MAINSOURCE FINANCIAL GROUP, INC.

2004 ANNUAL REPORT

Illinois
Kankakee
Iroquois
Vermillion

Indiana
Bartholomew
Clark
Dearborn
Decatur
Fayette
Floyd
Franklin
Greene
Jay
Jefferson
Jennings
Johnson
Hancock
Henry
Madison
Marion
Newton
Randolph
Ripley
Rush
Switzerland
Wayne

Kentucky
Daviess

Location by county

CORPORATE PROFILE

MainSource Financial Group (the "Company") is an Indiana-based, financial holding company. Its focus is to provide complete financial services in the more personalized style of a community bank. These services go beyond traditional community-bank products and services and include insurance, investment brokerage, mutual funds, wealth management and financial planning.

Stock Data

The common shares of the Company are listed on The Nasdaq Stock Market. The trading symbol is MSFG. In newspaper listings, MainSource Financial shares are frequently listed as MainSrce. Log on to our website at www.mainsourcefinancial.com for additional information.

FINANCIAL HIGHLIGHTS

(Dollar amounts in thousands, except per share data)	December 31 2004	2003		Percent Change
At Year End				
Total assets	**$ 1,549,379**	$1,442,729	+	7.4 %
Loans, excluding held for sale	**929,005**	855,471	+	8.6
Allowance for loan losses	**11,698**	11,509	+	1.6
Total deposits	**1,226,367**	1,191,310	+	2.9
Shareholders' equity	**123,320**	105,424	+	17.0
Results of Operations				
Net interest income	**$ 50,002**	$ 44,232	+	13.0 %
Non-interest income	**19,544**	19,443	+	.5
Provision for loan losses	**600**	1,325	–	54.7
Net income	**16,793**	15,305	+	9.7
Per Common Share *				
Earnings per share (basic and diluted)	**$ 1.48**	$ 1.37	+	8.0 %
Dividends paid	**0.476**	0.435	+	9.4
Book value – end of period	**10.68**	9.47	+	12.8
Market price – end of period	**23.88**	19.47	+	22.7
Financial Ratios				
Return on average assets	**1.13%**	1.14%	–	.9 %
Return on average common shareholders' equity	**14.70**	15.07	–	2.5
Allowance for loan losses to total loans (year end, excluding held for sale)	**1.26**	1.35	–	6.7

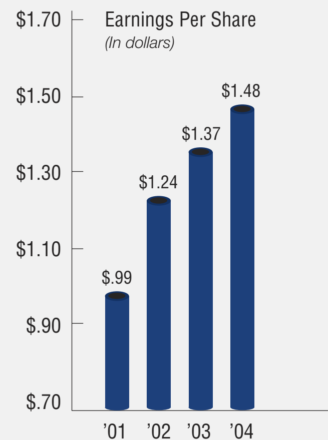
** Adjusted for stock dividends and stock splits*

James L. Saner, Sr., President and CEO

REPORT TO SHAREHOLDERS

Profits Expand in the Midst of Heightened Activity

At the beginning of 2004, I said MainSource would be a better Company over the next twelve months, and that is exactly what happened. We acquired Peoples Financial Corporation and merged First Community Bank & Trust Co. into MainSource Bank of Indiana, produced record earnings, strengthened our balance sheet and streamlined our entire organization.

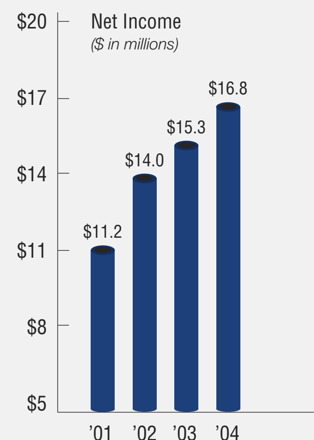


Last June we acquired Peoples Trust Company of Linton, Indiana, which is located southwest of Indianapolis. The acquisition of Peoples enabled us to enter the market of Greene County. This bank offered similar management philosophies, was profitable, and was located in an area of Indiana where we were not previously represented. Hence, there were no conflicting overlaps.

This acquisition added $119 million to our balance sheet and will enable us to introduce products throughout the entire MainSource system at a lower cost. This addition also provided income that helped to offset the revenue drop in new mortgages and refinancings as the unprecedented three-year bonanza of mortgage banking for virtually all banks was fast returning to a more traditional pace.

In the past six years we purchased three bank holding companies and 16 branches. Collectively, MainSource now has more than $1.5 billion in assets, an increase of more than $700 million in the past six years.

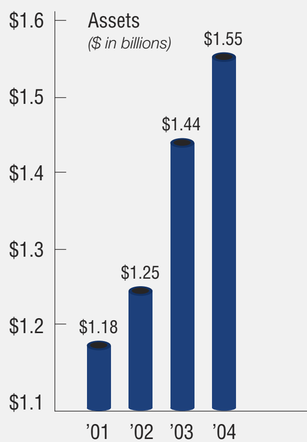
Along with these acquisitions inevitably came an increase in individual bank charters and operating procedures that limited our ability to consistently bring new products and services to each of our markets simultaneously. Consequently, we announced a far-reaching consolidation plan last September to combine our Indiana bank charters. The consolidation plan cost us $650,000 in 2004, and will cost approximately an additional $550,000 in 2005, but is expected to save $1.4 million in expenses in 2006, and every year thereafter.



We have begun consolidating the four Indiana banking charters into one. We combined First Community Bank into MainSource Bank in October 2004 and did the same with Regional Bank (our southern Indiana affiliate) in February 2005. Finally, we will consolidate Peoples Trust Company into MainSource Bank in the second half of this year. As a result, our customers at each of our 53 MainSource Bank of Indiana locations in 21 Indiana counties will be able to get the same services and products, regardless of their individual banking location. In addition, we changed the name of our Illinois affiliate, Capstone Bank, to MainSource Bank of Illinois and have decided to leave its charter intact.

The combination of the actions we took in Indiana and Illinois helped to eliminate some duplication in operational functions, software contracts and regulatory filing expenses and will help our overall efficiency. We divided the Indiana bank into four regions, each having its own President and Senior Management Team that can take care of customers and make decisions on a local level. This ensures that our consolidation in Indiana will not change the "Community Bank" philosophy we've stressed since our inception in 1983.

By consolidating all of our Indiana banks into one common entity, MainSource Bank, we will save $1.4 million in operating expenses each year, beginning in 2006.



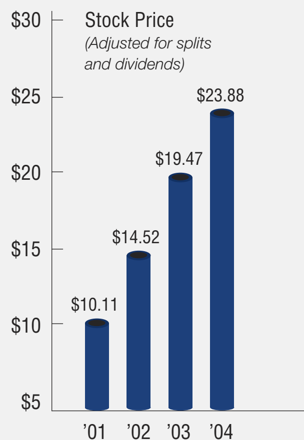
2004 Financial Highlights

Despite the expenses incurred in this consolidation initiative, we were able to report net earnings of $16.8 million compared to $15.3 million in 2003. Earnings per share increased to $1.48 compared to $1.37 in 2003. Our consolidation expenses cost us about three cents a share in earnings in 2004. Therefore, on an operating basis our Company produced a 10.2% growth in earnings per share in 2004, and that represents the fifth consecutive year of double-digit operating earnings per share growth.

We were particularly pleased with net interest income growing 13% to $50 million, and our net interest margin improved to 3.87% from 3.73% in 2003. As everyone has read over the past year, the refinance boom has slowed dramatically and we experienced a significant decrease in mortgage banking income to $3.2 million from $5.7 million in 2003. Fortunately, we offset this by the income derived from the acquisition of Peoples Trust and the continued success of our Overdraft Solutions Program.

Our balance sheet is stronger than it was a year ago. We worked hard to drive non-performing assets down to $15.7 million at year-end 2004 compared to $17.3 million at year-end 2003. Asset analysis and credit quality is the backbone of any successful banking institution. All bankers want the fee income generated by new loans. Reject every loan and you have a safe balance sheet with no loan growth; approve all loans and grow too fast and you do so at your own peril. Therefore, we analyze daily what is prudent and what does not meet our standards for risk.

Some other banking benchmarks for 2004 were 14.70% for return on average shareholders' equity and 1.13% for return on average assets.



Stock Price up 22.7%

Wall Street reacted favorably to our performance. We had a 22.7% stock price appreciation in 2004, which marked the fifth consecutive year of sizable gains. I would be remiss if I did not mention that our stock price has out-performed virtually every major stock index over the last five years. We also raised the dividend again in 2004, increasing it 9.4% to $0.476 per share. This is the 16th consecutive year that we have done so.

On March 16, 2004, we approved a three-for-two stock split of the Company's common stock. The stock split was distributed on April 16th to shareholders of record as of March 31, 2004. This split was in addition to the five percent stock dividend our shareholders received on January 9, 2004, which represented the fourth consecutive year that the Company issued a five percent stock dividend. And finally, our directors declared another five percent stock dividend to shareholders of record as of December 31, 2004 to be paid in mid-January of 2005.

Board Membership Changes

Last April, we added Douglas I. Kunkel to our Board. He is Vice President and Chief Financial Officer of Batesville Casket Company, a subsidiary of Hillenbrand Industries. In addition, you will notice in our proxy statement that the nominating committee has recommended two new directors for our upcoming year. The board believes both of these individuals are uniquely qualified to not only serve on our board, but also to add new areas of expertise. This will bring the number of independent

Above: *MainSource Financial Group Board of Directors (left to right): Rick S. Hartman, William G. Barron, James L. Saner, Sr., Philip A Frantz, Robert E. Hoptry, and Dale J. Deffner. Not pictured: Douglas I. Kunkel*

outside directors on our Board to six, as one of our long-time directors, Dale Deffner, is retiring because of the age limitation established years ago. Mr. Deffner served as a director of Peoples Trust Company, Brookville, Indiana, from 1974 to 2002, a director of MainSource Bank from 2002 to 2003, and a director of PTC Bancorp from 1984 to 1998 when he became a director of MainSource Financial Group after the merger of equals between PTC and Indiana United Bancorp. Dale has always helped to lead this Company with a "common sense approach" and an eye on the bottom line results, which he felt benefited shareholder value. He was always mindful of our communities and the employees who have helped us achieve so much success. I have considered Dale to not only be a good director but also a personal friend and I, as well as the other board members, will miss his leadership, counsel and wisdom. We wish him and his wife, MaryAnn, many years of happiness in their retirement.

Stock Purchase Plan

In August, the Board authorized an expansion of the Company's previously announced stock repurchase plan. The plan allowed the company to buy back up to an additional 2.5% of its common shares outstanding through January 31, 2005. We still believe our stock is an attractive investment opportunity. Buying back the shares is good for current shareholders, and it gives the Company an additional source of currency when looking at future acquisitions.

Looking Ahead

While we had a very successful 2004 and have accomplished a great deal over the last six years, there are greater opportunities to grow our revenues and earnings from our customer base. Cross selling has been a banking buzzword for years and we do it about as well as anyone in the areas we serve. We will continue to explore new opportunities and sharpen our selling skills in order to serve our customers and all of their financial needs.

While the Fed continues to tinker with interest rates, raising them seven times since June of 2004, I am confident of our ability to perform in these fluctuating market conditions. As we integrate our latest acquisitions into the MainSource fold, they should help to contribute to future earnings. Moreover, the consolidation plan previously discussed will allow us to slow the growth of expenses considerably in future years. I would like to thank our shareholders for their continued confidence, our employees for their efforts, our directors for their leadership and our customers for their patronage that made 2004 our finest year ever.

James L. Saner, Sr.
President and Chief Executive Officer

March 11, 2005

DIRECTORS AND OFFICERS

MainSource Financial Group Directors

Robert E. Hoptry, Chairman
Retired President and CEO
MainSource Financial Group

William G. Barron, CCIM
Chairman and President
Wm. G. Barron Enterprises, Inc.

Dale J. Deffner
Retired Partner
Deffner and Tebbe

Philip A. Frantz
Attorney at Law; Partner
Coldren and Frantz

Rick S. Hartman, CPA
President
The HRH Group, Ltd.

Douglas I. Kunkel
Vice President and CFO
Batesville Casket Company

James L. Saner, Sr.
President and CEO
MainSource Financial Group

MainSource Financial Group Senior Management

James L. Saner, Sr.
President and CEO

Donald A. Benziger
Senior Vice President and CFO

John C. Parker
Senior Vice President of Operations

James M. Anderson
Controller
Principal Accounting Officer

MainSource Bank of Indiana Directors

Daryl R. Tressler, Chairman and CEO
MainSource Bank of Indiana

John G. Seale, CPA
Partner
Rettig, Blankman, Seale and Knueven, Partners Professional Corp.

Norman L. Winkler
Farmer

Philip A. Frantz
Attorney at Law; Partner
Coldren and Frantz

Robert E. Hoptry
Retired President and CEO
MainSource Financial Group

David L. Miers
President
Miers Farm Corporation

Lawrence R. Rueff, D.V.M.
President
Swine Veterinary Services

William G. Barron, CCIM
Chairman and President
Wm. G. Barron Enterprises, Inc.

D.J. Hines
President
Schuler Bauer Realty, Inc.

Michael J. Kapfhammer
President
Buckhead Mountain Grill

John G. Hall
Mayor
City of North Vernon

Larry Gesse
Partner
Rogers and Gesse Attorneys at Law

Edward J. Zoeller
President
E.M. Cummings Veneer, Inc.

MainSource Bank of Indiana Senior Management

Daryl R. Tressler, Chairman and CEO

Michael K. Bauer
Executive Vice President
President – South Region

Larry J. Carr
President – Central Region

Albert R. Jackson, III
President – West Region

Mark R. Schoettmer
President – North Region

Mark W. Dunevant
Senior Vice President
Director of Retail Lending

Daniel F. Anderson
Senior Vice President
Wealth Management

MainSource Bank of Illinois Directors

W. Brent Hoptry, Chairman
President and CEO
MainSource Bank of Illinois

Rick S. Hartman, CPA
President
The HRH Group, Ltd.

Roy A. Koester
Farmer

Ronald H. Kinzinger
Part Owner
R & R, Inc.

James M. Anderson
Controller
Principal Accounting Officer
MainSource Financial Group

MainSource Bank of Illinois Senior Management

W. Brent Hoptry
Chairman, President and CEO

William J. Krones
Senior Vice President
Director of Lending

Georgann J. Butterfield
Vice President
Director of Retail Services

Peoples Trust Company Directors

Albert R. Jackson III, Chairman
President and CEO
Peoples Trust Company

Donald A. Benziger
Senior Vice President and CFO
MainSource Financial Group

William M. Chaney
Retired Owner
Chaney's Fashions

Daryl R. Tressler
Chairman and CEO
MainSource Bank of Indiana

Peoples Trust Company Senior Management

Albert R. Jackson III
Chairman, President and CEO

Richard L. Morris
Vice President
Director of Commercial Lending

Wm. Dean Jackson
Vice President
Director of Retail Services

MainSource Insurance Directors

James L. Saner, Sr., Chairman
President and CEO
MainSource Financial Group

C. Todd Anderson
President
MainSource Insurance

William G. Barron, CCIM
Chairman and President
Wm. G. Barron Enterprises, Inc.

Daryl R. Tressler
Chairman and CEO
MainSource Bank of Indiana

Jerry Vollmer
Insurance Sales Manager – Indiana
MainSource Insurance

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 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 number 0-12422

MAINSOURCE FINANCIAL GROUP, INC.

(Exact name of registrant as specified in its charter)

Indiana (State or other jurisdiction of incorporation or organization)	35-1562245 (I.R.S. Employer Identification No.)

201 North Broadway
Greensburg, Indiana 47240
(Address of principal executive offices) (Zip code)
Registrant's telephone number, including area code: (812) 663-0157

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

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

Common shares, no-par value
(Title of Class)

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

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

The aggregate market value (not necessarily a reliable indication of the price at which more than a limited number of shares would trade) of the voting stock held by non-affiliates of the registrant was $223,287,723 as of June 30, 2004.

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

As of March 15, 2005, there were outstanding 11,534,056 common shares, without par value, of the registrant.

DOCUMENTS INCORPORATED BY REFERENCE

Documents	Part of Form 10-K Into Which Incorporated
Definitive Proxy Statement for Annual Meeting of Shareholders to be held May 25, 2005	Part III (Items 10 through 14)

EXHIBIT INDEX: Page 49-50

FORM 10-K

TABLE OF CONTENTS

PART I		Page
Item 1	Business	3
Item 2	Properties	6
Item 3	Legal Proceedings	6
Item 4	Submission of Matters to a Vote of Security Holders	6
PART II		
Item 5	Market For the Registrant's Common Equity and Related Stockholder Matters	6
Item 6	Selected Financial Data	7
Item 7	Management's Discussion and Analysis of Financial Condition and Results of Operations	8
Item 7A	Quantitative and Qualitative Disclosures About Market Risk	21
Item 8	Financial Statements and Supplementary Data	22
Item 9	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	46
Item 9A	Controls and Procedures	47
Item 9B	Other Information	48
PART III		
Item 10	Directors and Executive Officers of the Registrant	See below
Item 11	Executive Compensation	See below
Item 12	Security Ownership of Certain Beneficial Owners and Management	See below
Item 13	Certain Relationships and Related Transactions	See below
Item 14	Principal Accountant Fees and Services	See below
PART IV		
Item 15	Exhibits, Financial Statement Schedules, and Reports on Form 8-K	49

Pursuant to General Instruction G, the information called for by Items 10-14 is omitted by MainSource Financial Group, Inc. since MainSource Financial Group, Inc. will file with the Commission a definitive proxy statement to shareholders pursuant to regulation 14A not later than 120 days after the close of the fiscal year containing the information required by Items 10-14.

PART I

ITEM 1. BUSINESS

(Dollars in thousands except per share data)

General

MainSource Financial Group, Inc. ("the Company") is a financial holding company based in Greensburg, Indiana. As of December 31, 2004, the Company owned four banking subsidiaries: MainSource Bank, Regional Bank, MainSource Bank of Illinois (formerly known as Capstone Bank), and Peoples Trust Company (together "the Banks"). Through its non-bank affiliates, the Company provides services incidental to the business of banking. Since its formation in 1982, the Company has acquired and established various institutions and financial services companies and may acquire additional financial institutions and financial services companies in the future. For further discussion of the business of the Company see Management's Discussion and Analysis in Part II, Item 7.

As of December 31, 2004, the Company operated 62 branch banking offices in Indiana and Illinois as well as nine insurance offices in Indiana and one in Kentucky. As of December 31, 2004, the Company had consolidated assets of $1,549,379, consolidated deposits of $1,226,367 and shareholders' equity of $123,320.

Through its Banks, the Company offers a broad range of financial services, including: accepting time and transaction deposits; making consumer, commercial, agribusiness and real estate mortgage loans; renting safe deposit facilities; providing general agency personal and business insurance services; providing personal and corporate trust services; and providing other corporate services such as letters of credit and repurchase agreements.

The lending activities of the Banks are separated into primarily the categories of commercial/agricultural, real estate and consumer. Loans are originated by the lending officers of the Banks subject to limitations set forth in lending policies. The Board of Directors of the Banks reviews and approves loans up to the Banks' legal lending limits, monitors concentrations of credit, problem and past due loans and charge-offs of uncollectible loans and formulates loan policy. The Banks maintain conservative loan policies and underwriting practices in order to address and manage loan risks. These policies and practices include granting loans on a sound and collectible basis, serving the legitimate needs of the community and the general market area while obtaining a balance between maximum yield and minimum risk, ensuring that primary and secondary sources of repayment are adequate in relation to the amount of the loan, developing and maintaining adequate diversification of the loan portfolio as a whole and of the loans within each category and developing and applying adequate collection policies.

Commercial loans include secured and unsecured loans, including real estate loans, to individuals and companies and to governmental units within the market area of the Banks for a myriad of business purposes.

Agricultural loans are generated in the Banks' markets. Most of the loans are real estate loans on farm properties. Loans are also made for agricultural production and such loans are generally reviewed annually.

Residential real estate lending has been the largest component of the loan portfolio for many years. All affiliate banks generate residential mortgages for their own portfolios. However, the Company elects to sell the majority of its fixed rate mortgages into the secondary market while maintaining the servicing. At December 31, 2004, the Company was servicing a $501 million loan portfolio. By originating loans for sale in the secondary market, the Company can more fully satisfy customer demand for fixed rate residential mortgages and increase fee income.

The principal source of revenues for the Company is interest and fees on loans, which accounted for 61.9% of total revenues in 2004, 61.8% in 2003 and 65.2% in 2002.

The Company's investment securities portfolio is primarily comprised of U. S. Treasuries, federal agencies, state and municipal bonds, mortgage-backed securities and corporate securities. The Company has classified 99.2% of its investment portfolio as available for sale, with market value changes reported separately in shareholders' equity. Funds invested in the investment portfolio generally represent funds not immediately required to meet loan demand. Income related to the Company's investment portfolio accounted for 16.6% of total revenues in 2004, 15.7% in 2003 and 17.3% in 2002. As of December 31, 2004, the Company had not identified any securities as being "high risk" as defined by the FFIEC Supervisory Policy Statement on Securities Activities.

The primary sources of funds for the Banks are deposits generated in local market areas. To attract and retain stable depositors, the Banks market various programs for demand, savings and time deposit accounts. These programs include interest and non-interest bearing demand and individual retirement accounts.

Currently, national retailing and manufacturing subsidiaries, brokerage and insurance firms and credit unions are fierce competitors within the financial services industry. Mergers between financial institutions within Indiana and neighboring states, which became permissible under the Interstate Banking and Branching Efficiency Act of 1994, have also added competitive pressure.

The Company's Banks are located in predominantly non-metropolitan areas and their business is centered in loans and deposits generated within markets considered largely rural in nature. In addition to competing vigorously with other banks, thrift institutions, credit unions and finance companies located within their service areas, they also compete, directly and indirectly, with all providers of financial services.

Employees

As of December 31, 2004, the Company and its subsidiaries had approximately 645 full-time equivalent employees to whom it provides a variety of benefits and with whom it enjoys excellent relations.

Regulation and Supervision of The Company

The Company is a financial holding company ("FHC") within the meaning of the Bank Holding Company Act of 1956, as amended ("Act"). This Act subjects FHC's to regulations of the Federal Reserve Board ("FRB") and restricts the business of FHC's to financial and related activities.

The Gramm-Leach-Bliley Financial Modernization Act of 1999 was enacted on November 12, 1999. The Modernization Act, which amended the Bank Holding Company Act, provides the following:

- it allows bank holding companies that qualify as "financial holding companies" to engage in a broad range of financial and related activities;
- it allows insurers and other financial services companies to acquire banks;
- it removes various restrictions that applied to bank holding company ownership of securities firms and mutual fund advisory companies; and
- it establishes the overall regulatory structure applicable to bank holding companies that also engage in insurance and securities operations.

The Company qualified as a financial holding company in December, 2004. Thus the Company is authorized to operate as a financial holding company and therefore is eligible to engage in, or acquire companies engaged in, the broader range of activities that are permitted by the Modernization Act. These activities include those that are determined to be "financial in nature," including insurance underwriting, securities underwriting and dealing, and making merchant banking investments in commercial and financial companies. If any of our banking subsidiaries ceases to be "well capitalized" or "well managed" under applicable regulatory standards, the Federal Reserve Board may, among other things, place limitations on our ability to conduct these broader financial activities or, if the deficiencies persist, require us to divest the banking subsidiary. In addition, if any of our banking subsidiaries receives a rating of less than satisfactory under the Community Reinvestment Act of 1977 ("CRA"), we would be prohibited from engaging in any additional activities other than those permissible for bank holding companies that are not financial holding companies. Our banking subsidiaries currently meet these capital, management and CRA requirements.

Acquisitions by the Company of banks and savings associations are subject to federal and state regulation. Any acquisition by the Company of more than five percent of the voting stock of any bank requires prior approval of the FRB. Acquisition of savings associations is also subject to the approval of the OTS.

Indiana law permits FHCs to acquire bank holding companies and banks out of state on a reciprocal basis, subject to certain limitations. Under current law, the Company may acquire banks, and may be acquired by bank holding companies, located in any state in the United States that permits reciprocal entry by Indiana FHCs. Under the Act, FHCs may acquire savings associations without geographic restrictions.

A FHC and its subsidiaries are prohibited from engaging in certain tying arrangements in connection with the extension of credit, lease or sale of property, or the provision of any property or service.

The Company is under the jurisdiction of the Securities and Exchange Commission ("SEC") and state securities commission for matters relating to the offering and sale of its securities. The Company is subject to the SEC's rules and regulations relating to periodic reporting, reporting to shareholders, proxy solicitation and insider trading.

The Company's liquidity is principally derived from dividends paid on the common stock of its subsidiaries. The payment of these dividends is subject to certain regulatory restrictions.

Under bank holding company policy, the Company is expected to act as a source of financial strength to, and commit resources to support, its affiliates. As a result of such policy, the Company may be required to commit resources to its affiliate banks in circumstances where it might not otherwise do so.

Certain regulations define relevant capital measures for five capital categories. A "well capitalized" institution is one that has a total risk-based capital ratio of at least 10%, a Tier 1 risk-based capital ratio of at least 8%, a leverage ratio of at least 5% and is not subject to regulatory direction to maintain a specific level for any capital measure. An "adequately capitalized" institution is one that has ratios greater than 8%, 4% and 4%. An institution is "undercapitalized" if its respective ratios are less than 8%, 4% and 4%. "Significantly undercapitalized" institutions have ratios of less than 6%, 3% and 3%. An institution is deemed to be "critically undercapitalized" if it has a ratio of tangible equity to total assets that is 2% or less. Institutions with capital ratios at levels of "undercapitalized" or lower are subject to various limitations that, in most situations, will reduce the competitiveness of the institution.

Regulation and Supervision of The Subsidiary Banks

The Company's affiliate banks are supervised, regulated and examined by their respective state regulatory banking agencies and the Federal Deposit Insurance Corporation ("FDIC"). A cease-and-desist order may be issued against the banks, if the respective agency finds that the activities of the bank represent an unsafe and unsound banking practice or violation of law. The deposits of all three banking subsidiaries are insured to the maximum extent permitted by law by the Bank Insurance Fund ("BIF") of the FDIC.

Branching by banks in Indiana is subject to the jurisdiction, and requires the prior approval, of the bank's primary federal regulatory authority and, if the branching bank is a state bank, of the Indiana Department of Financial Institutions ("DFI"). Under Indiana law, banks may branch anywhere in the state.

The Company is a legal entity separate and distinct from its subsidiary Banks. There are various legal limitations on the extent to which the Banks can supply funds to the Company. The principal source of the Company's funds consists of dividends from its subsidiary Banks. State and Federal law restricts the amount of dividends that may be paid by banks. In addition, the Banks are subject to certain restrictions on extensions of credit to the Company, on investments in the stock or other securities of the Company and in taking such stock or securities as collateral for loans.

Capital Requirements

The Company and its subsidiary Banks must meet certain minimum capital requirements mandated by the FRB, FDIC and DFI. These regulatory agencies require BHCs and banks to maintain certain minimum ratios of primary capital to total assets and total capital to total assets. The FRB requires BHCs to maintain a minimum Tier 1 leverage ratio of 3 percent capital to total assets; however, for all but the most highly rated institutions which do not anticipate significant growth, the minimum Tier 1 leverage ratio is 3 percent plus an additional cushion of 100 to 200 basis points. As of December 31, 2004, the Company's leverage ratio of capital to total assets was 7.0%. The FRB and FDIC each have approved the imposition of "risk-adjusted" capital ratios on BHCs and financial institutions. The Company's Tier 1 Capital to Risk-Weighted Assets Ratio was 10.6% and its Total Capital to Risk-Weighted Assets Ratio was 11.8% at December 31, 2004. The Company's Banks had capital to asset ratios and risk-adjusted capital ratios at December 31, 2004, in excess of the applicable regulatory minimum requirements.

ITEM 2. PROPERTIES

MainSource Financial Group owns no physical properties. Its subsidiaries own, or lease, all of the facilities from which they conduct business. All leases are comparable to other leases in the respective market areas and do not contain provisions detrimental to the Company or its subsidiaries. As of December 31, 2004 the Company had 62 banking locations of which MainSource Bank had 42, Regional had 6, Capstone had 7, and Peoples had 7. In addition, the Company operates nine insurance offices in Indiana and one in Kentucky. At December 31, 2004, the Company had approximately $26 million invested in premises and equipment.

ITEM 3. LEGAL PROCEEDINGS

The subsidiaries may be parties (both plaintiff and defendant) to ordinary litigation incidental to the conduct of business. Management is presently not aware of any material claims.

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.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Company's Common Stock is traded on NASDAQ's National Market System under the symbol MSFG. The Common Stock was held by approximately 3,110 shareholders at March 11, 2004. The quarterly high and low closing prices for the Company's common stock as reported by NASDAQ and quarterly cash dividends declared and paid are set forth in the tables below. All per share data is retroactively restated for all stock dividends and splits.

	Market Prices			
2004	**Q4**	**Q3**	**Q2**	**Q1**
High	$25.21	$20.50	$22.92	$23.08
Low	$18.35	$16.48	$17.81	$20.12
2003	**Q4**	**Q3**	**Q2**	**Q1**
High	$20.17	$16.32	$15.61	$15.46
Low	$16.17	$14.67	$13.90	$13.61

	Cash Dividends			
2004	**Q4**	**Q3**	**Q2**	**Q1**
	$0.124	$0.119	$0.119	$0.114
2003	**Q4**	**Q3**	**Q2**	**Q1**
	$0.109	$0.109	$0.109	$0.109

The activity in the Company's Stock Repurchase Program for the fourth quarter of 2004 was as follows:

Period	Total Number of Shares (or Units) Purchased	Average Price Paid Per Share (or Unit)	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares (or Units) That May Yet Be Purchased Under the Plans or Programs [1]
October 2004	—	—	—	494,219
November 2004	7,171	$22.19	7,171	487,048
December 2004	—	—	—	487,048

[1] On January 27, 2004, the Company announced that its Board of Directors had approved a stock repurchase program for up to 255,000 of its outstanding common shares. This plan was expanded by the Board of Directors on August 17, 2004 to include an additional 295,000 shares. The plan expired January 31, 2005.

ITEM 6. SELECTED FINANCIAL DATA

Selected Financial Data
(Dollar amounts in thousands except per share data)

	2004	2003	2002	2001	2000
Results of Operations					
Net interest income	$ 50,002	$ 44,232	$ 45,050	$ 41,768	$ 39,089
Provision for loan losses	600	1,325	2,995	2,136	1,658
Noninterest income	19,544	19,443	14,379	11,486	9,591
Noninterest expense	45,880	40,448	35,610	34,311	33,168
Income before income tax	23,066	21,902	20,824	16,807	13,854
Income tax	6,273	6,597	6,813	5,630	4,000
Net income	16,793	15,305	14,011	11,177	9,854
Dividends paid on common stock	5,421	4,873	4,485	4,121	4,121
Per Common Share *					
Earnings per share (basic)	$ 1.48	$ 1.37	$ 1.24	$ 0.99	$ 0.88
Earnings per share (diluted)	1.48	1.37	1.24	0.99	0.88
Dividends paid **	0.476	0.435	0.397	0.365	0.342
Book value – end of period	10.68	9.47	8.88	7.78	6.94
Market price – end of period	23.88	19.47	14.52	10.10	8.09
At Year End					
Total assets	$1,549,379	$1,442,729	$1,251,760	$1,178,392	$1,216,936
Investment securities	428,686	425,542	351,143	276,304	294,395
Loans, excluding held for sale	929,005	855,471	740,167	760,785	790,550
Allowance for loan losses	11,698	11,509	9,517	8,894	8,716
Total deposits	1,226,367	1,191,310	1,034,307	1,014,687	1,053,570
Notes payable	9,100	12,500	2,400	4,062	6,510
Federal Home Loan Bank advances	90,981	62,751	50,235	20,346	22,463
Subordinated debentures	29,898	29,898	30,425	22,425	22,425
Shareholders' equity	123,320	105,424	99,771	87,872	78,005
Financial Ratios					
Return on average assets	1.13%	1.14%	1.16%	0.93%	0.85%
Return on average common shareholders' equity	14.70	15.07	14.90	13.24	13.76
Allowance for loan losses to total loans (year end, excluding held for sale)	1.26	1.35	1.29	1.17	1.10
Shareholders' equity to total assets (year end)	7.96	7.31	7.97	7.46	6.41
Average equity to average total assets	7.67	7.57	7.77	7.04	6.20
Dividend payout ratio	32.28	31.84	32.01	36.87	41.82

* Adjusted for stock splits and dividends

** Dividends paid by MainSource Financial Group without restatement for pooling of interests

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

MAINSOURCE FINANCIAL GROUP
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Dollar amounts in thousands except per share data)

Forward-Looking Statements

Except for historical information contained herein, the discussion in this Annual Report includes certain forward-looking statements based upon management expectations. Factors which could cause future results to differ from these expectations include the following: general economic conditions; legislative and regulatory initiatives; monetary and fiscal policies of the federal government; deposit flows; the cost of funds; general market rates of interest; interest rates on competing investments; demand for loan products; demand for financial services; changes in accounting policies or guidelines; and changes in the quality or composition of the Company's loan and investment portfolios.

The forward-looking statements included in the Management's Discussion and Analysis ("MD&A") relating to certain matters involve risks and uncertainties, including anticipated financial performance, business prospects, and other similar matters, and reflect management's best judgment based on factors currently known. Actual results and experience could differ materially from the anticipated results or other expectations expressed in the Company's forward-looking statements as a result of a number of factors, including but not limited to those discussed in the MD&A.

Overview

MainSource Financial Group, Inc. ("Company") is a financial holding company whose principal activity is the ownership and management of its four wholly owned subsidiary banks ("Banks"): MainSource Bank headquartered in Greensburg, Indiana, Regional Bank ("Regional"), headquartered in New Albany, Indiana, MainSource Bank of Illinois (formerly known as Capstone Bank), headquartered in Kankakee, Illinois, and Peoples Trust Company ("Peoples Trust"), headquartered in Linton, Indiana. In February 2005, the Company merged Regional Bank into MainSource Bank. The banks operate under state charters and are subject to regulation by their respective state regulatory agencies and the Federal Deposit Insurance Corporation. MainSource Insurance (formerly The Insurance Group, Inc.) is a wholly owned subsidiary of MainSource Bank operating nine offices in Indiana and one in Kentucky and is subject to regulation by the Kentucky and Indiana Departments of Insurance. The Company also has wholly owned subsidiaries to hold investment securities. These investment subsidiaries are incorporated in Nevada. Additionally, the Company owns IUB Reinsurance Company, Ltd., a credit life reinsurance company. In November 2003, the Company formed MSB Realty, Inc., which holds real estate backed assets of MainSource Bank.

Business Strategy

The Company operates under the broad tenets of a long-term strategic plan ("Plan") designed to improve the Company's financial performance, expand its competitive position and enhance long-term shareholder value. The Plan is premised on the belief of the Company's board of directors that it can best promote long-term shareholder interests by pursuing strategies which will continue to preserve its community-focused philosophy. The dynamics of the Plan assure continually evolving goals, with the enhancement of shareholder value being the constant, overriding objective. The extent of the Company's success will depend upon how well it anticipates and responds to competitive changes within its markets, the interest rate environment and other external forces.

The Company continued its history of external growth through acquisitions during the current year. In June 2004, the Company acquired Peoples Financial Corp. and its wholly-owned subsidiary, Peoples Trust Company, in a combination cash and stock transaction. Peoples Trust Company is headquartered in Linton, Indiana with total assets of approximately $119 million. The Company is continuously reviewing acquisition targets including branches, whole banks, and other financial service related entities focusing on the four-state Midwest region of Indiana, Illinois, Kentucky, and Ohio.

During 2004, the Company announced a restructuring plan that will eventually lead to the consolidation of its Indiana banking charters into the holding company's lead bank, MainSource Bank. This consolidation is projected to be complete by the end of the third quarter of 2005 and will involve a complete management restructuring. The management structure will include geographical segmentation of the offices and will provide each defined area with a senior management team led by a regional president. This team will provide local decisions and personalized service to the customers and employees of each office.

In 2005, the Company will continue to emphasize its wide array of both traditional and non-traditional financial products and services. As the economy rebounds, the Company believes that 2005 will see increased activity in its lending areas and an increase in the yield on its investment portfolio. Management expects that these items will be partially offset by a stagnant mortgage banking market.

Results of Operations

Net income was $16,793 in 2004, $15,305 in 2003, and $14,011 in 2002. Earnings per common share on a fully diluted basis were $1.48 in 2004, $1.37 in 2003, and $1.24 in 2002. In the fourth quarter of 2004, the Company incurred $650 of restructuring costs, or $.03 per share net of tax, related to the consolidation of its Indiana charters and the name change of its Illinois affiliate. Excluding these costs, earnings per share would have been $1.51 for 2004, which represents an increase of 10.2%. The increase was primarily attributable to an increase in the Company's net interest margin, the effect of the Peoples Trust acquisition, and a decrease in the Company's effective tax rate.

Other key measures of the financial performance of the Company are return on average shareholders' equity and return on average assets. Return on average shareholders' equity was 14.70% in 2004, 15.07% in 2003, and 14.90% in 2002. The Company's return on average assets was 1.13% in 2004, 1.14% in 2003, and 1.16% in 2002. The current levels of return on shareholders' equity and return on assets are representative of the Company's continuing effort to improve profitability. The Company believes that its consistent performance validates its strategic course of action and will continue to provide increased shareholder value.

Net Interest Income

Net interest income and net interest margin are influenced by the volume and yield or cost of earning assets and interest-bearing liabilities. Tax equivalent net interest income of $52,042 in 2004 increased significantly from $45,655 in 2003 (See Table 3). As rates stayed relatively low throughout 2004, the Company's yield on earning assets decreased to 5.50% in 2004 from 5.64% in 2003. Offsetting the decrease in yield, the Company aggressively repriced its deposits and borrowings and was able to significantly reduce its cost of funds to 1.77% in 2004 from 2.09% in 2003. The overall effect was an increase in the Company's net interest margin in 2004 of 14 basis points going from 3.73% in 2003 to 3.87% in 2004.

The following table summarizes net interest income (on a tax-equivalent basis) for each of the past three years.

*Average Balance Sheet and Net Interest Analysis (Taxable Equivalent Basis)**

	2004			2003		
Assets	**Average Balance**	**Interest**	**Average Rate**	**Average Balance**	**Interest**	**Average Rate**
Short-term investments	$ 6,139	$ 42	0.68%	$ 1,224	$ 7	0.57%
Federal funds sold and money market accounts	4,377	76	1.74	15,679	192	1.22
Securities						
Taxable	353,457	12,094	3.42	352,813	11,480	3.25
Non-taxable*	79,882	4,691	5.87	52,820	3,341	6.33
Total securities	433,339	16,785	3.87	405,633	14,821	3.65
Loans **						
Commercial	490,595	31,455	6.41	430,992	29,456	6.83
Residential real estate	223,100	13,913	6.24	218,461	14,543	6.66
Consumer	185,783	11,610	6.25	151,127	10,005	6.62
Total loans	899,478	56,978	6.33	800,580	54,004	6.75
Total earning assets	1,343,333	73,881	5.50	1,223,116	69,024	5.64
Cash and due from banks	46,920			38,413		
Unrealized gains (losses) on securities	693			3,750		
Allowance for loan losses	(11,798)			(11,065)		
Premises and equipment, net	24,769			21,500		
Intangible assets	44,332			34,206		
Accrued interest receivable and other assets	40,617			32,199		
Total assets	$1,488,866			$1,342,119		
Liabilities						
Interest-bearing deposits						
DDA, savings, and money market accounts	$ 551,885	$ 3,438	0.62	$ 476,627	$ 3,050	0.64
Certificates of deposit	521,112	12,928	2.48	526,304	15,494	2.94
Total interest-bearing deposits	1,072,997	16,366	1.53	1,002,931	18,544	1.85
Short-term borrowings	44,806	580	1.29	18,565	172	0.93
Subordinated debentures	29,898	1,677	5.61	26,845	1,626	6.06
Notes payable and FHLB borrowings	82,836	3,216	3.88	67,706	3,027	4.47
Total interest-bearing liabilities	1,230,537	21,839	1.77	1,116,047	23,369	2.09
Demand deposits	131,110			111,480		
Other liabilities	13,004			13,013		
Total liabilities	1,374,651			1,240,540		
Shareholders' equity	114,215			101,579		
Total liabilities and shareholders' equity	$1,488,866	21,839	1.63***	$1,342,119	23,369	1.91***
Net interest income		$52,042	3.87****		$45,655	3.73****
Conversion of tax exempt income to a fully taxable equivalent basis using a marginal rate of 35%		$ 2,040			$ 1,423	

Assets	2002 Average Balance	2002 Interest	2002 Average Rate
Short-term investments	$ 288	$ 5	1.74%
Federal funds sold and money market accounts	38,002	727	1.91
Securities			
Taxable	264,675	12,970	4.90
Non-taxable*	47,611	3,166	6.65
Total securities	312,286	16,136	5.17
Loans **			
Commercial	402,283	29,308	7.29
Residential real estate	237,709	17,627	7.42
Consumer	124,626	9,853	7.91
Total loans	764,618	56,788	7.43
Total earning assets	1,115,194	73,656	6.60
Cash and due from banks	36,912		
Unrealized gains (losses) on securities	4,801		
Allowance for loan losses	(9,404)		
Premises and equipment, net	18,521		
Intangible assets	23,363		
Accrued interest receivable and other assets	21,358		
Total assets	$1,210,745		
Liabilities			
Interest-bearing deposits			
DDA, savings, and money market accounts	$ 443,684	$ 5,064	1.14
Certificates of deposit	478,643	17,546	3.67
Total interest-bearing deposits	922,327	22,610	2.45
Short-term borrowings	17,769	372	2.09
Subordinated debentures	22,758	2,035	8.94
Notes payable and FHLB borrowings	45,497	2,236	4.91
Total interest-bearing liabilities	1,008,351	27,253	2.70
Demand deposits	94,054		
Other liabilities	14,283		
Total liabilities	1,116,688		
Shareholders' equity	94,057		
Total liabilities and shareholders' equity	$1,210,745	27,253	2.44***
Net interest income		$46,403	4.16****
Conversion of tax exempt income to a fully taxable equivalent basis using a marginal rate of 35%		$ 1,353	

* Adjusted to reflect income related to securities and loans exempt from Federal income taxes.

** Nonaccruing loans have been included in the average balances.

*** Total interest expense divided by total earning assets.

**** Net interest income divided by total earning assets.

The following table sets forth for the periods indicated a summary of the changes in interest income and interest expense resulting from changes in volume and changes in rates.

Volume/Rate Analysis of Changes in Net Interest Income
(Tax Equivalent Basis)

	2004 OVER 2003			2003 OVER 2002		
	Volume	Rate	Total	Volume	Rate	Total
Interest income						
Loans	$ 6,336	$ (3,362)	$ 2,974	$ 2,672	$ (5,450)	$ (2,778)
Securities	1,072	892	1,964	4,826	(6,141)	(1,315)
Federal funds sold and money market funds	(198)	82	(116)	(426)	(109)	(535)
Short-term investments	34	1	35	16	(14)	2
Total interest income	7,244	(2,387)	4,857	7,088	(11,714)	(4,626)
Interest expense						
Interest-bearing DDA, savings, and money market accounts	$ 483	$ (95)	$ 388	$ 376	$ (2,390)	$ (2,014)
Certificates of deposit	(145)	(2,421)	(2,566)	1,749	(3,717)	(1,968)
Borrowings	930	(333)	597	1,091	(592)	499
Subordinated debentures	172	(121)	51	365	(762)	(397)
Total interest expense	3,581	(2,970)	(1,530)	3,581	(7,461)	(3,880)
Change in net interest income	$ 3,663	$ 583	6,387	$ 3,507	$ (4,253)	(746)
Change in tax equivalent adjustment			617			72
Change in net interest income before tax equivalent adjustment			$ 5,770			$ (818)

Provision for Loan Losses

The Company expensed $600 in provision for loan losses in 2004. This level of provision allowed the Company to maintain an adequate allowance for loan losses. This topic is discussed in detail under the heading "Loans, Credit Risk and the Allowance and Provision for Loan Losses".

Non-interest Income

Non-interest income remained relatively flat in 2004 compared to 2003. The acquisition of Peoples Trust and increased service charge income related to the Company's overdraft program were offset by decreases in mortgage banking activity and lower gains on sales of investment securities. Mortgage banking income was $3.2 million in 2004 versus $5.7 million in 2003, a decrease of 43.9%. As the level of refinancings declined throughout the year, the Company anticipated this decrease in income.

Non-interest income increased in 2003 to $19,443 compared to $14,379 in 2002, which represents an increase of $5,064 or 35.2%. The acquisition of First Community in 2003 added a total of $926, contributing approximately 18% of the increase in 2003. In addition to the acquisition of First Community, the Company realized increases in several areas. As interest rates remained at historically low levels throughout much of 2003, the Company realized a significant increase in its mortgage banking activity. Mortgage banking income, which consists of gains and losses on loan sales and service fee income, net of mortgage servicing right amortization, was $5,671 in 2003 compared to $4,757 in 2002, an increase of 19.2%. As many customers refinanced their existing loans, the Company elected to sell the majority of these loans into the secondary market while maintaining the servicing rights. The Company also realized net gains on sales of investment securities in 2003 of $1,300 compared to gains of $319 in 2002. Other non-interest income increased in 2003 versus 2002 as the Company realized increases in the following areas: annuity fees ($360), cash surrender value of company-owned life insurance policies ($418), gains on the sales of various OREO properties ($245), and contingency fees from insurance companies ($165).

Non-interest Income and Expense

	2004	2003	2002	Percent Change 04/03	Percent Change 03/02
Non-interest income					
Insurance commissions	$ 2,643	$ 2,400	$ 2,156	10.1%	11.3%
Trust and investment product fees	911	678	605	34.4	12.1
Mortgage banking	3,198	5,671	4,757	-43.6	19.2
Service charges on deposit accounts	6,912	5,092	4,011	35.7	27.0
Securities gains/(losses)	991	1,300	319	-23.8	307.5
Gain on cash surrender value of life insurance	1,016	626	208	62.3	201.0
Interchange income	1,996	1,796	1,160	11.1	54.8
Other	1,877	1,880	1,163	-0.2	61.7
Total non-interest income	$ 19,544	$19,443	$14,379	0.5	35.2
Non-interest expense					
Salaries and employee benefits	$ 25,411	$22,421	$20,381	13.3%	10.0%
Net occupancy	3,165	2,753	2,414	15.0	14.0
Equipment	3,949	3,488	2,873	13.2	21.4
Telephone	1,581	1,287	1,038	22.8	24.0
Intangible amortization	1,059	909	828	16.5	9.8
Stationary, printing, and supplies	988	916	973	7.9	-5.9
Other	9,727	8,674	7,103	12.1	22.1
Total non-interest expense	$ 45,880	$40,448	$35,610	13.4	13.6

Non-interest Expense

Total non-interest expense increased 13.4% in 2004 to $45,880 compared to $40,448 in 2003, or an increase of $5,432. The largest component of non-interest expense in both years was salaries and benefits. These expenses were $25,411 in 2004 compared to $22,421 in 2003. The increase of approximately $3 million was primarily related to the full-year effect of the acquisition of First Community in 2004, the acquisition of Peoples Trust in June 2004, and normal staff salary increases of roughly 4%. The Company also incurred certain costs in 2004 related to the restructuring of its banking affiliates that were not incurred in 2003. These costs included system conversion costs, costs associated with the name change of the Company's Illinois affiliate, and contract termination penalties. The total restructuring costs incurred in 2004 were $650.

Total non-interest expense increased 13.6% in 2003 to $40,448 compared to $35,610 in 2002, or an increase of $4,838. The largest component of non-interest expense in both years was salaries and benefits. These expenses increased 10.0%, or $2,040, in 2003 due primarily to the acquisition of First Community, which added $1,435 of employee costs. The remaining increase is attributable to normal merit increases. Other non-interest expense increased in 2003 compared to 2002 as the Company incurred approximately $850 of costs related to the redemption of trust preferred securities in the first quarter of 2003. These costs related to the Company's investment in trusts formed to issue trust preferred securities and are a result of accelerated amortization of debt issuance costs by the trusts.

Income Taxes

The effective tax rate was 27.2% in 2004, 30.1% in 2003, and 32.7% in 2002. The decrease in the Company's effective tax rate in 2004 was primarily related to various tax strategies implemented by the Company including the formation of MSB Realty, Inc., a real-estate investment trust.

Balance Sheet

At December 31, 2004, total assets were $1,549,379 compared to $1,442,729 at December 31, 2003, an increase of $106,650. The increase was primarily attributable to the acquisition of Peoples Trust, which accounted for approximately $119 million in assets.

Loans, Credit Risk and the Allowance and Provision for Loan Losses

Loans remain the Company's largest concentration of assets and continue to represent the greatest potential risk. The loan underwriting standards observed by the Company's subsidiaries are viewed by management as a means of controlling problem loans and the resulting charge-offs.

The Company's conservative loan underwriting standards have historically resulted in higher loan quality and generally lower levels of net charge-offs than peer bank averages. The Company also believes credit risks may be elevated if undue concentrations of loans in specific industry segments and to out-of-area borrowers are incurred. Accordingly, the Company's board of directors regularly monitors such concentrations to determine compliance with its loan concentration policy. The Company believes it has no undue concentrations of loans.

Total loans (excluding those held for sale) increased by approximately $73 million from year-end 2003. The increase was primarily related to the acquisition of Peoples Trust. Excluding the acquisition of Peoples Trust, the Company's total loan portfolio remained relatively flat. Residential real estate loans continue to represent the largest portion of the total loan portfolio. Such loans represented 38.1% and 36.9% of total loans at December 31, 2004 and 2003, respectively.

The following table details the Company's loan portfolio by type of loan.

Loan Portfolio

			December 31		
	2004	2003	2002	2001	2000
Types of loans					
Commercial	$143,511	$141,571	$ 98,526	$ 83,143	$ 77,648
Agricultural production financing and other loans to farmers	22,647	25,897	25,105	20,726	20,744
Commercial real estate mortgage	213,359	183,938	156,277	150,677	138,132
Residential real estate mortgage	353,515	315,848	301,232	328,107	389,622
Farm real estate	38,281	37,107	43,762	46,524	49,284
Construction and development	38,056	34,686	34,987	53,753	40,813
Consumer	108,430	99,724	72,702	69,957	64,548
State and political	11,206	16,700	7,576	7,898	9,759
Total loans	$929,005	$855,471	$740,167	$760,785	$790,550

The following table indicates the amounts of loans (excluding residential and commercial mortgages and consumer loans) outstanding as of December 31, 2004 which, based on remaining scheduled repayments of principal, are due in the periods indicated.

Maturities and Sensitivity to Changes in Interest Rates of Commercial and Construction Loans

Due:	Within 1 Year	1 – 5 Years	Over 5 years	Total
Loan Type				
Commercial and industrial	$ 47,870	$ 34,137	$ 61,504	$143,511
Agricultural production financing	16,276	4,371	2,000	22,647
Construction and development	29,533	3,730	4,793	38,056
Totals	$ 93,679	$ 42,238	$ 68,297	$204,214
Percent	46%	21%	33%	100%
Rate Sensitivity				
Fixed Rate	$ 20,666	$ 22,276	$ 8,653	$ 51,595
Variable Rate	108,982	42,636	1,001	152,619
Totals	$129,648	$ 64,912	$ 9,654	$204,214

The Company regards its ability to identify and correct loan quality problems as one of its greatest strengths. Loans are placed on "non-accrual" status when, in management's judgment, the collateral value and/or the borrower's financial condition does not justify accruing interest.

As a general rule, commercial and real estate loans are reclassified to nonaccrual status at or before becoming 90 days past due. Interest previously recorded is reversed and charged against current income. Subsequent interest payments collected on nonaccrual loans are thereafter applied as a reduction of the loan's principal balance.

Non-performing loans were $14.0 million as of December 31, 2004 compared to $14.8 million as of December 31, 2003 and represented 1.51% of total loans at December 31, 2004 versus 1.73% one year ago.

The following table details the Company's non-performing loans as of December 31 for the years indicated.

Non-performing Loans

	2004	2003	2002	2001	2000
Nonaccruing loans	$ 13,611	$ 14,626	$ 7,695	$ 10,406	$ 3,454
Accruing loans contractually past due 90 days or more	431	196	245	766	532
Total	$ 14,042	$ 14,822	$ 7,940	$ 11,172	$ 3,986
% of total loans	1.51%	1.73%	1.07%	1.47%	0.50%

The provision for loan losses was $600 in 2004, $1,325 in 2003, and $2,995 in 2002. The decrease in the Company's provision in 2004 was primarily due to the decrease in non-performing loans in 2004 and the decrease in net charge-offs on non-acquired loans. Net charge-offs were $2,186 in 2004 compared to $1,411 in 2003 and $2,372 in 2002. As a percentage of average loans, net charge-offs equaled .24%, .18%, and .31% in 2004, 2003 and 2002, respectively. Although net charge-offs were up in 2004, approximately half of these charge-offs related to loans that were acquired in the First Community and Peoples Trust acquisitions and were adequately provided for as of the date of acquisition.

Summary of the Allowance for Loan Losses

	2004	2003	2002	2001	2000
Balance at January 1	$ 11,509	$ 9,517	$ 8,894	$ 8,716	$ 7,718
Chargeoffs					
Commercial	1,069	588	1,715	1,392	403
Commercial real estate mortgage	43	—	—	100	107
Residential real estate mortgage	534	555	473	266	164
Consumer	886	777	583	621	443
Total Chargeoffs	2,532	1,920	2,771	2,379	1,117
Recoveries					
Commercial	123	160	116	127	201
Commercial real estate mortgage	2	43	5	24	7
Residential real estate mortgage	43	54	127	40	35
Consumer	178	252	151	230	214
Total Recoveries	346	509	399	421	457
Net Chargeoffs	2,186	1,411	2,372	1,958	660
Addition resulting from acquisition	1,775	2,078	—	—	—
Provision for loan losses	600	1,325	2,995	2,136	1,658
Balance at December 31	$ 11,698	$ 11,509	$ 9,517	$ 8,894	$ 8,716
Net Chargeoffs to average loans	0.24%	0.18%	0.31%	0.25%	0.09%
Provision for loan losses to average loans	0.07%	0.17%	0.39%	0.27%	0.22%
Allowance to total loans at year end	1.26%	1.35%	1.29%	1.17%	1.10%

Allocation of the Allowance for Loan Losses

December 31	2004 Amount	2004 Percent of loans to total loans	2003 Amount	2003 Percent of loans to total loans	2002 Amount	2002 Percent of loans to total loans	2001 Amount	2001 Percent of loans to total loans	2000 Amount	2000 Percent of loans to total loans
Real estate										
Residential	$ 1,123	38%	$ 1,230	37%	$2,097	41%	$2,159	43%	$1,076	47%
Farm real estate	681	4	704	4	776	6	301	6	442	6
Commercial	3,997	23	3,907	21	2,715	21	2,453	20	1,004	16
Construction and development	648	4	658	4	647	5	858	7	909	6
Total real estate	6,449	69	6,499	66	6,235	73	5,771	75	3,431	75
Commercial										
Agribusiness	464	3	491	3	388	3	368	3	965	3
Other commercial	2,831	17	3,003	19	1,810	14	1,349	11	1,204	12
Total Commercial	3,295	20	3,494	22	2,198	17	1,717	14	2,169	15
Consumer	1,581	11	1,053	12	951	10	952	11	1,349	10
Unallocated	373		463		133		554		1,767	
Total	$11,698	100%	$11,509	100%	$9,517	100%	$8,994	100%	$8,716	100%

Management maintains a list of loans warranting either the assignment of a specific reserve amount or other special administrative attention. This watch list, together with a listing of all classified loans, nonaccrual loans and delinquent loans, is reviewed monthly by the board of directors of each subsidiary. Additionally, the Company evaluates its consumer and residential real estate loan pools for probable losses incurred based on historical trends, adjusted by current delinquency and non-performing loan levels.

The ability to absorb loan losses promptly when problems are identified is invaluable to a banking organization. Most often, losses incurred as a result of prompt, aggressive collection actions are much lower than losses incurred after prolonged legal proceedings. Accordingly, the Company observes the practice of quickly initiating stringent collection efforts in the early stages of loan delinquency.

The adequacy of the allowance for loan losses in each subsidiary is reviewed at least quarterly. The determination of the provision amount in any period is based upon management's continuing review and evaluation of loan loss experience, changes in the composition of the loan portfolio, classified loans including non-accrual and impaired loans, current economic conditions, the amount of loans presently outstanding, and the amount and composition of loan growth. The Company's allowance for loan losses was $11,698, or 1.26% of total loans, at December 31, 2004 compared to $11,509, or 1.35% of total loans, at the end of 2003.

Securities

Securities offer flexibility in the Company's management of interest rate risk, and are the primary means by which the Company provides liquidity and responds to changing maturity characteristics of assets and liabilities. The Company's investment policy prohibits trading activities and does not allow investment in high-risk derivative products or junk bonds.

As of December 31, 2004, 99.2% of the securities are classified as "available for sale" ("AFS") and are carried at fair value with unrealized gains and losses, net of taxes, excluded from earnings and reported as a separate component of shareholders' equity. A net unrealized gain of $175 was recorded to adjust the AFS portfolio to current market value at December 31, 2004 compared to a net unrealized gain of $2,185 at December 31, 2003. The remaining 0.8% of the investment portfolio is classified as "held to maturity" ("HTM") and is carried at book value. The majority of the Company's HTM portfolio consists of tax-exempt municipal bonds.

For 2004 the tax equivalent yield of the investment securities portfolio was 3.87%, compared to 3.65% and 5.17% for 2003 and 2002, respectively. The average life of the Company's investment security portfolio was 3.59 years at December 31, 2004. During 2004 portfolio return increased as rising interest rates due to Federal Reserve tightening improved reinvestment yields and the selective selling of securities provided net gains. Management began the process of moving the portfolio from its defensive position to a more balanced position as higher rates allowed for reinvestment in longer maturity investments. At the beginning of 2005 the portfolio still retains protection against extension risk and will provide significant cash flow for reinvestment. Management anticipates a continued improvement in its investment portfolio return due primarily to rising interest rates and selectively purchasing longer maturity investments when the opportunities arise.

Sources of Funds

The Company relies primarily on customer deposits and securities sold under agreement to repurchase ("repurchase agreements"), along with shareholders' equity to fund earning assets. Federal Home Loan Bank ("FHLB") advances are used to provide additional funding. The Company also attempts to purchase local deposits through branch acquisitions.

Deposits generated within local markets provide the major source of funding for earning assets. Average total deposits were 89.6% and 91.1% of total average earning assets in 2004 and 2003, respectively. Total interest-bearing deposits averaged 89.1% and 90.0% of average total deposits during 2004 and 2003. Management is continuing efforts to increase the percentage of transaction-related deposits to total deposits due to the positive effect on earnings.

Repurchase agreements are high denomination investments utilized by public entities and commercial customers as an element of their cash management responsibilities. During 2004, repurchase agreements averaged $22,166.

Another source of funding is the Federal Home Loan Bank (FHLB). The Company had FHLB advances of $90,981 outstanding at December 31, 2004. These advances have interest rates ranging from 2.36% to 6.58% (see note 10 to the consolidated financial statements for the maturity schedule of these advances). The Company averaged $69,861 in FHLB advances during 2004 compared to $56,721 during 2003.

In June 2003 the Company borrowed $13,000 at a floating rate based on LIBOR. These funds were used in the cash acquisition of First Community. At year-end 2004, the balance on this note was $9,100 with an effective interest rate of 3.16%.

Average Deposits

	2004		2003		2002	
	Amount	Rate	Amount	Rate	Amount	Rate
Demand	$ 131,110		$ 111,480		$ 94,054	
Interest Bearing Demand	301,611	0.54%	258,213	0.60%	236,802	1.06%
Savings	250,274	0.73	218,414	0.69	206,882	1.18
Certificates of Deposit	521,112	2.48	526,304	2.94	478,643	3.67
Totals	$1,204,107	1.36%	$1,114,411	1.67%	$1,016,381	2.22%

As of December 31, 2004, certificates of deposit and other time deposits of $100 or more mature as follows:

	3 months or less	4-6 months	6-12 months	over 12 months	Total
Amount	$46,687	$14,365	$17,827	$38,482	$117,361
Percent	40%	12%	15%	33%	

Capital Resources

The Federal Reserve Board and other regulatory agencies have adopted risk-based capital guidelines that assign risk weightings to assets and off-balance sheet items. The Company's core capital ("Tier 1") consists of common shareholders' equity adjusted for unrealized gains or losses on available for sale (AFS) securities plus limited amounts of Trust Preferred Securities less goodwill and intangible assets. Total capital consists of core capital, certain debt instruments and a portion of the allowance for loan losses. At December 31, 2004, Tier 1 capital to average assets was 7.0%. Total capital to risk-weighted assets was 11.8%. Both ratios exceed all required ratios established for bank holding companies. Risk-adjusted capital levels of each of the Company's subsidiary banks exceed regulatory definitions of well-capitalized institutions.

The Trust Preferred Securities (which are classified as subordinated debentures) qualify as Tier 1 capital or core capital with respect to the Company under the risk-based capital guidelines established by the Federal Reserve. Under such guidelines, capital received from the proceeds of the sale of these securities cannot constitute more than 25% of the total Tier 1 capital of the Company. Consequently, the amount of Trust Preferred Securities in excess of the 25% limitation constitutes Tier 2 capital, or supplementary capital, of the Company.

Common shareholders' equity is impacted by the Company's decision to categorize a portion of its securities portfolio as available for sale (AFS). Securities in this category are carried at fair value, and common shareholders' equity is adjusted to reflect unrealized gains and losses, net of taxes.

The Company declared and paid common dividends of $.476 per share in 2004, $.435 in 2003 and $.397 in 2002. Book value per common share increased to $10.68 at December 31, 2004 compared to $9.47 at the end of 2003. The net adjustment for AFS securities increased book value per share by $.01 at December 31, 2004 and by $.11 at December 31, 2003. Depending on market conditions, the adjustment for AFS securities can cause significant fluctuations in equity.

During 2004, the Company declared a three-for-two stock split and a five percent stock dividend for the fifth consecutive year. All financial information used throughout this report has been adjusted to reflect these transactions.

Liquidity

Liquidity management involves maintaining sufficient cash levels to fund operations and to meet the requirements of borrowers, depositors and creditors. Higher levels of liquidity bear higher corresponding costs, measured in terms of lower yields on short-term, more liquid earning assets and higher interest expense involved in extending liability maturities. Liquid assets include cash and cash equivalents, loans and securities maturing within one year and money market instruments. In addition, the Company holds approximately $355 million of AFS securities maturing after one year, which can be sold to meet liquidity needs.

Maintaining a relatively stable funding base, which is achieved by diversifying funding sources, supports liquidity, extends the contractual maturity of liabilities, and limits reliance on volatile short-term purchased funds. Short-term funding needs may arise from declines in deposits or other funding sources, funding of loan commitments and requests for new loans. The Company's strategy is to fund assets to the maximum extent possible with core deposits, which provide a sizable source of relatively stable low-cost funds. The Company defines core deposits as all deposits except certificates of deposits greater than $100. Average core deposits funded approximately 79.3% of total earning assets during 2004 and approximately 81.2% in 2003.

Management believes the Company has sufficient liquidity to meet all reasonable borrower, depositor and creditor needs in the present economic environment. The Company has not received any directives from regulatory authorities that would materially affect liquidity, capital resources or operations.

Contractual Obligations as of December 31, 2004

	Total	Less than 1 Year	1 - 3 Years	3 - 5 Years	More than 5 Years
Notes Payable	$ 9,100	$ 2,600	$ 5,200	$ 1,300	$ —
FHLB Advances	90,981	49,115	15,630	—	26,236
Subordinated Debentures	29,898	—	—	—	29,898
Time Deposits	465,832	286,671	130,977	45,681	2,503
Total	$595,811	$338,386	$151,807	$46,981	$58,637

Interest Rate Sensitivity

At year-end 2004, the Company held approximately $623,000 in assets comprised of securities, loans, short-term investments, and federal funds sold, which were interest rate sensitive in one year or less time horizons. The Company's interest rate sensitivity analysis for the year ended December 31, 2004 appears in the table below. A significant assumption that creates the large negative gap in the 0 to 3 month category is that all interest-bearing demand and savings accounts are subject to immediate repricing. While it is true that, contractually, those accounts are subject to immediate repricing, the rates paid on those accounts are generally not tied to specific indices and are influenced by market conditions and other factors. Accordingly, a general movement in interest rates, either up or down, may not have any immediate effect on the rates paid on these deposit accounts. The foregoing table illustrates only one source of information about sensitivity to interest rate movements. Our asset and liability management process also uses simulations that take into account the time that various assets and liabilities may reprice and the degree to which various categories of such assets and liabilities will respond to general interest rate movements. Interest rate risk can only be represented by a measurement of the effects of changing interest rates given the capacity for and magnitude of change on specific assets and liabilities.

Rate Sensitivity Analysis at December 31, 2004

	3 Months	1 Year	2 Years	5 Years	Over 5 Years or Insensitive	Total
Interest-earning assets						
Loans	$ 278,070	$ 207,071	$ 151,592	$ 198,734	$ 94,362	$ 929,829
Securities	30,605	93,888	74,658	127,199	102,336	428,686
Federal funds sold and money market fund	4,662	—	—	—	—	4,662
Interest-bearing deposits in banks	304	—	—	—	—	304
Restricted stock	7,902	—	—	—	—	7,902
Total Interest-earning assets	321,543	300,959	226,250	325,933	196,698	1,371,383
Other assets	—	—	—	—	189,694	189,694
Allowance for loan losses	—	—	—	—	(11,698)	(11,698)
Total assets	$ 321,543	$ 300,959	$ 226,250	$ 325,933	$(374,694	$1,549,379
Interest-bearing liabilities						
Interest-bearing demand	$ 310,306	—	—	—	—	$ 310,306
Savings	304,230	—	—	—	—	304,230
Certificates of deposit	126,459	159,768	83,578	85,823	10,204	465,832
Short term borrowings	57,175	—	—	—	—	57,175
Notes payable	9,100	—	—	—	—	9,100
Federal Home Loan Bank advances	35,032	14,215	—	15,498	26,236	90,981
Subordinated debentures	29,898	—	—	—	—	29,898
Total Interest-bearing liabilities	872,200	173,983	83,578	101,321	36,440	1,267,522
Demand deposits	—	—	—	—	145,999	145,999
Other liabilities	—	—	—	—	12,538	12,538
Stockholders equity	—	—	—	—	123,320	123,320
Total Liabilities and stockholders' equity	$ 872,200	$ 173,983	$ 83,578	$ 101,321	$ 318,297	$1,549,379
Rate sensitivity gap (assets less liabilities)	$(550,657)	$ 126,976	$ 142,672	$ 224,612		
Rate sensitivity gap (cumulative)	(550,657)	(423,681)	(281,009)	(56,397)		
Percent of total assets (cumulative)	-35.54%	-27.35%	-18.14%	-3.64%		
Rate sensitive assets/liabilities (cumulative)	36.87%	59.50%	75.13%	95.42%		

Management believes that the Company has taken steps to position itself to react to changes occurring in the current interest rate environment. With an economic expansion underway, short term rates began rising in the middle of 2004 and both trends are expected to continue in 2005. Management believes this would result in a higher level of loan growth than the Company realized in 2003 and 2004. The Company continues to monitor the repricing characteristics of its balance sheet so as to maintain an acceptable net interest margin during interest rate fluctuations. Assuming a stable to moderately higher interest rate environment, the Company does not foresee its earnings materially impacted for 2005.

Asset/liability management strategies are developed by the Company to manage market risk. Market risk is the risk of loss in financial instruments including investments, loans, deposits and borrowings arising from adverse changes in prices/rates. Interest rate risk is the Company's primary market risk exposure and represents the sensitivity of earnings to changes in market interest rates.

The following table provides information about the Company's significant financial instruments at December 31, 2004 that are sensitive to changes in interest rates. The table presents principal cash flows and related weighted average interest rates by maturity dates. The table presents only a static measurement of asset and liability volumes based on maturity, cash flow estimates and interest rates. It does not reflect the differences in the timing and degree of repricing of assets and liabilities due to interest rate changes.

Principal Cash Flows

December 31	2005	2006	2007	2008	2009	There after	Total	Fair Value
(Dollars in Thousands)								
Assets								
Investment securities								
Fixed rate	$ 70,061	$ 52,865	$102,258	$ 60,363	$ 62,154	$ 73,624	$421,325	$421,477
Average interest rate	3.20%	3.23%	3.77%	3.90%	4.50%	5.98%	4.12%	
Variable rate	$ 423	$ 161	$ 1,110	$ 1,956	—	$ 3,711	$ 7,361	$ 7,380
Average interest rate	3.60%	2.76%	4.23%	4.27%	—	3.33%	3.72%	
Loans								
Fixed rate	$ 37,269	$ 19,570	$ 29,992	$ 39,957	$ 39,262	$ 87,036	$253,086	$248,962
Average interest rate	5.87%	7.66%	6.81%	6.01%	5.96%	6.58%	6.40%	
Variable rate	$ 91,836	$ 10,602	$ 8,654	$ 6,519	$ 15,676	$543,456	$676,743	$664,904
Average interest rate	5.88%	4.99%	5.47%	5.83%	7.00%	6.03%	6.01%	
Liabilities								
Deposits								
NOW, money market and savings deposits								
Variable rate	$614,536	—	—	—	—	—	$614,536	$611,061
Average interest rate	1.03%	—	—	—	—	—	1.03%	
Certificates of deposit								
Fixed rate	$264,917	$ 79,032	$ 46,116	$ 33,387	$ 12,659	$ 2,290	$438,401	$437,562
Average interest rate	2.31%	2.71%	3.53%	3.73%	3.87%	4.54%	2.67%	
Variable rate	$ 21,209	$ 5,228	$ 593	$ 196	$ 202	$ 3	$ 27,431	$ 27,431
Average interest rate	2.36%	2.38%	2.87%	3.57%	3.47%	3.64%	2.39%	
Borrowings								
Variable rate	$ 57,175	—	—	—	—	—	$ 57,175	$ 57,175
Average interest rate	1.77%	—	—	—	—	—	1.77%	
FHLB advances								
Variable rate	$ 35,000	—	—	—	—	—	$ 35,000	$ 35,000
Average interest rate	1.95%	—	—	—	—	—	1.95%	
Fixed rate	$ 14,115	$ 132	$ 15,498	—	—	$ 26,236	$ 55,981	$ 57,837
Average interest rate	5.39%	6.20%	4.88%	—	—	4.06%	4.63%	
Long-term debt								
Variable rate	$ 2,600	$ 2,600	$ 2,600	$ 1,300	—	—	$ 9,100	$ 9,100
Average interest rate	3.16%	3.16%	3.16%	3.16%	—	—	3.16%	
Subordinated debentures								
Variable rate	—	—	—	—	—	$ 29,898	$ 29,898	$ 29,898
Average interest rate	—	—	—	—	—	5.61%	5.61%	

In analyzing interest rate sensitivity, management considers these differences and incorporates other assumptions and factors, such as balance sheet growth and prepayments, to better measure interest rate risk. The Company cannot make any assurances as to the outcome of these assumptions, nor can it assess the impact of customer product preference changes and competitive factors as well as other internal and external variables. In addition, this analysis cannot reflect actions taken by the asset/liability management committees; therefore, this analysis should not be relied upon as indicative of expected operating results.

Effects of Changing Prices

The Company's asset and liability structure is substantially different from that of an industrial company in that most of its assets and liabilities are monetary in nature. Management believes the impact of inflation on financial results depends upon the Company's ability to react to changes in interest rates and, by such reaction, reduce the inflationary impact on performance. Interest rates do not necessarily move in the same direction at the same time, or at the same magnitude, as the prices of other goods and services. As discussed previously, management relies on its ability to manage the relationship between interest-sensitive assets and liabilities to protect against wide interest rate fluctuations, including those resulting from inflation.

Critical Accounting Policies

The accounting and reporting policies of the Company comply with accounting principles generally accepted in the United States and conform to general practices within the banking industry. These policies require estimates and assumptions. Changes in underlying factors, assumptions, or estimates in any of these areas could have a material impact on the Company's future financial condition and results of operations. In management's opinion, some of these areas have a more significant impact than others on the Company's financial reporting. These areas currently include accounting for the allowance for loan losses and goodwill.

Allowance for Loan Losses — The level of the allowance for loan losses is based upon management's evaluation of the loan and lease portfolios, past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay (including the timing of future payments), the estimated value of any underlying collateral, composition of the loan portfolio, economic conditions, and other pertinent factors. This evaluation is inherently subjective as it requires material estimates including the amounts and timing of future cash flows expected to be received on impaired loans that may be susceptible to significant change. The level of allowance maintained is believed by management to be adequate to cover losses inherent in the portfolio. The allowance is increased by provisions charged to expense and decreased by charge-offs, net of recoveries of amounts previously charged-off.

Goodwill — Statement of Financial Accounting Standards No. 141 "Business Combinations" and No. 142 "Goodwill and Other Intangible Assets" were issued in June of 2001 and were effective for fiscal years beginning after December 15, 2001. Under these rules, goodwill and intangible assets deemed to have indefinite lives, if any, will no longer be amortized, but will be subject to annual impairment tests in accordance with the Statements. The Company has selected June 30 as its date for annual impairment testing.

New Accounting Matters

See Note 1 to the Consolidated Financial Statements regarding the adoption of new accounting standards in 2004.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information required in this section is incorporated herein by reference to the information provided in the "Interest Rate Sensitivity" section of Item 7.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

[LOGO OF CROWE CHIZEK AND COMPANY]

Crowe Chizek and Company LLC
Member Horwath International

Report of Independent Registered Public Accounting Firm on Financial Statements

Shareholders and Board of Directors
MainSource Financial Group
Greensburg, Indiana

We have audited the accompanying consolidated balance sheets of MainSource Financial Group (the Company) as of December 31, 2004 and 2003, and the related consolidated statements of income, shareholders' 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 referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2004 and 2003, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2004, in conformity with U.S. generally accepted accounting principles.

/s/ Crowe Chizek and Company LLC

Indianapolis, Indiana
February 11, 2005, except for Note 2
with respect to the pending acquisition,
as to which the date is March 8, 2005

MAINSOURCE FINANCIAL GROUP
CONSOLIDATED BALANCE SHEETS
(Dollar amounts in thousands except per share data)

	December 31, 2004	December 31, 2003
Assets		
Cash and due from banks	$ 71,607	$ 50,564
Money market and federal funds sold	4,662	6,290
Cash and cash equivalents	76,269	56,854
Interest bearing time deposits	304	201
Investment securities		
Available for sale	425,443	422,111
Held to maturity (fair value of $3,414 and $3,683)	3,243	3,431
Total investment securities	428,686	425,542
Loans held for sale	824	1,965
Loans, net of allowance for loan losses of $11,698 and $11,509	917,307	843,962
Restricted stock, at cost	7,902	6,639
Premises and equipment, net	25,766	22,886
Goodwill	40,642	36,047
Purchased intangible assets	6,429	5,347
Cash surrender value of life insurance	24,776	22,203
Interest receivable and other assets	20,474	21,083
Total assets	$1,549,379	$1,442,729
Liabilities		
Deposits		
Noninterest bearing	$ 145,999	$ 127,100
Interest bearing	1,080,368	1,064,210
Total deposits	1,226,367	1,191,310
Short-term borrowings	57,175	27,508
Federal Home Loan Bank (FHLB) advances	90,981	62,751
Subordinated debentures	29,898	29,898
Notes payable	9,100	12,500
Other liabilities	12,538	13,338
Total liabilities	1,426,059	1,337,305
Commitments and contingencies (Note 16)		
Shareholders' equity		
Preferred stock, no par value		
Authorized shares – 400,000		
Issued and outstanding shares – none	—	—
Common stock $.50 stated value:		
Authorized shares – 25,000,000		
Issued shares – 11,196,357 and 6,824,405		
Outstanding shares – 10,985,121 and 6,729,256	5,600	3,413
Common stock to be distributed, 559,818 and 341,220 shares	280	170
Treasury stock – 211,236 and 95,149 shares, at cost	(3,479)	(2,190)
Additional paid-in capital	73,451	53,478
Retained earnings	47,371	49,338
Accumulated other comprehensive income	97	1,215
Total shareholders' equity	123,320	105,424
Total liabilities and shareholders' equity	$1,549,379	$1,442,729

The accompanying notes are an integral part of these consolidated financial statements.

MAINSOURCE FINANCIAL GROUP
CONSOLIDATED STATEMENTS OF INCOME
(Dollar amounts in thousands except per share data)

	2004	2003	2002
Interest income			
Loans, including fees	$56,580	$53,754	$56,543
Investment securities			
Taxable	12,094	11,480	12,970
Tax exempt	3,049	2,172	2,058
Federal funds sold and money market funds	76	192	727
Deposits with financial institutions	42	7	5
Total interest income	71,841	67,605	72,303
Interest expense			
Deposits	16,366	18,628	22,610
Short-term borrowings	580	172	372
Subordinated debentures	1,677	1,638	2,035
Other borrowings	3,216	2,935	2,236
Total interest expense	21,839	23,373	27,253
Net interest income	50,002	44,232	45,050
Provision for loan losses	600	1,325	2,995
Net interest income after provision for loan losses	49,402	42,907	42,055
Non-interest income			
Insurance commissions	2,643	2,400	2,156
Mortgage banking	3,198	5,671	4,757
Trust and investment product fees	911	678	605
Service charges on deposit accounts	6,912	5,092	4,011
Net realized gains on securities	991	1,300	319
Gain on cash surrender value of life insurance	1,016	626	208
Interchange income	1,996	1,796	1,160
Other income	1,877	1,880	1,163
Total non-interest income	19,544	19,443	14,379
Non-interest expense			
Salaries and employee benefits	25,411	22,421	20,381
Net occupancy expenses	3,165	2,753	2,414
Equipment expenses	3,949	3,488	2,873
Intangibles amortization	1,059	909	828
Telecommunications	1,581	1,287	1,038
Stationery printing and supplies	988	916	973
Other expenses	9,727	8,674	7,103
Total non-interest expense	45,880	40,448	35,610
Income before income tax	23,066	21,902	20,824
Income tax expense	6,273	6,597	6,813
Net income	$16,793	$15,305	$14,011
Net income per share (basic and diluted)	$ 1.48	$ 1.37	$ 1.24

The accompanying notes are an integral part of these consolidated financial statements.

MAINSOURCE FINANCIAL GROUP
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(Dollar Amounts in Thousands Except Per Share Data)

	Common Stock		Additional		Accumulated Other		
	Shares Outstanding	Amount	Paid-in Capital	Retained Earnings	Comprehensive Income	Total	Comprehensive Income
Balance, January 1, 2002	6,500,084	$ 3,251	$35,385	$ 47,806	$ 1,430	$ 87,872	
Net income				14,011		14,011	$14,011
Unrealized gains on securities net of reclassification adjustment					3,067	3,067	3,067
Total comprehensive income							$17,078
Cash dividends ($ .397 per share)				(4,485)		(4,485)	
Stock dividend and fractional shares	325,004	163	7,640	(7,803)		—	
Purchase of treasury stock	(30,211)	(694)				(694)	
Balance, December 31, 2002	6,794,877	2,720	43,025	49,529	4,497	99,771	
Net income				15,305		15,305	$15,305
Unrealized loss on cash flow hedge, net					(117)	(117)	(117)
Unrealized loss on securities net of reclassification adjustment					(3,165)	(3,165)	(3,165)
Total comprehensive income							$12,023
Cash dividends ($ .435 per share)				(4,857)		(4,857)	
Stock dividend and fractional shares	340,537	170	10,453	(10,639)		(16)	
Purchase of treasury stock	(64,938)	(1,497)				(1,497)	
Balance, December 31, 2003	7,070,476	1,393	$53,478	$ 49,338	$ 1,215	$105,424	
Net income				16,793		16,793	$16,793
Unrealized gain on cash flow hedge, net					148	148	148
Unrealized loss on securities net of reclassification adjustment					(1,266)	(1,266)	(1,266)
Total comprehensive income							$15,675
Cash dividends ($ .476 per share)				(5,391)		(5,391)	
Stock split/dividend and fractional shares	4,141,326	2,071	11,268	(13,369)		(30)	
Issuance of common stock in acquisition	449,224	225	8,701			8,926	
Exercise of stock options	1,575	24	4			28	
Purchase of treasury stock	(117,662)	(1,312)				(1,312)	
Balance, December 31, 2004	11,544,939	$ 2,401	$73,451	$ 47,371	$ 97	$123,320	

The accompanying notes are an integral part of these consolidated financial statements.

MAINSOURCE FINANCIAL GROUP
CONSOLIDATED STATEMENTS OF CASH FLOW
(Dollars in thousands)

	2004	2003	2002
Operating Activities			
Net income	$ 16,793	$ 15,305	$ 14,011
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	600	1,325	2,995
Depreciation and amortization	2,962	2,629	2,246
Amortization of mortgage servicing rights	956	1,863	649
Securities amortization, net	2,469	4,093	1,623
Amortization of core deposit intangibles	1,059	909	828
Increase in cash surrender value of life insurance policies	(930)	(571)	(208)
Investment securities gains	(991)	(1,300)	(319)
Change in loans held for sale	1,141	12,062	7,541
Change in other assets and liabilities	2,904	3,526	(496)
Net cash provided by operating activities	26,963	39,841	28,870
Investing Activities			
Net change in short-term investments	197	(201)	599
Proceeds from maturities and payments on securities held to maturity	—	1,288	3,532
Purchases of securities available for sale	(166,864)	(379,327)	(227,229)
Proceeds from maturities and payments on securities available for sale	110,650	182,311	121,805
Proceeds from sales of securities available for sale	69,347	117,382	30,586
Purchases of restricted stock	(455)	—	(581)
Loan originations and payments, net	4,435	4,197	36,646
Purchases of premises and equipment	(2,468)	(1,960)	(3,408)
Cash received from branch acquisitions, net	—	12,203	37,054
Cash paid for bank acquisition, net	(342)	(12,836)	—
Purchase of life insurance policies	—	(15,000)	—
Net cash provided (used) by investing activities	14,500	(91,943)	(996)
Financing Activities			
Net change in deposits	(64,660)	21,869	(44,475)
Net change in short-term borrowings	29,343	7,229	4,051
Repayment of notes payable	(4,100)	(2,900)	(1,662)
Proceeds from issuance of notes payable	—	13,000	—
Proceeds from FHLB advances	123,500	—	40,000
Repayment of FHLB advances	(99,426)	(1,262)	(10,111)
Redemption of trust preferred securities	—	(22,425)	—
Proceeds from issuance of trust preferred securities	—	21,898	8,000
Purchase of treasury shares	(1,312)	(1,497)	(694)
Cash dividends and fractional stock dividends	(5,421)	(4,873)	(4,485)
Proceeds from exercise of stock options	28	—	—
Net cash provided (used) by financing activities	(22,048)	31,039	(9,376)
Net change in cash and cash equivalents	19,415	(21,063)	18,498
Cash and cash equivalents, beginning of year	56,854	77,917	59,419
Cash and cash equivalents, end of year	$ 76,269	$ 56,854	$ 77,917
Supplemental Information			
Interest paid	$ 22,640	$ 23,683	$ 27,835
Income taxes paid	3,487	4,150	6,793
Loan balances transferred to foreclosed real estate	2,741	1,896	3,658

See Note 2 regarding non-cash transaction included in acquisitions. The accompanying notes are an integral part of these consolidated financial statements.

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations and Principles of Consolidation: The consolidated financial statements include MainSource Financial Group, Inc. and its wholly owned subsidiaries, together referred to as "the Company". Intercompany transactions and balances are eliminated in consolidation.

The Company's wholly owned subsidiaries include MainSource Bank, Regional Bank ("Regional"), MainSource Bank of Illinois (formerly known as Capstone Bank), Peoples Trust Company ("Peoples"), and IUB Reinsurance Company, Ltd. MainSource Insurance, Inc. is a wholly owned subsidiary of MainSource Bank. In October 2004, the Company merged its wholly-owned subsidiary of First Community Bank and Trust into MainSource Bank.

The Company provides financial services through its offices in Indiana, Illinois, and Kentucky. Its primary deposit products are checking, savings, and term certificate accounts, and its primary lending products are residential mortgage, commercial, and installment loans. Substantially all loans are secured by specific items of collateral including business assets, consumer assets and real estate. Commercial loans are expected to be repaid from cash flow from operations of businesses. Real estate loans are secured by both residential and commercial real estate. Other financial instruments which potentially represent concentrations of credit risk include deposit accounts in other financial institutions and federal funds sold.

Use of Estimates: To prepare financial statements in conformity with accounting principles generally accepted in the United States of America, management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and the disclosures provided and actual results could differ. The allowance for loan losses, loan servicing rights, and fair values of financial instruments are particularly subject to change.

Cash Flows: Cash and cash equivalents include cash and due from banks, interest bearing deposits with other financial institutions with maturities under 90 days, money market funds and federal funds sold. Net cash flows are reported for loan and deposit transactions, federal funds purchased and repurchase agreements.

Securities: Securities are classified as held to maturity and carried at amortized cost when management has the positive intent and ability to hold them to maturity. Securities are classified as available for sale when they might be sold before maturity. Securities available for sale are carried at fair value, with unrealized holding gains and losses reported in other comprehensive income. Restricted stock, such as Federal Home Loan Bank stock, is carried at cost.

Interest income includes amortization of purchase premium or discount. Premiums and discounts on securities are amortized on the level-yield method, which considers prepayments on mortgage-backed securities. Gains and losses on sales are based on the amortized cost of the security sold. Declines in the fair value of securities below their cost that are other than temporary are reflected as realized losses. In estimating other-than-temporary losses, management considers (1) the length of time and extent that fair value has been less than cost, (2) the financial condition and near term prospects of the issuer, and (3) the Company's ability and intent to hold the security for a period sufficient to allow for any anticipated recovery in fair value.

Loans Held for Sale: Loans originated and intended for sale in the secondary market are carried at the lower of cost or market in the aggregate. Net unrealized losses, if any, are recorded as a valuation allowance and charged to earnings.

Mortgage loans held for sale are generally sold with servicing rights retained. The carrying value of mortgage loans sold is reduced by the cost allocated to the servicing right. Gains and losses on sales of mortgage loans are based on the difference between the selling price and the carrying value of the related loan sold.

Loans: Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the principal balance outstanding, net of unearned interest, deferred loan fees and costs, and an allowance for loan losses. Interest income is accrued on the unpaid principal balance. Loan originations fees, net of certain direct origination costs, are deferred and recognized in interest income using the level-yield method without anticipating prepayments.

Interest income is not reported when full loan repayment is in doubt, typically when the loan is impaired or payments are past due over 90 days. Loans are placed on non-accrual or charged-off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not received for loans placed on nonaccrual is reversed against interest income. Payments received on such loans subsequent to being placed on non-accrual are applied to the principal balance of the loans. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Allowance for Loan Losses: The allowance for loan losses is a valuation allowance for probable incurred credit losses. 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. Management estimates the allowance balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged-off.

The allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired or loans otherwise classified as substandard or doubtful. The general component covers pools of other loans and is based on historical loss experience adjusted for current factors.

A loan is impaired when full payment under the loan terms is not expected. Impairment is evaluated in total for smaller-balance loans of similar nature such as residential real estate, consumer, and credit card loans, and are not separately identified for impairment disclosure. Other loans are evaluated individually for impairment. If a loan is impaired, a portion of the allowance is allocated so that the loan is reported, net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral.

Foreclosed Assets: Assets acquired through or instead of loan foreclosure are initially recorded at fair value when acquired net of estimated selling costs, establishing a new cost basis. If fair value declines after acquisition, a valuation allowance is recorded through expense. Costs after acquisition are expensed.

Premises and Equipment: Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation. Buildings and related components are depreciated using the straight-line method with useful lives ranging from 5 to 39 years. Furniture, fixtures and equipment are depreciated using the straight-line method with useful lives ranging from 3 to 10 years.

Company Owned Life Insurance: The Company has purchased life insurance policies on certain key executives. Company owned life insurance is recorded at its cash surrender value, or the amount that can be realized.

Servicing Assets: Servicing assets represent the allocated value of retained servicing rights on loans sold. Servicing assets are expensed in proportion to, and over the period of, estimated net servicing revenues. Impairment is evaluated based on the fair value of the assets, using groupings of the underlying loans as to product type and interest rates. Fair value is determined using prices for similar assets with similar characteristics, when available, or based upon discounted cash flows using market-based assumptions. Any impairment of a grouping is reported as a valuation allowance, to the extent that fair value is less than the capitalized amount for a grouping.

Transfers of Financial Assets: Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets through an agreement or option to repurchase them before their maturity.

Goodwill and Other Intangible Assets: Goodwill results from prior business acquisitions and represents the excess of the purchase price over the fair value of acquired tangible assets and liabilities and identifiable intangible assets. Goodwill is assessed at least annually for impairment and any such impairment will be recognized in the period identified.

Other intangible assets consist of core deposit intangibles arising from whole bank and branch acquisitions. They are initially measured at fair value and then are amortized on an accelerated method over their estimated useful lives, generally ten years.

Long-term Assets: Premises and equipment and other long-term assets are reviewed for impairment when events indicate their carrying amount may not be recoverable from future undiscounted cash flows. If impaired, the assets are recorded at fair value.

Repurchase Agreements: Substantially all repurchase agreement liabilities represent amounts advanced by various customers. Securities are pledged to cover these liabilities, which are not covered by federal deposit insurance. Repurchase agreements are included in short-term borrowings on the consolidated balance sheets.

Income Taxes: Income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between carrying amounts and tax bases of assets and liabilities, computed using enacted tax rates. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized.

Loan Commitments and Related Financial Instruments: Financial instruments include off-balance sheet credit instruments, such as commitments to make loans and commercial letters of credit, issued to meet customer financing needs. The face amount for these items represents the exposure to loss, before considering customer collateral or ability to repay. Such financial instruments are recorded when they are funded.

Derivatives: All derivative instruments are recorded at their fair values. If derivative instruments are designated as hedges of fair values, both the change in the fair value of the hedge and the hedged item are included in current earnings. Fair value adjustments related to cash flow hedges are recorded in other comprehensive income and reclassified to earnings when the hedged transaction is reflected in earnings. Ineffective portions of hedges are reflected in earnings as they occur.

Mortgage Banking Income: Mortgage banking income consists of gains on loan sales, mortgage servicing rights, and loan servicing fee income, net of amortization of mortgage servicing rights.

Stock Compensation: Compensation expense for stock options is reported using the intrinsic value method. No stock-based compensation cost is reflected in net income, as all options granted had an exercise price equal to or greater than the market price of the underlying common stock at date of grant. The following table illustrates the effect on net income and earnings per share if expense was measured using the fair value recognition provisions of FASB Statement No. 123, "Accounting for Stock-Based Compensation".

	2004	2003	2002
Net income as reported	$16,793	$15,305	$14,011
Deduct: Stock-based compensation expense, net, determined under fair value based method	92	29	—
Pro forma net income	$16,701	$15,276	$14,011
Basic earnings per share as reported	$ 1.48	$ 1.37	$ 1.24
Pro forma basic earnings per share	$ 1.47	$ 1.37	$ 1.24
Diluted earnings per share as reported	$ 1.48	$ 1.37	$ 1.24
Pro forma diluted earnings per share	$ 1.47	$ 1.37	$ 1.24

The pro forma effects are computed using option pricing models, with the following weighted-average assumptions for 2004 as of grant date: risk-free interest rate 3.48%, expected option life 6.69 years, expected stock price volatility 20.34% and dividend yield 2.75%. For 2003, the following weighted-average assumptions were used as of the grant date: risk-free interest rate 2.80%, expected option life 6.54 years, expected stock price volatility 18.60% and dividend yield 2.90%. No stock options were granted in 2002.

Earnings Per Common Share: Basic earnings per common share is net income divided by the weighted average number of common shares outstanding during the period. Diluted earnings per common share includes the dilutive effect of additional potential common shares issuable under stock options. Earnings and dividends per share are restated for all stock splits and dividends through the date of issue of the financial statements.

Comprehensive Income: Comprehensive income consists of net income and other comprehensive income. Other comprehensive income includes unrealized gains and losses on securities available for sale and unrealized gains and losses on cash flow hedges, which are also recognized as a separate component of equity.

Loss Contingencies: Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe there are now any such matters that will have a material effect on the financial statements.

Dividend Restriction: Banking regulations require maintaining certain capital levels and may limit the dividends paid by the banks to the holding company or by the holding company to shareholders. These restrictions pose no practical limit on the ability of the banks or holding company to pay dividends at historical levels.

Fair Value of Financial Instruments: Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in a separate note. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect the estimates.

Operating Segments: While the Company's chief decision-makers monitor the revenue streams of the various Company products and services, the identifiable segments are not material and operations are managed and financial performance is evaluated on a Company-wide basis. Accordingly, all of the Company's financial service operations are considered by management to be aggregated in one reportable operating segment.

Reclassifications: Some items in the prior year financial statements were reclassified to conform to the current presentation.

Effect of Recently Issued Accounting Standards Not Yet Adopted: At December 31, 2004, recently issued but not yet adopted accounting standards were Financial Accounting Standard (FAS) 123 Revised and Statement of Position (SOP) 03-3.

FAS 123, Revised, requires all public companies to record compensation cost for stock options provided to employees in return for employee service. The cost is measured at the fair value of the options when granted, and this cost is expensed over the employee service period, which is normally the vesting period of the options. This will apply to awards granted or modified after the first quarter or year beginning after June 15, 2005. Compensation cost will also be recorded for prior option grants that vest after the date of adoption. The effect on results of operations will depend on the level of future option grants and the calculation of the fair value of the options granted at such future date, as well as the vesting periods provided, and so cannot currently be predicted. Existing options that will vest after adoption date are expected to result in additional compensation expense of approximately $81 during 2005, $81 in 2006, $66 in 2007, and $9 in 2008. There will be no significant effect on financial position as total equity will not change.

SOP 03-3 requires that a valuation allowance for loans acquired in a transfer, including in a business combination, reflect only losses incurred after acquisition and should not be recorded at acquisition. It applies to any loan acquired in a transfer that showed evidence of credit quality deterioration since it was made. This SOP is effective for fiscal years beginning after December 31, 2004.

The effect of these other new standards on the Company's financial position and results of operations is not expected to be material upon and after adoption.

NOTE 2 — BUSINESS COMBINATIONS

In June 2004, the Company acquired 100% of the outstanding shares of Peoples Financial Corp., parent of Peoples Trust Company. Operating results of this acquisition are included in the consolidated financial statements since the date of the acquisition. As a result of this acquisition, the Company expects to further solidify its market share in the southwest Indiana market, expand its customer base to enhance deposit fee income, provide an opportunity to market additional products and services to new customers, and reduce operating costs through economies of scale.

The aggregate purchase price was $13.6 million in stock and cash. The purchase price resulted in approximately $4.6 million in goodwill, and $2.1 million in core deposit intangible. The core deposit intangible asset is being amortized over 10 years, using an accelerated method. Goodwill will not be amortized but will instead be evaluated periodically for impairment.

The following table summarizes the estimated fair value of assets acquired and liabilities assumed at the date of acquisition.

Cash	$ 4,320
Securities available for sale	19,497
Loans, net	81,371
Goodwill	4,595
Core deposit intangible	2,141
Other assets	7,290
Total assets acquired	119,214
Deposits	(99,717)
Borrowings	(5,180)
Other liabilities	(729)
Total liabilities assumed	(105,626)
Net assets acquired	$ 13,588

The following table presents pro forma information as if the acquisition had occurred at the beginning of 2004 and 2003. The pro forma information includes adjustments for interest income on loans and securities acquired, amortization of intangibles arising from the transaction, depreciation expense on property acquired, interest expense on deposits and borrowings acquired, and the related income tax effects. The pro forma financial information is not necessarily indicative of the results of operations as they would have been had the transactions been effected on the assumed dates.

	2004	2003
Net interest income	$ 52,219	$ 48,810
Net income	16,580	15,674
Earnings per share (basic and diluted)	1.43	1.35

Pending Acquisition: In March 2005, the Company executed a definitive agreement to acquire The Madison Bank & Trust Company ("Madison"). Madison, which has approximately $180 million in assets, operates a total of five offices with four in Jefferson County, Indiana and one in Ohio County, Indiana. The transaction, which is subject to regulatory approval, is expected to close in the third quarter of 2005.

NOTE 3 — RESTRICTION ON CASH AND DUE FROM BANKS

The Banks are required to maintain reserve funds in cash or on deposit with the Federal Reserve Bank which do not earn interest. The reserves required at December 31, 2004 and 2003 were $18,614 and $14,588, respectively. The Company also had compensating balances of $6,229 and $2,995 at December 31, 2004 and 2003 respectively.

NOTE 4 — INVESTMENT SECURITIES

The fair value of securities available for sale and related unrealized gross gains/losses recognized in accumulated other comprehensive income (loss) at year end were as follows:

2004	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses
Available for Sale			
Federal agencies	$ 56,557	$ 152	$ (388)
State and municipal	88,338	1,546	(583)
Mortgage-backed	262,690	1,005	(1,924)
Equity and other	17,858	427	(60)
Total available for sale	$425,443	$ 3,130	$ (2,955)
2003			
Available for Sale			
Federal agencies	$ 92,867	$ 1,409	$ (36)
State and municipal	61,324	1,899	(152)
Mortgage-backed	255,541	1,297	(1,710)
Equity and other	12,379	103	(625)
Total available for sale	$422,111	$ 4,708	$ (2,523)

The carrying amount, unrecognized gains and losses, and fair value of securities held to maturity at year end were as follows:

2004	Carrying Amount	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
Held to Maturity				
State and municipal	$ 2,439	$ 74	$ —	$ 2,513
Other	804	97	—	901
Total held to maturity	$ 3,243	$ 171	$ —	$ 3,414
2003				
Held to Maturity				
State and municipal	$ 2,682	$ 122	$ —	$ 2,804
Other	749	130	—	879
Total held to maturity	$ 3,431	$ 252	$ —	$ 3,683

Contractual maturities of securities at December 31, 2004 were as follows. Securities not due at a single maturity at year end are shown separately.

	Held to Maturity		Available for Sale
	Carrying Amount	Fair Value	Fair Value
Within one year	$ 137	$ 138	$ 12,870
Two through five years	1,788	1,919	72,435
Six through ten years	1,318	1,357	27,835
After ten years	—	—	31,755
Mortgage-backed	—	—	262,690
Equity and other	—	—	17,858
Total investment securities	$ 3,243	$ 3,414	$425,443

Gross proceeds from sales of securities available for sale during 2004, 2003 and 2002 were $69,347, $117,382, and $30,586. Gross gains of $1,020, $1,443, and $384 and gross losses of $29, $143, and $65 were realized on those sales in 2004, 2003 and 2002, respectively.

Securities with a carrying value of $110,175 and $50,560 were pledged at December 31, 2004 and 2003 to secure certain deposits, repurchase agreements and for other purposes as permitted or required by law.

Below is a summary of securities with unrealized losses as of year-end 2004 and 2003 presented by length of time the securities have been in a continuous unrealized loss position.

2004	Less than 12 months		12 months or longer		Total	
Description of securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Federal agencies	$ 33,536	$ (388)	$ —	$ —	$ 33,536	$ (388)
State and municipal	32,139	(509)	2,713	(74)	34,852	(583)
Mortgage-backed securities	138,958	(879)	56,602	(1,045)	195,560	(1,924)
Equity and other securities	—	—	3,000	(60)	3,000	(60)
Total temporarily impaired	$204,633	$(1,776)	$ 62,315	$(1,179)	$266,948	$(2,955)

2003	Less than 12 months		12 months or longer		Total	
Description of securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Federal agencies	$ 32,512	$ (36)	$ —	$ —	$ 32,512	$ (36)
State and municipal	8,061	(152)	—	—	8,061	(152)
Mortgage-backed securities	144,882	(1,710)	—	—	144,882	(1,710)
Equity and other securities	—	—	5,594	(625)	5,594	(625)
Total temporarily impaired	$185,455	$(1,898)	$ 5,594	$ (625)	$191,049	$(2,523)

Unrealized losses on state and municipal bonds have not been recognized into income because management has the intent and ability to hold for a period of time sufficient to allow for any anticipated recovery in fair value. The fair value of debt securities is expected to recover as the bonds approach their maturity date.

Unrealized losses on mortgage-backed securities have not been recognized into income as the decline in fair value is largely due to increases in market interest rates. The fair value is expected to recover as the bonds approach their maturity date and/or market rates change.

Unrealized losses on equity and other securities have not been recognized into income because the issuers bonds are of high credit quality (rated AA or higher), management has the intent and ability to hold for the foreseeable future, and the decline in fair value is largely due to changes in interest rates. The fair value is expected to recover as the bonds approach their maturity date or as interest rates change.

NOTE 5 — LOANS AND ALLOWANCE

Loans at year end were as follows:

December 31	2004	2003
Commercial and industrial loans	$154,717	$158,271
Agricultural production financing	22,647	25,897
Farm real estate	38,281	37,107
Commercial real estate	133,360	101,022
Hotel	80,234	83,997
Residential real estate	353,515	315,848
Construction and development	37,821	33,605
Consumer	108,430	99,724
Total loans	929,005	855,471
Allowance for loan losses	(11,698)	(11,509)
Net loans	$917,307	$843,962

Activity in the allowance for loan losses was as follows:

December 31	2004	2003	2002
Allowance for loan losses			
Balances, January 1	$11,509	$ 9,517	$ 8,894
Addition resulting from acquisition	1,775	2,078	—
Provision for losses	600	1,325	2,995
Recoveries on loans	346	509	399
Loans charged off	(2,532)	(1,920)	(2,771)
Balances, December 31	$11,698	$11,509	$ 9,517

Impaired loans were as follows:

December 31	2004	2003	2002
Impaired loans with an allowance allocated	$ 8,908	$ 6,954	$ 2,267
Impaired loans with no allocated allowances	—	—	—
Total impaired loans	$ 8,908	$ 6,954	$ 2,267
Allowance allocated for impaired loans	$ 1,578	$ 1,086	$ 269
Average balance of impaired loans during the year	$ 6,758	$ 4,997	$ 2,866
Interest income recognized on impaired loans	—	—	—
Cash basis interest included above	—	—	—

Nonperforming loans were as follows:

December 31	2004	2003
Loans past due 90 days or more still on accrual	$ 431	$ 196
Nonaccrual loans	13,611	14,626
Total nonperforming loans	$14,042	$14,822

Nonperforming loans include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans.

NOTE 6 — PREMISES AND EQUIPMENT

December 31	2004	2003
Land	$ 4,604	$ 3,731
Buildings	24,086	21,556
Furniture and equipment	23,860	21,451
Total cost	52,550	46,738
Accumulated depreciation	(26,784)	(23,852)
Net	$25,766	$22,886

Depreciation expense was $2,962, $2,629, and $2,246 in 2004, 2003 and 2002.

NOTE 7 — GOODWILL AND INTANGIBLE ASSETS

Goodwill

The change in carrying amount of goodwill is as follows:

	2004	2003
Beginning of year	$ 36,047	$ 20,708
Goodwill from acquisition during the year	4,595	15,339
End of year	$ 40,642	$ 36,047

Acquired Intangible Assets

	2004	2003
Core deposit intangibles	$ 11,945	$ 9,804
Accumulated amortization	(5,516)	(4,457)
Core deposit intangibles, net	$ 6,429	$ 5,347

Aggregate amortization expense was $1,059, $909, and $828 for 2004, 2003, and 2002.

Estimated amortization expense for each of the next five years follows:

2005	$ 1,161
2006	1,144
2007	1,125
2008	1,007
2009	498

NOTE 8 — DEPOSITS

Deposits at year end were as follows:

December 31	2004	2003
Non-interest bearing	$ 145,999	$ 127,100
Interest bearing demand	310,306	311,333
Savings deposits	304,230	224,318
Certificates and other time deposits of $100 or more	117,361	141,327
Other certificates and time deposits	348,471	387,232
Total deposits	$ 1,226,367	$ 1,191,310

Certificates and other time deposits mature as follows:

2005	$ 286,671
2006	84,267
2007	46,710
2008	33,581
2009	12,100
Thereafter	2,503
Total	$ 465,832

NOTE 9 — SHORT TERM BORROWINGS

December 31	2004	2003
Short term borrowings consisted of the following at year-end:		
Federal funds purchased	$26,900	$ 7,460
Line of credit	3,000	—
Securities sold under repurchase agreements	27,275	20,048
Total short-term borrowings	$57,175	$27,508

Securities sold under repurchase agreements ("agreements") consist of obligations secured by U.S. Treasury and Federal agency securities, and a safekeeping agent holds such collateral. The maximum amount of outstanding repurchase agreements at any month-end during 2004 and 2003 totaled $28,782 and $20,048. The daily average of such agreements during 2004 and 2003 totaled $22,166 and $16,680. The weighted average rate was 1.34% and 0.71% at December 31, 2004 and 2003, while the weighted average rate during 2004 and 2003 was approximately 0.96% and 0.88%, respectively. The majority of the agreements at December 31, 2004 mature within 30 days.

The Company has a revolving credit facility for $3,000 as a standby for funding needs which matures June 5, 2005. The interest rate is 120 basis points above the 3-month LIBOR rate which resulted in a rate of 3.69% at year-end. The outstanding balance at December 31, 2004 was $3,000. There was no outstanding balance as of December 31, 2003. The line is unsecured.

NOTE 10 — FEDERAL HOME LOAN BANK ADVANCES

Federal Home Loan Bank ("FHLB") advances at year end were:

	2004	2003
Maturities June 2005 through August 2012, primarily fixed rates from 2.4% to 6.6%, averaging 3.8%	$90,981	$ —
Maturities January 2004 through August 2012, primarily fixed rates from 1.3% to 6.6%, averaging 4.5%	—	62,751
Total FHLB advances	$90,981	$62,751

The majority of the FHLB advances are secured by first mortgage loans totaling approximately 145% of the advance under a blanket security agreement. Approximately $163 of advances are secured by cash. The advances are subject to restrictions or penalties in the event of prepayment.

Maturities over the next five years are:

2005	$49,115
2006	132
2007	15,498
2008	—
2009	—
Thereafter	26,236

NOTE 11 — NOTES PAYABLE

Notes payable include a term note secured by the common stock of MainSource Bank with a balance of $9,100 and $11,700 at December 31, 2004 and 2003. The note requires semi-annual principal payments of $1,300 plus quarterly interest payments. Interest accrues at LIBOR plus 140 basis points, which resulted in a rate of 3.16% at December 31, 2004. The loan matures June 30, 2008.

Notes payable at December 31, 2003 also included a term note with a balance of $800 secured by the common stock of MainSource Bank and Regional Bank. The note required semi-annual principal payments of $800 plus quarterly interest payments. Interest accrued at LIBOR plus 120 basis points, which resulted in a rate of 2.41% at December 31, 2003. The loan matured July 1, 2004.

The Company has certain debt covenants related to these notes payable. As of December 31, 2004, the Company was in compliance with all of these covenants.

NOTE 12 — SUBORDINATED DEBENTURES AND TRUST PREFERRED SECURITIES

The Company formed three separate trusts in 2002 and 2003 that issued floating rate trust preferred securities as part of pooled offerings. The Company issued subordinated debentures to the trusts in exchange for the proceeds of the offerings, which debentures represent the sole asset of the trusts. Other than the items detailed below, the terms of the subordinated debentures are generally the same. Interest payments are payable quarterly in arrears and the Company has the option to defer distributions from time to time for a period not to exceed 20 consecutive quarters. The subordinated debentures mature in 30 years from issuance and can be called anytime after five years at par. The following table summarizes the other terms of each issuance.

	Issuance	Amount	Variable Rate	Rate as of 12/31/04	Maturity
Trust 1	2002	$ 8,248	LIBOR +3.25%	5.80%	2032
Trust 2	2003	14,433	LIBOR +3.25%	5.81%	2033
Trust 3	2003	7,217	LIBOR +3.15%	5.64%	2033

During 2003, the Company entered into an interest rate swap and cap. Both the interest rate swap and the cap have a 60 month term and a notional principal amount of $14,000. The interest rate swap and cap were designated as hedges against a portion of the subordinated debentures. Under the interest rate swap agreement, the Company made fixed rate payments at 6.65%, and received variable payments based on LIBOR. Net settlement expense or benefit is included in interest expense. The interest rate cap requires the counter-party to pay the Company the excess of 3 month LIBOR over 12%. No payments are currently required under the agreement. The fair values for the interest rate swap and cap were $55 and $(3) at December 31, 2004 and were included in other assets. The fair values were $(146) and $(49) at December 31, 2003 and were included in other liabilities. Both the interest rate swap and cap expire in April 2008.

NOTE 13 — LOAN SERVICING

Loans serviced for others are not included in the accompanying consolidated balance sheet. The unpaid principal balances of loans serviced for others totaled $500,797 and $498,385 at December 31, 2004 and 2003. Mortgage servicing rights are included in other assets on the consolidated balance sheets. The fair value of capitalized mortgage servicing assets is based on comparable market values and expected cash flows, with impairment assessed based on portfolio characteristics including product type and interest rates. No valuation allowance was necessary during 2004 or 2003. The fair market value of capitalized mortgage servicing rights was $4,789 and $3,395 at year end 2004 and 2003.

	2004	2003
Mortgage servicing assets		
Balances, January 1	$ 2,618	$ 2,134
Additions resulting from acquisition	—	143
Servicing assets capitalized	1,226	2,204
Amortization of servicing assets	(956)	(1,863)
Balance, December 31	$ 2,888	$ 2,618

NOTE 14 — INCOME TAX

Income tax expense (benefit) was as follows:

Year Ended December 31	2004	2003	2002
Income tax expense			
Currently payable	$ 4,154	$ 4,749	$ 5,899
Deferred	2,119	1,848	914
Total income tax expense	$ 6,273	$ 6,597	$ 6,813

Effective tax rates differ from the federal statutory rate of 35% applied to income before income taxes due to the following:

	2004	2003	2002
Federal statutory income tax rate	35%	35%	35%
Federal statutory income tax	$ 8,073	$ 7,666	$ 7,288
Tax exempt interest	(1,231)	(893)	(838)
Effect of state income taxes	63	397	483
Non-deductible expenses	50	52	42
Tax exempt income on life insurance	(356)	(219)	(73)
Low income housing credits	(132)	(175)	—
Other	(194)	(231)	(89)
Income tax expense	$ 6,273	$ 6,597	$ 6,813

The components of the net deferred tax asset (liability) are as follows:

December 31	2004	2003
Assets		
Allowance for loan losses	$ 4,585	$ 4,556
Deferred compensation	439	452
Fair value adjustments on assets acquired	707	472
Accrued expenses	226	323
Alternative minimum tax credits	—	106
Net operating loss carryforward	242	189
Net unrealized depreciation on interest rate swap	—	78
Other	325	338
Total assets	$ 6,524	$ 6,514
Liabilities		
Accretion on securities	(28)	(17)
Depreciation	(1,530)	(1,282)
Intangibles	(2,900)	(1,538)
Mortgage servicing rights	(1,151)	(1,037)
Deferred loan fees/costs	(195)	(237)
FHLB stock dividends	(303)	(160)
Unrealized gain on securities AFS	(35)	(853)
Net unrealized appreciation on interest rate swap	(21)	—
Other	(710)	(780)
Total liabilities	$ (6,873)	$ (5,904)
Less: Valuation allowance	$ (242)	$ —
Net deferred tax asset/(liability)	$ (591)	$ 610

Retained earnings of Regional Bank include approximately $2,162 for which no deferred income tax liability has been recognized. This amount represents an allocation of income to bad debt deductions as of December 31, 1987 for tax purposes only. Reduction of amounts so allocated for purposes other than tax bad debt losses including redemption of Regional Bank stock or excess dividends, or loss of "bank" status for Regional Bank would create income for tax purposes only, which would be subject to the then-current corporate income tax rate. The unrecorded deferred income tax liability on the above amount for Regional at December 31, 2004 was approximately $757.

NOTE 15 — OTHER COMPREHENSIVE INCOME

Year Ended December 31, 2004	Before-Tax Amount	Tax (Expense)/ Benefit	Net-of-Tax Amount
Unrealized holding losses on available for sale securities	$(1,019)	$ 380	$ (639)
Unrealized holding gains on interest rate swap and cap	247	(99)	148
Less: reclassification adjustment for gains realized in net income	991	(364)	627
Other comprehensive loss	$(1,763)	$ 645	$(1,118)

Year Ended December 31, 2003	Before-Tax Amount	Tax (Expense)/ Benefit	Net-of-Tax Amount
Unrealized holding losses on available for sale securities	$(3,580)	$ 1,260	$(2,320)
Unrealized holding losses on interest rate swap and cap	(195)	78	(117)
Less: reclassification adjustment for gains realized in net income	1,300	(455)	845
Other comprehensive loss	$(5,075)	$ 1,793	$(3,282)

Year Ended December 31, 2002	Before-Tax Amount	Tax (Expense)/ Benefit	Net-of-Tax Amount
Unrealized holding gains on available for sale securities	$ 5,156	$(1,882)	$ 3,274
Less: reclassification adjustment for gains realized in net income	319	(112)	207
Other comprehensive income	$ 4,837	$(1,770)	$ 3,067

NOTE 16 — COMMITMENTS

Some financial instruments, such as loan commitments, credit lines, letters of credit, and overdraft protection, are issued to meet customer financing needs. These are agreements to provide credit or to support the credit of others, as long as conditions established in the contract are met, and usually have expiration dates. Commitments may expire without being used. Off-balance-sheet risk to credit loss exists up to the face amount of these instruments, although material losses are not anticipated. The same credit policies are used to make such commitments as are used for loans, including obtaining collateral at exercise of the commitment.

Financial instruments whose contract amount represents credit risk as of December 31 were as follows:

	2004	2003
Commitments to extend credit	$155,280	$152,494
Commercial letters of credit	17,925	2,936

Commitments are predominantly short-term or variable in rate.

NOTE 17 — STOCK DIVIDENDS AND SPLITS

On November 29, 2004, the Company announced a 5% stock dividend to be paid on January 15, 2005 to shareholders of record as of December 31, 2004. The stock dividend was recorded in 2004, and all share and per share amounts have been retroactively adjusted for all prior years to reflect this stock dividend.

On March 16, 2004, the Company announced a 3-for-2 stock split to be distributed on April 16, 2004 to shareholders of record as of March 31, 2004. The stock split was recorded in 2004, and all share and per share amounts have been retroactively adjusted for all prior years to reflect this stock split.

On November 26, 2003, the Company announced a 5% stock dividend to be paid on January 9, 2004 to shareholders of record as of December 22, 2003. The stock dividend was recorded in 2003, and all share and per share amounts have been retroactively adjusted for all prior years to reflect this stock dividend.

On December 17, 2002, the Company announced a 5% stock dividend to be paid on January 17, 2003 to shareholders of record as of December 31, 2002. The stock dividend was recorded in 2002, and all share and per share amounts have been retroactively adjusted for all prior years to reflect this stock dividend.

NOTE 18 — DIVIDENDS AND CAPITAL RESTRICTIONS

Without prior approval, the Banks are restricted by state and federal regulations as to the maximum amount of dividends they can pay to the holding company in any calendar year. The Banks may dividend their retained net profits (as defined) for that year and the two preceding years.

At December 31, 2004, total shareholders' equity of the Banks was $155,893 of which $147,269 was restricted or limited from dividend distribution to the holding company. As a practical matter, the Banks may restrict dividends to a lesser amount because of the need to maintain an adequate capital structure.

NOTE 19 — DIVIDEND REINVESTMENT PLAN

The Company maintains an Automatic Dividend Reinvestment Plan. The plan enables shareholders to elect to have their cash dividends on all or a portion of shares held automatically reinvested in additional shares of the Company's common stock. The stock is purchased by the Company's transfer agent on the open market and credited to participant accounts at fair market value. Dividends are reinvested on a quarterly basis.

NOTE 20 — REGULATORY CAPITAL

Banks and bank holding companies are subject to various regulatory capital requirements administered by the federal banking agencies and are assigned to a capital category. The assigned capital category is largely determined by three ratios that are calculated according to the regulations. The ratios are intended to measure capital relative to assets and credit risk associated with those assets and off-balance sheet exposures. The capital category assigned to an entity can also be affected by qualitative judgments made by regulatory agencies about the risk inherent in the entity's activities that are not part of the calculated ratios.

There are five capital categories defined in the regulations, ranging from well capitalized to critically undercapitalized. Classification in any of the undercapitalized categories can result in actions by regulators that could have a material effect on operations. At December 31, 2004 and 2003, the most recent regulatory notifications categorized the banks as well capitalized under the regulatory framework for prompt corrective actions. There are no conditions or events since that notification that management believes have changed the institutions' category.

Actual and required capital amounts and ratios are presented below.

	Actual		Required for Adequate Capital		To Be Well Capitalized	
December 31, 2004	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
MainSource Financial Group						
Total capital (to risk-weighted assets)	$116,851	11.8%	$79,061	8.0%	N/A	N/A
Tier 1 capital (to risk-weighted assets)	105,153	10.6	39,530	4.0	N/A	N/A
Tier 1 capital (to average assets)	105,153	7.0	60,271	4.0	N/A	N/A
MainSource Bank						
Total capital (to risk-weighted assets)	76,178	11.8%	51,572	8.0%	64,465	10.0%
Tier 1 capital (to risk-weighted assets)	68,331	10.6	25,786	4.0	38,679	6.0
Tier 1 capital (to average assets)	68,331	7.3	37,410	4.0	46,762	5.0
Regional						
Total capital (to risk-weighted assets)	19,699	11.6%	13,538	8.0%	16,922	10.0%
Tier 1 capital (to risk-weighted assets)	18,129	10.7	6,769	4.0	10,153	6.0
Tier 1 capital (to average assets)	18,129	7.1	10,253	4.0	12,816	5.0
MainSource Bank of Illinois						
Total capital (to risk-weighted assets)	14,290	15.2%	7,531	8.0%	9,414	10.0%
Tier 1 capital (to risk-weighted assets)	13,463	14.3	3,765	4.0	5,648	6.0
Tier 1 capital (to average assets)	13,463	7.0	7,713	4.0	9,642	5.0
Peoples Trust Company						
Total capital (to risk-weighted assets)	9,808	13.0%	6,020	8.0%	7,525	10.0%
Tier 1 capital (to risk-weighted assets)	8,867	11.8	3,010	4.0	4,515	6.0
Tier 1 capital (to average assets)	8,867	7.9	4,495	4.0	5,619	5.0

	Actual		Required for Adequate Capital		To Be Well Capitalized	
December 31, 2003	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
MainSource Financial Group						
Total capital (to risk-weighted assets)	$103,223	11.3%	$73,011	8.0%	N/A	N/A
Tier 1 capital (to risk-weighted assets)	83,753	9.2	36,505	4.0	N/A	N/A
Tier 1 capital (to average assets)	83,753	6.0	55,914	4.0	N/A	N/A
MainSource Bank (includes First Community)						
Total capital (to risk-weighted assets)	76,979	11.7%	52,605	8.0%	65,756	10.0%
Tier 1 capital (to risk-weighted assets)	68,760	10.5	26,302	4.0	39,454	6.0
Tier 1 capital (to average assets)	68,760	7.3	37,873	4.0	47,341	5.0
Regional						
Total capital (to risk-weighted assets)	17,991	11.2%	12,853	8.0%	16,066	10.0%
Tier 1 capital (to risk-weighted assets)	16,330	10.2	6,426	4.0	9,640	6.0
Tier 1 capital (to average assets)	16,330	6.7	9,710	4.0	12,137	5.0
MainSource Bank of Illinois						
Total capital (to risk-weighted assets)	14,352	15.9%	7,233	8.0%	9,042	10.0%
Tier 1 capital (to risk-weighted assets)	13,418	14.8	3,617	4.0	5,425	6.0
Tier 1 capital (to average assets)	13,418	6.7	8,011	4.0	10,014	5.0

NOTE 21 — EMPLOYEE BENEFIT PLANS

The Company has a defined-contribution retirement plan in which substantially all employees may participate. The Company matches a portion of employees' contributions and makes additional contributions based on employee compensation. Expense was $1,621 in 2004, $1,284 in 2003, and $1,138 in 2002.

NOTE 22 — RELATED PARTY TRANSACTIONS

The Company has entered into transactions with certain directors, executive officers, significant stockholders and their affiliates or associates (related parties). Such transactions were made in the ordinary course of business and did not, in the opinion of management, involve more than normal credit risk or present other unfavorable features.

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

Balances, January 1, 2004	$ 9,592
Changes in composition of related parties	1,038
New loans, including renewals and advances	4,081
Payments, including renewals	(4,864)
Balances, December 31, 2004	$ 9,847

Deposits from related parties held by the company at December 31, 2004 and 2003 totaled $4,462 and $5,980.

NOTE 23 — STOCK OPTION PLANS

Options to buy stock were granted to directors and officers of the Company under the Company's Stock Option Plan, which was adopted in 2003 and provides for the issue of up to 578,813 options. Exercise price is the market price at date of grant, so there is no compensation expense recognized in the consolidated statements of income. The maximum option term is ten years, and options vest immediately for the directors' grant and over four years for the officers' grant. The weighted average remaining contractual life is 8.8 years at December 31, 2004. A summary of the activity in the plan is as follows:

Year Ended December 31	2004		2003	
Options (restated for stock dividends and splits)	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding, beginning of year	57,054	$14.03	—	—
Granted	61,425	22.26	57,054	$14.03
Exercised or redeemed	(1,654)	14.03	—	—
Outstanding, end of year	116,825	$18.36	57,054	$14.03
Options exercisable at year end	39,371	$17.09	17,612	$14.03
Weighted average fair value of options granted during the year	$ 4.21		$ 2.15	

Options outstanding at year-end 2004 were as follows.

	Outstanding		Exercisable
Exercise Prices	Number	Remaining Contractual Life (years)	Number
$14.03	55,400	8.3	24,723
$22.26	61,425	9.2	14,648
Total at year-end	116,825		39,371

NOTE 24 — EARNINGS PER SHARE

Earnings per share were computed as follows:

Year Ended December 31, 2004	Net Income	Weighted Average Shares	Per-Share Amount
Basic Earnings Per Share			
Net income available to common shareholders	$16,793	11,355,665	$1.48
Effect of dilutive stock options		16,329	
Diluted Earnings Per Share			
Net income available to common shareholders and assumed conversions	$16,793	11,371,994	$1.48
Year Ended December 31, 2003			
Basic Earnings Per Share			
Net income available to common shareholders	$15,305	11,157,943	$1.37
Effect of dilutive stock options		3,290	
Diluted Earnings Per Share			
Net income available to common shareholders and assumed conversions	$15,305	11,161,233	$1.37
Year Ended December 31, 2002			
Basic Earnings Per Share			
Net income available to common shareholders	$14,011	11,255,566	$1.24
Effect of dilutive stock options		—	
Diluted Earnings Per Share			
Net income available to common shareholders and assumed conversions	$14,011	11,255,566	$1.24

Stock options for 61,425 shares of common stock were not considered in computing diluted earnings per common share for 2004 because they were antidilutive. All stock options were dilutive in 2003 and there were no stock options granted in 2002.

NOTE 25 — FAIR VALUES OF FINANCIAL INSTRUMENTS

December 31	2004		2003	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets				
Cash and cash equivalents	$ 76,269	$ 76,269	$ 56,854	$ 56,854
Interest-bearing time deposits	304	304	201	201
Securities available for sale	425,443	425,443	422,111	422,111
Securities held to maturity	3,243	3,414	3,431	3,683
Loans including loans held for sale, net	918,131	913,866	845,927	865,266
Restricted stock	7,902	7,902	6,639	6,639
Interest receivable	7,123	7,123	6,938	6,938
Interest rate swap and cap	52	52	—	—
Liabilities				
Deposits	(1,226,367)	(1,222,053)	(1,191,310)	(1,201,574)
Borrowings				
Short-term	(57,175)	(57,175)	(27,508)	(27,508)
FHLB advances	(90,981)	(92,837)	(62,751)	(63,519)
Notes payable	(9,100)	(9,100)	(12,500)	(12,500)
Interest payable	(2,391)	(2,391)	(3,192)	(3,192)
Subordinated debentures	(29,898)	(29,898)	(29,898)	(29,898)
Interest rate swap and cap	—	—	(195)	(195)

The methods and assumptions used to estimate fair value are described as follows.

Carrying amount is the estimated fair value of cash and cash equivalents, interest-bearing time deposits, restricted stock, accrued interest receivable and payable, demand deposits, short-term borrowings, variable rate notes payable and subordinated debentures, and variable rate loans or deposits that reprice frequently and fully. Security fair values are based on market prices or dealer quotes, and if no such information is available, on the rate and term of the security and information about the issuer. For fixed rate loans or deposits and for variable rate loans or deposits with infrequent repricing or repricing limits, fair value is based on discounted cash flows using current market rates applied to the estimated life and credit risk. Fair values for impaired loans are estimated using discounted cash flow analysis or underlying collateral values. Fair value of loans held for sale is based on market quotes. Fair value of FHLB advances is based on current rates for similar financing. The fair value of off-balance-sheet items is based on the current fees or cost that would be charged to enter into or terminate such arrangements, and are not considered significant.

NOTE 26 — QUARTERLY FINANCIAL DATA (UNAUDITED)

	Interest Income	Net Interest Income	Net Income	Earnings per Share	
				Basic	Fully Diluted
2004					
First quarter	$16,764	$11,472	$3,635	$0.33	$0.33
Second quarter	17,474	12,284	4,319	0.38	0.38
Third quarter	18,985	13,500	4,606	0.40	0.40
Fourth quarter	18,618	12,746	4,233	0.37	0.37
2003					
First quarter	$16,732	$10,714	$3,505	$0.32	$0.32
Second quarter	16,524	10,720	3,734	0.33	0.33
Third quarter	17,216	11,304	3,849	0.34	0.34
Fourth quarter	17,133	11,494	4,217	0.38	0.38

NOTE 27 — PARENT ONLY CONDENSED FINANCIAL STATEMENTS

Parent Only Condensed Balance Sheets

December 31	2004	2003
Assets		
Cash and cash equivalents	$ 1,787	$ 1,744
Investment securities available for sale	3,099	1,057
Investment in subsidiaries	157,320	142,945
Other assets	4,687	3,290
Total assets	$166,893	$149,036
Liabilities		
Subordinated debentures	$ 29,898	$ 29,898
Notes payable	9,100	12,500
Short-term borrowings	3,000	—
Other liabilities	1,575	1,186
Total liabilities	43,573	43,584
Shareholders' equity	123,320	105,452
Total liabilities and shareholders' equity	$166,893	$149,036

Parent Only Condensed Statements of Income

Year Ended December 31	2004	2003	2002
Income			
Dividends from subsidiaries	$ 17,850	$ 14,250	$ 18,261
Fees from subsidiaries	9,197	7,813	6,370
Other Income	95	207	170
Total income	27,142	22,270	24,801
Expenses			
Interest expense	1,993	1,898	2,172
Salaries and benefits	5,280	4,869	4,854
Professional fees	689	582	573
Other expenses	4,962	5,085	3,882
Total expenses	12,924	12,434	11,481
Income (loss) before income taxes and equity in undistributed income of subsidiaries	14,218	9,836	13,320
Income tax expense (benefit)	(1,588)	(1,877)	(1,995)
Income (loss) before equity in undistributed income of subsidiaries	15,806	11,713	15,315
Equity in undistributed income of subsidiaries	987	3,592	(1,304)
Net income	$ 16,793	$ 15,305	$ 14,011

Condensed Statements of Cash Flows Parent Only

Year Ended December 31	2004	2003	2002
Operating Activities			
Net income	$ 16,793	$ 15,305	$ 14,011
Undistributed income of subsidiaries	(987)	(3,592)	1,304
Changes in other assets and liabilities	183	3,228	(291)
Net cash provided by operating activities	15,989	14,941	15,024
Investing Activities			
Capital contributed to subsidiary	(1,300)	(5,600)	(4,348)
Cash paid for acquisition	(4,662)	(24,283)	—
Purchases of equipment	(948)	(705)	(1,720)
Proceeds from sales of securities available for sale	165	—	—
Purchase of securities available for sale	(2,096)	—	(208)
Net cash used by investing activities	(8,841)	(30,588)	(6,276)
Financing Activities			
Payments on long-term debt	(3,400)	(2,900)	(1,600)
Payments on subordinated debentures	—	(23,119)	—
Proceeds from issuance of subordinated debentures	—	21,650	8,248
Proceeds from issuance of long-term debt	—	13,000	—
Net change in short-term borrowings	3,000	—	—
Purchase of treasury shares	(1,312)	(1,497)	(694)
Proceeds from exercise of stock options	28	—	—
Cash dividends and fractional shares	(5,421)	(4,874)	(4,485)
Net cash provided (used) by financing activities	(7,105)	2,260	1,469
Net change in cash and cash equivalents	43	(13,387)	10,217
Cash and cash equivalents, beginning of year	1,744	15,131	4,914
Cash and cash equivalents, end of year	$ 1,787	$ 1,744	$ 15,131

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

In connection with its audits for the three most recent fiscal years ended December 31, 2004, there have been no disagreements with the Company's independent certified public accountants on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure.

ITEM 9A. CONTROLS & PROCEDURES

Evaluation of Disclosure Controls and Procedures.

Under the supervision and with the participation of the Company's management, including the principal executive officer and principal financial officer, the Company conducted an evaluation of the effectiveness of its disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this report, or the Evaluation Date. Based on that evaluation, the principal executive officer and principal financial officer concluded that, as of the Evaluation Date, the Company's disclosure controls and procedures are effective such that information required to be disclosed by the Company in reports that it files with the SEC pursuant to the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, subject to management's completion of its assessment of internal control over financial reporting.

Internal Control Over Financial Reporting

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

MainSource Financial Group (the "Corporation") is responsible for the preparation, integrity, and fair presentation of the consolidated financial statements included in this annual report. The consolidated financial statements and notes included in this annual report have been prepared in conformity with United States generally accepted accounting principles and necessarily include some amounts that are based on management's best estimates and judgments.

We, as management of MainSource Financial Group, are responsible for establishing and maintaining effective internal control over financial reporting that is designed to produce reliable financial statements in conformity with Untied States generally accepted accounting principles. The system of internal control over financial reporting as it relates to the financial statements is evaluated for effectiveness by management and tested for reliability through a program of internal audits and other management testing. Actions are taken to correct potential deficiencies as they are identified. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the Corporation's system of internal control over financial reporting as of December 31, 2004, in relation to criteria for effective internal control over financial reporting as described in "Internal Control—Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission. This assessment excluded internal control over financial reporting for Peoples Financial Corp. (PFC) as allowed by the SEC for current year acquisitions. PFC was acquired on June 8, 2004 and represented 7.5% of assets at December 31, 2004 and 4.9% of net income for 2004. Based on this assessment, management concludes that as of December 31, 2004, its system of internal controls over financial reporting is effective and meets the criteria of the "Internal Control—Integrated Framework". Crowe Chizek and Company LLC, independent registered public accounting firm, has issued an attestation report dated March 10, 2005 on management's assessment of the Corporation's internal control over financial reporting.

James L. Saner, Sr.
President and Chief Executive Officer

Donald A. Benziger
Senior Vice President and Chief
Financial Officer

2. Changes in Internal Control Over Financial Reporting

Our management has evaluated our internal control over financial reporting and there were no changes in our internal control over financial reporting that occurred during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting

We have audited management's assessment, included in the accompanying *Report on Management's Report on Internal Control Over Financial Reporting*, that MainSource Financial Group maintained effective internal control over financial reporting as of December 31, 2004, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of

Sponsoring Organizations of the Treadway Commission (COSO). MainSource Financial Group's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

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

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

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

As permitted, the Company excluded the bank acquired in June 2004 (Peoples Financial Corporation) from the scope of management's report on internal control over financial reporting. As such, this entity has also been excluded from the scope of our audit of internal control over financial reporting.

In our opinion, management's assessment that MainSource Financial Group maintained effective internal control over financial reporting as of December 31, 2004, is fairly stated, in all material respects, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Also in our opinion, MainSource Financial Group maintained, in all material respects, effective internal control over financial reporting as of December 31, 2004, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets as of December 31, 2004 and 2003, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2004 of MainSource Financial Group and our report dated February 11, 2005, except for Note 2 with respect to the pending acquisition, as to which the date is March 8, 2005, expressed an unqualified opinion on the consolidated financial statements.

/s/ Crowe Chizek and Company LLC

Indianapolis, Indiana
March 10, 2005

ITEM 9B. OTHER INFORMATION

None

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) 1. Financial Statements.

Financial Statements filed as part of this Form 10-K are included under Part II, Item 8, above.

(a) 2. Financial statement schedules

All schedules are omitted because they are not applicable or not required, or because the required information is included in the consolidated financial statements or related notes in Part II, Item 8 above.

(a) 3. Exhibits:

3.1 Restated Articles of Incorporation (incorporated by reference to Exhibit 3.1 to the Annual Report on Form 10-K of the registrant for the fiscal year ended December 31, 2003 filed March 12, 2004 with the Commission (Commission File No. 0-12422)).

3.2 Amended and Restated Bylaws dated April 28, 1998 (incorporated by reference to Exhibit 3.2 to the Annual Report on Form 10-K of the registrant for the fiscal year ended December 31,1998 filed March 29, 1999 with the Commission (Commission File No. 0-12422)).

4.1 Indenture dated as of December 19, 2002 between the Registrant, as issuer, and State Street Bank and Trust Company of Connecticut, N.A., as trustee, re: floating rate junior subordinated deferrable interest debentures due 2032 (incorporated by reference to Exhibit 4.6 to the Annual Report on Form 10-K of the registrant for the fiscal year ended December 31, 2002 filed March 28, 2003 with the Commission (Commission File No. 0-12422)).

4.2 Amended and Restated Declaration of Trust dated as of December 19, 2002 among State Street Bank and Trust Company of Connecticut, N.A., as institutional trustee, the Registrant, as sponsor, and James L. Saner Sr., Donald A. Benziger and James M. Anderson, as administrators (incorporated by reference to Exhibit 4.7 to the Annual Report on Form 10-K of the registrant for the fiscal year ended December 31, 2002 filed March 28, 2003 with the Commission (Commission File No. 0-12422)).

4.3 Guarantee Agreement dated as of December 19, 2002 between the Registrant, and State Street Bank and Trust Company of Connecticut, N.A (incorporated by reference to Exhibit 4.8 to the Annual Report on Form 10-K of the registrant for the fiscal year ended December 31, 2002 filed March 28, 2003 with the Commission (Commission File No. 0-12422)).

4.4 Indenture dated as of April 1, 2003 between the Registrant, as issuer, and U.S. Bank, N.A., as trustee, re: floating rate junior subordinated deferrable interest debentures due 2033 (incorporated by reference to Exhibit 4.1 to the Quarterly Report on Form 10-Q of the registrant for the quarter ended June 30, 2003 filed August 14, 2003 with the Commission (Commission File No. 0-12422)).

4.5 Amended and Restated Declaration of Trust dated as of April 1, 2003 among U.S. Bank, N.A., as institutional trustee, the Registrant, as sponsor, and James L. Saner Sr., Donald A. Benziger and James M. Anderson, as administrators (incorporated by reference to Exhibit 4.2 to the Quarterly Report on Form 10-Q of the registrant for the quarter ended June 30, 2003 filed August 14, 2003 with the Commission (Commission File No. 0-12422)).

4.6 Guarantee Agreement dated as of April 1, 2003 between the Registrant, and U.S. Bank, N.A (incorporated by reference to Exhibit 4.3 to the Quarterly Report on Form 10-Q of the registrant for the quarter ended June 30, 2003 filed August 14, 2003 with the Commission (Commission File No. 0-12422)).

4.7 Indenture dated as of June 12, 2003 between the Registrant, as issuer, and The Bank of New York, as trustee, re: rate junior subordinated deferrable interest debentures due (incorporated by reference to Exhibit 4.4 to the Quarterly Report on Form 10-Q of the registrant for the quarter ended June 30, 2003 filed August 14, 2003 with the Commission (Commission File No. 0-12422)).

4.8 Amended and Restated Declaration of Trust dated as of June 12, 2003 among The Bank of New York, as institutional trustee, the Registrant, as sponsor, and James L. Saner Sr., Donald A. Benziger and James M. Anderson, as administrators (incorporated by reference to Exhibit 4.5 to the Quarterly Report on Form 10-Q of the registrant for the quarter ended June 30, 2003 filed August 14, 2003 with the Commission (Commission File No. 0-12422)).

4.9 Guarantee Agreement dated as of June 12, 2003 between the Registrant, and The Bank of New York (incorporated by reference to Exhibit 4.6 to the Quarterly Report on Form 10-Q of the registrant for the quarter ended June 30, 2003 filed August 14, 2003 with the Commission (Commission File No. 0-12422)).

10.1 Registrant's 2003 Stock Option Plan (incorporated by reference to Exhibit 10.1 to the Annual Report on Form 10-K of the registrant for the fiscal year ended December 31, 2003 filed March 12, 2004 with the Commission (Commission File No. 0-12422)).*

10.2 Form of Stock Option Agreement Under 2003 Stock Option Plan for Directors of Registrant dated May 19, 2003 (incorporated by reference to Exhibit 10.2 to the Annual Report on Form 10-K of the registrant for the fiscal year ended December 31, 2003 filed March 12, 2004 with the Commission (Commission File No. 0-12422)).*

10.3 Form of Stock Option Agreement Under 2003 Stock Option Plan for Officers of Registrant (incorporated by reference to Exhibit 10.1 to the Report on Form 8-K of the registrant filed February 24, 2005 with the Commission (Commission File No. 0-12422)).*

10.4 Form of Executive Severance Agreement dated January 16, 2001 between the Registrant and James L. Saner, Sr. (incorporated by reference to Exhibit 10.2 to the Annual Report on Form 10-K of the registrant for the fiscal year ended December 31, 2000 filed March 30, 2001 with the Commission (Commission File No. 0-12422)).*

10.5 Form of Executive Severance Agreement dated January 16, 2001 between the Registrant and Donald A. Benziger (incorporated by reference to Exhibit 10.2 to the Annual Report on Form 10-K of the registrant for the fiscal year ended December 31, 2000 filed March 30, 2001 with the Commission (Commission File No. 0-12422)).*

10.6 Form of Executive Severance Agreement dated January 16, 2001 between the Registrant and John C. Parker (incorporated by reference to Exhibit 10.4 to the Annual Report on Form 10-K of the registrant for the fiscal year ended December 31, 2002 filed March 28, 2003 with the Commission (Commission File No. 0-12422)).*

10.7 Form of Indemnification Agreement for Directors and Certain Officers of Registrant (incorporated by reference to Exhibit 10.1 to the Report on Form 8-K of the registrant filed February 24, 2005 with the Commission (Commission File No. 0-12422)).

14 Code of Ethical Conduct (incorporated by reference to Exhibit 14 to the Annual Report on Form 10-K of the registrant for the fiscal year ended December 31, 2003 filed March 12, 2004 with the Commission (Commission File No. 0-12422)).

21 List of subsidiaries of the Registrant.

23.1 Consent of Crowe Chizek and Company LLC

31.1 Certification pursuant to Section 302 of Sarbanes-Oxley Act of
2002 by Chief Executive Officer

31.2 Certification pursuant to Section 302 of Sarbanes-Oxley Act of
2002 by Chief Financial Officer

The following exhibits accompany this periodic report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (the "2002 Act"). These exhibits shall be deemed only to accompany this periodic report and are not part of this periodic report, shall not be deemed filed for purposes of the Securities Exchange Act of 1934, and may not be for any purpose other than compliance with the 2002 Act.

32.1 Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, by Chief Executive Officer

32.2 Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, by Chief Financial Officer

* A management contract or compensatory plan or agreement.

(b) Exhibits

Reference is made to Item 15(a)(3) above. There are no exhibits included in Item 15(a)(3) above that are filed concurrently with this report.

(c) Schedules

None required

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 the 16th day of March, 2005.

MAINSOURCE FINANCIAL GROUP, INC.

/s/ James L. Saner, Sr.

James L. Saner, Sr., President
And Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report on Form 10-K has been signed by the following persons on behalf of the registrant and in the capacities with the Company and on the dates indicated.

Signature	Capacity	Date
/s/ William G. Barron		
William G. Barron	Director	March 16, 2005
/s/ Dale J. Deffner		
Dale J. Deffner	Director	March 16, 2005
/s/ Douglas I. Kunkel		
Douglas I. Kunkel	Director	March 16, 2005
/s/ Philip A. Frantz		
Philip A. Frantz	Director	March 16, 2005
/s/ Rick S. Hartman		
Rick S. Hartman	Director	March 16, 2005
/s/ Robert E. Hoptry		
Robert E. Hoptry	Director Chairman of the Board	March 16, 2005
/s/ James M. Anderson		
James M. Anderson	Controller & Principal Accounting Officer	March 16, 2005
/s/ Donald A. Benziger		
Donald A. Benziger	Senior Vice President & Chief Financial Officer	March 16, 2005
/s/ James L. Saner, Sr.		
James L. Saner, Sr.	Director President & Chief Executive Officer	March 16, 2005

EXHIBIT (21)—SUBSIDIARIES OF THE REGISTRANT

Name	State of Incorporation
Mainsource Bank	Indiana
Regional Bank	Indiana
Kentucky United Bancorp, Inc.	Kentucky
IUB Illinois Holdings, Inc.	Indiana
MainSource Bank of Illinois	Illinois
IUB Reinsurance Co., Ltd.	Turks and Caicos
MainSource Insurance, Inc.	Indiana
MSB Investments of Nevada, Inc.	Nevada
RB Investments, Inc.	Nevada
MainSource Statutory Trust I	Connecticut
MainSource Statutory Trust II	Connecticut
MainSource Statutory Trust III	Delaware
RB Holdings, Inc.	Nevada
MSB Holdings of Nevada, Inc.	Nevada
MSB of Nevada, LLC	Nevada
MSB Realty, Inc.	Maryland
RB of Nevada, LLC	Nevada
MainSource Title, LLC	Indiana
First Community Real Estate Management, Inc.	Indiana
Peoples Trust Company	Indiana
MainSource Mortgage, LLC	Indiana

EXHIBIT 23.1

Consent of Independent Auditors

We consent to the incorporation by reference in the Registration Statement on Form S-8 of MainSource Financial Group, Inc. (No. 33-45395) of our report, dated February 11, 2005, except for Note 2 with respect to the pending acquisition, as to which the date is March 8, 2005, on the consolidated financial statements of MainSource Financial Group as of December 31, 2004 and 2003 and for each of the three years in the period ended December 31, 2004 included in the Annual Report on Form 10-K.

/s/ Crowe Chizek and Company LLC

March 15, 2005
Indianapolis, Indiana

EXHIBIT 31.1

Sarbanes-Oxley Act of 2002. Section 302 Certification of Chief Executive Officer

I, James L. Saner, Sr., certify that:

1. I have reviewed this annual report on Form 10-K of MainSource Financial Group;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a - 15(f) and 15d - 15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting .

Date: March 16, 2005

James L. Saner, Sr.

[Signature]

President & Chief Executive Officer

[Title]

EXHIBIT 31.2

Sarbanes-Oxley Act of 2002. Section 302 Certification of Chief Financial Officer

I, Donald A. Benziger, certify that:

1. I have reviewed this annual report on Form 10-K of MainSource Financial Group;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a - 15(f) and 15d - 15(f)) for the registrant and have:

    (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting .

Date: March 16, 2005

Donald A. Benziger

[Signature]

Senior Vice President & Chief Financial Officer

[Title]

EXHIBIT 32.1

SARBANES-OXLEY ACT OF 2002, SECTION 906 CERTIFICATION BY CHIEF EXECUTIVE OFFICER

As an accompaniment to the Annual Report of MainSource Financial Group, Inc. (the "Company") on Form 10-K for the period ending December 31, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, James L. Saner Sr., Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, and
- The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of and for the periods presented.

This certification is based on inquiries that I have made, or have caused to be made, in a good faith effort on my part to be a responsible and competent chief executive officer serving the Company and its many constituencies.

This certification merely accompanies and is not part of the Report, shall not be deemed filed for purposes of the Securities Exchange Act of 1934, and may not be used for any purpose other than compliance with 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

/s/ James L. Saner, Sr.

EXHIBIT 32.2

SARBANES-OXLEY ACT OF 2002, SECTION 906 CERTIFICATION BY CHIEF FINANCIAL OFFICER

As an accompaniment to the Annual Report of MainSource Financial Group, Inc. (the "Company") on Form 10-K for the period ending December 31, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Donald A. Benziger, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, and
- The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of and for the periods presented.

This certification is based on inquiries that I have made, or have caused to be made, in a good faith effort on my part to be a responsible and competent chief executive officer serving the Company and its many constituencies.

This certification merely accompanies and is not part of the Report, shall not be deemed filed for purposes of the Securities Exchange Act of 1934, and may not be used for any purpose other than compliance with 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

/s/ Donald A. Benziger

THIS PAGE INTENTIONALLY LEFT BLANK

SHAREHOLDER INFORMATION

Annual Meeting

Wednesday, May 25, 2005, 10:00 AM
MainSource Financial Group
Operations Center • 1927 Greensburg Crossing • Greensburg, IN 47240

Corporate Address

MainSource Financial Group
201 North Broadway • P. O. Box 87 • Greensburg, Indiana 47240
Tel: 812-663-0157
Fax : 812-663-4812
www.mainsourcefinancial.com

Form 10-K

Copies of the Company's 2004 Form 10-K filed with the Securities and Exchange Commission are available without charge to all shareholders upon request. Please direct requests to the attention of the Chief Financial Officer.

The Form 10-K and other SEC filings can also be accessed from the Company's website.

Transfer Agent

Investor Relations Department
Registrar and Transfer Company
10 Commerce Drive • Cranford, New Jersey 07016-9982
Tel: 800-368-5948

Common Shares

The Common shares of the Company are listed on The Nasdaq Stock Market®. The trading symbol is MSFG. In newspaper listings, Company shares are frequently listed as MainSrce.

Market Makers

Market Makers in the Company's common stock include:
Stifel, Nicolaus & Company, Inc.
J.J.B. Hilliard/W.L. Lyons, Inc.
NatCity Investments, Inc.
Howe Barnes Investments, Inc.
FTN Financial Securities

Design and Production by www.annualreportsinc.com

201 North Broadway
Greensburg, IN 47240
www.mainsourcefinancial.com