

CITIZENS FIRST FINANCIAL CORP

Form 10-K

March 31, 2005

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**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, 2004**
Commission File No.: 0-27740

CITIZENS FIRST FINANCIAL CORP.

(Exact name of registrant as specified in its charter)

DELAWARE
(State or other jurisdiction of
incorporation or organization)

37-1351861
(I.R.S. Employer I.D. No.)

2101 North Veterans Parkway, Bloomington, Illinois 61704

(Address of principal executive offices) (Zip Code)

Registrant's telephone number: **(309) 661-8700**
Securities registered pursuant to Section 12(g) of the Act:
Common Stock par value \$0.01 per share
(Title of class)

Securities registered pursuant to Section 12(b) of the Act: None

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 past 90 days.

Yes No

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

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

The aggregate market value of the voting stock held by non-affiliates of the registrant, *i.e.*, persons other than directors and executive officers of the registrant is \$30,009,294 and is based upon the last sales price of \$22.97 as quoted on The Nasdaq National Market on June 30, 2004, the last business day of the registrant's most recently completed second quarter.

The Registrant had 1,611,450 shares of Common Stock outstanding as of March 23, 2005.

DOCUMENTS INCORPORATED BY REFERENCE

NONE

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PART 1

Item 1 Business

General

Citizens First Financial Corp. (the Company) was incorporated under Delaware law in January 1996. The Company completed an initial public offering of 2,817,500 shares of common stock on May 1, 1996 in connection with the conversion of Citizens Savings Bank, (the Bank) from the mutual to stock form of ownership (the Conversion). The Company is a savings and loan holding company and is subject to regulation by the Office of Thrift Supervision (OTS), and the Securities and Exchange Commission (SEC). Currently, the Company does not transact any material business other than through its subsidiary, the Bank. At December 31, 2004, the Company had total assets of \$328.3 million, total deposits of \$231.0 million and total stockholders' equity of \$36.0 million. The Company's principal business is conducted primarily through its subsidiary, the Bank. Accordingly, the discussion in this Report addresses the Company's operations as they are conducted through the Bank.

The Bank was originally chartered in 1888 by the State of Illinois and in 1989 became a federally chartered savings bank. In April 1999, the Bank was converted from a federally chartered savings bank to an Illinois state savings bank. The Bank's principal business consists of the acceptance of retail deposits from the general public in the area surrounding its branch offices and the investment of those deposits, together with funds generated from operations and borrowings, in commercial, agricultural, residential real estate mortgage, commercial real estate, consumer and other loans. The Bank originates loans for investment and for sale. Currently, the Bank's policy is to sell, on a servicing retained basis, most longer-term fixed rate one-to-four family mortgage loans it originates as a method of controlling its growth, managing its interest rate risk and increasing its loan servicing fee income. The Bank's revenues are derived principally from interest on its mortgage, consumer and commercial loans, loan servicing fees and, to a lesser extent, the interest on its securities. The Bank's primary source of funds are deposits, principal and interest payments on loans and securities, borrowings from the Federal Home Loan Bank of Chicago and, to a lesser extent, proceeds from the sale of loans and securities. The Bank has a wholly-owned service corporation, CSL Service Corporation, an Illinois-chartered corporation that had been a participant in a real estate joint venture. The service corporation sold its interest in the real estate joint venture in May 2004.

In November 2004, the Company entered into an Agreement and Plan of Merger with Main Street Trust, Inc. (Main Street), an Illinois corporation. Main Street Trust, Inc. will acquire all of the Company's issued and outstanding shares of common stock. Each of the Company's shareholders will have the option of receiving either 1.1051 shares of Main Street's stock for each share of the Company's stock or \$35.00 of cash for each share of the Company's common stock or a combination of both. The transaction has been approved by state and federal regulators and is expected to close in the second quarter of 2005. At a special meeting of shareholders on March 8, 2005 shareholders approved the merger agreement.

Market Area and Competition

The Company is a community-oriented savings institution offering a variety of financial products and services to meet the needs of the communities it serves. The Company's deposit gathering is concentrated in the communities surrounding its five offices located in the municipalities of Bloomington, Normal and Fairbury, Illinois, which are part of McLean and Livingston Counties. McLean County comprises the greater Bloomington/Normal metropolitan area and Livingston County is adjacent to the greater Bloomington/Normal metropolitan area. The economy in McLean and Livingston Counties has historically benefited from the presence of the national and regional headquarters of State Farm Insurance Company, the Mitsubishi Motors Corporation, Illinois Farm Bureau, Illinois State University and Illinois Wesleyan University as well as a variety of agricultural related businesses. These counties are the primary

market area for the Bank's lending and deposit gathering activities.

The Company faces significant competition both in making loans and in attracting deposits. The greater Bloomington/Normal metropolitan area is a highly competitive

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market. The Company faces direct competition from a significant number of financial institutions operating in its market area, many with a state-wide or regional presence and in some cases a national presence. Many of these financial institutions are significantly larger and have greater financial resources than the Company. State Farm Insurance Company, Bloomington-Normal's largest business, has a savings bank, which it operates through its agents on a national basis. The Company's competition for loans comes principally from commercial banks, savings and loan associations, mortgage banking companies, credit unions and insurance companies. Its most direct competition for deposits has historically come from savings and loan associations and commercial banks. In addition, the Company faces increasing competition for deposits from non-bank institutions such as brokerage firms and insurance companies in such areas as short-term money market funds, corporate and government securities funds, mutual funds and annuities. Competition may also increase as a result of the lifting of restrictions on the interstate operations of financial institutions.

Investment Activities

The investment policy of the Company, as approved by the Board of Directors, requires management to maintain adequate liquidity and generate a favorable return on investments without incurring undue interest rate and credit risk. The Company has invested primarily in U.S. government sponsored agency issued mortgage-backed securities, U.S. Agency securities, federal funds sold, a Federal Home Loan Bank demand investment account and eligible mutual funds. SFAS 115 requires the Company to designate its securities as held to maturity, available for sale or held for trading. The Company does not currently maintain a portfolio of securities categorized as held to maturity or held for trading. The Company's investment securities generally consist of U.S. Agency obligations and mortgage-backed and mortgage-related securities. The Company's mortgage-backed securities consist of pass through certificates representing interests in pools of fixed and adjustable rate mortgage loans issued or guaranteed by GNMA, FHLMC or FNMA. At December 31, 2004, the Company's portfolio of investment and mortgage-backed securities totaled \$26.1 million, all of which was categorized as available for sale.

In recent periods, the Company has primarily invested in securities in order to maintain liquid assets for its operations and as a means of utilizing its excess funding not necessary for loan originations. The Board of Directors reviews all of the activity in the investment portfolio on a monthly basis.

Lending Activities

Origination, Sale, Servicing and Purchase of Loans The Company's loan origination activities are conducted primarily by its loan personnel, operating at its five offices. All loans originated by the Company are underwritten by the Company pursuant to the Company's policies and procedures. The Company originates both adjustable-rate and fixed-rate mortgage loans, commercial loans and consumer loans. The Company's ability to originate loans is dependent upon the relative customer demand for the type of loan and demand for fixed-rate or adjustable-rate loans, which is affected by the current and expected future level of interest rates.

While the Company has in the past, from time to time, sold adjustable-rate one- to four-family loans and retained mortgage loans with terms of 10 years or more, it is currently the general policy of the Company to originate for sale in the secondary market one-to-four family fixed-rate mortgage loans with maturities exceeding ten years and to originate for investment all adjustable-rate one-to-four family mortgage loans and fixed-rate one-to-four family mortgage loans with maturities of ten years or less.

One-to-Four Family Mortgage Lending The Company currently offers both fixed-rate and adjustable-rate mortgage loans secured by one-to-four family residences located in the Company's primary market area, with maturities of up to thirty years. While the Company has originated such loans secured by properties outside its market area, substantially all of such loans at December 31, 2004 were secured by property located in the Company's primary

market area. One-to-four family mortgage loan originations are generally obtained from the Company's loan representatives operating in its branch offices and their contacts with the local real estate industry, existing or past customers, and members of the local communities.

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Multi-Family Lending The Company originates fixed and adjustable-rate multi-family mortgage loans generally secured by 5 to 70 unit apartment and student housing buildings located in the Company's primary market area. In deciding on whether to make a multi-family loan, the Company considers the qualifications and financial condition of the borrower as well as the value and condition of the underlying property. The factors considered by the Company include: the net operating income of the mortgaged premises before debt service and depreciation; the debt coverage ratio (the ratio of net earnings to debt service); and the ratio of loan amount to appraised value.

Commercial Real Estate Lending The Company originates commercial real estate loans that are generally secured by properties used for business purposes such as small office buildings or a combination of residential and retail facilities located in the Company's primary market area.

Loans secured by commercial real estate properties, like multi-family loans, generally involve larger principal amounts and a greater degree of risk than one-to-four family residential mortgage loans. Because payments on loans secured by commercial real estate properties are often dependent on successful operation or management of the properties, repayment of such loans may be subject to adverse conditions in the real estate market or the economy. The Company seeks to minimize these risks through its underwriting standards, which require such loans to be qualified on the basis of the property's income and debt coverage ratio.

Construction and Land Lending The Company originates loans for the acquisition and development of commercial and residential property located in its primary market area. These loans are offered to local developers and individuals. The majority of the Company's construction loans are originated primarily to finance the construction of one-to-four family, owner-occupied residential properties and multi-family properties located in the Company's primary market area. Such loans are offered for the construction of properties that are pre-sold or for which permanent financing has been secured, as well as for properties that are not pre-sold or for which permanent financing has not been secured.

Construction and land development financing is generally considered to involve a higher degree of credit risk than long-term financing on improved, owner-occupied real estate. Risk of loss on a construction loan is largely dependent upon the accuracy of the initial estimate of the property's value at completion of construction or development compared to the estimated cost (including interest) of construction. If the estimate of value proves to be inaccurate, the Company may be confronted with a project, when completed, having a value which is insufficient to assure full repayment.

Commercial Lending The Company offers commercial loans to businesses operating in the Company's primary market area on a selective basis.

Unlike mortgage loans, which generally are made on the basis of the borrower's ability to make repayment from his or her employment and other income, and which are secured by real property the value of which tends to be more easily ascertainable, commercial business loans are of higher risk and typically are made on the basis of the borrower's ability to make repayment from the cash flow of the borrower's business. As a result, the availability of funds for the repayment of commercial business loans may be substantially dependent on the success of the business itself. Further, the collateral securing the loans may depreciate over time, may be difficult to appraise and may fluctuate in value based on the success of the business. Included in this total are agricultural loans made within our lending area. These agricultural loans are generally offered with one year terms in amounts up to \$500,000 and are generally secured by crops, equipment, other assets and personal guarantees.

Consumer and Other Lending The Company's portfolio of consumer and other loans primarily consists of fixed-rate, fixed-term home equity loans, adjustable home equity lines of credit, loans secured by automobiles, home improvement loans, loans secured by deposit accounts and unsecured personal loans.

Loan Servicing The Company generally services all loans it retains for investment and also services a portfolio of one-to-four family mortgage loans for others which is primarily generated from its loan sale activity. Loan servicing includes collecting and remitting loan payments, accounting for principal and interest, making inspections as required of mortgaged premises, contacting delinquent mortgagors,

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supervising foreclosures and property dispositions in the event of unremedied defaults, making certain insurance and tax payments on behalf of the borrowers and generally administering the loans.

Deposit Activities

Deposits The Company offers a variety of deposit accounts with a range of interest rates and terms. The Company's deposit accounts consist of savings, NOW accounts, checking accounts, money market accounts, certificate and brokered deposit accounts. The Company also offers certificate of deposit accounts with balances in excess of \$100,000 at negotiated rates (jumbo certificates) and Individual Retirement Accounts (IRAs). For the year ended December 31, 2004 the balance of core deposits (savings, money market and demand deposit accounts) totaled \$90.1 million, or 39.0% of total deposits. The flow of deposits is influenced significantly by general economic conditions, changes in money market rates, prevailing interest rates and competition. The Company's deposits are obtained predominantly from the areas in which its branch offices are located. The Company relies primarily on customer service and long-standing relationships with customers to attract and retain these deposits; however, market interest rates and rates offered by competing financial institutions significantly affect the Company's ability to attract and retain deposits. The Company uses traditional means of advertising its deposit products, including radio and print media and generally does not solicit deposits from outside its market area. While certificate accounts in excess of \$100,000 are accepted by the Company, the Company does not actively solicit such deposits. The Company has attempted to increase its deposit customer base and decrease its dependency on certificate accounts by offering interest free checking accounts without minimum balance requirements. The Company has \$4.9 million of brokered deposits with maturities from 10 to 21 months at an average rate of 2.4%. Brokered deposits are an alternative source of liquidity that offers the Company the opportunity to obtain funds at a competitive interest rate.

Statistical Data**INVESTMENT SECURITIES**

The amortized cost, gross unrealized gains, gross unrealized losses and approximate market value of the investment securities at the dates indicated were:

| (Dollars in thousands) | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|-------------------|------------------------------|-------------------------------|---------------|
| Available for sale at December 31, 2004 | | | | |
| U.S. government agencies | \$ 9,800 | \$ 14 | \$ 94 | \$ 9,720 |
| Mortgage-backed securities | 15,288 | 174 | 112 | 15,350 |
| Other securities | 1,000 | | 15 | 985 |
| Total available for sale | \$ 26,088 | \$ 188 | \$ 221 | \$ 26,055 |

| (Dollars in thousands) | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|--|-------------------|------------------------------|-------------------------------|---------------|
| Available for sale at December 31, 2003: | | | | |
| U.S. government agencies | \$ 6,802 | \$ | \$ 48 | \$ 6,754 |
| Mortgage-backed securities | 12,978 | 155 | 135 | 12,998 |
| Other securities | 1,003 | | 9 | 994 |

| | | | | |
|--------------------------|-----------|--------|--------|-----------|
| Total available for sale | \$ 20,783 | \$ 155 | \$ 192 | \$ 20,746 |
|--------------------------|-----------|--------|--------|-----------|

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The balance of Federal Home Loan Bank of Chicago stock owned at December 31 is as follows:

| Cost | |
|------------------------|-----------|
| (Dollars in thousands) | |
| 2004 | 2003 |
| \$ 16,153 | \$ 15,206 |

Federal Home Loan Bank stock is stated at cost and is a required investment for institutions that are members of the Federal Home Loan Bank system. The required investment in the common stock is based on a predetermined formula. The Federal Home Loan Bank stock is recognized based on the price at which it may be resold to the Federal Home Loan Bank.

The yield on the stock is approximately 5.50% at December 31, 2004.

The maturity distribution (dollars in thousands) and average yields for the securities available for sale portfolio at December 31, 2004 were:

| | Within 1 Year | | 1 - 5 Years | | 5 - 10 Years | |
|----------------------------|---------------|-------|-------------|-------|--------------|-------|
| | Amount | Yield | Amount | Yield | Amount | Yield |
| U.S. government agencies | \$ | % | \$ 2,301 | 3.50% | \$ 7,419 | 4.01% |
| Mortgage-backed securities | | % | 94 | 6.00% | 3,576 | 4.01% |
| Other securities | | % | | % | | % |
| Total | \$ | % | \$ 2,395 | 3.60% | \$ 4,048 | 4.01% |

| | Due After 10 Years | | Marketable Equity Securities | | Total | |
|----------------------------|--------------------|-------|------------------------------|-------|-----------|-------|
| | Amount | Yield | Amount | Yield | Amount | Yield |
| U.S. government agencies | \$ | % | \$ | % | \$ 9,720 | 3.89% |
| Mortgage-backed securities | 11,680 | 4.89% | | % | 15,350 | 4.69% |
| Other securities | | % | 985 | 2.62% | 985 | 2.62% |
| Total | \$ 11,680 | 4.89% | \$ 985 | 2.62% | \$ 26,055 | 4.31% |

With the exception of securities of U.S. government agencies and corporations, the Company did not hold any securities of a single issuer, payable from and secured by the same source of revenue or taxing authority, the book value of which exceeded 10% of stockholders' equity at December 31, 2004.

LOAN PORTFOLIO**Types of Loans**

| (Dollars in thousands) | 2004 | 2003 | 2002 | 2001 | 2000 |
|------------------------|------|------|------|------|------|
|------------------------|------|------|------|------|------|

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| | | | | | |
|----------------------------------|------------|------------|------------|------------|------------|
| Commercial & agricultural loans | \$ 30,536 | \$ 38,047 | \$ 33,438 | \$ 27,667 | \$ 20,622 |
| Real estate loans: | | | | | |
| Construction | 27,626 | 36,577 | 37,545 | 36,908 | 40,141 |
| Commercial | 71,633 | 86,368 | 82,008 | 79,667 | 71,566 |
| Residential | 107,300 | 120,936 | 128,692 | 138,439 | 150,914 |
| Consumer and other loans | 7,501 | 9,866 | 9,754 | 10,783 | 13,246 |
| Total | 244,596 | 291,794 | 291,437 | 293,464 | 296,489 |
| Less: | | | | | |
| Undisbursed portion of loans (1) | 7,353 | 9,317 | 8,846 | 4,200 | 11,174 |
| Allowance for loan losses | 2,736 | 3,072 | 3,753 | 2,421 | 1,826 |
| Loans, net | \$ 234,507 | \$ 279,405 | \$ 278,838 | \$ 286,843 | \$ 283,489 |

(1) The undisbursed portion of loans represents amounts included in gross loans above that have been approved, but not disbursed to the borrower.

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Loans held for sale at December 31, 2004, 2003, 2002, 2001, and 2000 were \$587,202, \$376,088, \$6,098,342, \$6,910,101 and \$1,494,359, respectively, and were not included in the above totals.

Table of Contents**Maturities and Sensitivities of Loans to Changes in Interest Rates**

Presented in the table below are the maturities of loans (excluding commercial real estate, residential real estate, consumer and other loans) outstanding as of December 31, 2004. Also presented are the amounts due after one year, classified according to the sensitivity to changes in interest rates.

| (Dollars in thousands) | Within 1 Year | Maturing | | Total |
|---------------------------------|------------------|--------------|-----------------|-----------|
| | | 1-5 Years | Over 5 Years | |
| Commercial & agricultural loans | \$ 21,041 | \$ 8,626 | \$ 869 | \$ 30,536 |
| Real estate loans- Construction | 27,626 | | | 27,626 |
| Total | \$ 48,667 | \$ 8,626 | \$ 869 | \$ 58,162 |

| (Dollars in thousands) | Maturing | | |
|-------------------------------------|------------|------------|-----------------|
| | 1 Years | 5 Years | Over 5 Years |
| Loans maturing after one year with: | | | |
| Fixed rates | | \$ 8,626 | \$ 869 |
| Variable rate | | | |
| Total | | \$ 8,626 | \$ 869 |

Risk Elements

| (Dollars in thousands) | December | | | | |
|---|----------|----------|----------|----------|----------|
| | 2004 | 2003 | 2002 | 2001 | 2000 |
| Nonaccruing loans | \$ 725 | \$ 2,452 | \$ 4,410 | \$ 3,177 | \$ 1,493 |
| Loans contractually past due 90 days or more other than nonaccruing | | 7 | 1,753 | 2,613 | 3,767 |
| Restructured loans | | | | 3,334 | 301 |

Nonaccruing loans are loans which are reclassified to nonaccruing status when in management's judgment the collateral value and financial condition of the borrower do not justify accruing interest. Interest previously recorded but not deemed collectible is reversed and charged against current income. Interest income on these loans is then recognized when collected.

Restructured loans are loans for which the contractual interest rate has been reduced or other concessions are granted to the borrower because of deterioration in the financial condition of the borrower resulting in the inability of the borrower to meet the original contractual terms of the loans.

Interest income of \$55,000 for the year ended December 31, 2004, was recognized on the nonaccruing loans listed in the table above, whereas interest income of \$67,000 would have been recognized under their original loan terms.

The Company accounts for impaired loans in accordance with SFAS No. 114 and No. 118, *Accounting by Creditors for an Impairment of a Loan* and *Accounting by Creditors for Impairment of a Loan - Income Recognition and Disclosures*. These Statements require that impaired loans within the scope of these Statements be measured at the present value of expected future cash flows discounted at the loan's effective interest rate, or as a practical expedient, at the loan's observable market price or fair value of the collateral, if the loan is collateral dependent. A loan is impaired when, based on current information and events, it is probable that a creditor will be unable to

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collect all amounts due, both principal and interest, according to the contractual terms of the note.

| | Balance at December 31,2004 |
|---|-----------------------------------|
| Impaired Loans: (Dollars in thousands) | |
| Impaired loans with an allowance | \$ 5,255 |
| Impaired loans for which the discounted cash flows or collateral value exceeds the carrying value of the loan | 8,426 |
| Total impaired loans | \$ 13,681 |

| | Year Ended December 31, 2004 |
|--|------------------------------------|
| Impaired Loans: (Dollars in thousands) | |
| Average balance of impaired loans | \$ 22,976 |
| Interest income recognized on impaired loans | \$ 1,372 |
| Cash-basis interest included above | \$ 1,369 |

Allowance for Loan Losses and Impaired Loans

The Company maintains an allowance for loan losses to absorb losses inherent in the loan portfolio. The allowance for losses decreased from \$3,072,000 at December 31, 2003 to \$2,736,000 at December 31, 2004, a decrease of \$336,000 or 10.9%. The decrease was primarily due to recoveries in 2004 of charge-off loans in prior years of \$410,000, a reduction in the overall loan portfolio, and the Company's continued emphasis to improve asset quality. (See Management's Discussion and Analysis of Financial Condition and Results of Operations.) The allowance is based on ongoing assessments of the estimated probable losses inherent in the loan portfolio. The methodology for assessing the appropriateness of the allowance consists of several key elements, which include a formula allowance, and a specific allowance for identified problem loans.

The formula allowance is calculated by applying loss factors to outstanding loans based on the internal risk grade of such loans. Changes in risk grades of both performing and non-performing loans affect the amount of the formula allowance. Loss factors are based on historical loss experience and may be adjusted for significant factors that, in management's judgment, affect the collectibility of the portfolio as of the evaluation date. Loss factors are based on (1) historical loss experience over a three-year period, which management believes approximates a business cycle; (2) individual evaluations of residential, commercial real estate, construction, agricultural, commercial and consumer loans; (3) expected charge-offs by loan classification for one-year; (4) general economic and business conditions affecting the Company's lending areas; (5) collateral values; (6) loan volumes and concentrations; (7) seasoning of the loan portfolio; (8) specific industry conditions and (9) recent loss experience in particular segments of the portfolio.

A specific allowance is established in cases where management has identified significant conditions or circumstances related to a loan that management believes indicate the probability that a loss has been incurred.

The allowance for loan losses is based upon estimates of probable losses inherent in the loan portfolio. The amount of actual losses can vary significantly from the estimated amounts. The methodology includes several features that are intended to reduce the differences between estimated and actual losses. The Company closely monitors any difference

of actual and estimated losses and adjusts the methodology accordingly.

The Company generates commercial, mortgage and consumer loans from customers located primarily in Central Illinois. The Company's loans are generally secured by specific items of collateral including real property, consumer assets, and business assets. Although the Company has a diversified loan portfolio, a substantial portion of their debtors' ability to honor their contracts is dependent upon economic conditions in

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Central Illinois. Although the risk of non-payment for any reason exists with respect to all loans, certain other more specific risks are associated with each type of loan. The primary risks associated with commercial loans are quality of the borrower's management and the impact of national and local economic factors. Currently, the business atmosphere remains stable for the local economy in the McLean, Livingston and Tazewell County areas. Risk associated with real estate loans include concentrations of loans in a loan type, such as residential real estate, decline in real estate values and a sudden rise in interest rates. Individual loans face the risk of borrower's unemployment as a result of deteriorating economic conditions or renewed contract differences between unions and management of several large companies in the Company's market area. The Company's strategy with respect to addressing and managing these types of risks is for the Company to follow its loan policies and underwriting criteria.

The Company has substantially increased its investment in commercial, commercial real estate and construction and land loans in the last five years. Because of the higher degree of risk associated with these types of loans, the Company has increased its allowance for loan losses to reflect this increased risk.

A provision for loan losses is charged to income to increase the allowance to a level deemed to be adequate based on management's evaluation. When a loan or a part thereof is considered by management to be uncollectible, a charge is made against the allowance. Recoveries of previously charged-off loans are credited back to the allowance. The following table summarizes the changes in the allowance for loan losses for the last five years:

Summary of Loan Loss Experience

| (Dollars in thousands) | 2004 | 2003 | 2002 | 2001 | 2000 |
|------------------------------------|----------|----------|----------|----------|----------|
| Balance at January 1 | \$ 3,072 | \$ 3,753 | \$ 2,421 | \$ 1,826 | \$ 1,679 |
| Loans charged off: | | | | | |
| Commercial loans | (58) | (834) | (100) | | |
| Real estate loans: | | | | | |
| Construction and land | | (1,834) | (100) | (130) | (2,800) |
| Commercial | | (110) | (53) | | |
| Residential | (160) | (394) | (123) | | (103) |
| Consumer and other loans | (56) | (16) | (95) | (50) | |
| Total charge-offs | (274) | (3,188) | (471) | (350) | (2,903) |
| Loan recoveries: | | | | | |
| Commercial loans | 12 | 25 | | | |
| Real estate loans: | | | | | |
| Construction and land | 389 | | | | |
| Residential | | 18 | | | |
| Consumer and other loans | 10 | 2 | | | |
| Total recoveries | 411 | 45 | | | |
| Total net recoveries (charge-offs) | 137 | (3,143) | (471) | (350) | (2,903) |
| Provision (credit) for loan losses | (473) | 2,462 | 1,803 | 945 | 3,050 |
| Balance at December 31 | \$ 2,736 | \$ 3,072 | \$ 3,753 | \$ 2,421 | \$ 1,826 |

Ratio of net recoveries (charge-offs) during the period to average loans outstanding during the period

0.05% (1.14)% (0.16)% (0.12)% (1.03)%

Management believes the allowance for loan losses is adequate to absorb probable loan losses and that the policies and procedures in place to identify and monitor loans for potential losses are satisfactory.

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Presented below is an analysis of the composition of the allowance for loan losses (in thousands of dollars) and percent of loans in each category to total loans:

| | 2004 | | 2003 | | 2002 | |
|--------------------------|---|--------|---|--------|---|--------|
| | % of loans in each category to total | | % of loans in each category to total | | % of loans in each category to total | |
| | Amount | loans | Amount | loans | Amount | loans |
| Commercial loans | \$ 867 | 12.48% | \$ 980 | 13.04% | \$ 969 | 11.47% |
| Real estate loans: | | | | | | |
| Construction and land | 927 | 11.29% | 1,089 | 12.54% | 1,917 | 12.88% |
| Commercial | 280 | 29.29% | 217 | 29.60% | 270 | 28.14% |
| Residential | 581 | 43.87% | 664 | 41.45% | 367 | 44.16% |
| Consumer and other loans | 81 | 3.07% | 122 | 3.37% | 230 | 3.35% |
| Total | \$ 2,736 | 100.0% | \$ 3,072 | 100.0% | \$ 3,753 | 100.0% |

| | 2001 | | 2000 | |
|---|---|--------|---|--------|
| | % of loans in each category to total | | % of loans in each category to total | |
| | Amount | loans | Amount | loans |
| Commercial loans | \$ 302 | 9.43% | \$ 440 | 6.96% |
| Real estate loans Construction and land | 1,077 | 12.58% | 325 | 13.54% |
| Commercial | 580 | 27.15% | 400 | 24.14% |
| Residential | 375 | 47.17% | 495 | 50.90% |
| Consumer and other loans | 87 | 3.67% | 136 | 4.46% |
| Total | \$ 2,421 | 100.0% | \$ 1,826 | 100.0% |

The allowance for loan losses in each category of loans have changed for the years 2000 through 2004 reflecting the changes in the types of loans that the Company was originating, the degree of risk associated with these loans and the performance of specific loans.

Table of Contents**DEPOSITS AND BORROWINGS****Deposits**

The following table shows the average amount of deposits and average rate of interest paid thereon for the years indicated.

| | 2004 Weighted Average Amount | 2004 Rate | 2003 Weighted Average Amount | 2003 Rate | 2002 Weighted Average Amount | 2002 Rate |
|--|---------------------------------------|--------------|---------------------------------------|--------------|---------------------------------------|--------------|
| (Dollars in thousands) | | | | | | |
| Balance at December 31: | | | | | | |
| Noninterest-bearing deposits | \$ 23,550 | | \$ 23,195 | | \$ 20,911 | |
| Money market deposit accounts | 24,046 | 1.38% | 26,057 | 1.57% | 24,260 | 2.49% |
| Savings deposits | 18,372 | 0.66% | 18,392 | 0.82% | 17,201 | 1.38% |
| NOW accounts | 24,325 | 0.48% | 22,565 | 0.73% | 21,332 | 1.14% |
| Certificate of deposit and other time deposits | 140,922 | 3.02% | 153,868 | 3.28% | 159,362 | 4.17% |
| Total deposits | \$ 231,215 | 2.09% | \$ 244,077 | 2.36% | \$ 243,066 | 3.18% |

As of December 31, 2004, certificates of deposit and other time deposits (including brokered deposits) of \$100,000 or more mature as follows:

| | Maturing (Dollars in thousands) | | | | |
|---|------------------------------------|---------------|----------------|-------------------|-----------|
| | 3 Months or less | 3-6 Months | 6-12 Months | Over 12 Months | Total |
| Certificates of deposit and other time deposits | \$ 12,777 | \$ 2,191 | \$ 6,487 | \$ 14,161 | \$ 35,616 |
| Per cent | 35.87% | 6.15% | 18.22% | 39.76% | 100.00% |

RETURN ON EQUITY AND ASSETS

| | 2004 | 2003 | 2002 |
|---|--------|--------|--------|
| Return on assets (net income divided by average total assets) | 0.88% | 0.47% | 0.55% |
| Return on equity (net income divided by average equity) | 8.77% | 5.00% | 6.11% |
| Dividend payout ratio (dividends per share divided by net income per share) | 20.20% | 36.90% | 24.06% |
| Equity to assets ratio (average equity divided by average total assets) | 10.08% | 9.29% | 8.99% |

Subsidiary Activities

At December 31, 2004, the Bank had a wholly-owned service corporation, CSL Service Corporation (CSL), an Illinois chartered company. During 2004 CSL sold its interest in a joint venture real estate development (Williamsburg Place LLC). At December 31, 2004 CSL was inactive.

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Personnel

As of December 31, 2004, the Company had 74 authorized full-time employee positions and 22 authorized part-time employee positions. The employees are not represented by a collective bargaining unit and the Company considers its relationship with its employees to be good.

REGULATION AND SUPERVISION

General

The Company, as a savings and loan holding company, is required to file certain reports with, and otherwise comply with the rules and regulations of the OTS under the Home Owners Loan Act, as amended (the HOLA).

The Bank is an Illinois state chartered savings bank and its deposit accounts are insured up to applicable limits by the FDIC under the Savings Association Insurance Fund (the SAIF). The Bank is subject to extensive regulation by the Illinois Department of Financial and Professional Regulation (the IDFPR), as its chartering authority, and by the FDIC, as deposit insurer. The Bank must file reports with the IDFPR and the FDIC concerning its activities and financial condition, in addition to obtaining regulatory approval prior to entering into certain transactions such as establishing branches and mergers with, or acquisitions of, other depository institutions. There are periodic examinations by the IDFPR and the FDIC to assess the Bank's compliance with various regulatory requirements and its financial condition. This regulation and supervision establishes a framework of activities in which a savings bank can engage and is intended primarily for the protection of the insurance fund and depositors. The regulatory structure also gives the regulatory authorities discretion in connection with their supervisory and enforcement activities and examination policies, including policies with respect to classification of assets and the establishment of adequate loan loss reserves for regulatory purposes. Any change in such regulation, whether by the IDFPR, the FDIC or through legislation, could have a material adverse impact on the Company and the Bank and their operations and stockholders. The Holding Company will also be required to file certain reports with and otherwise comply with the rules and regulations, of the OTS, the IDFPR and the Securities and Exchange Commission (the SEC) under the federal securities laws. Certain of the regulatory requirements applicable to the Bank and to the Holding Company are referred to below or elsewhere herein. However, the description of such requirements is not exhaustive and it does not purport to be a complete description of the applicable laws and regulations.

The IDFPR has established a schedule for the assessment of supervisory fees upon all Illinois savings banks to fund the operations of the IDFPR. These supervisory fees are computed on the basis of each savings bank's total assets (including consolidated subsidiaries) and are payable at the end of each calendar quarter. A schedule of fees has also been established for certain filings made by Illinois savings banks with the IDFPR. The IDFPR also assesses fees for examinations conducted by the IDFPR's staff, based upon the number of hours spent by the IDFPR's staff performing the examination. During the year ended December 31, 2004, the Bank paid approximately \$72,000 in supervisory fees and expenses.

Bank Regulations

Capital Requirements. Under the Illinois Savings Bank Act (the ISBA) and the regulations of the IDFPR, an Illinois savings bank must maintain a minimum capital at a level not less than that required to maintain insurance of deposits by the FDIC. The IDFPR has the authority to require an Illinois savings bank to maintain a higher level of capital if deemed necessary based on the savings bank's financial condition, history, management or earnings prospects.

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The FDIC has also adopted risk-based capital guidelines to which the Bank is subject. The Bank is required to maintain certain levels of regulatory capital in relation to regulatory risk-weighted assets. Risk-based capital ratios are determined by allocating assets and specified off-balance sheet items to four risk-weighted categories ranging from 0% to 100%, with higher levels of capital being required for the categories perceived as representing greater risk. The guidelines divide a savings bank's capital into two tiers. The first tier (Tier I) includes common equity, retained earnings, certain non-cumulative perpetual preferred stock (excluding auction rate issues) and minority interests in equity accounts of consolidated subsidiaries, less goodwill and other intangible assets (except mortgage servicing rights and purchased credit card relationships subject to certain limitations). Supplementary (Tier II) capital includes, among other items, cumulative perpetual and long-term limited life preferred stock, mandatory convertible securities, certain hybrid capital instruments, term subordinated debt and the allowance for loan and lease losses, subject to certain limitations, less required deductions. Savings banks are required to maintain a total risk-based capital ratio of 8%, of which at least 4% must be Tier I capital.

In addition, the FDIC has established regulations prescribing a minimum Tier I leverage ratio. These regulations provide for a minimum Tier I leverage ratio of 3% for banks that meet certain specified criteria, including that they have the highest examination rating and are not experiencing or anticipating significant growth. All other banks are required to maintain a Tier I leverage ratio of at least 4%. The FDIC may, however, set higher leverage and risk-based capital requirements on individual institutions when particular circumstances warrant.

The following is a summary of the Bank's regulatory capital at December 31, 2004:

| | |
|---------------------------------------|-------|
| Total Capital to Risk-Weighted Assets | 16.7% |
| Tier I Leverage Ratio | 9.9% |
| Tier I to Risk-Weighted Assets | 15.4% |

The FDIC, along with other federal banking agencies, adopted a regulation providing that the agencies will take account of the exposure of a bank's capital and economic value to changes in interest rate risk in assessing a bank's capital adequacy.

Standards for Safety and Soundness. The federal banking agencies have adopted Interagency Guidelines Establishing Standards for Safety and Soundness. The Guidelines set forth safety and soundness standards in various areas such as internal controls, audit, systems, loan documentation, credit underwriting, interest rate exposure, asset growth and quality, earnings and compensation that the banking agencies use to identify and address problems at insured depository institutions before capital becomes impaired. If the appropriate federal banking agency determines that an institution fails to meet any standard prescribed by the Guidelines, the agency may require the institution to submit to the agency an acceptable plan to achieve compliance with the standard.

Lending Restriction. The Bank is prohibited by the ISBA from making secured or unsecured loans for business, commercial or agricultural purposes representing in the aggregate an amount in excess of 15% of its total assets, unless the OBRE authorizes in writing a higher percentage limit for such loans upon the request of an institution.

The Bank is also subject to a loans-to-one borrower limitation. Under the ISBA, the total loans and extensions of credit by the Bank to any person outstanding at one time must not exceed the greater of \$500,000 or 25% of the Bank's total capital plus general loan loss reserves. In addition, the Bank may make loans in an amount equal to an additional 10% of the Bank's capital plus general loan loss reserves if secured by readily marketable collateral.

Dividend Limitations. Under the ISBA, dividends may only be declared when the total capital of the Bank is greater than that required by the ISBA. Dividends may be paid by the Bank out of its net profits. The written approval

of the IDFPR must be obtained, however, before a savings bank having total capital of less than 6% of total assets may declare dividends in any year in an amount in excess of 50% of its net profits for that year. A savings bank may not declare dividends in excess of its net profits in any year without the approval of the IDFPR. Finally, the Bank will be unable to pay dividends in an amount which would reduce its capital below the greater of (i) the amount required by the FDIC capital regulations or otherwise specified by the FDIC, (ii) the amount required by the IDFPR or (iii) the amount required for the liquidation

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account established by the Bank in connection with the Bank's conversion to stock form. The IDFP and the FDIC also have the authority to prohibit the payment of any dividends by the Bank if the IDFP or the FDIC determines that the distribution would constitute an unsafe or unsound practice.

Prompt Corrective Regulatory Action. Federal law requires, among other things, that the federal bank regulatory authorities take prompt corrective action with respect to banks that do not meet minimum capital requirements. For these purposes, the law establishes various capital categories. The FDIC has adopted regulations to implement the prompt corrective action legislation. Under the regulations, an institution is deemed to be undercapitalized if it has a total risk-based capital ratio of less than 8%, a Tier I risk-based capital ratio of less than 4%, or generally a leverage ratio of less than 4%. An institution is deemed to be significantly undercapitalized if it has a risk-based capital ratio of less than 6%, a Tier I risk-based capital ratio of less than 3%, or a leverage ratio of less than 3%. An institution is deemed to be critically undercapitalized if it has a ratio of tangible equity (as defined in the regulations) to total assets that is equal to or less than 2%.

Undercapitalized banks are subject to growth, capital distribution (including dividend) and other limitations and are required to submit a capital restoration plan. A bank's compliance with such plan must be guaranteed by any company that controls the undercapitalized institution in an amount equal to the lesser of 5% of the Bank's total assets when deemed undercapitalized or the amount necessary to achieve the status of adequately capitalized. If an

undercapitalized bank fails to submit an acceptable plan, it is treated as if it is significantly undercapitalized. Significantly undercapitalized banks are subject to one or more of a number of additional restrictions, including but not limited to an order by the FDIC to sell sufficient voting stock to become adequately capitalized, requirements to reduce total assets and cease receipt of deposits from correspondent banks or dismiss directors or officers. Critically undercapitalized institutions also may not make any payment of principal or interest on certain subordinated debt or extend credit for a highly leveraged transaction or enter into any material transactions outside the ordinary course of business. In addition, subject to a narrow exception, the appointment of a receiver or conservator is required for a critically undercapitalized institution within 270 days after it obtains such status.

Transactions with Affiliates. Transactions between depository institutions and their affiliates are governed by federal law. An affiliate of a savings bank is any company or entity that controls, is controlled by, or is under common control with the savings bank, other than a subsidiary. In a holding company context, at a minimum, the parent holding company of a savings bank and any companies which are controlled by such parent holding company are affiliates of the savings bank. Generally, the extent to which the savings bank or its subsidiaries may engage in covered transactions, including loans, with any one affiliate is limited to 10% of such savings bank's capital stock and surplus, and there is an aggregate limit on all such transactions with all affiliates of 20% of such capital stock and surplus. Federal law also establishes specific collateral requirements for loans or extensions of credit to, or guarantees or acceptances on letters of credit issued on behalf of an affiliate. Covered transactions and a broad list of other specified transactions with an affiliate also must be on terms substantially the same, or no less favorable, to the savings bank or its subsidiary as similar transactions with non-affiliates.

Federal law also restricts a savings bank with respect to loans to directors, executive officers, and principal stockholders. Loans to directors, executive officers and stockholders who control, directly or indirectly, 10% or more of voting securities of a savings bank, and certain related interests of any of the foregoing, may not exceed the savings bank's total capital and surplus. Loans to directors, executive officers and principal shareholders must be made on terms substantially the same as offered in comparable transactions to other persons, except that such insiders may receive preferential loans made pursuant to a compensation program that is widely available to the Bank's employees and does not give preference to the insider over other employees. Federal law also requires that the board of directors approve loans to insiders exceeding a certain amount. There are additional limitations on loans to executive officers.

Enforcement. The IDFPR and the FDIC have extensive enforcement authority over Illinois-chartered savings banks, including the Bank. This enforcement authority includes, among other things, the ability to assess civil money penalties, to issue

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cease and desist orders and to remove directors and officers. In general, these enforcement actions may be initiated in response to violations of laws and regulations and to unsafe or unsound practices.

The IDFPFR is given authority by the ISBA to appoint a conservator or receiver for an Illinois savings bank under certain circumstances including, but not limited to, insolvency, a substantial dissipation of assets due to violation of law, regulation or order of the IDFPFR or an unsafe or unsound practice or the likelihood that the savings bank will be unable to meet the demands of depositors or pay its obligations in the normal course of business. The FDIC also has authority under federal law to appoint a conservator or receiver for an insured savings bank under certain circumstances.

Insurance of Deposit Accounts. Deposits of the Bank are presently insured by the SAIF. The FDIC maintains a risk-based assessment system by which institutions are assigned to one of three categories based on their capitalization and one of the three subcategories based on examination ratings and other supervisory information. An institution's assessment rate depends upon the categories to which it is assigned. Assessment rates for SAIF member institutions are determined semiannually by the FDIC and currently range from zero basis points of assessable deposits for the healthiest institutions to 27 basis points for the riskiest.

In addition to the assessment for deposit insurance, institutions are required to make payments on bonds issued in the late 1980s by the Financing Corporation (FICO) to recapitalize the predecessor to the SAIF. Payments toward the FICO bonds amounted to \$36,000 in 2004.

The FDIC has authority to increase insurance assessments. A significant increase in SAIF insurance premiums would likely have an adverse effect on the operating expenses and results of operations of the Bank. Management cannot predict what insurance assessment rates will be in the future.

Insurance of deposits may be terminated by the FDIC upon finding that the institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC. The Bank does not know of any practice, condition or violation that might lead to termination of deposit insurance.

Federal Reserve System. The Federal Reserve Board regulations require depository institutions to maintain non-interest earning reserves against their transaction accounts (primarily NOW and regular checking accounts). The Federal Reserve Board regulations generally require that reserves be maintained against aggregate transaction accounts as follows: for the first \$7.0 million of net transaction accounts there is no reserve; for net transaction accounts totaling over \$7.0 million and up to \$47.6 million the reserve requirement is 3%; and for net transaction accounts greater than \$47.6 million, the reserve requirement is \$1.218 million plus 10% against that portion of total transaction accounts in excess of \$47.6 million. The above dollar amounts and percentages are subject to periodic adjustment by the Federal Reserve Board. The Bank is in compliance with the foregoing requirement.

Federal Home Loan Bank System. The Bank is a member of the Federal Home Loan Bank (the FHLB) system, which consists of 12 regional FHLBs. The FHLBs provides a central credit facility primarily for member institutions. The Bank, as a member of the FHLB of Chicago, is required to acquire and hold shares of capital stock in an amount at least equal to 1% of the aggregate principal amount of its unpaid residential mortgage loans and similar obligations at the beginning of each year, or 1/20 of its advances (borrowings) from the FHLB, whichever is greater. The Bank is in compliance with this requirement with an investment in FHLB stock at December 31, 2004 of \$16,152,500.

The FHLBs are required to provide funds for the resolution of insolvent thrifts and to contribute funds for affordable housing programs. These requirements could reduce the amount of dividends that the FHLBs pay to their members and could result in the FHLBs imposing a higher rate of interest on advances to their members. For the years

ended December 31, 2004, 2003 and 2002, dividends from the FHLB to the Bank amounted to approximately \$921,000, \$686,000, and \$242,000, respectively.

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Holding Company Regulation . Federal law allows a state savings bank that qualifies as a qualified thrift lender to elect to be treated as a savings association for purposes of the savings and loan holding company provisions of federal law. Such election results in its holding company being regulated as a savings and loan holding company by the OTS rather than as a bank holding company by the Federal Reserve Board. The Bank has made such election and has received approval from the OTS for the Company to become a savings and loan holding company. The Company has registered with the OTS and is subject to OTS regulations, examinations, supervision and reporting requirements. In addition, the OTS has enforcement authority over the Company and its non-savings institution subsidiaries. Among other things, this authority permits the OTS to restrict or prohibit activities that are determined to be a serious risk to the subsidiary savings institution. Additionally, the Bank is required to notify the OTS at least 30 days before declaring any dividend to the Company. Because the Bank is chartered under Illinois law, the Company is also subject to registration with and regulation by the IDFP.

As a unitary savings and loan company, the Company is generally not restricted under existing laws as to the types of business activities in which it may engage. The Gramm-Leach-Bliley Act of 1999 provides that no company may acquire control of a savings association after May 4, 1999, unless it engages only in the financial activities permitted for financial holding companies under the law and for multiple savings and loan holding companies as described below. Further, the Gramm-Leach-Bliley Act specifies that existing savings and loan holding companies may only engage in such activities. The Gramm-Leach-Bliley Act, however, grandfathered the unrestricted authority for activities with respect to unitary savings and loan holding companies existing prior to May 4, 1999, such as the Company, so long as the Bank continues to comply with the qualified thrift lender test. Upon any non-supervisory acquisition by the Company of another savings association as a separate subsidiary, the Company would become a multiple savings and loan holding company and would be subject to extensive limitations on the types of business activities in which it could engage. Federal law limits the activities of a multiple savings and loan holding company and its non-insured institution subsidiaries primarily to activities permissible for bank holding companies under Section 4(c)(8) of the Bank Holding Company Act, subject to prior approval of the OTS, and to other activities authorized by OTS regulation. Multiple savings and loan holding companies are prohibited from acquiring or retaining, with certain exceptions, more than 5% of a non-subsidiary company engaged in activities other than those permitted by federal law.

Federal law prohibits a savings and loan holding company, directly or indirectly, or through one or more subsidiaries, from merging with or acquiring more than 5% of the voting stock of another savings institution or holding company thereof without prior written approval of the OTS. In evaluating applications by holding companies to acquire savings institutions, the OTS must consider the financial and managerial resources and future prospects of the company and institution involved, the effect of the acquisition on the risk to the insurance funds, the convenience and needs of the community and competitive factors.

The OTS is prohibited from approving any acquisition that would result in a multiple savings and loan holding company controlling savings institutions in more than one state, except: (i) interstate supervisory acquisitions by savings and loan holding companies; and (ii) the acquisition of a savings institution in another state if the laws of the state of the target savings institution permit such acquisitions. The states vary in the extent to which they permit interstate savings and loan holding company acquisitions.

In order to elect and continue to be regulated as a savings and loan holding company by the OTS, the Bank must continue to qualify as a qualified thrift lender. This requires the Bank to maintain compliance with the test for a domestic building and loan association, as defined in the Internal Revenue Code, or with a Qualified Thrift Lender Test. Under the Test, a savings association is required to maintain at least 65% of its portfolio assets (total assets less: (i) specified liquid assets up to 20% of total assets; (ii) intangibles, including goodwill; and (iii) the value of property used to conduct business) in certain qualified thrift investments (including residential mortgages and related investments, certain mortgage-backed and related securities, and credit card loans, student loans and small business

loans) in at least 9 months out of each 12 month period. A holding company of a savings institution that fails to qualify as a qualified thrift lender must either convert to

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a bank holding company and thereby become subject to the regulation and supervision of the Federal Reserve Board or operate under certain restrictions. As of December 31, 2003, the Bank maintained in excess of 65% of its portfolio assets in qualified thrift investments. The Bank also met the test in each of the prior 12 months and, therefore, is a qualified thrift lender.

FEDERAL AND STATE INCOME TAXATION

Federal Taxation

General. The Company and its affiliates file a consolidated federal income tax return. To the extent a member of the consolidated group incurs a loss which is utilized to reduce the consolidated group's federal tax liability, that member will be reimbursed by those members that would have incurred federal tax liability if not for the member's tax loss.

Amounts provided for income tax expense are based upon income reported for financial statement purposes and do not necessarily represent amounts currently payable to federal or other tax authorities. Deferred income taxes, which principally arise from the temporary differences related to the recognition of certain income and expense items for financial reporting purposes and the period in which they affect federal and state taxable income, are included in the amounts provided for income taxes.

Bad Debt Reserves. The Small Business Job Protection Act of 1996 (the 1996 Act), which was enacted on August 20, 1996, made significant changes to provisions of the Internal Revenue Code of 1986 (the Code) relating to a savings institution's use of bad debt reserves for federal income tax purposes and requires such institutions to recapture (i.e. include in income) certain portions of their accumulated bad debt reserves. Prior to the enactment of the 1996 Act, the Bank was permitted to establish tax reserves for bad debts and to make annual additions thereto, which additions, within specified formula limits, were deducted in arriving at the Bank's taxable income. The Bank's deduction with respect to qualifying loans, which are generally loans secured by certain interests in real property, could be computed using an amount based on a six-year moving average of the Bank's actual loss experience (the Experience Method), or a percentage equal to 8% of the Bank's taxable income (the PTI Method), computed without regard to this deduction and with additional modifications and reduced by the amount of any permitted addition to the non-qualifying reserve. The Bank's deduction with respect to non-qualifying loans was required to be computed under the Experience Method.

The 1996 Act. Under the 1996 Act, for its current and future taxable years as a Small Bank, the Bank is permitted to make additions to its bad debt reserves for Federal income tax purposes under the Experience Method based on total loans. However, the Bank is required to recapture (i.e. include in income) over a six-year period the excess of the balance of its bad debt reserves as of December 31, 1995 over the balance of such reserves as of December 31, 1987. As of December 31, 1995, the Bank's bad debt reserve exceeded the balance of such reserve as of December 31, 1987 by \$326,713. This excess has been fully recaptured into taxable income as of December 31, 2004.

Distributions. Under the 1996 Act, if the Bank makes non-dividend distributions to the Company, such distributions will be considered to have been made from the Bank's unrecaptured bad debt reserves (including the balance of its reserves as of December 31, 1987) to the extent thereof, and an amount based on the amount distributed (but not in excess of the amount of such reserves) will be included in the Bank's income. In general, the term non-dividend distributions is defined as distributions in excess of the Bank's current and accumulated earnings and profits, as calculated for federal income tax purposes, distributions in redemption of stock, and distributions in partial or complete liquidation. Dividends paid out of the Bank's current or accumulated earnings and profits will not cause this pre-1988 reserve to be included in the Bank's income.

The amount of additional taxable income created by a non-dividend distribution is an amount that, when reduced by the tax attributable to the income, is equal to the amount of the distribution. Thus, if the Bank makes a non-dividend distribution to the Company, approximately 65% of the amount of such distribution (but not in excess of the amount of such reserves) would be included in income for federal income tax purposes,

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assuming a 35% federal corporate income tax rate. The Bank does not intend to pay dividends that would result in a recapture of any portion of its bad debt reserves.

Dividends Received Deduction and Other Matters. The Company may exclude from its income 100% of dividends received from the Bank as a member of the same affiliated group of corporations. The corporate dividends received deduction is generally 70% in the case of dividends received from unaffiliated corporations with which the Company and the Bank will not file a consolidated tax return, except that if the Company owns more than 20% of the stock of a corporation distributing a dividend, then 80% of any dividend received may be excluded.

State Taxation

Illinois State Taxation. The Company and its subsidiaries are required to file Illinois income tax returns and pay tax at an effective tax rate of approximately 4.7% on Illinois taxable income, assuming a 35% Federal income tax rate. For these purposes, Illinois taxable income, generally means federal taxable income subject to certain modifications, the primary one of which is the exclusion of interest income from United States Treasury obligations.

The Company and its subsidiaries file one combined corporation return for State of Illinois income tax purposes.

Delaware State Taxation. As a Delaware holding company not earning income in Delaware, the Company is exempted from Delaware Corporate income tax but is required to file an annual report with and pay an annual franchise tax to the State of Delaware.

Critical Accounting Policies

The accounting and reporting policies of the Company are in accordance with accounting principles generally accepted in the United States and conform to general practices within the banking industry. The Company's significant accounting policies are described in detail in the notes to the Company's consolidated financial statements for the year ended December 31, 2004. 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. The financial position and results of operations can be affected by these estimates and assumptions and are integral to the understanding of reported results. Critical accounting policies are those policies that management believes are the most important to the portrayal of the Company's financial condition and results, and they require management to make estimates that are difficult, subjective, or complex.

Allowance for Credit Losses- The allowance for credit losses provides coverage for probable losses inherent in the Company's loan portfolio. Management evaluates the adequacy of the allowance for credit losses each quarter based on changes, if any, in underwriting activities, the loan portfolio composition (including product mix and geographic, industry or customer-specific concentrations), trends in loan performance, regulatory guidance and economic factors. This evaluation is inherently subjective, as it requires the use of significant management estimates. Many factors can affect management's estimates of specific and expected losses, including volatility of default probabilities, rating migrations, loss severity and economic and political conditions. The allowance is increased through provisions charged to operating earnings and reduced by net charge-offs.

The Company determines the amount of the allowance based on relative risk characteristics of the loan portfolio. The allowance recorded for commercial loans is based on reviews of individual credit relationships and an analysis of the migration of commercial loans and actual loss experience. The allowance recorded for homogeneous consumer loans is based on an analysis of loan mix, risk characteristics of the portfolio, fraud loss and bankruptcy experiences, and historical losses, adjusted for current trends, for each homogeneous category or group of loans. The allowance for credit losses relating to impaired loans is based on the loan's observable market price, the collateral for certain

collateral-dependent loans, or the discounted cash flows using the loan's effective interest rate.

Regardless of the extent of the Company's analysis of customer performance, portfolio trends or risk management processes, certain inherent but undetected losses

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are probable within the loan portfolio. This is due to several factors including inherent delays in obtaining information regarding a customer's financial condition or changes in their unique business conditions, the judgmental nature of individual loan evaluations, collateral assessments and the interpretation of economic trends. Volatility of economic or customer-specific conditions affecting the identification and estimation of losses for larger non-homogeneous credits and the sensitivity of assumptions utilized to establish allowances for homogenous groups of loans are among other factors. The Company estimates a range of inherent losses related to the existence of these exposures. The estimates are based upon the Company's evaluation of imprecision risk associated with the commercial and consumer allowance levels and the estimated impact of the current economic environment.

Mortgage Servicing Rights- Mortgage servicing rights (MSRs) associated with loans originated and sold, where servicing is retained, are capitalized and included in other intangible assets in the consolidated balance sheet. The value of the capitalized servicing rights represents the present value of the future servicing fees arising from the right to service loans in the portfolio. Critical accounting policies for MSRs relate to the initial valuation and subsequent impairment tests. The methodology used to determine the valuation of MSRs requires the development and use of a number of estimates, including anticipated principal amortization and prepayments of that principal balance. Events that may significantly affect the estimates used are changes in interest rates, mortgage loan prepayment speeds and the payment performance of the underlying loans. The carrying value of the MSRs is periodically reviewed for impairment based on a determination of fair value. For purposes of measuring impairment, the servicing rights are compared to a valuation prepared based on a discounted cash flow methodology, utilizing current prepayment speeds and discount rates. Impairment, if any, is recognized through a valuation allowance and is recorded as amortization of intangible assets.

Forward Looking Statements

This annual report on Form 10-K (including certain information incorporated by reference) contains forward-looking statements, including certain plans, expectations, goals and projections, which are subject to numerous assumptions, risks and uncertainties. These forward-looking statements are identified by the use of terms such as believes, anticipates, estimates, expects, projects or similar words. Actual results could differ materially those contained or implied by such statements for a variety of factors including, but not limited to: changes in general and/or local economic conditions; movements in interest rates; competitive pressures on product pricing and services; success and timing of business strategies, and; the nature, extent and timing of governmental actions and reforms. These risks and uncertainties should be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements.

Item 2 Properties

The Bank conducts its business through an executive and full-service office located in Bloomington and four other full service branch offices. The Company believes that the Bank's current facilities are adequate to meet the present and immediately foreseeable needs of the Bank and the Company.

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| Location | Leased or Owned | Original Year Leased or Acquired | Net Book Value at December 31, 2004 | Deposits per Office |
|--|--------------------------------|---|--|--------------------------------|
| (Dollars in thousands) Executive Branch Office: 2101 North Veterans Parkway* Bloomington, Illinois 61704 | Owned | 1997 | \$ 3,007 | \$ 60,713 |
| Branch Offices: 301 Broadway* Normal, Illinois 61761 | Leased | 1963 | -0- | 46,108 |
| 2402 E. Washington* Bloomington, Illinois 61704 | Owned | 1980 | 674 | 38,073 |
| 1722 Hamilton Road* Bloomington, Illinois 61704 | Owned | 1995 | 1,165 | 22,689 |
| 115 N. Third Street* Fairbury, Illinois 61739 | Owned | 1981 | 562 | 58,516 |
| Total | | | \$ 5,408 | \$ 226,099 |

* An automated teller machine is located at each office.

None of the properties owned by the Company are subject to any encumbrance.

Table of Contents**Item 3 Legal Proceedings**

The registrant is not involved in any pending legal proceedings other than routine legal proceedings occurring in the ordinary course of business. Such routine legal proceedings, in the aggregate, are believed by management to be immaterial to the registrant's financial condition or results of operations.

Item 4 Submission of Matters to a Vote of Security Holders

No matters were submitted during the fourth quarter of 2004 to a vote of security holders, through the solicitation of proxies or otherwise.

SUPPLEMENTAL INFORMATION - EXECUTIVE OFFICERS OF THE REGISTRANT

The names, ages and positions with the Company and subsidiary bank of all executive officers of the Company are listed below:

| Name and Age | Officers with the Company And Subsidiary Bank | Principal Occupation During Past Five Years |
|--------------------------|--|--|
| C. William Landefeld, 65 | President and Chief Executive Officer, Citizens First Financial Corp.; President and Chief Executive Officer, Citizens Savings Bank. | President and Chief Executive Officer, Citizens First Financial Corp. since 1996; President and Chief Executive Officer, Citizens Savings Bank since 1987. |
| Dallas G. Smiley, 58 | Executive Vice President, Secretary, Treasurer and Chief Financial Officer, Citizens First Financial Corp.; Executive Vice President, Secretary, Treasurer and Chief Financial Officer, Citizens Savings Bank. | Executive Vice President, Secretary, Treasurer and Chief Financial Officer, Citizens First Financial Corp. since 2004, Executive Vice President, Secretary, Treasurer and Chief Financial Officer, Citizens Savings Bank since 2004, Senior Vice President, Secretary, Treasurer and Chief Financial Officer, Citizens First Financial Corp. since 2003, Senior Vice President, Secretary, Treasurer and Chief Financial Officer, Citizens Savings Bank since 2003, Senior Vice President, Treasurer and Chief Financial Officer, Citizens First Financial Corp. since 1996, Senior Vice President, Treasurer and Chief Financial Officer, Citizens Savings Bank since 1995, Vice President, Treasurer and Chief Financial Officer, Citizens Savings Bank 1987-1995. |

Table of Contents**PART II****Item 5 Market for the Registrant's Common Equity and Related Stockholder Matters**

Citizens First Financial Corp.'s common stock trades on NASDAQ under the symbol "CFSB". At December 31, 2004, 1,550,473 shares of the Company's common stock were held of record by 351 persons or entities, not including the number of persons or entities holding stock in nominee or street name through various brokers or banks.

Per Share

| | 2004 | | Dividends Declared |
|----------------|----------|----------|-----------------------|
| | High | Low | |
| First Quarter | \$ 26.75 | \$ 20.00 | \$ 0.10 |
| Second Quarter | \$ 25.50 | \$ 22.55 | \$ 0.10 |
| Third Quarter | \$ 24.50 | \$ 22.04 | \$ 0.10 |
| Fourth Quarter | \$ 33.49 | \$ 23.50 | \$ 0.10 |
| | 2003 | | |
| | High | Low | Dividends Declared |
| First Quarter | \$ 25.59 | \$ 21.80 | \$ 0.10 |
| Second Quarter | \$ 25.00 | \$ 22.15 | \$ 0.10 |
| Third Quarter | \$ 25.00 | \$ 22.25 | \$ 0.10 |
| Fourth Quarter | \$ 28.50 | \$ 24.50 | \$ 0.10 |

Citizens First Financial Corp. did not repurchase any shares of its common stock during the quarter ended December 31, 2004.

Table of Contents**Item 6 Selected Financial Data****Selected Financial Data** (in thousands, except share data)

| | 2004 | 2003 | 2002 | 2001 | 2000 |
|--|------------|------------|------------|------------|------------|
| Summary of Operations | | | | | |
| Interest income | \$ 17,373 | \$ 19,533 | \$ 22,257 | \$ 24,641 | \$ 25,049 |
| Interest expense | 6,676 | 8,861 | 11,316 | 14,713 | 14,348 |
| Net interest income | 10,697 | 10,672 | 10,941 | 9,928 | 10,701 |
| Provision (credit) for loan losses | (473) | 2,462 | 1,803 | 945 | 3,050 |
| Noninterest income | 2,607 | 3,259 | 2,430 | 2,309 | 3,857 |
| Noninterest expense | 9,063 | 8,890 | 8,298 | 7,835 | 8,399 |
| Income before income tax | 4,714 | 2,579 | 3,270 | 3,457 | 3,109 |
| Income tax expense | 1,727 | 943 | 1,340 | 1,375 | 1,279 |
| Net income | \$ 2,987 | \$ 1,636 | \$ 1,930 | \$ 2,082 | \$ 1,830 |
| Per Share | | | | | |
| Basic earnings per share | \$ 1.98 | \$ 1.11 | \$ 1.31 | \$ 1.39 | \$ 1.00 |
| Diluted earnings per share | \$ 1.87 | \$ 1.01 | \$ 1.21 | \$ 1.32 | \$ 0.97 |
| Cash dividends paid | \$ 0.40 | \$ 0.40 | \$ 0.31 | \$ 0.23 | \$ 0.20 |
| Book value at December 31 | \$ 23.25 | \$ 22.00 | \$ 21.92 | \$ 20.41 | \$ 18.69 |
| Market value at December 31 | \$ 32.49 | \$ 25.50 | \$ 25.30 | \$ 17.70 | \$ 11.88 |
| Ratios Based on Net Income | | | | | |
| Return on average stockholder's equity | 8.77% | 5.00% | 6.11% | 6.84% | 5.24% |
| Return on average assets | 0.88% | 0.47% | 0.55% | 0.63% | 0.56% |
| Net interest margin on average earnings assets | 3.35% | 3.26% | 3.27% | 3.16% | 3.52% |
| Dividend payout ratio | 20.20% | 36.90% | 24.06% | 16.53% | 20.52% |
| Year-End Balance Sheet Data | | | | | |
| Total assets | \$ 328,266 | \$ 349,515 | \$ 357,056 | \$ 339,934 | \$ 329,890 |
| Net loans (1) | 235,094 | 279,781 | 284,937 | 293,753 | 284,983 |
| Securities | 26,055 | 20,746 | 20,712 | 15,686 | 15,054 |
| Deposits | 231,009 | 250,013 | 249,163 | 236,643 | 228,115 |
| Other borrowings | 58,675 | 63,975 | 72,825 | 69,643 | 67,985 |
| Total stockholders' equity | 36,047 | 32,992 | 31,894 | 30,912 | 29,307 |
| Average equity to average assets | 10.08% | 9.29% | 8.99% | 9.16% | 10.76% |

(1) Includes loans held for sale

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

The following is a discussion of our financial condition at December 31, 2004 and December 31, 2003 and our results of operations for the years ended December 31, 2004, 2003 and 2002. The purpose of this discussion is to focus on information about our financial condition and results of operations, which is not otherwise apparent from the consolidated financial statements. The following discussion should be read along with the consolidated financial statements and the related notes included herein.

OVERVIEW

General

Citizens First Financial Corp. (the Company) is the thrift holding company for Citizens Savings Bank (the Bank). The Bank was originally chartered in 1888 by the State of Illinois and in 1989 became a federally chartered savings bank. In April 1999, the Bank was converted from a federally chartered savings bank to an Illinois state savings bank. The Bank's principal business consists of the acceptance of retail deposits from the general public in the area surrounding its main and branch offices and the investment of these deposits, together with funds generated from operations and borrowings into loans and investment securities. The Bank originates one-to-four family residential mortgages, commercial, multi-family, construction and land, commercial real estate, agricultural, consumer and other loans. The Bank has a wholly-owned service corporation, CSL Service Corporation (CSL), which is an Illinois-chartered corporation that had invested in Williamsburg LLC (Williamsburg), a real estate development joint venture. CSL, who was a 50% owner of Williamsburg, sold its interest in May 2004. The accounts of Williamsburg are consolidated into the Company's financial statements.

In November 2004, the Company entered into an Agreement and Plan of Merger with Main Street Trust, Inc. (Main Street), an Illinois corporation. Main Street Trust, Inc. will acquire all of the Company's issued and outstanding shares of common stock. Each of the Company's shareholders will have the option of receiving either 1.1051 shares of Main Street's stock for each share of the Company's stock or \$35.00 of cash for each share of the Company's common stock or a combination of both. The transaction has been approved by state and federal regulators and is expected to close in the second quarter of 2005. At a special meeting of shareholders on March 8, 2005 shareholders approved the merger agreement.

Diluted earnings per share increased from \$1.01 for the year ended December 31, 2003 to \$1.87 for the year ended December 31, 2004, primarily because of decreased losses on foreclosed assets and provision for loan losses and increased net gain from sale of premises and equipment, offset by decreased net gains on loan sales.

Financial Condition

The \$44.7 million decrease in loans, net of allowance for loan losses and loans held for sale were used primarily to reduce deposits by \$19.0 million and long-term debt by \$5.3 million, and increase available-for-sale securities by \$5.3 million and cash and cash equivalents by \$21.3 million.

The decrease in loans, net of allowances for loan losses and loans held for sale was primarily due to a \$14.7 million decrease in commercial real estate loans, \$13.6 million decrease in residential real estate portfolio loans, \$9.0 million decrease in real estate construction loans and a \$7.5 million decrease in commercial and agricultural loans. The decreases were primarily due to a decrease in loan originations resulting from increased local competition and emphasis by the Company in 2004 to correct deficiencies noted by the Company's regulators.

During January 2004, the Bank's Board of Directors entered into a Memorandum of Understanding (MOU) with the Illinois Office of Banks and Real Estate and the Federal Deposit Insurance Corporation (Regulators). After meeting the terms of the MOU, in December 2004, the Regulators terminated the MOU.

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Results of Operations

Net income increased from \$1.6 million in 2003 to \$3.0 million in 2004 primarily because of a \$2.9 million reduction in the provision (credit) for loan losses, a \$659,000 increase in net gain on sale of premises and equipment, a \$618,000 decrease in net loss on foreclosed assets, offset by a \$1.2 million decrease in net gains on loan sales, a \$563,000 increase in salaries and employee benefits expense and a \$541,000 increase in professional fees and other expenses.

The decrease in net gains on loan sales was the result of decreased loan sales in 2004 reflecting the increasing interest rate environment that existed through most of 2004. These higher interest rates significantly decreased the amount of residential loan refinancing in 2004.

COMPARISON OF FINANCIAL CONDITION AT DECEMBER 31, 2004 and DECEMBER 31, 2003

Total assets decreased from \$349.5 million at December 31, 2003 to \$328.3 million at December 31, 2004. The \$21.2 million or 6.1% decrease was primarily due to the decrease in loans, offset by an increase in interest-bearing deposits and federal funds sold and available for sale securities.

Cash and cash equivalents increased from \$16.8 million at December 31, 2003 to \$38.1 million at December 31, 2004, an increase of \$21.7 million or 126.8%. The increase occurred primarily because of the decrease of gross loans of \$45.2 million, offset by the decreases of \$19.0 million in deposits and \$5.3 million in long-term debt.

Available for sale securities increased from \$20.7 million at December 31, 2003 to \$26.1 million at December 31, 2004, an increase of \$5.4 million or 26.1%. The increase was primarily due to the purchase of \$11.3 million of investment securities which was offset by \$5.9 million in maturities and principal paydowns.

Loans, net of allowance for loan losses and including mortgage loans held for sale, decreased from \$279.8 million at December 31, 2003 to \$235.1 million at December 31, 2004, a decrease of \$44.7 million or 16.0%. The decrease was primarily due to decreases of \$14.7 million in commercial real estate loans, \$13.6 million in residential real estate loans, \$9.0 million in real estate construction loans and \$7.5 million in commercial and agricultural loans. The decreases were due to loan repayments. The Company sells primarily fixed rate residential loans in the secondary market (primarily to the Federal Home Loan Mortgage Corporation) as a source of income from gains on sale and servicing fees and as a means of controlling interest rate risk. The Company sold \$6.9 million in loans during 2004. The Company serviced \$83.5 million and \$96.1 million at December 31, 2004 and December 31, 2003, respectively.

The Company has a significant concentration in construction and commercial real estate loans related to the real estate market in Bloomington-Normal, Illinois. Management believes that due to the continued strength of this market, this concentration does not pose a significant risk to the Company.

The allowance for loan losses is established through a provision for loan losses based on management's evaluation of the risks inherent in the loan portfolio and the general economy. The allowance for loan losses is maintained at an amount management considers adequate to cover estimated losses in loans receivable which are deemed probable and can be estimated based on information available to management at such time. While management believes the allowance for loan losses is sufficient to cover future loan losses inherent in its loan portfolio at this time, no assurances can be given that the level of the allowance for loan losses will be sufficient to cover future loan losses incurred or that future adjustments to the allowance for loan losses will not be necessary if economic and other conditions differ substantially from the economic and other conditions used by management to determine the current level of the allowance for loan losses. The allowance is based upon a number of factors, including asset classification, economic trends, industry experience and trends, industry and geographic concentrations, estimated collateral value, management's assessments of the credit risk inherent in the portfolio, historical loan loss experience, and the

Company's underwriting policies. Management will continue to monitor and modify the allowance for loan losses as conditions dictate. Various regulatory agencies, as an integral part of their examination process, periodically review the allowance for loan

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losses. These agencies may require additional valuation allowances, based on their judgments of the information available at the time of the examination.

The Company's policy is to charge off loans when it is determined that they are no longer collectible. The policy for loans secured by real estate, which comprise the majority of the loan portfolio, is to establish loss reserves in accordance with the loan classification process, based on accounting principles generally accepted in the United States of America. The Company's policy is to obtain an appraisal or evaluation on all real estate acquired through foreclosure at the time of foreclosure.

The allowance for loan losses decreased from \$3,072,000 at December 31, 2003 to \$2,736,000 at December 31, 2004, a decrease of \$336,000 or 10.9%. The decrease was primarily due to recoveries in 2004 of charged-off loans in prior years of \$410,000, a reduction in the overall loan portfolio and the Company's continued emphasis to improve asset quality. Included in those recoveries was a \$389,000 payment from the bankruptcy trustee for a commercial developer. Due to the large amount of recoveries, a reduction in the overall loan portfolio and the Company's continued emphasis to improve asset quality, the Company recorded a credit to the provision for loan losses of \$473,000 during 2004. During 2004, \$274,000 of loans were charged-off to the allowance for loan losses.

The Company's non-performing and potential problem loans increased from \$8,428,000 at December 31, 2003 to \$10,218,000 at December 31, 2004, an increase of \$1,790,000. The non-performing and potential problem loans were considered impaired as of December 31, 2004 and December 31, 2003. The Company has established a loss reserve of \$1,513,000 for non-performing and potential problem loans and believes that it has adequately reserved for any potential loss.

Non-performing loans, which are loans past due 90 days or more and non-accruing loans, decreased from \$2,459,000 at December 31, 2003 to \$724,000 at December 31, 2004. The ratio of the Company's allowance for loan losses to total non-performing loans was 377.6% and 124.9% at December 31, 2004 and December 31, 2003, respectively. Management believes that the problems with these borrowers are identified and not indicative of the loan portfolio in total.

Non-accruing loans decreased from \$2,452,000 at December 31, 2003 to \$724,000 at December 31, 2004, a decrease of \$1,728,000 or 70.4%. At December 31, 2004, non-accrual loans consist of four 1-4 family residential loans with a balance of \$408,000, one real estate non-farm/non-residential loan with a balance of \$16,000, one commercial and industrial loan with a balance of \$298,000 and one consumer loan with a balance of \$2,000. The Company has established a loss reserve of \$298,000 for non-accrual loans.

Accruing loans delinquent greater than 90 days decreased from \$7,000 at December 31, 2003 to \$-0- at December 31, 2004.

Potential problem loans are loans that are not classified as non-accrual or 90 days or more delinquent, but due to factors regarding the borrower, the loan or the economy may represent a possible loss to the Company. Potential problem loans increased from \$5,969,000 at December 31, 2003 to \$9,494,000 at December 31, 2004, an increase of \$3,525,000. The Company has established loan loss reserves of \$1,215,000 at December 31, 2004 for all potential problem loans. As of December 31, 2004, \$6,220,000 of the potential problem loans relates to five borrowers. The first borrower with potential problem loans of \$1,568,000 is a developer which is a concern to the company because of the concentration of unsecured loans. The second borrower with a potential problem loan of \$1,286,000, is an owner of a commercial facility in Florida that had experienced damage in the 2004 hurricanes. The third borrower with potential problem loans of \$1,609,000 is a manufacturing and sales company, which has experienced recent losses. The fourth borrower with potential problem loans of \$821,000 is a land development venture, which is a concern to the Company because of delays in the sale of properties. The fifth borrower with potential problem loans of \$935,000

is a developer with recent financial difficulties. The remaining potential problem loans have a balance of \$3,274,000 and consist of thirty-two residential loans with a balance of \$2,207,000, six commercial and industrial loans with a balance of \$344,000, three non-farm/non-residential loan with a balance of \$557,000, three construction and land development loans with a balance of \$113,000 and nine consumer loans with a balance of \$53,000. For all of the potential problem loans, the Company believes that it has adequately reserved for any potential loss.

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Other assets especially mentioned (OAEM) loans decreased from \$15,638,000 at December 31, 2003 to \$3,463,000 at December 31, 2004, a decrease of \$12,175,000. The primary reason for the decrease was a commercial development loan which had been classified as an OAEM asset at December 31, 2003. This loan had a balance of \$11,437,000 at December 31, 2003. During 2004 the loan was re-written with terms that improved the Bank's collateral and repayment position. OAEM loans are loans that are not classified as non-accrual, delinquent or potential problem, but still require monitoring by the Company due to factors regarding the borrower, the loan or the economy. At December 31, 2004, OAEM loans consists of twenty-three residential loans with a balance of \$1,990,000, two non-farm/non-residential loans with a balance of \$1,399,000, one commercial and industrial loan with a balance of \$43,000 and six consumer loans with a balance of \$31,000.

Premises and equipment decreased from \$6,183,000 at December 31, 2003 to \$5,515,000 at December 31, 2004, a decrease of \$668,000. The decrease was primarily due to depreciation expense of \$634,000 during 2004 and the sale of the Company's Normal branch facility in December 2004 which had a book value of \$326,000. The Company recognized a gain of approximately \$680,000 from the sale and is currently leasing the facility until a new building is constructed.

Federal Home Loan Bank stock increased from \$15,206,000 at December 31, 2003 to \$16,153,000 at December 31, 2004, an increase of \$947,000 due primarily to the receipt of \$921,000 in FHLB stock dividends.

Foreclosed assets decreased from \$2,135,000 at December 31, 2003 to \$92,000 at December 31, 2004, a decrease of \$2,043,000 or 96.0%. The decrease was primarily due to the sale of foreclosed assets. During 2004, \$631,000 in loans were transferred to foreclosed assets and \$2,052,000 of foreclosed assets were sold with a net loss of \$121,000. In addition, \$148,000 was depreciated for certain foreclosed assets held greater than one year. Foreclosed assets at December 31, 2004 consist entirely of residential properties. Properties transferred to foreclosed assets are appraised or evaluated and, if required, loss reserves are established by management.

Mortgage servicing rights decreased from \$469,000 at December 31, 2003 to \$356,000 at December 31, 2004, a decrease of \$113,000. The decrease was primarily due to the amortization of \$154,000 of servicing rights in 2004 offset by \$41,000 of new capitalized servicing rights.

Other assets increased from \$413,000 at December 31, 2003 to \$938,000 at December 31, 2004, an increase of \$525,000. The increase was primarily due to a \$692,000 decrease in accrued income tax receivable.

Deposits decreased from \$250.0 million at December 31, 2003 to \$231.0 million at December 31, 2004, a decrease of \$19.0 million or 7.6%. The decrease was primarily due to a decrease of \$13.4 million in time deposits and \$5.1 million in brokered time deposits. With the increased balances of cash and cash equivalents, the Company did not aggressively compete for certificate of deposit accounts during 2004.

Long-term debt decreased from \$64.0 million at December 31, 2003 to \$58.7 million at December 31, 2004, a decrease of \$5.3 million or 8.1%, due to repayments during 2004. During 2004, the Bank repaid \$30.3 million of maturing Federal Home Loan Bank (FHLB) advances with an average interest rate of 4.9% and obtained \$25.0 million of new FHLB advances at an average rate of 1.6%.

Minority interest in real estate joint venture decreased from \$383,000 at December 31, 2003 to \$-0- at December 31, 2004 due to the sale in May 2004 of the Company's interest in the real estate joint venture.

Other liabilities increased from \$1.3 million at December 31, 2003 to \$1.7 million at December 31, 2004, an increase of \$400,000. The primary reason for the increase was a \$342,000 increase in accruals for employee and director benefit programs. The employee benefit accruals increased due to no bonuses being paid for 2003. During 2004 the

Company achieved its bonus targets and accrued \$185,000. The accruals for director benefits increased because of an increase in the anticipated expense of the director retirement benefit.

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Total stockholders' equity increased by \$3,055,000, from \$32,992,000 at December 31, 2003 to \$36,047,000 at December 31, 2004. The increase resulted from the earnings of the Company of \$2,987,000 for the year ended December 31, 2004, the tax benefit related to stock options exercised of \$450,000 and exercised stock options of \$936,000, offset by the purchase of treasury shares of \$703,000, the payment of \$614,000 in dividends to stockholders and a decrease in unrealized appreciation on available-for-sale securities of \$1,000.

Table of ContentsCitizens First Financial Corp. and Subsidiary
Consolidated Average Balance Sheet (Dollars in thousands)

| | <u>For the years ended December 31,</u> | | | | | | | | | |
|--|---|----------------------------|------------------|-------------------------------|----------------------------|------------------|-------------------------------|----------------------------|------------------|-------------------------------|
| | At December 31 2004 | 2004 Average Balance | 2004 Interest | 2004 Average Yield/Cost | 2003 Average Balance | 2003 Interest | 2003 Average Yield/Cost | 2002 Average Balance | 2002 Interest | 2002 Average Yield/Cost |
| Assets | | | | | | | | | | |
| Deposits & short-term investments | 2.06% | \$ 26,469 | \$ 344 | 1.30% | \$ 19,433 | \$ 204 | 1.05% | \$ 18,912 | \$ 299 | 1.58% |
| Investment securities | 4.29% | 23,322 | 920 | 3.94% | 22,123 | 844 | 3.82% | 19,716 | 980 | 4.97% |
| Loans receivable | 5.79% | 253,402 | 15,188 | 5.99% | 276,555 | 17,799 | 6.44% | 291,307 | 20,737 | 7.12% |
| FHLB stock | 5.50% | 15,681 | 921 | 5.87% | 9,332 | 686 | 7.35% | 4,611 | 242 | 5.25% |
| Total interest-earning assets | 5.25% | \$ 318,874 | \$ 17,373 | 5.45% | \$ 327,443 | \$ 19,533 | 5.97% | \$ 334,546 | \$ 22,258 | 6.65% |
| Non-interest earning assets | | 24,578 | | | 24,578 | | | 16,965 | | |
| Total assets | | \$ 337,851 | | | \$ 352,021 | | | \$ 351,511 | | |
| Liabilities & equity | | | | | | | | | | |
| Money market accounts | 1.32% | \$ 24,046 | \$ 333 | 1.38% | \$ 26,057 | \$ 408 | 1.57% | \$ 24,260 | \$ 603 | 2.49% |
| Passbook accounts | 0.60% | 18,372 | 122 | 0.66% | 18,392 | 151 | 0.82% | 17,201 | 237 | 1.38% |
| NOW accounts | 0.45% | 24,325 | 116 | 0.48% | 22,565 | 164 | 0.73% | 21,332 | 244 | 1.14% |
| Certificate accounts | 2.88% | 140,922 | 4,250 | 3.02% | 153,868 | 5,054 | 3.28% | 159,362 | 6,643 | 4.17% |
| Total interest-bearing deposits | 2.20% | \$ 207,665 | \$ 4,821 | 2.32% | \$ 220,882 | \$ 5,777 | 2.62% | \$ 222,155 | \$ 7,727 | 3.48% |
| Borrowings | 2.82% | 59,674 | 1,855 | 3.11% | 69,744 | 3,084 | 4.42% | 72,391 | 3,589 | 4.96% |

| | | | | | | | | | | |
|--|-------|------------|-----------|-------|------------|-----------|-------|------------|-----------|-------|
| Total interest-bearing liabilities | 2.34% | 267,339 | 6.676 | 2.50% | 290,626 | 8,861 | 3.05% | 294,546 | 11,316 | 3.84% |
| Non-interest bearing Liabilities | | 36,466 | | | 28,676 | | | 25,356 | | |
| Total liabilities | | 303,805 | | | 319,302 | | | 319,902 | | |
| Stockholders equity | | 34,046 | | | 32,719 | | | 31,609 | | |
| Total liabilities & stockholders equity | | \$ 337,851 | | | \$ 352,021 | | | \$ 351,511 | | |
| Net interest spread | 2.92% | | \$ 10,697 | 2.95% | | \$ 10,672 | 2.92% | | \$ 10,942 | 2.81% |
| Net interest margin | | | | 3.35% | | | 3.26% | | | 3.27% |
| Ratio of interest earning assets to interest bearing liabilities | | | 119.28% | | | 112.67% | | | 113.58% | |

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Rate/Volume Analysis. The following table presents the extent to which changes in interest rates and changes in volume of interest-earning assets and interest-bearing liabilities have affected the Company's interest income and interest expense during the periods indicated. Information is provided in each category with respect to: (1) changes attributable to changes in volume (changes in volume multiplied by prior rate); (2) changes attributable to changes in rate (changes in rate multiplied by prior volume); and (3) net change. The changes attributable to the combined impact of volume and rate have been allocated proportionally to change due to volume and change due to rate.

| | Year-to-Date 2004 Compared to Year-to-Date 2003 Increase (Decrease) Due to | | | Year-to-Date 2003 Compared to Year-to-Date 2002 Increase (Decrease) Due to | | |
|--------------------------------------|--|------------|-----------------------------------|--|------------|-----------------|
| | Volume | Rate | Total Change (in thousands) | Volume | Rate | Total Change |
| Interest Income: | | | | | | |
| Deposits with financial institutions | \$ 84 | \$ 56 | \$ 140 | \$ 8 | (\$ 103) | (\$ 95) |
| Securities | 47 | 29 | 76 | 110 | (246) | (136) |
| Loans | (1,434) | (1,177) | (2,611) | (1,015) | (1,923) | (2,938) |
| FHLB stock | 394 | (159) | 235 | 319 | 125 | 444 |
| Total interest income | (\$ 501) | (\$ 1,659) | (\$ 2,160) | (\$ 578) | (\$ 2,147) | (\$ 2,725) |
| Interest Expense: | | | | | | |
| Money-market deposit accounts | (30) | (45) | (75) | 42 | (238) | (196) |
| Savings accounts | (0) | (29) | (29) | 15 | (101) | (86) |
| NOW accounts | 12 | (60) | (48) | 13 | (93) | (80) |
| Time and brokered time deposits | (408) | (396) | (804) | (222) | (1,367) | (1,589) |
| Long-term debt | (402) | (827) | (1,229) | (128) | (377) | (505) |
| Total interest expense | (671) | (1,514) | (2,185) | (280) | (2,176) | (2,456) |
| Net interest income | \$ 170 | (\$ 145) | \$ 25 | (\$ 298) | 29 | (\$ 269) |

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COMPARISON OF OPERATING RESULTS FOR THE YEARS ENDED DECEMBER 31, 2004 and DECEMBER 31, 2003

GENERAL

Net income increased from \$1,636,000 for the year ended December 31, 2003 to \$2,987,000 for the year ended December 31, 2004, an increase of \$1,351,000. The increase was due primarily to a decrease in the provision (credit) for loan losses, lower net gain on loan sales and a decrease in net gains from sale of land in real estate joint venture, offset by a decrease in loss on foreclosed assets.

INTEREST INCOME

Interest on loans decreased from \$17,799,000 for the year ended December 31, 2003 to \$15,188,000 for the year ended December 31, 2004, a decrease of \$2,611,000 or 14.7%. Interest on loans decreased due to a decrease in the average yield on loans outstanding of 45 basis points reflecting the lower interest rate environment in 2004 and a \$23.2 million decrease in the average balance of outstanding loans resulting primarily from increased competition in the Bloomington-Normal market and changes in lending practices resulting from the MOU.

Interest on securities, federal funds sold and deposits with financial institutions and dividends on Federal Home Loan Bank stock increased from \$1,734,000 for the year ended December 31, 2003 to \$2,185,000 for the year ended December 31, 2004, an increase of \$451,000 or 26.0%. The increase was primarily due to a \$14.6 million increase in the average balance of investment securities, FHLB stock and interest-bearing deposits, offset by a 7 basis point decrease in the average yield of these assets in 2004.

INTEREST EXPENSE

Interest on deposits decreased by \$956,000 or 16.5%, from \$5,777,000 for the year ended December 31, 2003 to \$4,821,000 for the year ended December 31, 2004. The decrease was primarily due to a 30 basis point decrease in the average cost of deposits and a \$13.2 million decrease in the average balance of interest-bearing deposits.

The interest on borrowings decreased by \$1,299,000 or 39.9%, from \$3,084,000 for the year ended December 31, 2003 to \$1,855,000 for the year ended December 31, 2004 as a result of a 131 basis point decrease in the average cost of borrowings and a \$10.0 million decrease in the average balance of borrowings. During 2004, the Bank repaid \$30.3 million of maturing Federal Home Loan Bank (FHLB) advances with an average interest rate of 4.9% and obtained \$25.0 million of new FHLB advances at an average rate of 1.6%.

PROVISION (CREDIT) FOR LOAN LOSSES

The provision (credit) for loan losses was \$473,000 for the year ended December 31, 2004, compared to a provision of \$2,462,000 for the year ended December 31, 2003, a change of \$2,935,000. The change resulted primarily from recoveries in 2004 of charged-off loans in prior years of \$410,000, the decrease in the loan portfolio and the Company's review of the adequacy of its allowance for loan losses. The credit and provision for both periods reflect management's analysis of the Company's loan portfolio based on information which is currently available to it at such time. In particular, management considers the level of nonperforming loans and potential problem loans. While management believes that the allowance for loan losses is sufficient based on information currently available, no assurances can be made that future events or conditions or regulatory directives will not result in increased provisions for loan losses or additions to the Company's allowance for losses which may adversely affect net income.

NONINTEREST INCOME

Total noninterest income decreased by \$651,000 or 20.0%, from \$3,259,000 for the year ended December 31, 2003 to \$2,608,000 for the year ended December 31, 2004. The decrease was due primarily to a decrease of \$1,181,000 in net gains on loan sales, a decrease of \$238,000 in net gains from sale of land in a real estate joint venture, offset by a \$659,000 increase in net gain from sale of premises and equipment. Net gains on loan sales decreased from \$1,309,000 in 2003 to \$128,000 in 2004 due to a decrease in loan sales from \$72.1 million in 2003 to \$6.9 million in 2004 resulting

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from the higher interest rate environment and the resulting end of the increased volume of refinance activity that the Bank experienced in 2003. The decrease in net gains from sale of land in a real estate joint venture resulted from decreased lot sales in 2004. The Bank sold a branch facility in December 2004 and recognized a gain of approximately \$680,000.

NONINTEREST EXPENSE

Total noninterest expense increased from \$8,891,000 for the year ended December 31, 2003 to \$9,063,000 for the year ended December 31, 2004, an increase of \$172,000 or 1.9%. The increase was primarily due to a \$563,000 increase in salaries and employee benefits expense, a \$541,000 increase in professional fees and other expenses, offset by \$618,000 decrease in loss on foreclosed assets, decreases of \$137,000 in minority interest in net income of real estate joint venture and \$119,000 in amortization of mortgage servicing rights. The increase in salaries and benefits expense was primarily due to a decrease in the amortization of deferred loan costs, relating to a decrease in loan originations which are credited to salaries and benefits expense. The credit was \$651,000 in 2003 compared to \$193,000 in 2004. The decreased amortization of deferred costs was due to the higher interest rate environment in 2004, which decreased the amount of refinanced loans. The increase in professional and other expenses was primarily due to additional costs associated with the merger with Main Street Trust and efforts to satisfy the MOU. The decrease in loss on foreclosed assets reflected the lower balances of foreclosed assets and the write-downs that were taken in 2003 on foreclosed assets. The decrease in minority interest in net income of real estate joint venture was due to the lower sales volume in 2004. The Bank sold its investment in the real estate joint venture in May 2004. The decrease in the amortization of mortgage servicing rights resulted from the increase in interest rates in 2004 and the decreased prepayment of serviced loans and the amortization of the associated mortgage servicing rights.

INCOME TAX EXPENSE

Total income tax expense was \$1,727,000 for the year ended December 31, 2004, compared to \$943,000 for the year ended December 31, 2003, an increase of \$784,000 or 83.1%. The increase was attributable to the increased taxable income for the year ended December 31, 2004. The effective tax rate was 36.6% for the years ended December 31, 2004 and 2003, respectively.

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COMPARISON OF OPERATING RESULTS FOR THE YEARS ENDED DECEMBER 31, 2003 and DECEMBER 31, 2002

GENERAL

Net income for the year ended December 31, 2003 decreased from \$1,930,000 for the year ended December 31, 2002 to \$1,636,000 for the year ended December 31, 2003, a decrease of \$294,000. The decrease was due primarily to lower net interest income, an increase in the provision for loan losses, and an increase in loss on foreclosed assets, offset by an increase in net gains on loan sales and a decrease in salaries and employee benefits expense.

INTEREST INCOME

Interest on loans decreased from \$20,737,000 for the year ended December 31, 2002 to \$17,799,000 for the year ended December 31, 2003, a decrease of \$2,938,000 or 14.2%. Interest on loans decreased due to a decrease in the average yield on loans outstanding of 68 basis points reflecting the lower interest rate environment in 2003 and a \$14.7 million decrease in the average balance of outstanding loans resulting primarily from lower balances of residential real estate loans due to increased sales in the secondary market of these loans.

Interest on securities, federal funds sold and deposits with financial institutions and dividends on Federal Home Loan Bank stock increased from \$1,521,000 for the year ended December 31, 2002 to \$1,734,000 for the year ended December 31, 2003, an increase of \$213,000 or 14.0%. The increase was primarily due to a \$7.7 million increase in the average balance of investment securities, FHLB stock and interest-bearing deposits, offset by a 23 basis point decrease in the average yield of these assets in 2003.

INTEREST EXPENSE

Interest on deposits decreased by \$1,950,000 or 25.2%, from \$7,727,000 for the year ended December 31, 2002 to \$5,777,000 for the year ended December 31, 2003. The decrease was primarily due to an 83 basis point decrease in the average cost of deposits, offset by a \$1.3 million increase in the average balance of deposits.

The interest on borrowings decreased by \$505,000 or 14.1%, from \$3,589,000 for the year ended December 31, 2002 to \$3,084,000 for the year ended December 31, 2003 as a result of a 46 basis point decrease in the average cost of borrowings and a \$2.6 million decrease in the average balance of borrowings.

PROVISION FOR LOAN LOSSES

The provision for loan losses was \$2,462,000 for the year ended December 31, 2003 and \$1,803,000 for the year ended December 31, 2002, an increase of \$659,000 or 36.6%.

NONINTEREST INCOME

Total noninterest income increased by \$829,000 or 34.1%, from \$2,430,000 for the year ended December 31, 2002 to \$3,259,000 for the year ended December 31, 2003. The increase was due primarily to an increase of \$462,000 in net gains on loan sales, an increase of \$220,000 in net gains from sale of land in a real estate joint venture and an increase of \$125,000 in cash surrender value of life insurance. Net gains on loan sales increased in 2003 due to an increase of \$9.5 million in loan sales in 2003 resulting from the lower interest rate environment. The increase in net gains from sale of land in a real estate joint venture resulted from increased lot sales in 2003.

NONINTEREST EXPENSE

Total noninterest expense increased from \$8,298,000 for the year ended December 31, 2002 to \$8,891,000 for the year ended December 31, 2003, an increase of \$593,000 or 7.1%. The increase was primarily due to a \$1.1 million increase in loss on foreclosed assets and a \$100,000 increase in minority interest in net income of real estate joint venture, offset by a \$470,000 decrease in salaries and benefits expense and a \$170,000 decrease in amortization of mortgage servicing rights. The increase in loss on foreclosed assets was primarily due to the previously discussed \$1.1 million write-down of a retail development property included in foreclosed assets. The increase in minority interest in net income of real estate joint venture was due to increased lot sales in 2003. The decrease in salaries and benefits expense was primarily due to a \$615,000 decrease in ESOP expense resulting from the allocation of the remaining ESOP shares in 2002 offset by a \$257,000 increase in compensation expense in 2003.

Table of Contents**INCOME TAX EXPENSE**

Total income tax expense was \$943,000 for the year ended December 31, 2003, compared to \$1,340,000 for the year ended December 31, 2002, a decrease of \$397,000 or 29.6%. The decrease was attributable to the decreased taxable income for the year ended December 31, 2003. The effective tax rates were 36.6% and 41.0% for the years ended December 31, 2003 and 2002, respectively. The decrease in the effective tax rate was due primarily to the \$615,000 ESOP expense in 2002, which was a non-deductible expense for income tax purposes. This resulted in a \$114,000 addition to the tax expense for 2002.

LIQUIDITY AND CAPITAL RESOURCES

The Company's primary sources of funds are deposits, principal and interest payments on loans and securities, sales of loans and securities and FHLB advances. While maturing and scheduled amortization of loans are predictable sources of funds, deposit outflows and mortgage prepayments are greatly influenced by general interest rates, economic conditions and competition.

At December 31, 2004, the Bank exceeded all of its regulatory capital requirements with Tier 1 capital of \$32.0 million or 15.4% of risk-weighted assets, which is above the required level of \$8.3 million or 4.0%; and total capital of \$34.6 million or 16.7% of risk-weighted assets, which is above the required level of \$16.6 million or 8.0%.

The Company's most liquid assets are cash, interest-bearing demand deposits and federal funds sold. The level of these accounts is dependent on the operating, financing, lending and investing activities during any given period. At December 31, 2004 and 2003, cash, interest-bearing demand deposits and federal funds sold totaled \$38.1 million and \$16.8 million, respectively.

The Company has other sources of liquidity if a need for additional funds arises, including FHLB advances, loan sales, brokered deposits and federal funds. At December 31, 2004, the Company had outstanding advances with the FHLB of \$56.7 million. The FHLB maintains two limitations on the availability of advances based on FHLB stock ownership and total assets. The Company currently meets the stock limitation. Based on the total assets limitation, the Company may increase its borrowings with the FHLB by approximately \$56.1 million. The ability to borrow this amount would require meeting regulatory mandated loan and collateral limits. Depending upon market conditions and the pricing of deposit products and FHLB borrowings, the Company may utilize FHLB advances to meet liquidity needs.

The following table presents additional information about our contractual obligations as of December 31, 2004, which by their terms have contractual maturity and termination dates subsequent to December 31, 2004 (dollars in thousands):

| | Next | 13-36 | 37-60 | More than 60 | |
|---------------------------------|------------------|---------------|---------------|---------------------|--------------|
| <i>Contractual obligations</i> | 12 months | Months | Months | months | Total |
| Certificates of deposits | \$ 80,443 | \$ 46,511 | \$ 13,951 | | \$ 140,905 |
| Federal Home Loan Bank advances | 24,000 | 23,675 | 9,000 | | 56,675 |
| Bank note payable | 2,000 | | | | 2,000 |
| Totals | \$ 106,443 | \$ 70,186 | \$ 22,951 | | \$ 199,580 |

The Company anticipates that it will have liquidity to meet all known contractual obligations and unfunded commitments, including loan commitments and reasonable borrower, depositor and creditor requirements over the next twelve months. The Company's purchase obligations have no material impact on its cash flow or liquidity and, accordingly, have not been included in the above table. At December 31, 2004, the Company had outstanding commitments to originate loans aggregating approximately \$11.8 million. The commitments extend over varying periods of time with the majority being disbursed within a one-year period. Loan commitments at fixed rates of interest amounted to \$10.4 million, with the remainder at floating market rates.

Table of Contents**OFF-BALANCE SHEET ARRANGEMENTS**

At December 31, 2004, the Company had outstanding standby letters of credit of \$549,000 and unfunded loan commitments outstanding of \$25.3 million. Because these commitments generally have fixed expiration dates and many will expire without being drawn upon, the total commitment level does not necessarily represent future cash requirements. If needed to fund these outstanding commitments, the Company has the ability to fund these commitments. The following table presents additional information about our unfunded commitments as of December 31, 2004, which by their terms have contractual dates subsequent to December 31, 2004 (dollars in thousand):

| | Next 12 months | 13-36 Months | 37-60 Months | More than 60 months | Total |
|------------------------------|-------------------------------|-------------------------|-------------------------|--|--------------|
| <i>Unfunded commitments:</i> | | | | | |
| Letter of credit | \$ 547 | | | | \$ 547 |
| Lines of Credit | 25,284 | | | | 25,284 |
| Totals | \$ 25,831 | | | | \$ 25,831 |

IMPACT OF INFLATION

The consolidated financial statements and related consolidated financial data presented herein have been prepared in accordance with accounting principles generally accepted in the United States of America in accordance with accounting principles and practices within the banking industry which require the measurement of financial position and operating results in terms of historical dollars without considering the changes in the relative purchasing power of money over time due to inflation. Unlike most industrial companies, virtually all the assets and liabilities of a financial institution are monetary in nature. As a result, interest rates have a more significant impact on a financial institution's performance than the effects of general levels of inflation.

Impact of Accounting Changes

In December 2004, the FASB issued SFAS No. 123R, *Share-Based Payment*, which sets accounting requirements for share-based compensation to employees, including employee-stock-purchase-plans (ESPPs) and provides guidance on accounting for awards to non-employees. This Statement will require the Company to recognize in the income statement the grant-date fair value of stock options and other equity-based compensation issued to employees, but expresses no preference for a type of valuation model. This Statement is effective for the Company on January 1, 2006. The effect to the Company is estimated to be \$131,000 based on the current stock options outstanding. On April 26, 2004, the Company's Board of Directors adopted the 2004 Equity Incentive Plan (Plan), which provides for stock-based awards. At present, no stock awards have been made from the Plan. Therefore, the effect of the adoption of this statement on the Company cannot be determined currently.

Emerging Issues Task Force (EITF) Issue 03-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*. EITF 03-1 provides guidance for determining when an investment is considered impaired, whether impairment is other-than-temporary, and measurement of an impairment loss. An investment is considered impaired if the fair value of the investment is less than its cost. Generally, an impairment is considered other-than-temporary unless: (i) the investor has the ability and intent to hold an investment for a reasonable period of time sufficient for an anticipated recovery of fair value up to (or beyond) the cost of the investment; and (ii) evidence

indicating that the cost of the investment is recoverable within a reasonable period of time outweighs evidence to the contrary. If impairment is determined to be other-than-temporary, then an impairment loss should be recognized equal to the difference between the investment's cost and its fair value. Certain disclosure requirements of EITF 03-1 were adopted in 2003 and the Company began presenting the new disclosure requirements in its consolidated financial statements for the year ended December 31, 2003. The recognition and measurement provisions were initially effective for other-than-temporary impairment evaluations in reporting periods beginning after June 15, 2004. However, in September 2004, the effective date of these provisions was delayed until the finalization of a FASB Staff Position (FSP) to provide additional implementation guidance.

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American Institute of Certified Public Accountants (AICPA) Statement of Position (SOP) No. 03-3, Accounting for Certain Loans or Debt Securities Acquired in a Transfer. SOP 03-3 addresses accounting for differences between the contractual cash flows of certain loans and debt securities and the cash flows expected to be collected when loans or debt securities are acquired in a transfer and those cash flow differences are attributable, at least in part, to credit quality. As such, SOP 03-3 applies to loans and debt securities acquired individually, in pools or as part of a business combination and does not apply to originated loans. The application of SOP 03-3 limits the interest income, including accretion of purchase price discounts, that may be recognized for certain loans and debt securities. Additionally, SOP 03-3 does not allow the excess of contractual cash flows over cash flows expected to be collected to be recognized as an adjustment of yield, loss accrual or valuation allowance, such as the allowance for possible loan losses. SOP 03-3 requires that increases in expected cash flows subsequent to the initial investment be recognized prospectively through adjustment of the yield on the loan or debt security over its remaining life. Decreases in expected cash flows should be recognized as impairment. In the case of loans acquired in a business combination where the loans show signs of credit deterioration, SOP 03-3 represents a significant change from current purchase accounting practice whereby the acquiree's allowance for loan losses is typically added to the acquirer's allowance for loan losses. SOP 03-3 is effective for loans and debt securities acquired by the Company beginning January 1, 2005. The adoption of this new standard is not expected to have a material impact on the Company's financial statements.

Item 7A Quantitative and Qualitative Disclosures about Market Risk

Sources of market risk include interest rate risk, foreign currency exchange rate, commodity price risk and equity price risk. The Company is only subject to interest rate risk. The Company purchased no financial instruments for trading purposes during 2004 or 2003.

The principal objective of the Company's interest rate risk management function is to evaluate the interest rate risk included in balance sheet accounts, determine the level of risk appropriate given the Company's business strategy, operating environment, capital and liquidity requirements and performance objectives, and manage the risk consistent with the Board of Director's approved guidelines. Through such management, the Company seeks to reduce the vulnerability of its operations to changes in interest rates. The Company monitors its interest rate risk as such risk relates to its operating strategies. The Company's Board of Directors reviews the Company's interest rate risk position on a quarterly basis. The Company's Asset/Liability Committee is comprised of the Company's senior management under the direction of the Board of Directors, with the Committee responsible for reviewing with the Board of Directors its activities and strategies, the effect of those strategies on the Company's net interest margin, the market value of the portfolio and the effect that changes in the interest rates will have on the Company's portfolio and its exposure limits. The extent of the movement of interest rates is an uncertainty that could have a negative impact on the earnings of the Company.

In recent years, the Company has utilized the following strategies to manage interest rate risk: (1) originating for investment adjustable rate residential mortgage and fixed rate one-to-four family loans with maturities of 10 years or less; (2) generally selling fixed rate one-to-four family mortgage loans with maturities exceeding 10 years in the secondary market without recourse and on a servicing retained basis; (3) increasing its origination of shorter term and/or adjustable rate commercial loans; and (4) investing in shorter term or adjustable rate investment securities which generally bear lower yields as compared to longer term investments, but which may better position the Company for increases in the market interest rates. The Company has also extended the maturities of deposits and long term debt to better match the maturities and repricing of interest earning assets.

The matching of assets and liabilities may be analyzed by examining the extent to which such assets and liabilities are interest rate sensitive and by monitoring the Company's interest rate sensitivity gap. An asset or liability is said to be interest rate sensitive within a specific time period, if it will mature or reprice within that time period. The interest rate

sensitivity gap is defined as the

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difference between the amount of interest-earning assets maturing or repricing within a specific time period and the amount of interest-bearing liabilities maturing or repricing within that time period. At December 31, 2004, the Company's one-year gap position, the difference between the amount of interest-earning assets maturing or repricing within one year, and interest-bearing liabilities maturing or repricing within one year was \$12,924,000. A gap is considered positive when the amount of interest rate sensitive assets exceeds the amount of interest rate sensitive liabilities. A gap is considered negative when the amount of interest rate sensitive liabilities exceeds the amount of interest rate sensitive assets. Accordingly, during a period of rising interest rates, a financial institution with a negative gap position would tend to have its interest-bearing liabilities repricing upwards at a faster rate, which consequently may result in the cost of its interest-bearing liabilities increasing at a rate faster than its yield on interest-earning assets that if it had a positive gap. During a period of falling interest rates, a financial institution with a negative gap would tend to have its interest-bearing liabilities repricing downward at a faster rate than its interest-earning assets as compared to an institution with a positive gap, which consequently may tend to positively affect the growth of its net interest income.

The following table sets forth the amount of interest-earning assets and interest-bearing liabilities outstanding at December 31, 2004, which are anticipated by the Company, based upon assumptions, to reprice in each of the future time periods shown. Except, as stated below, the amount of assets and liabilities shown which reprice or mature during a particular period were determined in accordance with the earlier of term repricing or the contractual maturity of the asset or liability. The table sets forth an approximation of projected repricing of assets and liabilities on December 31, 2004, on the basis of contractual maturities, anticipated prepayments, and scheduled rate adjustments within the selected time intervals. Annual prepayment rates for adjustable and fixed rate loans are assumed to be 17.5% and 11.0% respectively. Annual prepayment rates for adjustable rate and fixed rate mortgage-backed securities are assumed to be 17.5% and 11.0% respectively. Money market deposits are assumed to be immediately rate sensitive, while passbook accounts and NOW accounts are assumed to have decay rates of 12% annually.

At December 31, 2004, the following table reflects that the Company had a positive asset gap due to the level of loans, securities, deposits, and fed funds sold that are subject to repricing or maturity during 2005. As such, the effect of an increase in rates of 100 basis points would increase net interest income by approximately \$129,240 in one year assuming no management intervention. Due to cumulative negative liability gap for two years, an increase in interest rates would decrease net interest income by approximately \$17,465 for two years assuming no management intervention. A fall in interest rates would have the opposite effect for the same periods. In analyzing interest rate sensitivity, the Company's management considers these differences and incorporates other assumptions and factors, such as balance sheet growth and prepayments, to better measure interest rate risk.

While the gap analysis provides an indication of interest rate sensitivity, experience has shown that it does not fully capture the true dynamics of interest rate changes. Especially, the analysis presents only a static measurement of asset and liability volumes based on contractual maturity, cash flow estimates or repricing opportunity. It fails to reflect the differences in the timing and degree of assets and liabilities due to interest rate changes.

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| (Table amount in thousands) | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | After Year 5 | Total | Value |
|--|-------------------|--------------------|--------------------|-------------------|------------------|------------------|-------------------|-------------------|
| Interest-earning assets: | | | | | | | | |
| Loans | | | | | | | | |
| Fixed rate | \$ 73,372 | \$ 27,438 | \$ 21,487 | \$ 22,827 | \$ 18,056 | \$ 41,871 | \$ 205,051 | \$ 207,080 |
| Average interest rate | 5.76% | 5.87% | 6.07% | 5.83% | 5.72% | 6.08% | 5.87% | |
| Variable rate | 26,328 | 3,001 | 1,897 | 849 | 704 | 0 | 32,779 | 32,779 |
| Average interest rate | 5.16% | 5.43% | 5.64% | 6.58% | 5.63% | 0.00% | 5.26% | |
| Securities | | | | | | | | |
| Fixed rate | 916 | 815 | 3,027 | 646 | 3,021 | 9,621 | 18,046 | 18,046 |
| Average interest rate | 4.79% | 4.79% | 3.81% | 4.70% | 4.84% | 4.18% | 4.30% | |
| Variable rate | 24,162 | | | | | | 24,162 | 24,162 |
| Average interest rate | 4.87% | | | | | | 4.87% | |
| Interest-bearing deposits/federal funds sold | | | | | | | | |
| Fixed rate | 32,667 | | | | | | 32,667 | 32,667 |
| Average interest rate | 2.06% | | | | | | 2.06% | |
| Total interest-earning assets | \$ 157,445 | \$ 31,254 | \$ 26,411 | \$ 24,322 | \$ 21,781 | \$ 51,492 | \$ 312,705 | \$ 314,730 |
| Interest-bearing liabilities: | | | | | | | | |
| Time deposits and savings accounts | | | | | | | | |
| Fixed rate | \$ 5,227 | \$ 5,227 | \$ 5,227 | \$ 5,227 | \$ 5,227 | \$ 17,423 | \$ 43,558 | \$ 43,558 |
| Average interest rate | 0.51% | 0.51% | 0.51% | 0.51% | 0.51% | 0.51% | 0.51% | |
| Money market accounts | 23,894 | | | | | | 23,894 | 23,894 |
| Average interest rate | 1.32% | | | | | | 1.32% | |
| Time deposits | | | | | | | | |
| Fixed rate | 76,539 | 31,779 | 13,138 | 10,813 | 3,138 | | 135,407 | 135,667 |
| Average interest rate | 2.36% | 3.09% | 4.07% | 4.08% | 3.88% | | 2.87% | |
| Variable rate | 3,861 | 1,637 | | | | | 5,498 | 5,498 |
| Average interest rate | 2.97% | 2.97% | | | | | 2.97% | |
| Long-term debt (1) | | | | | | | | |
| Fixed rate | 24,000 | 23,000 | 675 | 0 | 0 | 0 | 47,675 | 62,975 |
| Average interest rate | 1.74% | 2.90% | 6.74% | 0.00% | 0.00% | 0.00% | 2.37% | |
| Variable rate | 11,000 | | | | | | 11,000 | 11,000 |
| Average interest rate | 4.79% | | | | | | 4.79% | |
| Total interest-bearing liabilities | \$ 144,521 | \$ 61,643 | \$ 19,040 | \$ 16,040 | \$ 8,365 | \$ 17,423 | \$ 267,032 | \$ 282,590 |
| Interest-earning assets less interest-bearing liabilities (Gap) | \$ 12,924 | (\$ 30,389) | \$ 7,371 | \$ 8,282 | \$ 13,416 | \$ 34,069 | \$ 45,673 | \$ 32,140 |
| Cumulative gap | \$ 12,924 | (\$ 17,465) | (\$ 10,094) | (\$ 1,812) | \$ 11,604 | \$ 45,673 | \$ 45,673 | \$ 32,140 |
| Cumulative gap as % of interest-earning assets | 4.13% | -5.59% | -3.23% | -0.58% | 3.71% | 14.61% | 14.61% | 10.22% |

-
- (1) Long term debt that contain call features are considered a variable rate instrument and are shown in the first period subject to the call provision.

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Item 8 Financial Statements and Supplementary Data

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**Report of Independent
Registered Public Accounting Firm**

Audit Committee, Board of Directors
and Stockholders
Citizens First Financial Corp.
Bloomington, Illinois

We have audited the accompanying consolidated balance sheets of Citizens First Financial Corp. as of December 31, 2004 and 2003, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these 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 described above present fairly, in all material respects, the financial position of Citizens First Financial Corp. as of December 31, 2004 and 2003, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2004, in conformity with accounting principles generally accepted in the United States of America.

/s/ **BKD, LLP**

Decatur, Illinois
January 21, 2005
except for note 2
as to which the date
is March 8, 2005

Table of Contents**Citizens First Financial Corp.****Consolidated Balance Sheets
December 31, 2004 and 2003**

| | 2004 | 2003 |
|--|----------------|----------------|
| Assets | | |
| Cash and due from banks | \$ 5,436,604 | \$ 6,692,128 |
| Interest-bearing demand deposits | 24,459,557 | 6,890,528 |
| Federal funds sold | 8,207,013 | 3,248,244 |
| | | |
| Cash and cash equivalents | 38,103,174 | 16,830,900 |
| | | |
| Available-for-sale securities | 26,055,036 | 20,745,891 |
| | | |
| Loans held for sale | 587,202 | 376,088 |
| | | |
| Loans, net of allowance for loan losses of \$2,736,014 and \$3,071,690 at December 31, 2004 and 2003 | 234,507,250 | 279,405,053 |
| | | |
| Premises and equipment | 5,515,026 | 6,183,306 |
| | | |
| Federal Home Loan Bank stock | 16,152,500 | 15,205,900 |
| | | |
| Foreclosed assets held for sale, net of allowance for losses of \$22,000 and \$1,313,000 at December 31, 2004 and 2003 | 92,085 | 2,134,825 |
| | | |
| Interest receivable | 1,667,579 | 2,086,988 |
| | | |
| Deferred income taxes | | 866,604 |
| | | |
| Mortgage servicing rights | 356,045 | 468,730 |
| | | |
| Cash surrender value of life insurance | 4,292,074 | 4,115,213 |
| | | |
| Land in real estate joint venture | | 682,664 |
| | | |
| Other assets | 937,556 | 413,123 |
| | | |
| Total assets | \$ 328,265,527 | \$ 349,515,285 |

See Notes to Consolidated Financial Statements

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| | 2004 | 2003 |
|--|----------------|----------------|
| Liabilities and Stockholders Equity | | |
| Liabilities | | |
| Deposits | | |
| Demand | \$ 22,652,193 | \$ 23,309,124 |
| Savings, NOW and money market | 67,451,868 | 67,313,588 |
| Time | 135,994,870 | 149,361,845 |
| Brokered time | 4,909,939 | 10,028,221 |
| | | |
| Total deposits | 231,008,870 | 250,012,778 |
| | | |
| Long-term debt | 58,675,000 | 63,975,000 |
| Advances from borrowers for taxes and insurance | 416,400 | 488,539 |
| Interest payable | 221,784 | 310,783 |
| Deferred income taxes | 167,584 | |
| Other liabilities | 1,728,814 | 1,353,693 |
| | | |
| Total liabilities | 292,218,452 | 316,140,793 |
| | | |
| Minority Interest in Real Estate Joint Venture | | 382,707 |
| | | |
| Commitments and Contingent Liabilities | | |
| | | |
| Stockholders Equity | | |
| Preferred stock, \$.01 par value; authorized and unissued 1,000,000 shares | | |
| Common stock, \$.01 par value; | | |
| Authorized 8,000,000 shares | | |
| Issued 2,817,500 | | |
| Outstanding; 2004 1,550,473 shares, 2003 1,499,475 shares | 28,175 | 28,175 |
| Additional paid-in capital | 28,078,190 | 27,909,984 |
| Retained earnings | 29,241,861 | 26,869,527 |
| Accumulated other comprehensive loss | (20,214) | (19,567) |
| | | |
| | 57,328,012 | 54,788,119 |
| | | |
| Treasury stock, at cost | | |
| Common: 2004 1,267,027 shares, 2003 1,318,025 shares | (21,280,937) | (21,796,334) |
| | | |
| Total stockholders equity | 36,047,075 | 32,991,785 |
| | | |
| Total liabilities and stockholders equity | \$ 328,265,527 | \$ 349,515,285 |

Table of Contents**Citizens First Financial Corp.****Consolidated Statements of Income
Years Ended December 31, 2004, 2003 and 2002**

| | 2004 | 2003 | 2002 |
|---|---------------|---------------|---------------|
| Interest and Dividend Income | | | |
| Loans | \$ 15,187,852 | \$ 17,798,763 | \$ 20,736,994 |
| Securities taxable | 920,268 | 843,669 | 979,881 |
| Federal funds sold | 131,339 | 73,051 | 144,614 |
| Dividends on Federal Home Loan Bank stock | 921,200 | 685,723 | 242,397 |
| Deposits with financial institutions and other | 212,086 | 131,551 | 153,923 |
| | | | |
| Total interest and dividend income | 17,372,745 | 19,532,757 | 22,257,809 |
| | | | |
| Interest Expense | | | |
| Deposits | 4,821,313 | 5,776,505 | 7,727,165 |
| Long-term debt | 1,854,700 | 3,083,899 | 3,589,261 |
| | | | |
| Total interest expense | 6,676,013 | 8,860,404 | 11,316,426 |
| | | | |
| Net Interest Income | 10,696,732 | 10,672,353 | 10,941,383 |
| | | | |
| Provision (Credit) for Loan Losses | (472,534) | 2,462,124 | 1,803,006 |
| | | | |
| Net Interest Income After Provision (Credit) for Loan Losses | 11,169,266 | 8,210,229 | 9,138,377 |
| | | | |
| Noninterest Income | | | |
| Customer service fees | 1,103,955 | 1,009,934 | 930,470 |
| Net gains on loan sales | 127,692 | 1,308,406 | 845,941 |
| Net realized losses on sales of available-for-sale securities | | | (70,722) |
| Net gains from sale of land in real estate joint venture | 230,047 | 467,871 | 247,723 |
| Net gain from sale of premises and equipment | 679,743 | 20,577 | 33,919 |
| Loan servicing fees | 207,708 | 167,166 | 203,467 |
| Increase in cash surrender value of life insurance | 176,861 | 124,852 | |
| Other | 81,680 | 160,422 | 238,989 |
| | | | |
| Total noninterest income | 2,607,686 | 3,259,228 | 2,429,787 |

*See Notes to Consolidated Financial
Statements*

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| | 2004 | 2003 | 2002 |
|--|--------------|--------------|--------------|
| Noninterest Expense | | | |
| Salaries and employee benefits | \$ 4,493,273 | \$ 3,930,481 | \$ 4,399,528 |
| Net occupancy and equipment expenses | 1,078,955 | 1,171,553 | 1,193,125 |
| Data processing fees | 206,069 | 205,624 | 185,792 |
| Professional fees | 381,278 | 258,937 | 247,953 |
| Loss on foreclosed assets, net | 747,705 | 1,365,579 | 284,589 |
| Deposit insurance premium | 72,391 | 38,433 | 41,234 |
| Amortization of mortgage servicing rights | 153,801 | 273,000 | 443,174 |
| Minority interest in net income of real estate joint venture | 97,075 | 233,935 | 123,862 |
| Other | 1,832,110 | 1,412,987 | 1,378,805 |
| | | | |
| Total noninterest expense | 9,062,657 | 8,890,529 | 8,298,062 |
| | | | |
| Income Before Income Taxes | 4,714,295 | 2,578,928 | 3,270,102 |
| | | | |
| Provision for Income Taxes | 1,727,473 | 943,152 | 1,339,766 |
| | | | |
| Net Income | \$ 2,986,822 | \$ 1,635,776 | \$ 1,930,336 |
| | | | |
| Basic Earnings Per Share | \$ 1.98 | \$ 1.11 | \$ 1.31 |
| | | | |
| Diluted Earnings Per Share | \$ 1.87 | \$ 1.01 | \$ 1.21 |

Table of Contents**Citizens First Financial Corp.****Consolidated Statements of Stockholders Equity
Years Ended December 31, 2004, 2003 and 2002**

| | Common Stock Shares | Amount | Additional Paid-in Capital |
|--|--------------------------------|---------------|---|
| Balance, January 1, 2002 | 1,482,438 | \$ 28,175 | \$ 27,685,699 |
| Comprehensive income | | | |
| Net income | | | |
| Change in unrealized appreciation on available-for-sale securities, net of taxes | | | |
| Total comprehensive income | | | |
| Dividends on common stock, \$.31 per share | | | |
| Purchase of stock | (74,094) | | |
| Stock options exercised | 14,960 | | (45,172) |
| Employee stock ownership plan shares earned | 32,200 | | 293,262 |
| Balance, December 31, 2002 | 1,455,504 | 28,175 | 27,933,789 |
| Comprehensive income | | | |
| Net income | | | |
| Change in unrealized depreciation on available-for-sale securities, net of taxes | | | |
| Total comprehensive income | | | |
| Dividends on common stock, \$.40 per share | | | |
| Purchase of stock | (54,577) | | |
| Stock options exercised | 98,548 | | (299,688) |
| Tax benefit related to stock options exercised | | | 275,883 |
| Balance, December 31, 2003 | 1,499,475 | 28,175 | 27,909,984 |
| Comprehensive income | | | |
| Net income | | | |
| Change in unrealized depreciation on available-for-sale securities, net of taxes | | | |
| Total comprehensive income | | | |
| Dividends on common stock, \$.40 per share | | | |
| Purchase of stock | (23,782) | | |
| Stock options exercised | 74,780 | | (282,785) |
| Tax benefit related to stock options exercised | | | 450,991 |
| Balance, December 31, 2004 | 1,550,473 | \$ 28,175 | \$ 28,078,190 |

*See Notes to Consolidated Financial
Statements*

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| | Retained | Unearned | Accumulated | Treasury | |
|--|-----------------|---------------------|----------------------|-----------------|---------------|
| | Earnings | ESOP | Other | Stock | Total |
| | | Compensation | Comprehensive | | |
| | | | Income | | |
| | | | (Loss) | | |
| Balance, January 1, 2002 | \$ 24,371,353 | \$ (322,000) | \$ 52,090 | \$ (20,902,847) | \$ 30,912,470 |
| Comprehensive income | | | | | |
| Net income | 1,930,336 | | | | 1,930,336 |
| Change in unrealized appreciation on available-for-sale securities, net of taxes | | | 144,702 | | 144,702 |
| Total comprehensive income | | | | | 2,075,038 |
| Dividends on common stock, \$.31 per share | (464,351) | | | | (464,351) |
| Purchase of stock | | | | (1,427,230) | (1,427,230) |
| Stock options exercised | | | | 228,214 | 183,042 |
| Employee stock ownership plan shares earned | | 322,000 | | | 615,262 |
| Balance, December 31, 2002 | 25,837,338 | 0 | 196,792 | (22,101,863) | 31,894,231 |
| Comprehensive income | | | | | |
| Net income | 1,635,776 | | | | 1,635,776 |
| Change in unrealized depreciation on available-for-sale securities, net of taxes | | | (216,359) | | (216,359) |
| Total comprehensive income | | | | | 1,419,417 |
| Dividends on common stock, \$.40 per share | (603,587) | | | | (603,587) |
| Purchase of stock | | | | (1,221,082) | (1,221,082) |
| Stock options exercised | | | | 1,526,611 | 1,226,923 |
| Tax benefit related to stock options exercised | | | | | 275,883 |
| Balance, December 31, 2003 | 26,869,527 | 0 | (19,567) | (21,796,334) | 32,991,785 |
| Comprehensive income | | | | | |
| Net income | 2,986,822 | | | | 2,986,822 |
| Change in unrealized depreciation on available-for-sale securities, net of taxes | | | (647) | | (647) |
| Total comprehensive income | | | | | 2,986,175 |

| | | | | | | |
|---|---------------|----|---|----|-----------|-----------------|
| Dividends on common stock, \$.40 per share | (614,488) | | | | | (614,488) |
| Purchase of stock | | | | | (702,678) | (702,678) |
| Stock options exercised | | | | | 1,218,075 | 935,290 |
| Tax benefit related to stock options exercised | | | | | | 450,991 |
| Balance, December 31, 2004 | \$ 29,241,861 | \$ | 0 | \$ | (20,214) | \$ (21,280,937) |
| | | | | | | \$ 36,047,075 |

Table of Contents**Citizens First Financial Corp.****Consolidated Statements of Cash Flows
Years Ended December 31, 2004, 2003 and 2002**

| | 2004 | 2003 | 2002 |
|--|--------------|--------------|--------------|
| Operating Activities | | | |
| Net income | \$ 2,986,822 | \$ 1,635,776 | \$ 1,930,336 |
| Items not requiring (providing) cash | | | |
| Depreciation and amortization | 634,272 | 710,670 | 742,193 |
| Provision (credit) for loan losses | (472,534) | 2,462,124 | 1,803,006 |
| Loss on foreclosed assets, net | 747,705 | 1,365,579 | 284,589 |
| Amortization of premiums and discounts on securities | 80,533 | 195,094 | 147,316 |
| Amortization of mortgage servicing rights | 153,801 | 273,000 | 443,174 |
| Provision for valuation allowance for mortgage servicing rights | | (123,000) | 123,000 |
| Increase in cash surrender value of life insurance | (176,861) | (124,852) | |
| Deferred income taxes | 1,034,598 | 108,635 | (752,166) |
| Net realized losses on available-for-sale securities | | | 70,722 |
| Net gain on sales of premises and equipment | (679,743) | (20,577) | (33,919) |
| Net gain on loan sales | (127,692) | (1,308,406) | (845,941) |
| Loans originated for sale | (7,043,490) | (65,231,740) | (61,081,927) |
| Proceeds from sales of loans originated for resale | 6,918,952 | 72,050,233 | 62,528,157 |
| Federal Home Loan Bank stock dividends | (946,600) | (509,000) | (235,800) |
| Compensation expense related to employee stock ownership and incentive plans | | | 615,262 |
| Net gains from sale of land in real estate joint venture | (230,047) | (467,871) | (247,723) |
| Minority interest in net income of real estate joint venture | 97,075 | 233,935 | 123,862 |
| Change in | | | |
| Interest receivable | 419,409 | 366,008 | 91,800 |
| Other assets | (524,433) | (158,889) | 158,186 |
| Interest payable | (88,999) | (61,760) | (109,637) |
| Other liabilities | 375,121 | (533,438) | 555,428 |
| Net cash provided by operating activities | 3,157,889 | 10,861,521 | 6,309,918 |

*See Notes to Consolidated Financial
Statements*

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| | 2004 | 2003 | 2002 |
|--|----------------------|----------------------|----------------------|
| Investing Activities | | | |
| Purchases of available-for-sale securities | \$ (11,329,764) | \$ (11,922,979) | \$ (15,548,546) |
| Proceeds from maturities of available-for-sale securities | 5,939,029 | 11,335,972 | 5,349,046 |
| Proceeds from sales of available-for-sale securities | | | 5,191,203 |
| Net change in loans | 44,739,784 | (8,059,519) | 3,076,000 |
| Purchase of premises and equipment | (286,249) | (108,388) | (144,511) |
| Proceeds from sales of premises and equipment | 1,000,000 | 27,244 | 157,244 |
| Purchase of Federal Home Loan Bank stock | | (10,000,000) | |
| Proceeds from the sale of foreclosed assets | 1,925,588 | 3,030,042 | 1,959,545 |
| Proceeds from the sale of land in real estate joint venture | 912,711 | 673,197 | 440,570 |
| Distribution to minority interest portion of real estate joint venture | (479,782) | (295,388) | (220,792) |
| Purchase of life insurance | | (3,990,361) | |
| Net cash provided by (used in) investing activities | 42,421,317 | (19,310,180) | 259,759 |
| Financing Activities | | | |
| Net increase (decrease) in demand deposits, money market, NOW and savings accounts | (518,651) | 1,477,328 | 12,064,091 |
| Net increase (decrease) in certificates of deposit and brokered deposits | (18,485,257) | (627,852) | 456,376 |
| Proceeds from long-term debt | 27,000,000 | 15,000,000 | 13,800,000 |
| Repayment of long-term debt | (32,300,000) | (23,850,000) | (10,617,979) |
| Purchase of treasury stock | (702,678) | (1,221,082) | (1,427,230) |
| Dividends paid | (614,488) | (603,587) | (464,351) |
| Proceeds from stock options exercised | 935,290 | 1,226,923 | 183,042 |
| Tax benefit related to stock options exercised | 450,991 | 275,883 | |
| Net increase (decrease) in advances by borrowers for taxes and insurance | (72,139) | 19,027 | 88,673 |
| Net cash provided by (used in) financing activities | (24,306,932) | (8,303,360) | 14,082,622 |
| Increase (Decrease) in Cash and Cash Equivalents | 21,272,274 | (16,752,019) | 20,652,299 |
| Cash and Cash Equivalents, Beginning of Year | 16,830,900 | 33,582,919 | 12,930,620 |
| Cash and Cash Equivalents, End of Year | \$ 38,103,174 | \$ 16,830,900 | \$ 33,582,919 |
| Supplemental Cash Flows Information | | | |
| Interest paid | \$ 6,765,012 | \$ 8,922,164 | \$ 11,426,063 |

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| | | | |
|---|---------|-----------|-----------|
| Income taxes paid (net of refunds) | 952,651 | 1,023,977 | 1,649,878 |
| Real estate acquired in settlement of loans | 630,553 | 5,030,782 | 3,428,559 |

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Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Citizens First Financial Corp. (Company) is a thrift holding company whose principal activity is the ownership and management of its wholly-owned subsidiary, Citizens Savings Bank (Bank). The Bank is primarily engaged in providing a full range of banking and financial services to individual and corporate customers in Central Illinois. The Bank has one wholly owned subsidiary, CSL Service Corporation. CSL Service Corporation entered into a joint venture real estate development partnership (LLC) with two other investors and is a 50% owner of the LLC. The primary business of the LLC is to purchase and develop commercial real estate. CSL Service Corporation sold its remaining interest in the LLC to the other two investors during 2004. The Company is subject to competition from other financial institutions. The Company and Bank are subject to the regulation of certain federal and state agencies and undergo periodic examinations by those regulatory authorities.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and the Bank. All significant intercompany accounts and transactions have been eliminated in consolidation. The accounts of the LLC have been consolidated into the Company s financial statements. The cost basis investment in the real estate and the minority interest owned portion are reflected on the consolidated balance sheets.

Use of Estimates

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

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan losses, the valuation of real estate acquired in connection with foreclosures or in satisfaction of loans, mortgage servicing rights, and prepayment assumptions used in determining amortization of premiums on mortgage backed securities. In connection with the determination of the allowance for loan losses and the valuation of foreclosed assets held for sale, management obtains independent appraisals for significant properties. Management estimates mortgage servicing rights taking into consideration changes in interest rates, current prepayment rates and expected future cash flows and obtains an independent valuation for the assets. Management periodically reviews the prepayment assumptions used in determining the amortization of premiums on mortgage backed securities.

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Cash Equivalents

The Company considers all liquid investments with original maturities of three months or less to be cash equivalents.

Securities

Available-for-sale securities, which include any security for which the Company has no immediate plan to sell but which may be sold in the future, are carried at fair value. Unrealized gains and losses are recorded, net of related income tax effects, in other comprehensive income.

Amortization of premiums and accretion of discounts are recorded as interest income from securities; taking into account prepayment assumptions. Realized gains and losses are recorded as net security gains (losses). Gains and losses on sales of securities are determined on the specific-identification method.

Loans Held for Sale

Mortgage loans originated and intended for sale in the secondary market are carried at the lower of cost or fair value in the aggregate. Net unrealized losses, if any, are recognized through a valuation allowance by charges to income.

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at their outstanding principal balances adjusted for any charge-offs and the allowance for loan losses. Interest income is reported on the interest method. Generally, loans are placed on non-accrual status at ninety days and interest is considered a loss, unless the loan is well secured and in the process of collection.

Allowance for Loan Losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to income. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

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The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis for commercial, agricultural, and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price or the fair value of the collateral if the loan is collateral dependent.

Large groups of smaller balance homogenous loans are collectively evaluated for impairment. Accordingly, the Company does not separately identify individual consumer and residential loans for impairment measurements.

Land in Real Estate Joint Venture

Land in real estate joint venture is carried at cost, with land and development costs allocated to lots when incurred.

Premises and Equipment

Depreciable assets are stated at cost less accumulated depreciation. Depreciation is charged to expense using the straight-line method over the estimated useful lives of the assets.

Federal Home Loan Stock

Federal Home Loan Bank stock is a required investment for institutions that are members of the Federal Home Loan Bank system. The required investment in the common stock is based on a predetermined formula.

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Foreclosed Assets Held for Sale

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in net loss from foreclosed assets.

Mortgage Servicing Rights

Mortgage servicing rights on originated loans that have been sold are capitalized by allocating the total cost of the mortgage loans between the mortgage servicing rights and the loans based on their relative fair values. Capitalized servicing rights are amortized in proportion to and over the period of estimated servicing revenues. Impairment of mortgage-servicing rights is assessed based on the fair value of those rights. Fair values are estimated using either an independent valuation or by discounted cash flows based on a current market interest rate. For purposes of measuring impairment, the rights are stratified based on the predominant risk characteristics of the underlying loans. The predominant characteristic currently used for stratification is type of loan. The amount of impairment recognized is the amount by which the capitalized mortgage servicing rights for a stratum exceed their fair value.

Treasury Stock

Treasury stock is stated at cost. Cost is determined by the first-in, first-out method.

Table of Contents***Stock Options***

The Company has a stock-based employee compensation plan, which is described more fully in Note 17. The Company accounted for this plan under the recognition and measurement principles of APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and related Interpretations. No stock-based employee compensation cost is reflected in net income, as all options granted under those plans had an exercise price equal to the market value of the underlying common stock on the grant date. The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value provisions of FASB Statement No. 123R, *Share-Based Payment*, which is a revision to Statement No. 123, *Accounting for Stock-Based Compensation*, to stock-based employee compensation. See Note 22 in regard to a future change in accounting principle.

| | Years Ended December 31, | | |
|---|---------------------------------|--------------|--------------|
| | 2004 | 2003 | 2002 |
| Net income, as reported | \$ 2,986,822 | \$ 1,635,776 | \$ 1,930,336 |
| Less: total stock-based employee compensation cost determined under the fair value based method, net of income taxes. | (93,588) | (82,923) | (109,706) |
| Pro forma net income | \$ 2,893,234 | \$ 1,552,853 | \$ 1,820,630 |
| Earnings per share: | | | |
| Basic as reported | \$ 1.98 | \$ 1.11 | \$ 1.31 |
| Basic pro forma | 1.92 | 1.05 | 1.24 |
| Diluted as reported | 1.87 | 1.01 | 1.21 |
| Diluted pro forma | 1.81 | 0.96 | 1.14 |

Income Taxes

Deferred tax assets and liabilities are recognized for the tax effects of differences between the financial statement and tax bases of assets and liabilities. A valuation allowance is established to reduce deferred tax assets if it is more likely than not that a deferred tax asset will not be realized. The Company files consolidated income tax returns with its subsidiary.

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Earnings Per Share

Basic earnings per share have been computed based upon the weighted-average common shares outstanding during each year. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the Company

Shares in the Company's employee stock ownership plan are considered outstanding for earnings per share calculations when they are committed to be released; unallocated shares are not considered outstanding.

Reclassifications

Certain reclassifications have been made to the 2002 and 2003 financial statements to conform to the 2004 financial statement presentation. These reclassifications had no effect on net income.

Note 2: Merger Agreement

In November 2004, the Company entered into an Agreement and Plan of Merger with Main Street Trust, Inc. (Main Street), an Illinois corporation. Main Street Trust, Inc. will acquire all of the Company's issued and outstanding shares of common stock. Each of the Company's shareholders will have the option of receiving either 1.1051 shares of Main Street's stock for each share of the Company's stock or \$35.00 of cash for each share of the Company's common stock or a combination of both. The transaction has been approved by state and federal regulators and was approved by the Company's shareholders on March 8, 2005 and is expected to close in the second quarter of 2005. Upon approval by the shareholders, the Company amended the existing stock option agreement and expects to settle all unexercised options based upon the transaction price immediately prior to closing the transaction. Such action will result in recording compensation expense for outstanding options in the first quarter of 2005.

Note 3: Restriction on Cash and Due From Banks

The Company is required to maintain reserve funds in cash and/or on deposit with the Federal Reserve Bank. The reserve required at December 31, 2004, was \$500,000.

Table of Contents**Note 4: Securities**

The amortized cost and approximate fair values of securities available for sale are as follows:

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Approximate Fair Value |
|----------------------------|---------------------------|---------------------------------------|--|-----------------------------------|
| December 31, 2004: | | | | |
| U.S. government agencies | \$ 9,799,546 | \$ 14,000 | \$ (94,190) | \$ 9,719,356 |
| Mortgage-backed securities | 15,288,530 | 174,118 | (111,908) | 15,350,740 |
| Other securities | 1,000,000 | | (15,060) | 984,940 |
| | \$ 26,088,076 | \$ 188,118 | \$ (221,158) | \$ 26,055,036 |

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Approximate Fair Value |
|----------------------------|---------------------------|---------------------------------------|--|-----------------------------------|
| December 31, 2003: | | | | |
| U.S. government agencies | \$ 6,802,487 | \$ | \$ (48,247) | \$ 6,754,240 |
| Mortgage-backed securities | 12,978,111 | 155,173 | (134,746) | 12,998,538 |
| Other securities | 1,002,141 | | (9,028) | 993,113 |
| | \$ 20,782,739 | \$ 155,173 | \$ (192,021) | \$ 20,745,891 |

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The amortized cost and fair value of available-for-sale securities at December 31, 2004, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

| | Amortized Cost | Fair Value |
|----------------------------|---------------------------|-----------------------|
| One to five years | \$ 2,325,428 | \$ 2,301,380 |
| Five to ten years | 4,471,192 | 4,409,350 |
| | 6,796,620 | 6,710,730 |
| Mortgage-backed securities | 15,288,530 | 15,350,740 |
| Other securities | 4,002,926 | 3,993,566 |
| Totals | \$ 26,088,076 | \$ 26,055,036 |

The carrying value of securities pledged as collateral, to secure public deposits and for other purposes, was \$6,874,000 at December 31, 2004 and \$6,217,000 at December 31, 2003.

Gross gains of \$157,025 and gross losses of \$227,747 resulting from sales of available-for-sale securities were realized for 2002. There were no sales of securities in 2004 or 2003.

With the exception of securities of U.S. government agencies and corporations, the Company did not hold any securities of a single issuer, payable from and secured by the same source of revenue or taxing authority, the book value of which exceeded 10% of stockholder's equity at December 31, 2004.

Certain investments in debt securities are reported in the financial statements at an amount less than their historical cost. Total fair value of these investments at December 31, 2004 and 2003, was \$13,915,807 and \$13,879,790, which is approximately 53% and 67% of the Company's available-for-sale investment portfolio. These declines primarily resulted from recent increases in market interest rates.

Based on evaluation of available evidence, including recent changes in market interest rates, management believes the declines in fair value for these securities are temporary.

Should the impairment of any of these securities become other than temporary, the cost basis of the investment will be reduced and the resulting loss recognized in net income in the period the other-than-temporary impairment is identified.

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The following table shows the investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2004:

| Description of Securities | Less Than 12 Months | | 12 Months or More | | Total | |
|---------------------------------------|---------------------|-------------------|-------------------|-------------------|---------------|-------------------|
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| December 31, 2004: | | | | | | |
| U.S. government agencies | \$ 3,455,450 | \$ (38,589) | \$ 4,246,980 | \$ (55,601) | \$ 7,702,430 | \$ (94,190) |
| Mortgage-backed securities | 75,038 | (1,219) | 5,153,399 | (110,689) | 5,228,437 | (111,908) |
| Other securities | | | 984,940 | (15,060) | 984,940 | (15,060) |
| Total temporarily impaired securities | \$ 3,530,488 | \$ (39,808) | \$ 10,385,319 | \$ (181,350) | \$ 13,915,807 | \$ (221,158) |

| Description of Securities | Less Than 12 Months | | 12 Months or More | | Total | |
|---------------------------------------|---------------------|-------------------|-------------------|-------------------|---------------|-------------------|
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| December 31, 2003: | | | | | | |
| U.S. government agencies | \$ 5,802,487 | \$ (48,247) | \$ | \$ | \$ 5,802,487 | \$ (48,247) |
| Mortgage-backed securities | 6,187,447 | (112,356) | 896,743 | (22,390) | 7,084,190 | (134,746) |
| Other securities | 993,113 | (9,028) | | | 993,113 | (9,028) |
| Total temporarily impaired securities | \$ 12,983,047 | \$ (169,631) | \$ 896,743 | \$ (22,390) | \$ 13,879,790 | \$ (192,021) |

Table of Contents**Note 5: Loans and Allowance for Loan Losses**

Categories of loans at December 31, include:

| | 2004 | 2003 |
|------------------------------|----------------|----------------|
| Commercial and agricultural | \$ 30,536,297 | \$ 38,046,955 |
| Real estate construction | 27,625,900 | 36,577,259 |
| Commercial real estate | 71,633,177 | 86,368,436 |
| Residential real estate | 107,299,556 | 120,935,864 |
| Consumer and Other | 7,500,838 | 9,865,757 |
| | | |
| Total loans | 244,595,768 | 291,794,271 |
| | | |
| Less | | |
| Undisbursed portion of loans | (7,352,504) | (9,317,528) |
| Allowance for loan losses | (2,736,014) | (3,071,690) |
| | | |
| Net loans | \$ 234,507,250 | \$ 279,405,053 |

Activity in the allowance for loan losses was as follows:

| | 2004 | 2003 | 2002 |
|---------------------------------------|--------------|--------------|--------------|
| Balance, beginning of year | \$ 3,071,690 | \$ 3,753,324 | \$ 2,421,460 |
| Provision (credit) charged to expense | (472,534) | 2,462,124 | 1,803,006 |
| Recoveries | 410,738 | 45,219 | |
| Charge-offs | (273,880) | (3,188,977) | (471,142) |
| | | | |
| Balance, end of year | \$ 2,736,014 | \$ 3,071,690 | \$ 3,753,324 |

Impaired loans totaled \$13,681,000 and \$24,066,000 at December 31, 2004 and 2003, respectively. An allowance for loan losses of \$1,513,000 and \$1,655,000 relates to impaired loans of \$5,255,000 and \$7,427,410, at December 31, 2004 and 2003, respectively. At December 31, 2004 and 2003, impaired loans of \$8,426,000 and \$16,638,590 had no related allowance for loan losses.

Interest of \$1,371,703, \$729,250 and \$1,685,923 was recognized on average impaired loans of \$22,976,600, \$22,410,190 and \$21,074,038 for 2004, 2003 and 2002, respectively. Interest of \$1,368,829, \$728,124 and \$1,560,973 was recognized on impaired loans on a cash basis during 2004, 2003 and 2002, respectively.

At December 31, 2004 and 2003, accruing loans delinquent 90 days or more totaled \$0 and \$7,000, respectively. Non-accruing loans at December 31, 2004 and 2003 were \$725,000 and \$2,452,000, respectively.

Table of Contents**Note 6: Foreclosed Assets Held for Sale**

Activity in the allowance for losses on foreclosed assets was as follows:

| | 2004 | 2003 | 2002 |
|---|--------------|--------------|-------------|
| Balance, beginning of year | \$ 1,313,000 | \$ 233,650 | \$ |
| Provision charged to expense | 484,000 | 1,324,500 | 283,650 |
| Charge-offs, net of recoveries of \$0 for 2004, 2003 and 2002 | (1,775,000) | (245,150) | (50,000) |
| | | | |
| Balance, end of year | \$ 22,000 | \$ 1,313,000 | \$ 233,650 |

Note 7: Premises and Equipment

Major classifications of premises and equipment, stated at cost, are as follows:

| | 2004 | 2003 |
|-------------------------------|--------------|--------------|
| Land | \$ 1,410,660 | \$ 1,572,451 |
| Buildings and improvements | 6,179,056 | 7,425,737 |
| Equipment | 4,197,632 | 4,032,190 |
| | 11,787,348 | 13,030,378 |
| Less accumulated depreciation | (6,272,322) | (6,847,072) |
| | | |
| Net premises and equipment | \$ 5,515,026 | \$ 6,183,306 |

Note 8: Loan Servicing

Mortgage loans serviced for others are not included in the accompanying consolidated balance sheets. The unpaid principal balances of mortgage loans serviced for others was \$83,476,395, \$96,083,972 and \$100,622,417 at December 31, 2004, 2003 and 2002, respectively.

Custodial escrow balances maintained in connection with the foregoing loan servicing, and included in demand deposits, were approximately \$411,626, \$430,211 and \$465,670 at December 31, 2004, 2003 and 2002, respectively.

The aggregate fair value of capitalized mortgage servicing rights at December 31, 2004 and 2003 totaled \$356,045 and \$468,730, respectively. Comparable market values and a valuation model that calculates the present value of future cash flows were used to estimate fair value. For purposes of measuring impairment, risk characteristics including product type, investor type, and interest rates, were used to stratify the originated mortgage servicing rights.

| 2004 | 2003 | 2002 |
|-------------|-------------|-------------|
|-------------|-------------|-------------|

| | | | |
|----------------------------------|------------|------------|------------|
| Mortgage Servicing Rights | | | |
| Balance, beginning of year | \$ 468,730 | \$ 529,563 | \$ 761,267 |
| Servicing rights capitalized | 41,116 | 212,167 | 211,470 |
| Amortization of servicing rights | (153,801) | (273,000) | (443,174) |
| | 356,045 | 468,730 | 529,563 |
| Valuation allowance | | | (123,000) |
| Balance, end of year | \$ 356,045 | \$ 468,730 | \$ 406,563 |

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Activity in the valuation allowance for mortgage servicing rights was as follows:

| | 2003 | 2002 |
|----------------------------|-------------|-------------|
| Balance, beginning of year | \$ 123,000 | \$ |
| Additions | | 123,000 |
| Reductions | (123,000) | |
| Direct write downs | | |
| Balance, end of year | \$ | \$ 123,000 |

Table of Contents**Note 9: Interest-bearing Deposits**

Interest-bearing deposits in denominations of \$100,000 or more were \$52,907,197 at December 31, 2004 and \$45,809,400 at December 31, 2003.

At December 31, 2004, the scheduled maturities of time deposits, including brokered deposits, are as follows:

| | |
|------|----------------|
| 2005 | \$ 80,442,667 |
| 2006 | 33,373,132 |
| 2007 | 13,137,986 |
| 2008 | 10,812,541 |
| 2009 | 3,138,483 |
| | \$ 140,904,809 |

Note 10: Long-Term Debt

Long-term debt consisted of the following components:

| | 2004 | 2003 |
|---------------------------------|---------------|---------------|
| Federal Home Loan Bank advances | \$ 56,675,000 | \$ 61,975,000 |
| Bank note payable | 2,000,000 | 2,000,000 |
| Total | \$ 58,675,000 | \$ 63,975,000 |

The Federal Home Loan Bank (FHLB) advances are secured by mortgage loans totaling \$96,106,000 at December 31, 2004 and all FHLB stock owned by the Company. Advances, at interest rates from 1.24% to 6.74%, are subject to restrictions or penalties in the event of prepayment. At December 31, 2004, the Company had \$9,000,000 in FHLB advances having a weighted average rate of 4.95% which are callable.

The bank note payable is due on June 1, 2005, with interest due at maturity adjusted to 1.75% over LIBOR. The interest rate on the bank note was 4.07% as of December 31, 2004. The note is secured by the stock of the Bank.

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Aggregate annual maturities of long-term debt at December 31, 2004, are:

| | |
|------|---------------|
| 2005 | \$ 26,000,000 |
| 2006 | 23,000,000 |
| 2007 | 675,000 |
| 2008 | 9,000,000 |
| | \$ 58,675,000 |

Note 11: Income Taxes

The provision for income taxes includes these components:

| | 2004 | 2003 | 2002 |
|-------------------------|--------------|-------------|--------------|
| Taxes currently payable | | | |
| Federal | \$ 646,550 | \$ 688,662 | \$ 1,751,087 |
| State | 46,325 | 145,855 | 340,845 |
| | 692,875 | 834,517 | 2,091,932 |
| Deferred income taxes | | | |
| Federal | 917,333 | 94,489 | (659,114) |
| State | 117,265 | 14,146 | (93,052) |
| | 1,034,598 | 108,635 | (752,166) |
| Income tax expense | \$ 1,727,473 | \$ 943,152 | \$ 1,339,766 |

A reconciliation of income tax expense at the statutory rate to the Company's actual income tax expense is shown below:

| | 2004 | 2003 | 2002 |
|--------------------------------------|--------------|-------------|--------------|
| Computed at the statutory rate (34%) | \$ 1,602,860 | \$ 876,836 | \$ 1,111,835 |
| Increase (decrease) resulting from | | | |
| State income taxes | 107,970 | 74,045 | 163,543 |
| Other | 16,643 | (7,729) | 64,388 |
| Actual tax expense | \$ 1,727,473 | \$ 943,152 | \$ 1,339,766 |

During 2004 and 2003, participants in the stock option plan exercised and sold shares resulting in a disqualifying disposition. The amount of the deductions for the Company totaled \$450,991 and \$275,883 during 2004 and 2003, respectively, and are recognized as an adjustment to additional paid in capital.

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The tax effects of temporary differences related to deferred taxes shown on the balance sheets were:

| | 2004 | 2003 |
|--|--------------|--------------|
| Deferred tax assets | | |
| Allowance for loan losses | \$ 1,001,092 | \$ 1,131,401 |
| Deferred compensation | 501,612 | 480,049 |
| Valuation of foreclosed assets | 8,540 | 509,707 |
| Unrealized losses on available-for-sale securities | 17,691 | 17,281 |
| Other | 14,283 | 29,996 |
| | 1,543,218 | 2,168,434 |
| | | |
| Deferred tax liabilities | | |
| Depreciation | (473,119) | (431,377) |
| Federal Home Loan Bank stock dividends | (980,871) | (623,368) |
| Capitalized mortgage servicing rights | (138,217) | (181,961) |
| Deferred loan fees | (36,813) | (52,654) |
| Other | (81,782) | (12,470) |
| | (1,710,802) | (1,301,830) |
| | | |
| Net deferred tax asset | \$ (167,584) | \$ 866,604 |

Retained earnings at December 31, 2004 and 2003, include approximately \$2,144,000, for which no deferred federal income tax liability has been recognized. These amounts represent an allocation of income to bad debt deductions for tax purposes only. Reduction of amounts so allocated for purposes other than tax bad debt losses or adjustments arising from carryback of net operating losses would create income for tax purposes only, which would be subject to the then-current corporate income tax rate. The deferred income tax liabilities on the preceding amounts that would have been recorded if they were expected to reverse into taxable income in the foreseeable future were approximately \$832,000 at December 31, 2004 and 2003, respectively.

Table of Contents**Note 12: Other Comprehensive Income (Loss)**

Other comprehensive income (loss) components and related taxes were as follows:

| | 2004 | 2003 | 2002 |
|---|-------------|--------------|-------------|
| Unrealized gains (losses) on available-for-sale securities | \$ (1,057) | \$ (358,508) | \$ 307,240 |
| Less reclassification adjustment for realized losses included in income | | | 70,722 |
| Other comprehensive income (loss), before tax effect | (1,057) | (358,508) | 236,518 |
| Tax expense (benefit) | (410) | (142,149) | 91,816 |
| Other comprehensive income (loss) | \$ (647) | \$ (216,359) | \$ 144,702 |

Note 13: Regulatory Matters

The Bank is 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 Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the following table). Management believes, as of December 31, 2004 and 2003, that the Bank meets all capital adequacy requirements to which it is subject.

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As of December 31, 2004, the most recent notification from Federal Deposit Insurance Corporation (FDIC) categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier I risk-based and Tier I leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the Bank's category.

| | Actual | | For Capital Adequacy Purposes | | To Be Well Capitalized Under Prompt Corrective Action Provisions | |
|--|-----------|-------|-------------------------------|-------|--|-------|
| | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| As of December 31, 2004 | | | | | | |
| Total capital (to risk-weighted assets) | \$ 34,588 | 16.7% | \$ 16,597 | 8.0% | \$ 20,747 | 10.0% |
| Tier I capital (to risk-weighted assets) | 31,994 | 15.4 | 8,299 | 4.0 | 12,448 | 6.0 |
| Tier I capital (to average assets) | 31,944 | 9.9 | 12,903 | 4.0 | 16,128 | 5.0 |
| As of December 31, 2003 | | | | | | |
| Total capital (to risk-weighted assets) | \$ 32,869 | 13.5% | \$ 19,438 | 8.0% | \$ 24,298 | 10.0% |
| Tier I capital (to risk-weighted assets) | 29,847 | 12.3 | 9,719 | 4.0 | 14,579 | 6.0 |
| Tier I capital (to average assets) | 29,847 | 8.6 | 13,913 | 4.0 | 17,391 | 5.0 |

The Bank is subject to certain restrictions on the amount of dividends that it may declare without prior regulatory approval.

As an Illinois chartered savings bank, the Bank is subject to supervision, examination and regulation by the Illinois Department of Financial and Professional Regulation and the Federal Deposit Insurance Corporation (collectively, the Regulators). In January 2004, the Bank's Board of Directors entered into a Memorandum of Understanding (MOU) that required the Bank to take various actions regarding the Bank's lending operations. After meeting the terms of the MOU, in December 2004, the Regulators terminated the MOU.

Table of Contents**Note 14: Related Party Transactions**

At December 31, 2004 and 2003, the Company had loans outstanding to executive officers, directors, significant shareholders and their affiliates (related parties).

In management's opinion, such loans and other extensions of credit were made in the ordinary course of business and were made on substantially the same terms (including interest rates and collateral) as those prevailing at the time for comparable transactions with other persons. Further, in management's opinion, these loans did not involve more than normal risk of collectibility or present other unfavorable features.

The aggregate amount of loans, as defined, to such related parties were as follows:

| | |
|--|------------------|
| Balance, January 1, 2004 | \$ 11,736,901 |
| Change in composition of related parties | 37,756 |
| New loans, including renewals | 2,411,953 |
| Payments, etc. including renewals | (8,600,876) |
| | |
| Balance, December 31, 2004 | \$ 5,585,734 |

Note 15: Employee Benefits

The Company has a defined contribution pension plan (combined profit sharing and 401(k) plan) (Plan) covering substantially all employees. The amount of the annual profit-sharing contribution is at the discretion of the Board of Directors. The Plan also provides for matched employee contributions up to a maximum of 4% of the participant's gross salary. Employer contributions charged to expense for 2004, 2003 and 2002 were \$247,275, \$170,550 and \$204,000, respectively.

The Company has a non-qualified supplemental retirement plan (SERP) covering certain officers and key employees. The benefits provided under the SERP will make up the benefits lost to the SERP participants due to limitations on compensation and maximum benefits under the Company's tax qualified savings plan and ESOP. Benefits will be provided under the SERP at the same time and in the same form as the related benefits will be provided under the savings plan and ESOP. The Company's expense for the SERP was \$125,161, \$15,189 and \$45,918 for 2004, 2003 and 2002, respectively.

Table of Contents**Note 16: Employee Stock Ownership Plan**

The Bank has an employee stock ownership plan for the benefit of substantially all employees. The ESOP borrowed \$2,254,000 from the Company and used those funds to acquire 225,400 shares of the Company's stock at \$10 per share. Principal payments were made in even annual amounts over a seven year period. The last principal payment was made on December 31, 2002.

Shares issued to the ESOP were allocated to ESOP participants based on principal repayments made by the ESOP on the loan from the Company.

Shares totaling 32,200 for 2002 with an average fair value of \$19.11 per share were committed to be released, resulting in ESOP compensation expense of \$615,262. There were no shares committed to be released and no ESOP compensation expense for 2004 and 2003. The ESOP shares as of December 31 were as follows:

| | 2004 | 2003 |
|--|-------------|-------------|
| Allocated shares | 200,026 | 219,962 |
| Shares released for allocation | | |
| Unreleased shares | | |
| | | |
| Total ESOP shares | 200,026 | 219,962 |
| | | |
| Fair value of unreleased shares at December 31 | \$ | \$ |

Table of Contents**Note 17: Stock Option Plan**

The Company has a fixed option plan under which the Company may grant options that vest pro-rata over five years to selected officers and directors. The exercise price of each option is intended to equal the fair value of the Company's stock on the date of grant. An option's maximum term is ten years.

A summary of the status of the plan at December 31, 2004, 2003 and 2002, and changes during the years then ended is presented below:

| | 2004 | | 2003 | | 2002 | |
|----------------------------------|---------------|--|---------------|--|---------------|--|
| | Shares | Weighted-Average Exercise Price | Shares | Weighted-Average Exercise Price | Shares | Weighted-Average Exercise Price |
| Outstanding, beginning of year | 262,100 | \$ 12.87 | 357,248 | \$ 12.43 | 359,708 | \$ 12.31 |
| Granted | 2,500 | 23.25 | 10,000 | 25.10 | 12,500 | 17.55 |
| Exercised | 74,780 | 12.51 | 98,548 | 12.45 | 14,960 | 12.23 |
| Forfeited | 3,200 | 11.69 | 6,600 | 12.07 | | |
| Outstanding, end of year | 186,620 | \$ 13.33 | 262,100 | \$ 12.87 | 357,248 | \$ 12.43 |
| Options exercisable, end of year | 163,120 | | 225,457 | | 301,510 | |

The fair value of options granted is estimated on the date of the grant using an option-pricing model with the following weighted-average assumptions:

| | 2004 | 2003 |
|--|-------------|-------------|
| Dividend yields | 1.72% | 1.58% |
| Volatility factors of expected market price of common stock | 20.68% | 11.96% |
| Risk-free interest rates | 4.25% | 3.20% |
| Expected life of options | 10 years | 10 years |
| Weighted-average fair value of options granted during the year | \$ 6.96 | \$ 4.89 |

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The following table summarizes information about stock options under the plan outstanding at December 31, 2004:

| Exercise Prices | Number Outstanding | Options Outstanding | | Options Exercisable | |
|-----------------|--------------------|---|---------------------------------|---------------------|---------------------------------|
| | | Weighted-Average Remaining Contractual Life | Weighted-Average Exercise Price | Number Exercisable | Weighted-Average Exercise Price |
| \$12.30 | 109,220 | 2.1 years | \$ 12.30 | 109,220 | \$ 12.30 |
| 11.69 | 38,400 | 5 years | 11.60 | 38,400 | 11.69 |
| 13.94 | 2,500 | 4.3 years | 13.94 | 2,500 | 13.94 |
| 13.44 | 5,000 | 5.75 years | 13.44 | 4,000 | 13.44 |
| 12.00 | 9,000 | 6 years | 12.00 | 3,000 | 12.00 |
| 23.25 | 2,500 | 9.33 years | 23.25 | | 23.25 |
| 25.10 | 10,000 | 9 years | 25.10 | 2,000 | 25.10 |
| 17.55 | 10,000 | 8 years | 17.55 | 4,000 | 17.55 |
| | 186,620 | | | 163,120 | |

Note 18: Earnings Per Share

Earnings per share (EPS) were computed as follows:

| | Year Ended December 31, 2004 | | |
|---|------------------------------|-------------------------|------------------|
| | Income | Weighted-Average Shares | Per Share Amount |
| Basic earnings per share | | | |
| Income available to common stockholders | \$ 2,986,822 | 1,506,717 | \$ 1.98 |
| Effect of dilutive securities stock options | | 94,231 | |
| Diluted earnings per share | | | |
| Income available to common stockholders and assumed conversions | \$ 2,986,822 | 1,600,948 | \$ 1.87 |

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| | Year Ended December 31, 2003 | | |
|---|-------------------------------------|--------------------------------|-------------------------|
| | Income | Weighted-Average Shares | Per Share Amount |
| Basic earnings per share | | | |
| Income available to common stockholders | \$ 1,635,776 | 1,478,568 | \$ 1.11 |
| Effect of dilutive securities stock options | | 136,246 | |
| Diluted earnings per share | | | |
| Income available to common stockholders and assumed conversions | \$ 1,635,776 | 1,614,814 | \$ 1.01 |
| Year Ended December 31, 2002 | | | |
| | Income | Weighted-Average Shares | Per Share Amount |
| Basic earnings per share | | | |
| Income available to common stockholders | \$ 1,930,336 | 1,469,003 | \$ 1.31 |
| Effect of dilutive securities stock options | | 131,026 | |
| Diluted earnings per share | | | |
| Income available to common stockholders and assumed conversions | \$ 1,930,336 | 1,600,029 | \$ 1.21 |

Table of Contents**Note 19: Disclosures about Fair Value of Financial Instruments**

The following table presents estimated fair values of the Company's financial instruments. The fair values of certain of these instruments were calculated by discounting expected cash flows, which involves significant judgments by management and uncertainties. Fair value is the estimated amount at which financial assets or liabilities could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Because no market exists for certain of these financial instruments and because management does not intend to sell these financial instruments, the Company does not know whether the fair values shown below represent values at which the respective financial instruments could be sold individually or in the aggregate.

| | December 31, 2004 | | December 31, 2003 | |
|---|--------------------------|--------------------------------|--------------------------|--------------------------------|
| | Amount | Carrying Fair Value | Amount | Carrying Fair Value |
| Financial assets | | | | |
| Cash and cash equivalents | \$ 38,103,174 | \$ 38,103,174 | \$ 16,830,900 | \$ 16,830,900 |
| Available-for-sale securities | 26,055,036 | 26,055,036 | 20,745,891 | 20,745,891 |
| Loans held for sale | 587,202 | 587,202 | 376,088 | 376,088 |
| Loans, net of allowance for loan losses | 234,507,250 | 236,538,054 | 279,405,053 | 284,125,582 |
| Federal Home Loan Bank stock | 16,152,500 | 16,152,500 | 15,205,900 | 15,205,900 |
| Interest receivable | 1,667,579 | 1,667,579 | 2,086,988 | 2,086,988 |
| Cash surrender value of life insurance | 4,292,074 | 4,292,074 | 4,115,213 | 4,115,213 |
| Financial liabilities | | | | |
| Deposits | 231,008,870 | 231,265,251 | 250,012,778 | 251,322,278 |
| Long-term debt | 58,675,000 | 57,102,433 | 63,975,000 | 64,977,140 |
| Advance payments by borrowers for taxes and insurance | 416,400 | 416,400 | 488,539 | 488,539 |
| Interest payable | 221,784 | 221,784 | 310,783 | 310,783 |
| Unrecognized financial instruments (net of contract amount) | | | | |
| Commitments to originate loans | 0 | 0 | 0 | 0 |
| Letters of credit | 0 | 0 | 0 | 0 |
| Lines of credit | 0 | 0 | 0 | 0 |

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The following methods and assumptions were used to estimate the fair value of each class of financial instruments.

Cash and Cash Equivalents, Federal Home Loan Bank Stock, and Cash Surrender Value of Life Insurance

The carrying amount approximates fair value.

Securities

Fair values equal quoted market prices, if available. If quoted market prices are not available, fair value is estimated based on quoted market prices of similar securities.

Loans Held for Sale

For homogeneous categories of loans, such as mortgage loans held for sale, fair value is estimated using the quoted market prices for securities backed by similar loans, adjusted for differences in loan characteristics.

Loans

The fair value of loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. Loans with similar characteristics were aggregated for purposes of the calculations. The carrying amount of accrued interest approximates its fair value.

Deposits

Deposits include demand deposits, savings accounts, NOW accounts, and certain money market deposits. The carrying amount approximates fair value. The fair value of fixed-maturity time deposits is estimated using a discounted cash flow calculation that applies the rates currently offered for deposits of similar remaining maturities.

Long-Term Debt

Rates currently available to the Company for debt with similar terms and remaining maturities are used to estimate fair value of existing debt.

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Interest Payable and Advance Payments to Borrowers for Taxes and Insurance

The fair value approximates carrying value.

Commitments to Originate Loans, Letters of Credit and Lines of Credit

The fair value of commitments to originate loans is 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 forward sale commitments is estimated based on current market prices for loans of similar terms and credit quality. The fair values of letters of credit and lines of credit are based on fees currently charged for similar agreements or on the estimated cost to terminate or otherwise settle the obligations with the counterparties at the reporting date.

Note 20: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Estimates related to the allowance for loan losses, mortgage servicing rights, mortgage backed securities premiums, and foreclosed assets held for sale are reflected in the footnotes regarding loans, mortgage servicing rights, securities, and foreclosed assets held for sale. Current vulnerabilities due to certain concentrations of credit risk are discussed in the footnote on commitments and credit risk.

Note 21: Commitments and Credit Risk

The Company grants agribusiness, commercial, residential and consumer loans to customers located primarily in Central Illinois. The Company's loans are generally secured by specific items of collateral including real property, consumer assets and business assets. Although the Company has a diversified loan portfolio, a substantial portion of its debtors' ability to honor their contracts is dependent upon economic conditions in Central Illinois. The Company has a significant concentration in construction and commercial real estate loans related to the real estate market in Bloomington-Normal.

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Commitments to Originate Loans

Commitments to originate loans are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since a portion of the commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Each customer's creditworthiness is evaluated on a case-by-case basis. The amount of collateral obtained, if deemed necessary, is based on management's credit evaluation of the counterparty. Collateral held varies, but may include accounts receivable, inventory, property, plant and equipment, commercial real estate and residential real estate.

At December 31, 2004 and 2003, the Company had outstanding commitments to originate loans aggregating approximately \$11,804,000 and \$16,733,000, respectively. The commitments extended over varying periods of time with the majority being disbursed within a one-year period. Loan commitments at fixed rates of interest amounted to \$10,405,000 and \$15,842,000 at December 31, 2004 and 2003, respectively, with the remainder at floating market rates.

Letters of Credit

Letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing and similar transactions. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers.

The Company had total outstanding letters of credit amounting to \$549,000 and \$1,267,000, at December 31, 2004 and 2003, respectively. At December 31, 2004, the Bank's deferred revenue under standby letters of credit agreements was nominal.

Lines of Credit

Lines of credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Lines of credit generally have fixed expiration dates. Since a portion of the line may expire without being drawn upon, the total unused lines do not necessarily represent future cash requirements. Each customer's creditworthiness is evaluated on a case-by-case basis. The amount of collateral obtained, if deemed necessary, is based on management's credit evaluation of the counterparty. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment, commercial real estate and residential real estate. Management uses the same credit policies in granting lines of credit as it does for on-balance-sheet instruments.

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At December 31, 2004, the Company had granted unused lines of credit to borrowers aggregating approximately \$6,400,000 and \$3,212,000 for commercial lines and open-end consumers lines, respectively. At December 31, 2003, unused lines of credit to borrowers aggregated approximately \$9,562,000 and \$3,511,000 for commercial lines and for open-end consumer lines.

Other Credit Risks

The Company had federal funds sold to one institution totaling approximately \$8,207,000 and \$3,248,000 at December 31, 2004 and 2003. The Company had a concentration of funds on deposit with the Federal Home Loan Bank totaling approximately \$24,460,000 and \$6,891,000 at December 31, 2004 and 2003.

At December 31, 2004, approximately 3% of the Company's total time deposits consisted of jumbo certificates of deposits which were issued through a broker and had minimum denominations in excess of \$100,000.

Note 22: Future Change in Accounting Principle

In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard (SFAS) No. 123R, *Share-Based Payment*, which is a revision of SFAS No. 123, *Accounting for Stock-based Compensation*, that sets accounting requirements for share-based compensation to employees. This statement will require the Company to recognize in the income statement the grant-date fair value of the stock options and other equity-based compensation issued to employees, but expresses no preference for a type of valuation model. This Statement is effective on July 1, 2005. The unvested stock options that are outstanding on the effective date of SFAS No. 123R that were previously included as part of the net income in Note 1 will be charged to expense over the remaining vesting period, without any changes in measurement. The adoption of SFAS No. 123R is not expected to have a material impact on the Company's results of operations, financial position or cash flows.

Table of Contents**Note 23: Condensed Financial Information (Parent Company Only)**

Presented below is condensed financial information as to financial position, results of operations and cash flows of the Company:

Condensed Balance Sheets

| | December 31, | |
|---|---------------------|-------------------|
| | 2004 | 2003 |
| Assets | | |
| Cash | \$ 44,778 | \$ 70,255 |
| Interest-bearing demand deposits | 2,260,739 | 661,132 |
| Total cash and cash equivalents | 2,305,517 | 731,387 |
| Investment in common stock of subsidiary | 32,014,354 | 30,362,756 |
| Loans, net of allowance for loan losses of \$50,000 at December 31, 2004 and 2003 | 3,565,426 | 3,899,888 |
| Other | 716,444 | 516,366 |
| Total assets | \$ 38,601,741 | \$ 35,510,397 |
| Liabilities | | |
| Long-term debt | \$ 2,000,000 | \$ 2,000,000 |
| Other | 554,666 | 518,612 |
| Total liabilities | 2,554,666 | 2,518,612 |
| Stockholders Equity | 36,047,075 | 32,991,785 |
| Total liabilities and stockholders equity | \$ 38,601,741 | \$ 35,510,397 |

Table of Contents**Condensed Statements of Income**

| | Year Ended December 31, | | |
|--|--------------------------------|--------------|--------------|
| | 2004 | 2003 | 2002 |
| Income | | | |
| Dividends from subsidiary | \$ 1,725,000 | \$ 2,235,000 | \$ 1,550,622 |
| Other income | 207,074 | 262,155 | 280,125 |
| | | | |
| Total income | 1,932,074 | 2,497,155 | 1,830,747 |
| | | | |
| Expenses | | | |
| Provision for loan losses | | 25,000 | |
| Other expenses | 691,897 | 377,215 | 524,480 |
| | | | |
| Total expenses | 691,897 | 402,215 | 524,480 |
| | | | |
| Income Before Income Tax and Equity in Undistributed Income of Subsidiary | | | |
| | 1,240,177 | 2,094,940 | 1,306,267 |
| Income Tax Benefit | (94,400) | (56,808) | (134,281) |
| | | | |
| Income Before Equity in Undistributed Income of Subsidiary | | | |
| | 1,334,577 | 2,151,748 | 1,440,548 |
| Equity in Undistributed Income (Expense) of Subsidiary | 1,652,245 | (515,972) | 489,788 |
| | | | |
| Net Income | \$ 2,986,822 | \$ 1,635,776 | \$ 1,930,336 |

Table of Contents**Condensed Statements of Cash Flows**

| | Year Ended December 31, | | |
|---|--------------------------------|-------------------|---------------------|
| | 2004 | 2003 | 2002 |
| Operating Activities | | | |
| Net income | \$ 2,986,822 | \$ 1,635,776 | \$ 1,930,336 |
| Items not requiring (providing) cash | | | |
| Provision for loan losses | | 25,000 | |
| Equity in undistributed income of subsidiary | (1,652,245) | 515,972 | (489,788) |
| Net change in Other assets | (200,078) | (85,685) | (239,417) |
| Other liabilities | 36,054 | 36,640 | 115,745 |
| Net cash provided by operating activities | 1,170,553 | 2,127,703 | 1,316,876 |
| Investing Activities | | | |
| Net change in ESOP loan | | | 309,200 |
| Net change in loans | 334,462 | (840,688) | |
| Net cash provided by (used in) investing activities | 334,462 | (840,688) | 309,200 |
| Financing Activities | | | |
| Repayments of long-term debt | | (1,750,000) | (500,000) |
| Proceeds from stock options exercised | 935,290 | 1,226,923 | 183,042 |
| Purchase of treasury stock | (702,678) | (1,221,082) | (1,427,230) |
| Dividends paid | (614,488) | (603,587) | (464,351) |
| Tax benefit related to stock options exercised | 450,991 | 275,883 | |
| Net cash provided by (used in) financing activities | 69,115 | (2,071,863) | (2,208,539) |
| Net Change in Cash and Cash Equivalents | 1,574,130 | (784,848) | (582,463) |
| Cash and Cash Equivalents at Beginning of Year | 731,387 | 1,516,235 | 2,098,698 |
| Cash and Cash Equivalents at End of Year | \$ 2,305,517 | \$ 731,387 | \$ 1,516,235 |

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Quarterly Financial Information

The following is a summary of selected quarterly results of operations for the years ended December 31, 2004 and 2003:

| | Quarter Ended | | | |
|------------------------------------|---------------|----------|----------|----------|
| In thousands except share data | 12/31 | 09/30 | 06/30 | 03/31 |
| December 31, 2004 | | | | |
| Net interest income | \$ 2,624 | \$ 2,582 | \$ 2,735 | \$ 2,756 |
| Provision (credit) for loan losses | (364) | 141 | (76) | (174) |
| Noninterest income | 1,202 | 429 | 307 | 669 |
| Noninterest expense | 2,686 | 1,916 | 1,953 | 2,508 |
| Income before income tax | 1,504 | 954 | 1,165 | 1,091 |
| Net income | 970 | 599 | 731 | 687 |
| Basic earnings per share | \$ 0.64 | \$ 0.40 | \$ 0.48 | \$ 0.46 |
| Diluted earnings per share | \$ 0.60 | \$ 0.38 | \$ 0.46 | \$ 0.43 |
| December 31, 2003: | | | | |
| Net interest income | \$ 2,693 | \$ 2,745 | \$ 2,648 | \$ 2,586 |
| Provision for loan losses | 1,595 | 476 | 306 | 85 |
| Noninterest income | 632 | 1,013 | 790 | 824 |
| Noninterest expense | 2,311 | 2,502 | 1,964 | 2,113 |
| Income before income tax | (581) | 780 | 1,168 | 1,212 |
| Net income | (324) | 497 | 721 | 742 |
| Basic earnings (loss) per share | (\$ 0.22) | \$ 0.33 | \$ 0.49 | \$ 0.51 |
| Diluted earnings (loss) per share | (\$ 0.22) | \$ 0.31 | \$ 0.45 | \$ 0.46 |

Item 9 Changes In and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A Controls and Procedures

(a) Disclosure controls and procedures. We evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of December 31, 2004. Our disclosure controls and procedures are the controls and other procedures that we designed to ensure that we record, process, summarize and report in a timely manner the information we must disclose in reports that we file with or submit to the SEC. C. William Landefeld, our President and Chief Executive Officer, and Dallas G. Smiley, our Executive Vice President and Chief Financial Officer, reviewed and participated in this evaluation. Based on this evaluation, Messrs. Landefeld and Smiley concluded that, as of the date of their evaluation, our disclosure controls were effective.

(b) Internal controls. During the quarter ended December 31, 2004, there have not been any significant changes in our internal accounting controls or in other factors that could significantly affect those controls.

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Item 9B Other Information

None

PART III

Item 10 Directors and Executive Officers of the Registrant

| Name and Age | Position, Principal Occupation, Business Experience and Directorship |
|------------------------|---|
| Dr. Lowell M. Thompson | 66 Director since 1987 and current Chairman. Practicing dentist. |
| Mary Ann Webb | 58 Director since 2003. Partner in a certified public accounting firm. Also a member of the Audit, Nominating and Compensation Committees of our Board of Directors. |
| C. William Landefeld | 65 Director, President and Chief Executive Officer since 1987. |
| Harold L. Hoferle | 67 Appointed to the Company's Board in December, 2000. Owner of Apartment Mart, Inc., a company specializing in property management. Member of the Audit Committee of our Board of Directors. |
| Martin L. Hogan | 49 Appointed to the Company's Board in August, 2001. Owner/President of Central Illinois Development which is responsible for the development and compliance of 120 Subway Sandwich Restaurants in 50 counties in Central Illinois. Owner of 9 Subway restaurants in Central Illinois. Member of the Nominating and Compensation Committees of our Board of Directors |
| Arthur W. Mier | 62 Appointed to the Company's Board in January, 2000. Director of the Bank since 1998. Regional Manager of Choctaw-Kaul Distribution Company. Member of the Audit and Nominating Committees of our Board of Directors. |
| L. Carl Borngasser | 67 Appointed to the Company's Board in January, 2000. Director of the Bank since 1995. Retired Executive Vice President of Citizens Savings Bank. Member of the Audit and Compensation Committees of our Board of Directors. |

Audit Committee Financial Expert

Our Board of Directors has determined that we have an Audit Committee financial expert, as defined by the Securities and Exchange Commission, serving on our Audit Committee. Mary Ann Webb is our Audit Committee financial expert, and she is independent as independence for audit committee members is defined in the National Association of Securities Dealers' listing standards, as those standards have been modified or supplemented.

Code of Ethics

The Company has adopted a Code of Ethics that applies to all of our employees, officers and directors, including our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions. Our Code of Ethics

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contains written standards that we believe are reasonably designed to deter wrongdoing and to promote:

Honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;

Full, fair, accurate, timely, and understandable disclosure in reports and documents that we file with, or submit to, the Securities and Exchange Commissions and in other public communications we make;

Compliance with applicable governmental laws, rules and regulations;

The prompt internal reporting of violations of the code to an appropriate person or persons named in the code; and

Accountability for adherence to the code.

This Code of Ethics is attached hereto as Exhibit 14. We will provide to any person without charge, upon request, a copy of our Code of Ethics. Requests for a copy of our Code of Ethics should be made to our Secretary at 2101 North Veterans Parkway, Bloomington, Illinois 61704. We intend to satisfy the disclosure requirement under Item 10 of Form 8-K regarding an amendment to, or a waiver from, a provision of our Code of Ethics that applies to our principal executive officer, principal financial officer, principal accounting officer or controller or persons performing similar functions and that relates to any element of the code definition enumerated in Securities and Exchange Commission, Regulation S-K, Item 406(b) by posting such information on our Web site at <http://www.csbnet.com> within five business days following the date of the amendment or waiver.

Compliance With Section 16

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's executive officers and directors, and persons who own more than 10% of any registered class of the Company's equity securities, to file reports of ownership and changes in ownership with the SEC. Executive officers, directors and greater than 10% shareholders are required by regulation to furnish the Company with copies of all Section 16(a) reports they file.

Based on its review of the copies of the reports it has received and written representations provided to the Company from the individuals required to file the reports, the Company believes that all Directors and Executives of the Company filed all reports required on a timely basis pursuant to Section 16 of the Securities Exchange Act of 1934.

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The following table shows, for the years ended December 31, 2004, 2003 and 2002, the cash compensation paid by the Bank, as well as certain other compensation paid or accrued for those years, to the Chief Executive Officer and other executive officers (Named Executive Officers) who accrued salary and bonus in excess of \$100,000 in fiscal year 2003.

| Name and Principal Positions | Year | Compensation Table | | | Long-Term Compensation | | | All Other Compensation (\$) |
|--|------|----------------------------|---------------------------|---|---|---|--------------------------|-----------------------------|
| | | Annual Compensation | | Other Annual Compensation (\$) ⁽²⁾ | Awards | | Payouts | |
| | | Salary (\$) ⁽¹⁾ | Bonus (\$) ⁽¹⁾ | | Restricted Stock Awards (\$) ⁽³⁾ | Securities Underlying SARs (#) ⁽⁴⁾ | | |
| C. William Landefeld President and Chief Executive Officer | 2004 | \$265,535 | \$21,692 | | | | \$ 19,884 ⁽⁶⁾ | |
| | 2003 | \$265,535 | | | | | \$ 38,141 ⁽⁷⁾ | |
| | 2002 | \$259,424 | \$ 18,623 | | | | \$114,017 ⁽⁸⁾ | |
| Dallas G. Smiley Executive Vice President, Treasurer, Chief Financial Officer and Corporate Secretary | 2004 | \$160,000 | \$20,000 | | | | \$ 10,948 ⁽⁶⁾ | |
| | 2003 | \$146,000 | | | | | \$ 10,948 ⁽⁷⁾ | |
| | 2002 | \$140,400 | \$10,800 | | | | \$ 63,122 ⁽⁸⁾ | |

- (1) Under Annual Compensation, the column entitled Salary includes directors fees and amounts deferred by the Named Executive Officer pursuant to the Bank's 401(k) Plan, pursuant to which employees may defer up to 15% of their compensation, up to the maximum limits under the Internal Revenue Code of 1986, as amended (the Code). The level of salary may vary due to limits imposed on contributions to 401(k) plans and employee stock ownership plans by the Code (see, footnotes (6), (7), and (8) below). The column entitled Bonus consists of board approved discretionary Bonuses.
- (2) For 2004, there were no (a) prerequisites over the lesser of \$50,000 or 10% of the individual's total Salary and Bonus for the year; (b) payments of above-market preferential earnings on deferred compensation; (c) payments of earnings with respect to long-term incentive plans prior to settlement or maturation; (d) tax payment reimbursements; or (e) preferential discounts on stock.
- (3) For 2004, 2003 and 2002, there were no stock awards to any Named Executive Officer.
- (4) For 2004, 2003 and 2002, there were no stock options granted to any Named Executive Officer.
- (5) For 2004, 2003 and 2002, there were no payouts or awards under any long-term incentive plan.
- (6) Includes \$8,200 and \$6,400 in employer contributions to the Bank's 401(k) Plan for Messrs. Landefeld and Smiley, respectively. Includes disability and life insurance premiums paid by the Bank of \$2,890 for Mr. Landefeld. Includes \$1,821 in employer contribution to the Supplemental Executive Retirement Plan (the

SERP) for Mr. Landefeld for the excess amount due under the 401(k) Plan and ESOP for the fiscal year ended December 31, 2004. Includes contributions of \$6,973 and \$5,025 for Messrs. Landefeld and Smiley, respectively pursuant to the Bank's profit sharing plan.

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- (7) Includes \$8,000 and \$5,840 in employer contributions to the Bank's 401(k) Plan for Messrs. Landefeld and Smiley, respectively. Includes disability and life insurance premiums paid by the Bank of \$1,825 for Mr. Landefeld. Includes \$21,581 in employer contribution to the Supplemental Executive Retirement Plan (the SERP) for Mr. Landefeld for the excess amount due under the 401(k) Plan and ESOP for the fiscal year ended December 31, 2003. Includes contributions of \$6,735 and \$5,108 for Messrs. Landefeld and Smiley, respectively pursuant to the Bank's profit sharing plan.
- (8) Includes the value of 2,339 and 1,909 shares of Common Stock allocated to Messrs. Landefeld and Smiley, respectively, pursuant to the Bank Employee Stock Ownership Plan (ESOP). Includes \$6,985 and \$5,616 in employer contributions to the Bank's 401(k) Plan for Messrs. Landefeld and Smiley, respectively. Includes disability and life insurance premiums paid by the Bank of \$1,549 for Mr. Landefeld. Includes \$39,556 and \$1,995 in employer contribution to the Supplemental Executive Retirement Plan (the SERP) for Messrs. Landefeld and Smiley, respectively, for the excess amount due under the 401(k) Savings Plan and ESOP for the fiscal year ended December 31, 2002. Includes contributions of \$6,750 and \$6,750 for Messrs. Landefeld and Smiley, respectively pursuant to the Bank's profit sharing plan.

Total Options Exercised in 2004 and Year-End Values

This table gives information for options exercised by each of the named executive officers in 2004 and the value (stock price less exercise price) of the remaining options held by those officers at year-end price of the Common Stock.

FISCAL YEAR-END OPTION/SAR VALUES

| | Shares Acquired On Exercise | Value Realized (\$) | Number of Securities Underlying Unexercised Options/SARs at Fiscal Year-End (#)(1) Exercisable/Unexercisable | Value of Unexercised In-the-Money Options/SARs at Fiscal Year End (\$)(2) Exercisable/Unexercisable |
|----------------------|--|------------------------------------|---|--|
| C. William Landefeld | 29,750 | \$ 506,494 | 40,650/0 | \$820,724/\$0 |
| Dallas G. Smiley | 1,550 | \$ 31,326 | 40,650/0 | \$820,724/\$0 |

- (1) The options in this table have an exercise price of \$12.30 and became exercisable at an annual rate of 20% beginning November 12, 1997. The options expire ten (10) years from the date of grant.
- (2) Based on market value of the underlying stock at the fiscal year end of \$32.49, minus the exercise price. The market price on March 1, 2005 was \$33.29 per share.

Option Grants in 2004

No options were granted to any of the Named Executive Officers in 2004.

Other Compensation Arrangements**Employment Agreements****Agreements with C. William Landefeld.**

Main Street has entered into an employment agreement with C. William Landefeld, which will become effective upon completion of the merger. This employment agreement provides for Mr. Landefeld's employment following the merger as an Executive Vice President of Main Street. The agreement is for a two-year term and provides for an annual base salary of \$150,000. The agreement also provides for Mr. Landefeld's participation in all plans or benefits that Main Street makes available to all of its employees.

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Either Main Street or Mr. Landefeld may terminate the employment agreement, at any time, upon 90 days prior written notice. Main Street may also terminate the employment agreement for cause, as defined in the agreement, on 30 days prior written notice. If Main Street terminates Mr. Landefeld's employment without cause, he will be entitled to receive a payment equal to the total amount of compensation that he would have received if he had remained employed for the full term of the agreement, calculated as the sum of his base salary plus the value of any contributions that would have been made to Mr. Landefeld or for his benefit under all applicable retirement and benefit plans had he remained employed through the last day of the term. In this event, he will also be entitled to continued health coverage for the full term of his agreement. These severance payments are to be paid to Mr. Landefeld in equal monthly installments.

Main Street will have no continuing obligation to Mr. Landefeld if he voluntarily terminates his employment or if Main Street terminates him for cause, except in either case for salary and benefits earned through the date of termination.

Mr. Landefeld's employment agreement includes a covenant limiting his ability for a period of one year following a termination of his employment to compete with Main Street in an area encompassing a 50-mile radius from each banking or other branch office location of Main Street and its subsidiary banks.

Main Street has also agreed that Mr. Landefeld, in connection with the change of control resulting from the merger, will be entitled to receive a payment of \$781,669.20, to be paid in 36 monthly installments of \$21,713.03 each following the effective time, in satisfaction of all obligations that may be owed to him under his existing employment agreement with Citizens. This amount is subject to reduction so that the total amount of payments or benefits provided to Mr. Landefeld under the existing employment agreement or other benefit plans, when added to the sum of \$5,000, will not constitute an excess parachute payment under the Internal Revenue Code.

Mr. Landefeld will also be entitled to receive, at or prior to the effective time of the merger, (a) a distribution of 15,145 shares of Citizens common stock in respect of the Citizens Supplemental Executive Retirement Plan, plus an additional amount, if any, attributable to the Supplemental Executive Retirement Plan benefit he is entitled to for the 2004 plan year, (b) payment of up to \$50,000 under the Citizens 2004 Incentive Bonus Plan and (c) an annuity contract (or cash in lieu thereof) to pay benefits to Mr. Landefeld under the Citizens Advisory Directors Retirement Plan, provided that the aggregate cost to Citizens for purchasing the annuity contracts (or cash in lieu thereof) for Mr. Landefeld and Directors Borngasser and Thompson shall not exceed \$510,000.

Agreements with Dallas Smiley.

Main Street has entered into an employment agreement with Dallas Smiley, which will become effective upon completion of the merger. This employment agreement provides for Mr. Smiley's employment following the merger as a Senior Vice President of Main Street. The agreement is for a term ending on December 31, 2005, and provides for an annual base salary of \$100,000. The agreement also provides for Mr. Smiley's participation in all plans or benefits that Main Street makes available to all of its employees.

Either Main Street or Mr. Smiley may terminate the employment agreement, at any time, upon 90 days prior written notice. Main Street may also terminate the employment agreement for cause, as defined in the agreement, on 30 days prior written notice. If Main Street terminates Mr. Smiley's employment without cause, he will be entitled to receive a payment equal to the total amount of compensation that he would have received if he had remained employed for the full term of the agreement, calculated as the sum of his base salary plus the value of any contributions that would have been made to Mr. Smiley or for his benefit under all applicable retirement and benefit

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plans had he remained employed through the last day of the term. In this event, he will also be entitled to continued health coverage for the full term of his agreement. These severance payments are to be paid to Mr. Smiley in equal monthly installments.

Main Street will have no continuing obligation to Mr. Smiley if he voluntarily terminates his employment or if Main Street terminates him for cause, except in either case for salary and benefits earned through the date of termination.

Mr. Smiley's employment agreement includes a covenant limiting his ability for a period of one year following a termination of his employment to compete with Main Street in an area encompassing a 50-mile radius from each banking or other branch office location of Main Street and its subsidiary banks.

Main Street has also agreed that Mr. Smiley, in connection with the change of control resulting from the merger, will be entitled to receive a payment of \$631,964.01, to be paid in a single lump sum at closing, in satisfaction of all obligations that may be owed to him under his existing employment agreements with Citizens and Citizens Bank. This amount is subject to reduction so that the total amount of payments or benefits provided to Mr. Smiley under the existing employment agreement or other benefit plans, when added to the sum of \$5,000, will not constitute an excess parachute payment under the Internal Revenue Code.

Mr. Smiley will also be entitled to receive, at or prior to the effective time of the merger, (a) a distribution of 1,701 shares of Citizens common stock in respect of the Citizens Supplemental Executive Retirement Plan, plus an additional amount, if any, attributable to the Supplemental Executive Retirement Plan benefit he is entitled to for the 2004 plan year, and (b) payment of up to \$20,000 under the Citizens 2004 Incentive Bonus Plan.

401(k) Plan

The Bank maintains the Profit Sharing and Savings Plan (the Savings Plan), which is a tax-qualified profit sharing and Salary reduction plan under Sections 401(a) and 401(k) of the Code. The Savings Plan provides participants with retirement benefits and may also provide benefits upon death, disability or termination of employment with the Bank. An employee who works at least 1,000 scheduled hours per year is eligible to participate in the Savings Plan following the completion of one year of service and attainment of age 21. A participant is always 100% vested in his or her contributions. A participant must reach one year of vesting service (total time employed) before attaining a vested interest in the employer contribution, which commences following this one year period. Participants become 20% vested in employer matching contribution after one year of service, and increase the vested percentage by 20% for each year of service completed thereafter, until attaining 100% vesting after five years of service.

Participants may make Salary reduction contributions to the Savings Plan up to the lesser of 15% of annual base Salary or the legally permissible limit (currently \$3,000 generally, and \$16,000 for employees who will reach age 50 by December 31, 2004). The Savings Plan provides that, with respect to 4% contributed by the employee, the Bank will match 100% of such contribution with funds to be invested at the direction of the employee. All participants receive a quarterly detailed statement including information regarding market value of the participant's investment and all contributions made on his or her behalf. Any withdrawals prior to age 59 are subject to a 10% tax penalty. Participants may borrow against the vested portion of their accounts.

The Savings Plan has a profit-sharing component in addition to the matched employee contribution. The amount of the annual profit-sharing contribution is at the discretion of the Board of Directors.

Employee Stock Ownership Plan and Trust

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The Bank established an ESOP and related trust for eligible employees effective on January 1, 1996. Employees employed with the Bank as of January 1, 1996 and employees of the Company or the Bank employed after such date, who have been credited with at least 1,000 hours during a twelve month period and who have attained the age of 21 will become participants. The ESOP purchased 8% of the Common stock issued in the Conversion. In order to fund the ESOP's purchase of Common Stock, the ESOP borrowed funds from the Company equal to 100% of the aggregate purchase price of the Common Stock. The loan was repaid principally from the Company's or the Bank's contribution to the ESOP over a period of seven years and the collateral for the loan was the Common Stock purchased by the ESOP. Repayment of the loan was completed in 2002.

In an agreement between Citizens and Main Street that was entered into concurrently with the merger agreement, Citizens has agreed to terminate prior to closing its employee benefit plans, and to take such actions as are necessary to properly distribute to the plan participants assets it holds under the plans. On its part, Main Street has agreed that the former employees of Citizens or its subsidiary will become participants in the employee benefit plans of Main Street or its subsidiaries.

Supplemental Executive Retirement Plan

The Bank has implemented a non-qualified Supplemental Executive Retirement Plan (the SERP) to provide certain officers and highly compensated employees, designated by the Board of Directors, with additional retirement benefits. The benefits provided under the SERP will make up the benefits lost to the SERP participants due to application of limitations on compensation and maximum benefits applicable to the Bank's tax qualified 401(k) Plan and ESOP. Benefits will be provided under the SERP at the same time and in the same form as the related benefits will be provided under the 401(k) Plan and ESOP.

In an agreement between Citizens and Main Street that was entered into concurrently with the merger agreement, Citizens has agreed to terminate prior to closing its employee benefit plans, and to take such actions as are necessary to properly distribute to the plan participants assets it holds under the plans. On its part, Main Street has agreed that the former employees of Citizens or its subsidiary will become participants in the employee benefit plans of Main Street or its subsidiaries.

Directors Compensation

The Directors of the Company did not receive any fees or retainers for serving on the Company's Board of Directors in fiscal 2003. However, the Directors did receive an annual retainer of \$15,000 for serving on the Board of the Bank. Also, Directors who are not also employees of the Company receive \$100 per committee meeting attended, except for the Audit Committee Chairman who receives \$200 for each Audit Committee meeting attended. In addition, the Company maintains two compensation plans for Directors:

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Stock-Based Incentive Plan. The Company maintains the Incentive Plan for both directors and employees. In 1996, each Outside Director of the Company and Bank at that time was granted non-statutory stock options to purchase 9,390 shares of Common Stock, and Stock Awards for 3,755 shares of Common Stock. The options and stock awards to Outside Directors began vesting in five equal annual installments, commencing November 12, 1997, the first anniversary of the effective date of the grants. If a director ceases service due to death or disability, all unvested options and stock awards vest immediately. In 1999, two new bank directors were each granted nonstatutory stock options to purchase 12,500 shares of common stock on terms identical to the terms of the options which were granted in 1996. No stock awards were made in the years 1997 – 2001 inclusive, and no stock option grants were made to directors in 1997, 1998 or 2000. In January 2002, three of the Company’s directors, Messrs. Hogan, Hoferle and Mier, received stock awards of 720, 719, and 719 shares, respectively. The 2002 stock awards were immediately vested. In addition, one director, Mr. Hoferle, received stock options in January 2001 to purchase 10,000 shares on terms identical to the terms of previous grants to directors. Also, Mr. Hogan received stock options in January 2002 to purchase 10,000 shares on the same terms. In December 2003, Ms. Webb received stock options to purchase 10,000 shares on the same terms.

Advisory Directors Retirement Plan. The Bank maintains an Advisory Directors Retirement Plan (formerly known as the Directors Emeritus Retirement Plan) which provides retirement benefits to duly elected Directors and Advisory Directors as of December 31, 1997. The plan provides that in consideration for services and consultation rendered as an Advisory Director, the Advisory Directors will receive annual cash benefits equal to the annual director’s fees received at the time of retirement, up to an annual maximum of \$12,650 per participant in a single premium insurance annuity for each covered Advisory Director. Currently there are ten Advisory Directors.

In an agreement between Citizens and Main Street that was entered into concurrently with the merger agreement, Citizens has agreed to terminate prior to closing its employee benefit plans, and to take such actions as are necessary to properly distribute to the plan participants assets it holds under the plans. On its part, Main Street has agreed that the former employees of Citizens or its subsidiary will become participants in the employee benefit plans of Main Street or its subsidiaries.

Agreements with Directors Borngasser and Thompson.

Directors Carl S. Borngasser and Dr. Lowell M. Thompson will each be entitled to receive, at or prior to the effective time of the Merger with Main Street, an annuity contract (or cash in lieu thereof) to pay benefits to Messrs. Borngasser and Thompson under the Citizens Advisory Directors Retirement Plan, provided that the aggregate cost to Citizens for purchasing the annuity contracts (or cash in lieu thereof), along with an annuity contract (or cash) for Mr. Landefeld, shall not exceed \$510,000.

Indemnification for Directors and Officers; Insurance.

Main Street has agreed to honor for at least three years from the effective date of the merger all of Citizens’ obligations with respect to indemnification currently provided by Citizens in its certificate of incorporation or bylaws in favor of the current and former officers and directors with respect to matters occurring prior to the effective time. In addition, Main Street has agreed to maintain for a period of two years extended insurance coverage of acts or omissions occurring at or prior to

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the effective time with respect to those persons who are currently covered by Citizens' director and officer liability insurance policies.

Item 12 Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

SECURITY OWNERSHIP OF DIRECTORS,
MOST HIGHLY COMPENSATED EXECUTIVE OFFICERS AND
ALL DIRECTORS AND EXECUTIVE OFFICERS AS A GROUP

| Name | Amount and Nature of Beneficial Ownership (1) | Ownership As a Percent of Class |
|--|--|---------------------------------------|
| Borngasser, L. Carl | 25,266 | 1.6% |
| Hoferle, Harold L | 10,719(2) | ** |
| Hogan, Martin L | 7,847(3) | ** |
| Landefeld, C. William.(Executive Officer and Director) | 150,417(4) | 9.6% |
| Mier, Arthur W | 7,569(5) | ** |
| Smiley, Dallas G. (Executive Officer) | 83,650(4) | 5.2% |
| Thompson, Dr. Lowell M | 32,985 | 2.1% |
| Webb, Mary Ann | 3,600(6) | ** |
| All directors and executive officers as a group | 321,989(7) | 19.9% |

- (1) Each person effectively exercises sole (or shares with spouse or other immediate family member) voting and dispositive power as to shares reported.
- (2) Excludes 2,000 shares subject to unexercisable options granted under the Incentive Plan. Shares subject to options are exercisable on a cumulative basis in five equal annual installments commencing on January 29, 2002.
- (3) Includes 6,000 shares subject to options granted under the Incentive Plan which are currently exercisable or will become exercisable within 60 days and excludes 4,000 shares subject to unexercisable options granted under the Incentive Plan. Shares subject to options are exercisable on a cumulative basis in five equal annual installments commencing on January 28, 2003.
- (4) Includes 0 and 40,650 shares subject to options granted to Messrs. Landefeld and Smiley, respectively, under the Incentive Plan which are currently exercisable. Shares subject to options granted under the Incentive Plan commenced vesting at a rate of 20% per year beginning November 12, 1997.
- (5) Includes 2,500 shares subject to options granted under the Incentive Plan which are currently exercisable or will become exercisable within 60 days. Shares subject to options became exercisable on a cumulative basis in five equal annual installments commencing on April 26, 1999.
- (6) Includes 2,000 shares subject to options granted under the Incentive Plan which are currently exercisable or will become exercisable within 60 days and excludes 8,000 shares subject to unexercisable options granted under the Incentive Plan. Shares subject to options are exercisable on a cumulative basis in five equal annual installments commencing on December 15, 2004.

(7) Includes a total of 51,150 options granted under the Incentive Plan which are currently exercisable or will become exercisable within 60 days and excludes a total of 14,000 shares subject to unexercisable options granted under the Incentive Plan.

** Less than 1% ownership as a percent of class.

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HOLDING 5% OR MORE

| Name and Address of Beneficial Owner | Number of Shares | Percent of Class |
|--|------------------------|---------------------|
| Citizens Savings Bank Employee Stock Ownership Plan (ESOP) 2101 North Veterans Parkway Bloomington, Illinois 61704 | 200,931 ⁽¹⁾ | 12.5% |
| C. William Landefeld 2101 North Veterans Parkway Bloomington, Illinois 61704 | 150,417 ⁽²⁾ | 9.3% |
| Millenco, L.P. c/o Millenium Management, LLC 666 Fifth Avenue New York, New York 10103 | 120,194 ⁽³⁾ | 7.5% |
| Investors of America, Limited Partnership 1504 Highway, #395 N #8-00508 Gardnerville, Nevada 89410 | 100,000 ⁽⁴⁾ | 6.2% |
| Dallas G. Smiley 2101 North Veterans Parkway Bloomington, Illinois 61704 | 83,650 ⁽⁵⁾ | 5.2% |

- (1) Shares of Common Stock were acquired by the ESOP in the Bank's conversion from mutual to stock form (the Conversion). The ESOP Committee administers the ESOP. First Bankers Trust Company has been appointed as the corporate trustee for the ESOP (ESOP Trustee). The ESOP Trustee, subject to its fiduciary duty, must vote all allocated shares held in the ESOP in accordance with the instructions of the participants. As of September 30, 2004, all 200,931 shares have been allocated to ESOP participants' accounts.
- (2) The above amount includes 13,225 shares which are owned by Mr. Landefeld's wife over which Mr. Landefeld shares voting and investment power. Mr. Landefeld has sole voting and investment power with respect to all other shares. The amount above includes 40,650 shares subject to options previously granted to Mr. Landefeld which are currently exercisable.
- (3) Based upon information disclosed in Schedule 13G filed with the SEC on February 9, 2005.
- (4) Based upon information disclosed in Schedule 13G filed with the SEC on February 3, 2005.
- (5) The amount above includes 40,650 shares subject to options previously granted to Mr. Smiley which are currently exercisable.

Equity Compensation Plan Information

Number of
securities

| Plan Category | Number of securities to be issued upon exercise of outstanding options, warrants and rights (A) | Weighted-average exercise price of outstanding options, warrants and rights (B) | remaining available for future issuance under equity compensation plans (excluding securities in column (A) (C) |
|--|---|---|---|
| Equity compensation plans approved by security holders | 186,620 | \$ 13.33 | 5,212 |
| Equity compensation plans not approved by security holders | | | |
| Total | 186,620 | \$ 13.33 | 5,212 |

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Item 13 Certain Relationships and Related Transactions

The Bank makes loans to directors and executive officers from time-to-time in the ordinary course of business. The Bank's current policy provides that all loans made by the Bank to its directors and executive officers are made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons and do not involve more than the normal risk of collectability or present other unfavorable features.

Table of Contents**Item 14 Principal Accountant Fees and Services****Audit Fees**

Audit fees and expenses billed to the Company by BKD, LLP for the audit of the Company's financial statements for the fiscal years ended December 31, 2004 and December 31, 2003, and for review of the Company's financial statements included in the Company's quarterly reports on Form 10-Q, are as follows:

| 2004 | 2003 |
|-------------|-------------|
| \$59,000 | \$62,090 |

Audit Related Fees

Audit related fees and expenses billed to the Company by BKD, LLP for fiscal years 2004 and 2003 for services related to the performance of the audit or review of the Company's financial statements that were not included under the heading "Audit Fees", are as follows:

| 2004 | 2003 |
|-------------|-------------|
| \$22,000 | \$9,462 |

Tax Fees

Tax fees and expenses billed to the Company for fiscal years 2004 and 2003 for services related to tax compliance, tax advice and tax planning, consisting primarily of preparing the Company's federal and state income tax returns for the previous fiscal periods and inclusive of expenses are as follows:

| 2004 | 2003 |
|-------------|-------------|
| \$6,000 | \$5,400 |

All Other Fees

Fees and expenses billed to the Company by BKD, LLP for all other services provided during fiscal years 2004 and 2003 are as follows:

| 2004 | 2003 |
|-------------|-------------|
| \$-0- | \$-0- |

In accordance with Section 10A(i) of the Exchange Act, before BKD, LLP is engaged by us to render audit or non-audit services, the engagement is approved by our Audit Committee. None of the audit-related, tax and other services described in the table above were approved by the Audit Committee pursuant to Rule 2-01(c)(7)(i)(C) of Regulation S-X. None of the time devoted by BKD, LLP on its engagement to audit the Company's financial statements for the year ended December 31, 2004 is attributable to work performed by persons other than BKD, LLP employees.

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Item 15 Exhibits and Financial Statement Schedules

(1) The following documents are filed as a part of this report:

(1) Financial Statements

Consolidated Financial Statements of the Company are incorporated by reference to Item 8 of this report.

| | PAGE |
|--|-------------|
| Report of Independent Registered Public Accounting Firm | 40 |
| Consolidated Balance Sheets as of December 31, 2004 and 2003 | 41-42 |
| Consolidated Statements of Income for the years ended December 31, 2004, 2003 and 2002 | 43-44 |
| Consolidated Statements of Stockholders' Equity for the years ended December 31, 2004, 2003 and 2002 | 45-46 |
| Consolidated Statements of Cash Flows for the years ended December 31, 2004, 2003 and 2002 | 47-48 |
| Notes to Consolidated Financial Statements | 49-78 |

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The remaining information appearing in the Annual Report to Stockholders is not deemed to be filed as part of this report, except as expressly provided herein.

(2) Financial Statement Schedules

All schedules are omitted because they are not required or applicable, or the required information is shown in the consolidated financial statements or the notes thereto.

(3) Exhibits

The following exhibits are filed as part of this report.

2.1 Agreement and Plan of Merger among Main Street Trust, Inc., Citizens Acquisition LLC and Citizens First Financial Corp. dated November 7, 2004.*****

3.1 Certificate of Incorporation of Citizens First Financial Corp.*

3.2 Bylaws of Citizens First Financial Corp.**

4.0 Stock Certificate of Citizens First Financial Corp.*

10.1 Citizens Savings Bank, F.S.B. Employee Stock Ownership Plan*

10.2 Form of Citizens Savings Bank, F.S.B. Supplemental Executive Retirement Plan*

10.3 Form of Citizens Savings Bank, F.S.B. Employee Severance Compensation Plan*

10.4 Citizens First Financial Corp. 1997 Stock-Based Incentive Plan***

10.5 C. William Landefeld Employment Agreement *****

10.6 Dallas G. Smiley Employment Agreement *****

14.0 Code of Ethics

23.0 Consent of BKD, LLP

31.1 Certification of C. William Landefeld Required by Rule 13a-14(a)

31.2 Certification of Dallas G. Smiley Required by Rule 13a-14(a)

32.1 Certification of C. William Landefeld required by Rule 13a-14(b) and Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350

32.2 Certification of Dallas G. Smiley required by Rule 13a-14(b) and Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350

* Incorporated herein by reference to the Exhibits to Form SB-2, Registration Statement, filed on January 24, 1997 and any amendments thereto, Registration No. 333-556.

- ** Incorporated by reference to Exhibit 99.1 to Current Report on Form 8-K filed on September 1, 2000.
- *** Incorporated herein by reference to the Proxy Statement for the Special Meeting of Shareholders held on November 12, 1997.
- **** Incorporated by reference from Registration Statement on Form S-4 filed by Main Street Trust, Inc. on December 23, 2004.

Table of Contents**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) 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 this 31st day of March, 2005.

CITIZENS FIRST FINANCIAL CORP.

By: /s/ C. William Landefeld
C. William Landefeld
President, Chief Executive Officer and
Director

Date: March 31, 2005

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the registrant in the capacities and on the dates indicated.

| Name | Title | Date |
|---|--|----------------|
| <u>/s/ C. William Landefeld</u> C. William Landefeld | President, Chief Executive Officer and Director (principal executive officer) | March 31, 2005 |
| <u>/s/ Dallas G. Smiley</u> Dallas G. Smiley | Executive Vice President, Secretary, Treasurer and Chief Financial Officer (principal accounting and financial officer) | March 31, 2005 |
| <u>/s/ Dr. Lowell M. Thompson</u> Dr. Lowell M. Thompson | Director | March 31, 2005 |
| <u>/s/ Harold L. Hoferle</u> Harold L. Hoferle | Director | March 31, 2005 |
| <u>/s/ Mary Ann Webb</u> Mary Ann Webb | Director | March 31, 2005 |
| <u>/s/ L. Carl Borngasser</u> L. Carl Borngasser | Director | March 31, 2005 |
| <u>/s/ Arthur W. Mier</u> | Director | March 31, 2005 |

Arthur W. Mier

/s/ Martin L. Hogan Director

March 31, 2005

Martin L. Hogan

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EXHIBIT INDEX

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| 14.0 | Code of Ethics |
| 23.0 | Consent of BKD, LLP |
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