10.5% | \$ 46,162                      | 4.0%  |   | N/A   |
| Main Street Bank & Trust                 | \$114,652 | 10.1% | \$ 45,505                      | 4.0%  | \$ 68,257   | 100%  |
| Tier I capital (to average assets)       |           |       |                                |       |   |       |
| Consolidated .....                       | \$121,644 | 7.8%  | \$ 62,693                      | 4.0%  |   | N/A   |
| Main Street Bank & Trust                 | \$114,652 | 7.4%  | \$ 62,162                      | 4.0%  | \$ 77,702   | 100%  |

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

None

#### Item 9a. Controls and Procedures

##### A. Disclosure Controls.

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

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

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

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

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

As of December 31, 2006, management assessed the effectiveness of the Company's internal control over financial reporting based on the criteria of effective internal control over financial reporting established in "Internal Control - Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on the assessment, management determined that the Company maintained effective internal control over financial reporting

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as of December 31, 2006, based on those criteria.

McGladrey & Pullen, LLP, the independent registered public accounting firm that audited the consolidated financial statements of the Company included in this Annual Report on Form 10-K, has issued an attestation report on management's assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2006. The report, which expresses unqualified opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting as of December 31, 2006, is included in this Item under the heading "Report of Independent Registered Public Accounting Firm."

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### Report of Independent Registered Public Accounting Firm

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

We have audited management's assessment, included in the accompanying Management's Report on Internal Control over Financial Reporting, that Main Street Trust, Inc. maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Main Street Trust, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

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

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



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

In our opinion, management's assessment that Main Street Trust, Inc. maintained effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Also, in our opinion, Main Street Trust, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We have also audited, in accordance with the standards of the Public Company Oversight Board (United States), the consolidated balance sheets of Main Street, Inc. and subsidiaries as of December 31, 2006 and 2005 and the related consolidated statements of income, changes in shareholders' equity, cash flows for each of the three years ended in December 31, 2006 and our report dated March 14, 2007 expressed an unqualified opinion.

/s/ McGladrey & Pullen, LLP  
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Champaign, Illinois  
March 14, 2007

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### Item 9b. Other Information

None.

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## PART III

### Item 10. Directors, Executive Officers and Corporate Governance

#### Directors

The directors of the Company are as follows:

| Name<br>(Age)               | Director<br>since(1) | Position with the Company<br>Occupation for the last five  |
|-----------------------------|----------------------|--|
| David J. Downey<br>(Age 65) | 1992                 | Director of the Company; President of The Do<br>(estate planning, wealth transfer and execut<br>organization) (1963-present) |

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|                                   |      |  |
|-----------------------------------|------|--|
| Van A. Dukeman<br>(Age 48)        | 1994 | Director, President and Chief Executive Officer of the Company and Main Street Bank & Trust, and Director of FirsTech; Director, President and Chief Executive Officer of the Company, Director, Chairman of the Board of Directors and Executive Officer of BankIllinois, and Director of The First National Bank and FirsTech (2001-2004); Director, President and Chief Executive Officer of the Company and BankIllinois (2000-2001) |
| Larry D. Haab<br>(Age 69)         | 1987 | Director of the Company and Director of FirsTech; Chairman of the Board of Illinova, the holding company of Illinois Power and Light, consultant to Illinova (1998-2000); Chairman of the Board and Chief Executive Officer of Illinois Power and Light (a utility electric and gas utility) (1991-1998)   |
| Frederic L. Kenney<br>(Age 48)    | 1996 | Director of the Company; Corporate Counsel, FirsTech, Midland (2001-present); Attorney for Winters and Associates, Gaumer, Kenney, Postlewait and Stocks (1983-present)  |
| Gregory B. Lykins<br>(Age 59)     | 1994 | Director and Chairman of the Board of the Company and Main Street Bank & Trust, and Director of FirsTech; Chairman of the Board of the Company, Director of the Board of BankIllinois and Director of The First National Bank of Decatur and FirsTech (2001-2004); Director of the Board of the Company (2000-2001)  |
| August C. Meyer, Jr.<br>(Age 69)  | 1962 | Director of the Company; President, Midwest Bank & Trust (1976-present)  |
| George T. Shapland<br>(Age 76)    | 1994 | Director of the Company; President, Shapland Management Services (a real estate management company) (1990-present)   |
| Thomas G. Sloan<br>(Age 57)       | 1995 | Director of the Company; President and Chief Executive Officer of Sloan Implement Co., Inc. (a John Deere dealer in Assumption, Illinois) (1971-present)   |
| H. Gale Zacheis, M.D.<br>(Age 68) | 1990 | Director of the Company; practicing surgeon in Decatur, Illinois (1973-present)  |

All of the Company's directors will hold office for a term of one year, or until their respective successors are duly elected and qualified. There are no arrangements or understandings between any of the directors, executive officers or any other person pursuant to which any of the Company's directors or executive officers have been selected for their respective positions. No director is a director or executive officer of another company with a class of securities registered pursuant to Section 12 of the Exchange Act or subject to the requirements of Section 15(d) of the Exchange Act. There are also no family relationships between any of the directors or executive officers.

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### Executive Officers

The term of office for the executive officers of the Company is from the date of election until the next annual organizational meeting of the Board of Directors. In addition to Van A. Dukeman and Gregory B. Lykins, whose information is set

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forth above, the names and ages of the executive officers of the Company as of December 31, 2006, as well as the offices of the Company and its subsidiaries held by these officers on that date, and principal occupations for the past five years are set forth below.

| Name<br>(Age)                         | Position with the Company and its Subsidiaries<br>and Occupation for the last five years   |
|---------------------------------------|--|
| Paul E. Donohue<br>(Age 43)           | Executive Vice President of Sales & Marketing for the Company, Main Street Bank & Trust; General Manager WSMH-TV, Flint, MI (2001-2003); Station Manager, WICD-TV, Champaign, IL (2001-2003)   |
| Donna R. Greene<br>(Age 53)           | Executive Vice President of the Company and President of Main Street Bank & Trust Wealth Management; Senior Vice President and Certified Financial Planner with First Busey Securities, Inc. (1998-2004)   |
| Leanne C. Heacock<br>(Age 41)         | Executive Vice President, Management Information Systems for the Company and Main Street Bank & Trust and Director of FirstTech; Executive Vice President, Management Information Systems, BankIllinois and National Bank of Decatur (2001-2002) |
| Howard F. Mooney II<br>(Age 42)       | President, FirstTech and Executive Vice President for the Company; Director of FirstTech   |
| Robert F. Plecki, Jr.<br>(Age 46)     | Executive Vice President of the Company and President of Main Street Bank & Trust Retail Banking; President and Director of BankIllinois   |
| Christopher M. Shroyer<br>(Age 41)    | Executive Vice President of the Company and President of Main Street Bank & Trust Commercial Banking; President, Chief Executive Officer and Director of The First National Bank of Decatur (2001-2004)  |
| David B. White<br>(Age 55)            | Executive Vice President and Chief Financial Officer of the Company; Main Street Bank & Trust and Director of FirstTech  |
| Nicholas John Waddock III<br>(Age 44) | Executive Vice President and Chief Credit Officer of Main Street Bank & Trust; Executive Vice President, Commercial Lending, Bank of Illinois (1997-2006)  |

### Compliance with Section 16(a) of the Securities Exchange Act

Section 16(a) of the Securities Exchange Act requires that the directors, executive officers and persons who own more than 10% of the Company's common stock file reports of ownership and changes in ownership with the Securities and Exchange Commission. These persons are also required to furnish us with copies of all Section 16(a) forms they file. Based solely on our review of the copies of such forms furnished to us and, if appropriate, representations made by any reporting person concerning whether a Form 5 was required to be filed for 2006, we are not aware of any failures to comply with the filing requirements of Section 16(a) during 2006 except for Mr. Meyer, who filed a Form 4 late in connection with shares distributed to Mr. Meyer as an annuity payment from a grantor retained annuity trust and 165,125 shares distributed to Mr. Meyer's spouse as an annuity payment from a grantor retained annuity trust.

### Code of Ethics

The Company has a code of ethics in place that applies to our Chief Executive Officer and Chief Financial Officer. Shareholders can receive a copy of the code free of charge by contacting Teresa Marsh, the Company's Corporate Secretary, at

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100 W. University Avenue, Champaign, Illinois 61820.

### Audit Committee

In 2006, Messrs. Zacheis (Chair), Sloan and Haab were members of the Audit Committee. Each of these members was deemed to be "independent" as defined by Nasdaq and the rules and regulations promulgated by the Securities and Exchange Commission. The Board of Directors has determined that Mr. Haab qualifies as an "audit committee financial expert" under the regulations of the Securities and Exchange Commission. The Board based this decision on Mr. Haab's education, and his professional experience as President and Chief Executive Officer of Illinois Power Company, a public electric and gas utility. Mr. Haab is a certified public accountant and served on the audit staff of Price Waterhouse, where he was responsible for auditing Fortune 500 companies.

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### Item 11. Executive Compensation

#### Compensation Discussion and Analysis

##### Introduction.

This Compensation Discussion and Analysis section describes Main Street's compensation philosophy and policies for 2006 as applicable to the executive officers named in the Summary Compensation Table on page 86. This section explains the structure and rationale associated with each material element of the executive's compensation, and it provides important context for the more detailed disclosure tables and specific compensation amounts provided following the section. It is important to note that the Company, Main Street Bank and Trust and FirstTech share an executive management team, the members of which are compensated by the bank rather than the holding company. The compensation packages of the named executive officers are determined and approved by our compensation committee based upon their performances and roles for both the Company and Main Street Bank and Trust.

Additionally, as previously announced on September 21, 2006, the Company entered into an Agreement and Plan of Merger with First Busey Corporation. Upon consummation of this merger of equals, which is expected to occur in the 2nd quarter of 2007, many of the Company's executive officers will continue as employees and executive officers of the combined company. This section will discuss the effect of this proposed transaction on decisions for 2007 compensation.

##### Compensation-Related Governance and Role of the Compensation Committee.

Committee Membership. Members of the Compensation Committee are directors of the Company. During the calendar year of 2006, Messrs. Kenney (Chair), Downey, Shapland and Sloan were members of the Compensation Committee and each of these directors was considered "independent" as defined by the Nasdaq stock market, an "outside" director pursuant to Section 162(m) of the Internal Revenue Code, and a "non-employee" director under Section 16 of the Securities Exchange Act of 1934.

The committee is generally responsible for the following:

- o to adopt, review and refine an executive compensation philosophy and guiding principles that reflect The Company's mission, values and long-term strategic objectives;
- o to administer the Company's executive compensation programs in a

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manner that furthers The Company's strategic goals and serves the interests of our shareholders;

- o to establish compensation-related performance objectives under our bonus arrangements with our executive officers;
- o to determine the total compensation levels of our executive officers and to allocate total compensation among the various components of executive pay;
- o to administer the Company's equity compensation and incentive compensation plans;
- o to make recommendations to the Board regarding incentive and equity-based compensation plans;
- o to make recommendations regarding succession plans for senior executive officers; and
- o to recommend to the Board the compensation arrangements with non-employee directors.

Meetings. The committee typically meets several times each year (two times in 2006). The committee subscribes to an independent service that provides surveys and data regarding the compensation levels and programs at other financial institutions. The committee also reviews other generally available industry compensation information. In the past, the committee has not relied on outside consultants; however, that option is available to the committee.

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Role of Executives in Committee Meetings. The Compensation Committee relies upon the input of management, and particularly Messrs. Dukeman and Lykins, when carrying out its responsibilities in establishing executive compensation. Management provides the committee with recommendations regarding compensation philosophy, plan design as well as evaluations of employee performance and guidance on establishing performance targets and objectives. The committee also consults with management on matters related to executive compensation and benefit plans where Board or shareholder action is expected, including the adoption of new compensation plans or the amendment of existing plans. No executive officer participates in any recommendation or decision regarding his or her own compensation.

Additionally, because of the nature of the ongoing negotiations in 2006 relating to the proposed merger with First Busey, many decisions and factors relating to compensation in 2007 were influenced by the Corporate Developments Committee, a special committee established to streamline the evaluation and negotiation of the proposed First Busey transaction. The members of the Corporate Developments Committee, including Messrs. Kenney, Meyer and Shapland, were all independent directors.

### Compensation Philosophy and Objectives.

We are committed to providing a total compensation program that supports our long-term business strategy and performance culture and creates a commonality of interest with our shareholders. In establishing executive compensation, we generally divide compensation into three separate components: salary, cash bonus and long-term incentive awards. These components are intended to work together to compensate the executive fairly for his or her services and reward the executive officer based upon our overall performance during the year.

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The general philosophy in making decisions regarding the compensation of the executive officers is:

- o to provide incentives for executive officers to work toward achieving successful annual results and strategic objectives;
- o to provide significant reward for achievement of superior performance;
- o to provide market-based compensation to help recruit and retain professionals of exceptional quality;
- o to create significant opportunity and incentive for our executive officers to be long-term shareholders;
- o to link executive compensation rewards to increases in shareholder value, as measured by favorable long-term results and continued strengthening of the Company's financial condition; and
- o to provide flexibility to recognize, differentiate and reward individual performance.

Additionally, in connection with the proposed transaction with First Busey, the Corporate Developments Committee and the Board gave special attention to our need to retain certain individuals following the completion of the proposed transaction.

### Compensation Factors

General. The committee generally seeks to ensure that executive compensation is tied to furthering the goals and objectives described above. To this end, the committee evaluates compensation decisions based on a combination of our overall corporate performance and the achievement of individual performance goals. Additionally, the committee considers the compensation paid to executive officers at certain peer financial institutions to ensure that we are able to continue to attract and retain talented individuals. Because the committee believes that it is important to retain flexibility in setting executive compensation and to be able to reward specific individual contributions to our success, it does not apply a formula or assign these performance measures relative weights. Instead, the committee makes a subjective determination after considering such measures collectively.

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Corporate Performance. In establishing executive compensation, the committee measures the Company's performance compared to management's and the Board's goals and objectives as well as to the performance of other similarly-sized financial institutions. The committee believes that using the Company's performance as a factor in determining an executive officer's compensation is effective in helping to align the executive's interests with those of our shareholders. With that in mind, the committee focuses on applicable performance measures including return on equity, return on assets, earnings per share, net income, asset growth and credit quality. As part of the evaluation and review of these criteria, the committee will also take into account the general economic conditions and how they may affect the Company's performance.

Individual Performance. Individual performance has a significant impact on the compensation of all employees, including the Chief Executive Officer and the other executive officers. With respect to the Chief Executive Officer, the Chairman of the Board, the independent directors, under the direction of the presiding director, meet with the Chief Executive Officer in executive session annually at the beginning of the year to agree upon the Chief Executive

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Officer's performance goals and areas of emphasis for both the individual and the Company for the year. At the end of the year, the committee meets under the direction of the Chairman of the Board to conduct a performance review of the Chief Executive Officer based on his achievements, contribution to our performance and other leadership accomplishments for the year. As with the evaluation of corporate performance, the committee does not apply formulas or assign these performance measures relative weights and the committee makes a subjective determination after considering such measures collectively. The evaluation is shared with the Chief Executive Officer and the committee uses the review as a focal point in setting the Chief Executive Officer's compensation.

For the other named executive officers, the committee receives a performance assessment and compensation recommendation from the Chief Executive Officer and also exercises its judgment based on the Board's interactions with the executive officers. As with the Chief Executive Officer, the performance evaluation of these executives is based on achievement of goals and objectives by the executive and his or her department, his or her contribution to our performance, and other leadership accomplishments.

Peer Comparison. In establishing the compensation of the named executive officers, the committee also utilizes market data regarding the compensation practices of other financial institutions of a similar size. Although the committee does not target a specific level of peer compensation when making executive compensation decisions, it believes that such comparisons are useful to stay competitive in the marketplace and attracting and retaining qualified executives. As such, the committee often performs an informal review of executive compensation at other similarly sized financial institutions in the Midwest.

### Components of Compensation.

General. There are three major components to executive officer compensation: base salary, cash bonus and long-term incentive awards. The committee's decisions regarding each of these components for the named executive officers are based, in part, on the committee's subjective judgment and take into account qualitative and quantitative factors, as will be set forth in the discussion below. In reviewing an executive officer's compensation, the committee considers and evaluates all components of the officer's total compensation package. This involves reviewing base salary, bonus, incentive stock awards, perquisites, participation in our non-qualified executive plans, participation in our 401(k) plan and any other payments, awards or benefits that an officer earns. Additionally, the committee takes into consideration any amounts an executive officer is entitled to upon retirement, termination or a change-in-control event.

Salary. The Compensation Committee reviews each executive's base salary on an annual basis. The committee believes that the base salaries should offer security to each executive and allow us to attract qualified executives and maintain a stable management team and environment. The committee targets base salaries at levels comparable to those of similar positions within the market place. The committee may adjust salaries to reflect our overall financial performance, as discussed above. Additionally, base salaries are determined by examining and evaluating the individual's performance over the past year as well as the individual's level of responsibility, prior experience, education, breadth of knowledge and the current market level of executives at similar positions at our peer institutions. The committee will also factor in other payments and awards that the executive may receive, including stock options and participation in our profit sharing plan prior to making a determination on the individual's salary. When establishing the salary of executives other than their own, Messrs. Dukeman and Lykins participated with and made recommendations to the committee.

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The salaries for 2006, determined by the committee in the first quarter of 2006, are set forth in the summary compensation table on page 86. In determining these salary levels, the committee considered the following:

- o the growth in 2005 of earnings by 16.9% from \$1.54 net income per diluted share in 2004 to \$1.80 net income per diluted share;
- o the growth in 2005 of net income by 23.9% from \$14.778 million in 2004 to \$18.308 million;
- o the growth in 2005 of the return on average assets from 1.22% in 2004 to 1.24%;
- o the growth of average assets in 2005 from \$1.209 billion in 2004 to \$1.474 billion;
- o the growth in 2005 of revenue in our Wealth Management group by 17.1% from \$6.492 million in 2004 to \$7.599 million;
- o the growth in 2005 of assets under management in our Wealth Management group by 11.0% from \$1.765 billion in 2004 to \$1.959 billion;
- o the record net income in 2005 of FirsTech, our payment processing subsidiary, of \$1.525 million compared to \$1.331 million in 2004, an increase of 14.6%;
- o the base salary paid to the officers in comparable positions at financial institutions of similar size;
- o the experience and industry knowledge of the named executive officers and the quality and effectiveness of their leadership at the Company;
- o the successful completion in 2005 of the acquisition of Citizens First Financial Corp., and the merger of Citizens Bank in Bloomington, Illinois, into Main Street Bank & Trust, and the opening of a banking office in Peoria, Illinois;
- o minimum base salaries provided for in an executive officers' employment agreement;
- o all of the components of executive compensation, including base salary, bonus, stock options, retirement and death benefits, as well as benefits and perquisites; and
- o internal pay equity among the Company's executives.

Our performance in 2005 was a key factor in setting salaries, as personal performance is rewarded more heavily in cash incentives and long-term incentive awards. The total increase in base salaries for the named executive officers for 2006 represented an overall increase of 3.6% over 2005.

**Bonus.** The incentive bonus is a discretionary payment primarily related to the Company's financial performance, as measured by return on equity, return on assets, earnings per share, net income, asset growth and credit quality, and the Company's performance relative to its long-term goals. Because of the strong link to our financial performance, bonuses to named executive officers are paid in 1st quarter following the end of the year. As with salary, all of the factors described herein are considered on a subjective basis in the aggregate, and none of the factors is accorded a specific weight.



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When establishing bonuses, the committee also considers individual performance criteria in addition to company-wide objectives. The committee considers the achievement of goals and objectives by the executive and his or her department, his or her contribution to our performance, and other leadership accomplishments when recommending a bonus. These factors are considered on a subjective basis in the aggregate, and none of the factors is accorded a specific weight.

In regard to bonuses for executives other than himself, Mr. Dukeman participated with and made recommendations to the committee. The committee determines Messrs. Dukeman's and Lykins' bonuses using the same philosophies and factors listed above.

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The bonuses paid to named executive officers in 2007 for 2006 performance are set forth in the Summary Compensation Table and reflect:

- o the growth in 2006 of net income per share by 4.4% from \$1.80 net income per diluted share in 2005 to \$1.88 net income per diluted share;
- o the growth in 2006 of net income by 5.1% from \$18.308 million in 2005 to \$19.237 million;
- o strong credit quality with non-performing loans as a percentage of gross loans at 0.82%;
- o the growth in 2006 of revenue in our Wealth Management group by 8.4% from \$7.599 million in 2005 to \$8.235 million;
- o the growth in 2006 of assets under management in our Wealth Management group from \$1.959 billion in 2005 to over \$2.3 billion;
- o the record net income in 2006 of FirsTech, our payment processing subsidiary, of \$1.807 million compared to \$1.525 million in 2005, an increase of 18.5%; and
- o two other measures typically considered in bonus decisions are the return on assets and the return on equity, and although down slightly from 2005, return on equity from 13.40% to 13.10% and return on assets from 1.24% to 1.23%, they were reflective of solid financial performance.

Long-Term Incentive Compensation. The committee has regularly granted options to executive officers, as well as other employees, on an annual basis. The committee believes that stock options align executives' incentives with shareholders' because options have value only if our stock price increases over time. Therefore, the committee believes that 10-year options, granted at the market price on the date of grant, help focus employees on long-term growth. In addition, options are intended to help retain key employees because they typically cannot be exercised for three years and, if not exercised, are forfeited if the employee leaves the Company before retirement. The three-year vesting also helps keep employees focused on long-term performance. The Company does not reprice options; likewise, if the stock price declines after the grant date, we do not replace options.

Generally, in approving option grants, the committee considers our compensation philosophy, the position and level of responsibility of each officer, our belief that equity awards should be a significant part of the total mix of executive compensation, and the level of options granted to them in prior years.

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The committee's procedure for timing of equity grants provides assurances that grant timing is not being manipulated to result in a price that is favorable to employees. Annual equity grants are made for all eligible employees, including executive officers at the committee's regularly scheduled meetings with an exercise price equal to the closing price of our shares on the date of grant. Grants are made at committee meetings held at the beginning of each year because they coincide with our calendar-year-based performance management cycle that allows supervisors to deliver the equity awards close in time to performance appraisals, which increases the impact of the awards by strengthening the link between pay and performance.

The stock option awards made to named executive officers in 2006 are reflected in the Grants of Plan Based Award Table and reflect:

- o the compensation philosophy and guiding principles described above;
- o all of the components of executive compensation, including base salary, bonus, stock options, retirement and death benefits, as well as benefits and perquisites; and
- o internal pay equity among the Company executives.

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All Other Compensation. We provide general and customary benefit programs to executive officers and other employees. Benefits offered to executives are intended to serve a different purpose than base salary, bonus and equity awards. While the benefits offered are competitive with the market place and help attract and retain executives, the benefits also provide financial security for employees for retirement as well as in the event of illness, disability, or death. Benefits offered to executive officers are generally those offered to other employees with some variation to promote tax efficiency and replacement of benefit opportunities lost to regulatory limits, although there are some additional perquisites that may only be offered to executive officers. Because of the nature of the benefits offered, the committee normally does not adjust the level of benefits offered on a year to year basis.

The following table summarizes the benefits and perquisites we do and do not provide as well as identifies those employees who may be eligible to receive them:

|                               | Executive Officers | Other Officers/Managers | Ful |
|-------------------------------|--------------------|-------------------------|-----|
| -----                         |                    |                         |     |
| Retirement Plans:             |                    |                         |     |
| 401(k)Plan/Profit Sharing     | X                  | X                       |     |
| Deferred Compensation Plan    | X                  | X                       |     |
| Perquisites:                  |                    |                         |     |
| Automobile Allowance          | X                  | X                       |     |
| Country Club Membership       | X                  | X                       |     |
| Bonus Life Insurance Premiums | X                  | X                       |     |
| -----                         |                    |                         |     |

A. Main Street Trust, Inc. 401(k) Plan. We also sponsor a qualified, tax-exempt pension plan qualifying under Section 401(k) of the

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Internal Revenue Code. The plan is eligible for all employees meeting age and service requirements, including our executive officers. The 401(k) plan allows for participants' contributions up to the maximum amount allowed by the IRS regulations, and contributions up to 6% of gross salary are eligible for the Company's match of 50%. Participants can choose between several different investment options under the 401(k) plan.

The 2006 contributions for named executive officers are set forth in the Summary Compensation Table and were established pursuant to the 401(k) plan.

Main Street Trust, Inc. Profit Sharing Plan. The Company also sponsors a qualified retirement plan commonly referred to as a profit sharing plan. All employees meeting age and service requirements, including our executive officers are eligible to participate in the plan. Employees are not permitted to contribute to the plan. The amounts of all company contributions made to the profit sharing plan are at the Company's discretion. Generally, company contribution amounts are based upon the Company's net income, return on average assets, other financial factors and the Company's performance relative to its long-term goals although company contributions are not based on a formula and the above factors are each considered on a subjective basis. Participants can choose between several different investment options under the profit sharing plan.

The 2006 profit sharing contributions for named executive officers are set forth in the Summary Compensation Table and were established pursuant to the profit sharing plan.

Deferred Compensation Arrangements for Executive Officers. We sponsor a deferred compensation arrangement with our executive officers that provides a means for the participants to voluntarily defer a portion of their salary or bonus. This arrangement is an unfunded, nonqualified deferred compensation arrangement. We have also assumed the outstanding liability for similar arrangements for the deferral of director fees and executive officer compensation offered by our predecessor companies in connection with the merger of BankIllinois Financial and Central Illinois Financial Corporation of Champaign in 1995, the merger of BankIllinois Financial Corporation and First Decatur Bancshares, Inc., in 2000, and in connection with the acquisition of Citizens First Financial Corp.

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Other Perquisites. It is our belief that perquisites for executive officers should be very limited in scope and value. Due to this philosophy, the Company has generally provided nominal benefits to executives that are not available to all full time employees and we plan to continue this approach in the future. We do provide country club memberships to certain executives and managers in the ordinary course of business to give them the opportunity to bring in and recruit new business opportunities. Those individuals are eligible to use the club membership for their own personal use. In addition, certain executive officers and managers are eligible for a monthly automobile allowance. We also pay the premiums on life insurance policies for certain executive officers and managers.

We have disclosed the value of all perquisites to named executive officers in the Summary Compensation Table even if they fall below the disclosure thresholds under the SEC rules.

### Tax and Accounting Policies Affecting Compensation Decisions

Section 162(m) of the Internal Revenue Code limits the deductibility of annual compensation in excess of \$1.0 million paid to the Chief Executive Officer and any of the four other highest paid officers, to the extent they are listed

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officers on the last day of any given tax year. However, compensation is exempt from this limit if it qualifies as "performance-based compensation." Performance-based compensation generally includes only payments that are contingent on achievement of performance objectives, and excludes fixed or guaranteed payments.

Although we will consider deductibility under Section 162(m) with respect to the compensation arrangements for executive officers, deductibility will not be the sole factor used in determining appropriate levels or methods of compensation. Since our objectives may not always be consistent with the requirements for full deductibility, we may enter into compensation arrangements under which payments would not be deductible under Section 162(m).

We are required to amortize the fair value of equity awards as required under SFAS No. 123R, "Share-Based Payments". Under this accounting bulletin, which became effective for us on January 1, 2006, we apply the Black-Scholes valuation model to determine the fair value of equity awards on the date of grant, which is then amortized on a straight-line basis over the requisite service period. When making equity awards, the committee considered the amortization of expenses in granting equity awards in 2006.

### Decisions Affecting 2007 and Future Compensation

In 2007, compensation components and factors are anticipated to be similar to 2006. However, with the proposed merger of First Busey and Main Street Trust, Inc., the decision was made to defer equity grants until some time after the completion of the merger. If for some reason the merger is not expected to be completed in 2007, the Compensation Committee will reconsider the granting of options in 2007.

As discussed above, in connection with the execution of the merger agreement with First Busey, we entered into letter agreements with Messrs. Lykins, Dukeman and White that amend the terms of their current employment agreements upon the completion of the proposed merger. Under Mr. Lykins's agreement, effective upon the closing of the proposed merger, Mr. Lykins, would receive a one-time change of control payment, would continue as an employee of the Company or its successor and receive an annual salary of \$50,000. Under Mr. Dukeman's letter agreement, he has agreed to waive change in control benefits under his employment agreement if the proposed merger is completed. Lastly, under Mr. White's letter agreement, he has agreed to waive certain "walk away" rights following a change of control and instead, is entitled to a change of control payment if he is terminated without cause or if he is constructively discharged during the 36-month period following the proposed merger. Additionally, Mr. White would be entitled to a change of control payment if he terminates his employment agreement for any reason during the period beginning on the eighteen month anniversary of the closing of the proposed merger and ending on the third anniversary of the closing or if his employment is terminated because of death or disability during the first eighteen months following the proposed merger.

### Compensation Committee Report

The Compensation Committee has reviewed and discussed the foregoing Compensation Discussion and Analysis with management. Based on our review and discussion with management, we have recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this Form 10-K for the year ended December 31, 2006.

Submitted by:

Members of the Compensation Committee:

Frederic L. Kenney (chair)

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David J. Downey  
George T. Shapland  
Thomas G. Sloan

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Executive and Director Compensation

Summary Compensation Table

| Name and principal position   | Year | Salary (\$) | Bonus (\$) | Option awards (\$)(1) | Change in pension value and nonqualified deferred compensation earnings (\$)((2)) | All other compensation (\$)(3) |
|---|------|-------------|------------|-----------------------|---|--------------------------------|
| (a)   | (b)  | (c)         | (d)        | (f)                   | (h)   | (i)                            |
| Gregory B. Lykins<br>Chairman of the Board  | 2006 | \$153,230   | \$65,000   | \$24,758              | \$2,564   | \$45,031                       |
| Van A. Dukeman<br>President and Chief Executive Officer                           | 2006 | \$277,846   | \$150,000  | \$36,471              | \$1,900   | \$47,974                       |
| Donna R. Greene<br>Executive Vice President of Wealth Management                  | 2006 | \$147,461   | \$30,000   | \$11,551              | \$85  | \$30,732                       |
| Paul E. Donohue<br>Executive Vice President of Sales and Marketing                | 2006 | \$147,461   | \$25,000   | \$18,729              | \$192   | \$30,120                       |
| David B. White<br>Executive Vice President, Treasurer and Chief Financial Officer | 2006 | \$144,230   | \$50,000   | \$19,922              | \$1,509   | \$32,482                       |

(1) Amounts reflect the compensation cost recognized for 2006 under Financial Accounting Standards Board's Financial Accounting Series Statement 123(R) (revised 2004), Share-Based Payment ("FAS 123R"). See Note 1(p) to the Consolidated Financial Statements contained in our Annual Report on Form 10-K for the year-ended December 31, 2006 for a discussion of the relevant assumptions used in calculating the compensation cost and grant date fair value under FAS 123R.

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(2) Represents above-market interest on deferred compensation. The interest yield on the deferred compensation plan is determined according to the plan document and is 125% of the declared interest rate on Security Life Corp. III policies for the current calendar month as determined by Security Life of Denver (or any successor thereto). If that monthly rate is no longer published or no longer deemed appropriate by the Company, a substantially similar rate may be chosen by the Compensation Committee.

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(3) The following table includes amounts reflected under the All Other Compensation column for each named executive officer:

|  | Mr. Lykins | Mr. Dukeman | Ms. Greene | Mr. Donohue |
|--|------------|-------------|------------|-------------|
| 401(k) match .....                               | \$ 5,646   | \$ 7,500    | \$ 3,951   | \$3,950     |
| Non-qualified Retirement Plan contribution ..... | 3,000      | 7,585       | 2,627      | 3,169       |
| Profit Sharing contribution .....                | 12,100     | 12,100      | 10,213     | 9,668       |
| Life insurance premiums ...                      | 8,548      | 3,848       | 1,942      | 1,334       |
| Automobile allowance .....                       | 7,361      | 8,566       | 7,200      | 7,200       |
| Country club fees .....                          | 8,376      | 8,376       | 4,800      | 4,800       |
| Total  | \$ 45,031  | \$ 47,974   | \$ 30,732  | \$ 30,120   |

Grants of Plan Based Awards

The following table includes stock options granted pursuant to The Company's 2000 Stock Incentive Plan during 2006. No stock appreciation rights, restricted stock or other equity awards were granted to named executive officers in 2006 nor were any cash or non-cash awards made pursuant to an incentive plan.

| Name | Grant date | All other option awards; Number of securities underlying options (#) | Exercise or base price of option awards (\$/Sh) |
|------|------------|--|---|
|------|------------|--|---|

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| (a)               | (b)        | (j)   | (k)     |
|-------------------|------------|-------|---------|
| Gregory B. Lykins | 02/21/2006 | 5,000 | \$30.10 |
| Van A. Dukeman    | 02/21/2006 | 7,500 | \$30.10 |
| Donna R. Greene   | 02/21/2006 | 4,000 | \$30.10 |
| Paul E. Donohue   | 02/21/2006 | 4,000 | \$30.10 |
| David B. White    | 02/21/2006 | 4,000 | \$30.10 |

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Outstanding Equity Awards at Fiscal Year-End

The table below summarizes stock options outstanding at December 31, 2006 for each of the named executive officers.

| Name              | Number of securities underlying unexercised options (#)<br>Exercisable | Number of securities underlying unexercised options (#)<br>Unexercisable (2) | Option exercise Price (\$)<br>(d) (1) | Option expiration date<br>(e) |
|-------------------|--|--|---------------------------------------|-------------------------------|
| (a)               | (b) (1)  | (c)  | (d) (1)                               | (e)                           |
| Gregory B. Lykins | 5,512  | 0  | \$18.37                               | 04/12/2010                    |
|                   | 5,250  | 0  | \$17.50                               | 03/20/2011                    |
|                   | 5,000  | 0  | \$18.60                               | 03/19/2012                    |
|                   | 5,000  | 0  | \$24.80                               | 03/18/2013                    |
|                   | 4,785  | 215  | \$30.60                               | 02/17/2014                    |
|                   | 3,123  | 1,877  | \$29.60                               | 02/15/2015                    |
|                   | 1,429  | 3,571  | \$30.10                               | 02/21/2016                    |
| Van A. Dukeman    | 5,512  | 0  | \$18.37                               | 04/12/2010                    |
|                   | 5,250  | 0  | \$17.50                               | 03/20/2011                    |
|                   | 5,000  | 0  | \$18.60                               | 03/19/2012                    |
|                   | 5,000  | 0  | \$24.80                               | 03/18/2013                    |
|                   | 7,178  | 322  | \$30.60                               | 02/17/2014                    |
|                   | 4,684  | 2,816  | \$29.60                               | 02/15/2015                    |
|                   | 2,143  | 5,357  | \$30.10                               | 02/21/2016                    |
| Donna R. Greene   | 2,498  | 1,502  | \$29.60                               | 02/15/2015                    |
|                   | 1,143  | 2,857  | \$30.10                               | 02/21/2016                    |
| Paul E. Donohue   | 3,828  | 172  | \$30.60                               | 02/17/2014                    |
|                   | 2,498  | 1,502  | \$29.60                               | 02/15/2015                    |
|                   | 1,143  | 2,857  | \$30.10                               | 02/21/2016                    |
| David B. White    | 3,307  | 0  | \$18.37                               | 04/12/2010                    |

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|       |       |         |            |
|-------|-------|---------|------------|
| 3,150 | 0     | \$17.50 | 03/20/2011 |
| 3,000 | 0     | \$18.60 | 03/19/2012 |
| 3,000 | 0     | \$24.80 | 03/18/2013 |
| 3,828 | 172   | \$30.60 | 02/17/2014 |
| 2,498 | 1,502 | \$29.60 | 02/15/2015 |
| 1,143 | 2,857 | \$30.10 | 02/21/2016 |

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Option Exercises and Stock Vested

The following table summarizes the stock option exercises stock by named executive officers in 2006.

| Option Awards     |   |  |
|-------------------|---|--|
| Name              | Number of shares<br>acquired on exercise<br>(#) | Value realized<br>on exercise<br>(\$)(1) |
| (a)               | (b)   | (c)                                      |
| Gregory B. Lykins | -   | -  |
| Van A. Dukeman    | -   | -  |
| Donna R. Greene   | -   | -  |
| Paul E. Donohue   | -   | -  |
| David B. White    | 1,000   | \$10,300                                 |

Nonqualified Deferred Compensation

The following table provides information regarding 2006 nonqualified deferred compensation for our named executive officers. For further explanation of our deferred compensation arrangements, see the discussion under "Compensation Discussion and Analysis."

| Name | Executive<br>contributions<br>in last FY<br>(\$)(1) | Registrant<br>contributions<br>in last FY<br>(\$)(2) | Aggregate<br>earnings in<br>last FY<br>(\$)(3) | Aggregate<br>withdrawals/<br>distrib<br>(\$) | Agg<br>bala<br>las |
|------|---|--|--|--|--------------------|
| (a)  | (b)   | (c)  | (d)  | (e)  |                    |



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|                   |          |         |          |   |      |
|-------------------|----------|---------|----------|---|------|
| Gregory B. Lykins | \$31,942 | \$3,000 | \$34,490 | - | \$59 |
| Van A. Dukeman    | \$35,284 | \$7,585 | \$25,471 | - | \$45 |
| Donna R. Greene   | \$11,853 | \$2,627 | \$1,212  | - | \$28 |
| Paul E. Donohue   | \$21,723 | \$3,169 | \$2,700  | - | \$57 |
| David B. White    | \$21,365 | \$3,220 | \$20,316 | - | \$35 |

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Director Compensation

The following table describes compensation for the Company's non-employee directors for 2006. The amounts reported include compensation paid to the non-employee directors in their capacity as directors of our wholly-owned subsidiaries, Main Street Bank and Trust and FirsTech, in addition to their service as directors of the Company.

| Name (1)              | Fees earned or paid in cash (\$ (2) | Option Awards (\$ (3) | Total (\$) |
|-----------------------|-------------------------------------|-----------------------|------------|
| (a)                   | (b)                                 |                       | (h)        |
| David J. Downey       | \$7,000                             | \$25,059              | \$32,059   |
| Van A. Dukeman(1)     | -                                   | \$36,471              | \$36,471   |
| Larry D. Haab         | \$4,250                             | \$25,059              | \$29,309   |
| Frederic L. Kenney    | \$7,000                             | \$25,059              | \$32,059   |
| Gregory B. Lykins(1)  | -                                   | \$24,758              | \$24,758   |
| August C. Meyer, Jr.  | -                                   | \$25,059              | \$25,059   |
| George T. Shapland    | \$7,000                             | \$25,059              | \$32,059   |
| Thomas G. Sloan       | \$3,000                             | \$25,059              | \$28,059   |
| H. Gale Zacheis, M.D. | \$2,000                             | \$25,059              | \$27,059   |

|                           |                |                |       |
|---------------------------|----------------|----------------|-------|
| Holding Company Committee | Bank Committee | FirsTech Board | Total |
|---------------------------|----------------|----------------|-------|

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| Name                 | Fees (\$) | Fees (\$) | Fees (\$) | Fees (\$) |
|----------------------|-----------|-----------|-----------|-----------|
| David J. Downey      | 1,000     | 6,000     | -         | 7,000     |
| Larry D. Haab        | 3,000     | -         | 1,250     | 4,250     |
| Frederic L. Kenney   | 1,000     | 6,000     | -         | 7,000     |
| August C. Meyer, Jr. | -         | -         | -         | -         |
| George T. Shapland   | 1,000     | 6,000     | -         | 7,000     |
| Thomas G. Sloan      | 3,000     | -         | -         | 3,000     |
| H. Gale Zacheis      | 2,000     | -         | -         | 2,000     |

(3) Amounts reflect the compensation cost recognized for 2006 under FAS 123R. See Note 1(p) to the Consolidated Financial Statements contained in our Annual Report on Form 10-K for the year-ended December 31, 2006 for a discussion of the relevant assumptions used in calculating the compensation cost and grant date fair value under FAS 123R.

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Potential Payments Upon Termination or Change in Control

The following table sets forth information concerning potential payments and benefits under the Company's compensation programs and benefit plans to which the named executive officers would be entitled upon a hypothetical termination of employment as of December 31, 2006. Please note that the amounts set forth below, may not reflect amounts due to any executive officer in connection with the proposed transaction with First Busey, which amounts may depend on circumstances beyond the control of the Company such as individual negotiations with First Busey. As is more fully described below, all five of named executive officers have entered into employment agreements with the Company (or its predecessor), which provide for payments and benefits to the executives if an executive should experience a termination of employment without cause, a constructive discharge, death or disability (in the case of Messrs. Lykins and Dukeman) or a termination in connection with a change in control of the Company. Except for the payments and benefits provided by the employment agreements, all other payments and benefits provided to any named executive officer upon termination of his employment are the same as the payments and benefits provided to other eligible executives of the Company. For purposes of estimating the value of certain equity awards management has assumed a price per share of the Company's common stock of \$35.25, which was the closing price on December 29, 2006, the last trading day of the year.

|  | Cash Severance Payment | Continuation of Medical/Dental Benefits ((1)) | Acceleration of Deferred Compensation Vesting | Acceleration of Equity Awards | Excise Tax Gross-Up (( |
|--|------------------------|---|---|-------------------------------|------------------------|
| Gregory B. Lykins  |                        |   |   |                               |                        |
| Termination - without cause, constructive discharge, death or disability | \$289,000              | \$11,819                                      | ---   | ---                           | ---                    |
| Termination in connection with change in control                         | \$900,000              | \$35,457                                      | ---   | \$29,995                      | ---                    |

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Van A. Dukeman

|  |             |          |     |          |           |
|--|-------------|----------|-----|----------|-----------|
| Termination - without cause, constructive discharge, death or disability | \$505,000   | \$15,264 | --- | ---      | ---       |
| Termination in connection with change in control                         | \$1,515,000 | \$45,792 | --- | \$44,996 | \$548,165 |

-----  
Donna R. Greene

|   |           |          |       |          |     |
|---|-----------|----------|-------|----------|-----|
| Termination - without cause or constructive discharge | \$209,976 | \$7,292  | ---   | ---      | --- |
| Termination in connection with change in control      | \$407,976 | \$14,584 | \$315 | \$23,200 | --- |

-----  
Paul E. Donohue

|   |           |          |       |          |     |
|---|-----------|----------|-------|----------|-----|
| Termination - without cause or constructive discharge | \$202,119 | \$9,320  | ---   | ---      | --- |
| Termination in connection with change in control      | \$400,119 | \$18,640 | \$849 | \$24,000 | --- |

-----  
David B. White

|   |           |          |     |          |     |
|---|-----------|----------|-----|----------|-----|
| Termination - without cause or constructive discharge | \$195,000 | \$7,466  | --- | ---      | --- |
| Termination in connection with change in control      | \$390,000 | \$14,932 | --- | \$24,000 | --- |

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Accrued Pay and Regular Retirement Benefits. The amounts shown in the table above do not include payments and benefits to the extent they are provided on a non-discriminatory basis to salaried employees generally upon termination of employment. These include:

- o Accrued salary and vacation pay.
- o Distributions of plan balances under any of the following Company plans: the 401(k) plan, the profit-sharing plan and the deferred compensation plan. See "All Other Compensation" in the Compensation Discussion and Analysis section for a general description of each such plan. Also, see the "Nonqualified Deferred Compensation" table for information on current account balances.

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- o The value of option continuation upon a termination of employment, since all employees are treated in a similar manner under the terms of the Company's 2000 Stock Incentive Plan.

Death, Disability and Retirement. As is the case with any other eligible participant under the Company's 2000 Stock Incentive Plan, upon a termination of employment for any reason other than death, disability, retirement or in connection with a change in control, the named executive officers will have a period of three months during which to exercise their vested outstanding stock options. Upon a termination of employment due to death or disability, the named executive officers will have a period of twelve months to exercise their vested outstanding stock options. If the named executive officer retires, his or her vested outstanding stock options may be exercised at any time during the remainder of an option's original ten-year term; provided, however, that if the executive officer dies after retirement, any vested outstanding stock options must be exercised within twelve months of his or her death. Any options which are not vested at the time of termination will be forfeited.

Acceleration of Vesting Upon a Change in Control. All employees, including the named executive officers, who receive stock options under the Company's 2000 Stock Incentive Plan will immediately and fully vest in any unvested stock options held by such employee upon the occurrence of a change in control.

Employment Agreements. Other than as is provided in the employment agreements, no named executive officer will be entitled to any payments or benefits (in addition to those provided under the standard terms of the Company's employee benefit plans and programs) upon a termination of employment that occurs other than in connection with a change in control. Other than as is provided in the employment agreements, and except as is provided in accordance with the terms of the Company's 2000 Stock Incentive Plan, no named executive officer will be entitled to any payments or benefits (in addition to those provided under the standard terms of the Company's employee benefit plans and programs) as a result of the occurrence of a change in control or as a result of a termination of employment in connection with a change in control.

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In the case of a termination of employment by the Company without cause or a constructive discharge (or, in the case of Messrs. Lykins and Dukeman, in addition to such terminations, termination of employment due to death or disability), the employment agreements provide for the following:

- o Payment of a severance benefit equal to the sum of the executive's current annual base salary plus the amount of his or her most recently awarded performance bonus. In addition, if the executive officer's employment is terminated prior to the end of his or her employment term, he or she will be entitled to receive an additional cash payment in an amount equal to the value of contributions that would have been made on behalf of the executive officer under all applicable retirement and other employee benefit plans had the executive officer remained employed by the Company through the end of his or her employment term. All of the employment agreements currently provide for a one-year term of employment.
- o The Company will provide each named executive officer (and his or her dependents) with continuing coverage under all existing health and disability programs (and, in the case of Messrs. Lykins, Dukeman and White, life insurance programs) for a period of one year following the effective date of termination, provided that, with respect to Ms. Greene and Messrs. Donohue and White, to the extent the executive

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officer paid a portion of the premium for any such benefit prior to termination, he or she shall continue to pay such portion during the continuation period. The total cost of the continuation benefits for Messrs. Lykins and Dukeman will be paid by the Company.

In the case of Ms. Greene and Messrs. Donohue and White, if an executive officer's employment is terminated within 12 months immediately following a change in control, the employment agreements provide for the following:

- o Payment of a severance benefit equal to two times the sum of the executive's current annual base salary plus the amount of his or her most recently awarded performance bonus. In addition, if the executive officer's employment is terminated prior to the end of his or her employment term, he or she will be entitled to receive an additional cash payment in an amount equal to the value of contributions that would have been made on behalf of the executive officer under all applicable retirement and other employee benefit plans had the executive officer remained employed by the Company through the end of his or her employment term.
- o The Company will provide Ms. Greene and Messrs. Donohue and White (and each of their dependents) with continuing coverage under all existing health and disability programs (and, in the case of Mr. White, life insurance programs) for a period of two years following the effective date of termination, provided that, to the extent the executive officer paid a portion of the premium for any such benefit prior to termination, he or she shall continue to pay such portion during the continuation period.
- o Upon a change in control, executives may be subject to certain excise taxes under Section 280G of the Internal Revenue Code on any parachute payments due to them. The employment agreements for Ms. Greene and Messrs. Donohue and White provide that the value of their parachute payments shall be reduced to an amount that is one dollar less than the threshold for imposition of an excise tax under Section 280G of the Internal Revenue Code to avoid the imposition of such excise tax. While circumstances could exist under which such a reduction would be required, management does not believe that any payments reflected in this table would result in the imposition of an excise tax under the Internal Revenue Code based upon a termination of employment in connection with a change in control occurring on December 31, 2006.

In the case of Messrs. Lykins and Dukeman, if an executive officer's employment is terminated within the 18 months preceding or the 12 months immediately following a change in control, the employment agreements provide for the following:

- o Payment of a severance benefit equal to the greater of (i) \$900,000 or (ii) three times the sum of the executive's current annual base salary plus the amount of his most recently awarded performance bonus. In addition, if the executive officer's employment is terminated prior to the end of his employment term, he will be entitled to receive an additional cash payment in an amount equal to the value of contributions that would have been made on behalf of the executive officer under all applicable retirement and other employee benefit plans had the executive officer remained employed by the Company through the end of his employment term.

- o The Company will provide Messrs. Lykins and Dukeman (and each of their

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dependents) with continuing coverage under all existing health, disability and life insurance programs for a period of three years following the effective date of termination. The total cost of the continuation benefits for Messrs. Lykins and Dukeman will be paid by the Company.

- o Upon a change in control, Messrs. Lykins and Dukeman may be subject to certain excise taxes under Section 280G of the Internal Revenue Code. The Company agreed to "gross-up" each of them for those excise taxes as well as any income and employment taxes payable by the executive as a result of any reimbursements for the 280G excise taxes. While circumstances could exist under which excise tax gross-up payments would be due to the executives, management does not believe that any payments made to Messrs. Lykins and Dukeman as a result of a termination of employment in connection with a change in control occurring on December 31, 2006 would result in the imposition of an excise tax under the Internal Revenue Code.

In exchange for the payments and benefits provided under the employment agreements, the named executive officers agree to be bound by a one-year restrictive covenant, which will be effective throughout the geographic area within a 50 mile radius from the Company's main office in Champaign, Illinois, and, in addition, in the case of Ms. Greene, within a 50 mile radius of any of its subsidiary banks. The restrictive covenant will prohibit the executive from competing, in any way, with the Company for the one-year period.

### Compensation Committee Interlocks and Insider Participation

The following directors served on the Compensation Committee in 2006: Messrs. Kenney (chair), Downey, Shapland and Sloan. The Company's Compensation Committee establishes compensation and benefits for the Chief Executive Officer and reviews and recommends compensation and benefits for other executive officers and senior management of the Company and of the subsidiaries. During 2006, no executive officer served on the Board of Directors or compensation committee of any other corporation with respect to which any member of the Compensation Committee was engaged as an executive officer. No member of the Compensation Committee was a company employee in 2006 and none was formerly an executive officer.

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

#### SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS

The following table sets forth certain information regarding the Company's common stock beneficially owned on March 13, 2007 with respect to all persons known to the Company to be the beneficial owner of more than five percent of the common stock, each director and nominee, other named executive officers and all directors and executive officers of the Company as a group.

| Name of Individual and<br>Number of Persons in Group | Amount and Nature of<br>Beneficial Ownership(1) | Percent<br>of Class |
|--|---|---------------------|
| David J. Downey                                      | 275,453   | 2.7%                |
| Van A. Dukeman(2)                                    | 162,680   | 1.6%                |
| Larry D. Haab(3)                                     | 40,968  | *                   |
| Frederic L. Kenney(4)                                | 75,380  | *                   |
| Gregory B. Lykins(5)                                 | 2,160,103                                       | 21.5%               |
| August C. Meyer, Jr.                                 | 105,566   | 1.0%                |

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|  |               |           |
|--|---------------|-----------|
| George T. Shapland   | 383,848       | 3.8%      |
| Thomas G. Sloan(6)   | 114,584       | 1.1%      |
| H. Gale Zacheis(7)   | 50,024        | *         |
| Paul E. Donohue  | 8,605         | *         |
| Donna R. Greene(8)   | 7,443         | *         |
| David B. White   | 23,689        | *         |
| <br>All directors and executive officers as a group((9))<br>(17 persons) | <br>3,508,944 | <br>35.0% |

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### Securities Authorized for Issuance Under Equity Compensation Plans

The table below sets forth the following information as of December 31, 2006 for all compensation plans previously approved by our shareholders:

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

| Plan category  | Number of securities to be issued upon exercise of outstanding options | Weighted-average exercise price of outstanding options |
|--|--|--|
| Equity compensation plans approved by security holders     | 845,381  | \$24.76  |
| Equity compensation plans not approved by security holders | 0  | ---  |

### Item 13. Certain Relationships and Related Transactions, and Director Independence

#### Certain Relationships and Related Transactions

Directors and officers of the Company and its respective subsidiaries were customers of and had transactions with, the Company and its subsidiaries during 2006. Additional transactions may be expected to take place in the future. All outstanding loans, commitments to loan, transactions in repurchase agreements and certificates of deposit and depository relationships, in the opinion of management, were made in the ordinary course of business, on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons and did not involve more

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than the normal risk of collectibility or present other unfavorable features. All such loans are approved by the subsidiary bank's board of directors in accordance with the bank regulatory requirements. Additionally, it is the practice and policy of the Board of Directors that the full Board considers other non-lending transactions between a director and the Company, including its subsidiaries, to ensure that such transactions do not affect a director's independence.

In November 1999, BankIllinois Financial, the predecessor of Main Street Bank and Trust, entered into a lease agreement with Midwest Television, Inc. for office space located in the Company's main office building located at 100 West University Avenue, Champaign. The Company is now a party to the lease as successor of BankIllinois Financial. Mr. Meyer, a director of the Company, serves as president of Midwest Television, Inc., and is a controlling shareholder of Midwest Television, Inc. Lease payments are approximately \$86,000 annually. In addition, the Company leases space from Mr. Meyer in a building in Champaign that is used for the Company's campus branch banking operations, with lease payments totaling approximately \$61,000 annually. Management believes that the terms of these leases are no less favorable to the Company or its subsidiaries than would have been obtained from non-affiliated parties.

### Director Independence

A majority of the Company's directors are deemed to be "independent" as defined by Nasdaq. Because of their positions as executive officers, Messrs. Dukeman and Lykins are not "independent" under the rules established by Nasdaq. With the exception of Mr. Meyer, the remaining directors are deemed to be independent. The Board of Directors has established an Audit Committee, a Compensation Committee, and a Nominating Committee, and each member of those committees is "independent" under the rules established by Nasdaq.

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## Item 14. Principal Accountant Fees and Services

### Accountant Fees

**Audit Fees.** The aggregate amount of fees billed by McGladrey & Pullen, LLP for its audit of the Company's annual financial statements for 2006 and 2005 were \$245,575 and \$233,500. The audit services also include the review of financial statements included in our quarterly reports on Form 10-Q and Form 10-K as well as attestation of internal controls over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act of 2002 and FDICIA. Fees also include services normally performed by an independent auditor in connection with statutory and regulatory filings such as the filing of an S-4 and 8-K in relation to the Citizen's acquisition in 2005 and the Busey merger in 2006. The fees included in the amounts listed above for these filings were \$12,925 in 2006 and \$1,750 in 2005.

**Audit Related Fees.** The aggregate amount of fees billed by McGladrey & Pullen, LLP, for professional services rendered in 2006 and 2005 were \$5,000 and \$21,450. The services provided in 2005 were principally for consultations concerning SEC filings.

**Tax Fees.** The aggregate amounts of tax-related services billed by RSM McGladrey, Inc., an affiliate of McGladrey & Pullen, LLP, for 2006 and 2005 were \$36,665 and \$20,447, for professional services rendered for tax compliance, tax advice and tax planning. The services provided also included assistance with the preparation of the Company's tax return and guidance with respect to estimated tax payments.



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All Other Fees. The aggregate amount of fees billed by RSM McGladrey, Inc. for professional services rendered in 2005 were \$3,100. There were no professional services rendered in 2006. The services provided in 2005 were in conjunction with assisting the Bank in the development and presentation of a Bank Secrecy Act risk assessment.

The Audit Committee, after consideration of the matter, does not believe that the rendering of these services by McGladrey & Pullen, LLP and its affiliate to be incompatible with maintaining its independence as our principal accountant.

### Audit Committee Pre-Approval Policy

Among other things, the Audit Committee is responsible for appointing, setting compensation for and overseeing the work of the independent auditor. The Audit Committee has adopted a policy concerning the approval of the audit and permissible non-audit services to be provided by McGladrey & Pullen, LLP and RSM McGladrey, Inc. On a case-by-case basis, audit or permissible non-audit services proposed to be performed are considered by and, if deemed appropriate, approved by the Audit Committee in advance of the performance of such services. All of the fees earned by McGladrey & Pullen, LLP and RSM McGladrey, Inc. described above were attributable to services pre-approved by the Audit Committee.

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## PART IV

### Item 15. Exhibits and Financial Statement Schedules

(a) (1) Index to Financial Statements

See page 42.

(a) (2) Financial Statement Schedules

N/A

(a) (3) Schedule of Exhibits

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

(b) Exhibits

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

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MAIN STREET TRUST, INC.

EXHIBIT INDEX  
TO  
ANNUAL REPORT ON FORM 10-K

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| Exhibit No. | Description  | Incorporated<br>Herein by<br>Reference To  | Filed<br>Herewith |
|-------------|--|--|-------------------|
| 3.1         | Amended and Restated Articles of Incorporation   | Exhibit 3.1 to the Form S-4 filed with the Commission on December 23, 2004 (SEC File No. 333-121579)                                   |                   |
| 3.2         | Amendment to Articles of Incorporation of Main Street Trust, Inc.                        | Exhibit 3.2 to the Form S-4 filed with the Commission on December 23, 2004 (SEC File No. 333-121579)                                   |                   |
| 3.3         | Bylaws   | Exhibit 3.3 to the Form S-4 filed with the Commission on December 23, 2004 (SEC File No. 333-121579)                                   |                   |
| 4.1         | Specimen common stock certificate  | Exhibit 4.1 to the Form 10-K filed with the Commission on March 30, 2001 (SEC File No.000-30031)                                       |                   |
| 4.2         | Second Amended and Restated Shareholders' Agreement, dated as of November 1, 2000        | Exhibit 4.2 to the Form 10-K filed with the Commission on March 30, 2001 (SEC File No. 000-30031)                                      |                   |
| 10.1        | Employment Agreement by and between the Company and Gregory B. Lykins                    | Exhibit 10.1 to the Form 10-K filed with the Commission on March 29, 2002 (SEC File No. 000-30031)                                     |                   |
| 10.2        | Employment Agreement by and between the Company and Van A. Dukeman                       | Exhibit 10.2 to the Form 10-K filed with the Commission on March 29, 2002 (SEC File No. 000-30031)                                     |                   |
| 10.3        | Employment Agreement by and between the Company and David B. White                       | Exhibit 10.5 to the Registration Statement on Form S-4 filed with the Commission on March 15, 1996, as amended (SEC File No. 33-90342) |                   |
| 10.4        | Employment Agreement by and between The First National Bank of Decatur and Chris Shroyer | Exhibit 10.5 to the Form 10-K filed with the Commission on March 24, 2003 (SEC File No. 000-30031)                                     |                   |
| 10.5        | Employment Agreement by and between the Company and Robert F. Plecki                     | Exhibit 10.6 to the Form 10-K filed with the Commission on March 15, 2004 (SEC File No. 000-30031)                                     |                   |
| 10.6        | Employment Agreement by and between the Company and Paul E. Donohue                      | Exhibit 10.5 to the Form 10-K filed with the Commission on March 15, 2005 (SEC File No. 000-30031)                                     |                   |
| 10.7        | Employment Agreement by and between the Company and Donna R. Greene                      | Exhibit 10.5 to the Form 10-K filed with the Commission on March 15, 2005 (SEC File No. 000-30031)                                     |                   |
| 10.8        | Main Street Trust, Inc. 2000 Stock Incentive Plan  | Exhibit 10.1 to the Form S-8 filed with the Commission on November 29, 2000 (SEC File No. 333-50890)                                   |                   |
| 10.9        | Main Street Trust, Inc. 2000 Stock Incentive Plan Director Stock Option                  | Exhibit 10.5 to the Form 10-K filed with the Commission on March 15, 2005 (SEC File No. 000-30031)                                     |                   |

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### Agreement

|       |  |   |   |
|-------|--|---|---|
| 10.10 | Main Street Trust, Inc.<br>2000 Stock Incentive Plan<br>Employee Stock Option<br>Agreement   | Exhibit 10.5 to the Form 10-K filed<br>with the Commission on March 15,<br>2005 (SEC File No. 000-30031)    |   |
| 10.11 | Credit Agreement dated as<br>of March 31, 2005 between<br>JP Morgan Chase Bank, N.A.<br>and Main Street Trust, Inc.  | Exhibit 10.1 to the Form 10-Q filed<br>with the Commission on May 10, 2005<br>(SEC File No. 000-30031)      |   |
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| 10.12 | Agreement and Plan of<br>Merger between Main Street<br>Trust, Inc. and First<br>Busey Corporation dated<br>September 20, 2006                                    | Exhibit 2.1 to the Form 8-K filed<br>with the Commission on September<br>21, 2006 (SEC File No. 000-30031)  |   |
| 10.13 | Letter agreement between<br>Main Street Trust, Inc.<br>and Gregory B. Lykins,<br>dated September 20, 2006  | Exhibit 99.1 to the Form 8-K filed<br>with the Commission on September<br>21, 2006 (SEC File No. 000-30031) |   |
| 10.14 | Letter agreement between<br>Main Street Trust, Inc.<br>and Van A. Dukeman, dated<br>September 20, 2006   | Exhibit 99.2 to the Form 8-K filed<br>with the Commission on September<br>21, 2006 (SEC File No. 000-30031) |   |
| 10.15 | Letter agreement between<br>Main Street Trust, Inc.<br>and David B. White, dated<br>September 20, 2006   | Exhibit 99.3 to the Form 8-K filed<br>with the Commission on September<br>21, 2006 (SEC File No. 000-30031) |   |
| 21.1  | Subsidiaries of the<br>Registrant  | Exhibit 21.1 to the Form 10-K filed<br>with the Commission on March 16,<br>2006 (SEC File No. 000-30031)    |   |
| 23.1  | Consent of McGladrey &<br>Pullen, LLP  |   | X |
| 31.1  | Certification of Chief<br>Executive Officer Pursuant<br>to Rule 13a-14(a)/15d-14(a)  |   | X |
| 31.2  | Certification of Chief<br>Financial Officer Pursuant<br>to Rule 13a-14(a)/15d-14(a)  |   | X |
| 32.1  | Certification of Chief<br>Executive Officer Pursuant<br>to 18 U.S.C. Section 1350,<br>as adopted Pursuant to<br>Section 906 of the<br>Sarbanes-Oxley Act of 2002 |   | X |
| 32.2  | Certification of Chief<br>Executive Officer Pursuant<br>to 18 U.S.C. Section 1350,<br>as adopted Pursuant to   |   | X |

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Section 906 of the  
Sarbanes-Oxley Act of 2002

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SIGNATURES

Pursuant to the requirements of Section 13 of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on March 16, 2007.

By: /s/ Van A. Dukeman  
-----  
Van A. Dukeman  
President, CEO and Director

By: /s/ David B. White  
-----  
David B. White  
Executive Vice President and  
Principal Financial and  
Accounting Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on March 16, 2007.

/s/ Gregory B. Lykins  
-----  
Gregory B. Lykins

Chairman and Director

/s/ Van A. Dukeman  
-----  
Van A. Dukeman

President, CEO and Director

/s/ David J. Downey  
-----  
David J. Downey

Director

/s/ Larry D. Haab  
-----  
Larry D. Haab

Director

/s/ Frederic L. Kenney  
-----  
Frederic L. Kenney

Director

/s/ August C. Meyer, Jr.  
-----  
August C. Meyer, Jr.

Director

/s/ George T. Shapland  
-----  
George T. Shapland

Director

/s/ Thomas G. Sloan  
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Thomas G. Sloan

Director

/s/ H. Gale Zacheis

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H. Gale Zacheis

Director