2005 ANNUAL REPORT

MainSource FINANCIAL GROUP

Expect More®

Corporate Profile

MainSource Financial Group, Inc. (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. Log on to our website at www.mainsourcefinancial.com for additional information.

Financial Highlights

(Dollar amounts in thousands, except per share data)	December 31 2005	2004	Percent Change
At Year End			
Total assets	**$ 1,645,605**	$1,549,379	+ 6.2%
Loans, excluding held for sale	**957,995**	929,005	+ 3.1
Allowance for loan losses	**10,441**	11,698	– 10.7
Total deposits	**1,352,697**	1,226,367	+ 10.3
Shareholders' equity	**161,069**	123,320	+ 30.6
Results of Operations			
Net interest income	**$ 53,648**	$ 50,002	+ 7.3%
Non-interest income	**17,332**	19,544	– 11.3
Provision for loan losses	**1,040**	600	+ 73.3
Net income	**16,192**	16,793	– 3.6
Per Common Share			
Earnings per share (basic and diluted)	**$ 1.29**	$ 1.48	– 12.8%
Dividends paid	**0.520**	0.476	+ 9.2
Book value – end of period	**11.96**	10.68	+ 12.0
Market price – end of period	**17.85**	23.88	– 25.3
Financial Ratios			
Return on average assets	**1.04%**	1.13%	– 8.0%
Return on average common shareholders' equity	**11.27**	14.70	– 23.3
Allowance for loan losses to total loans (year end, excluding held for sale)	**1.09**	1.26	– 13.5

James L. Saner, Sr., President and CEO

Dear Shareholders,

2005 was a productive year, even though earnings declined 3.6 percent. We converted two previously acquired banks into the MainSource core system, announced our intent to acquire three other banks, expanded our geographic presence in the marketplace, sold two million shares of common stock and finally, repositioned our securities portfolio at the end of the year.

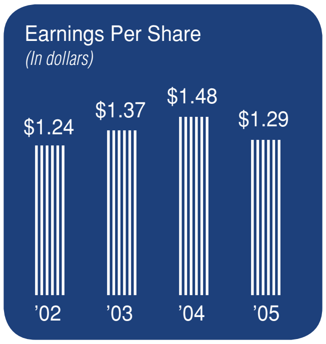
In February, we integrated Regional Bank into MainSource Bank of Indiana. This bank conversion was the first of several to occur during the past year. The Regional Bank integration added $250 million in assets to MainSource Bank of Indiana, $162 million in deposits, $158 million in loans as well as six branches in the New Albany, Indiana area. We also acquired and subsequently converted Madison Bank & Trust into our lead affiliate in August. Madison had assets of approximately $200 million and five offices in Indiana, four of which were in Jefferson county and one in Ohio county. Madison was a market leader in Jefferson County, Indiana. The combination of these branches and our existing branches in that area enabled the Company to establish a major presence throughout all of southeastern Indiana.

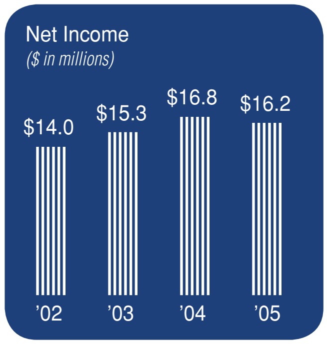
In August, we announced an agreement to acquire Union Community Bancorp of Crawfordsville, Indiana, which will expand our geographic presence into western Indiana. The Union acquisition is particularly attractive because it establishes several new markets for us, increases our assets by approximately $260 million and adds six branches in four counties.

Peoples Ohio Financial Corporation in Troy, Ohio with assets of approximately $200 million became the next acquisition announcement of 2005. It has five banking locations in western Ohio, just north of the Dayton area. This western Ohio corridor is one of the fastest growing areas in the state. The economy is diverse, and the average age of the population is below the nation's average. With a banking presence in these counties across the state lines of Ohio and Indiana, we are now able to spread marketing resources and introduce new products and services across adjoining markets.

Then, in late October, we announced an agreement to acquire HFS Bank of Hobart. It has assets of approximately $235 million and six locations in Lake and Porter counties. These counties link the greater Chicagoland area with northwest Indiana and are experiencing a tremendous amount of growth. In the same month, we successfully converted and integrated one of our previously acquired banks, Peoples Trust of Linton, Indiana, into the lead bank of the Company.

Some may have questioned earlier acquisitions based on geography alone, but one can now see that these new acquisitions will enable us to geographically fill in the voids when opportunity presents itself. With all the acquisitions that were completed and converted in 2005, we continued our strategy of eliminating back office redundancy as quickly as possible. This allows us to get all employees on the same page to immediately provide uniform and improved products and services to all customers. Each



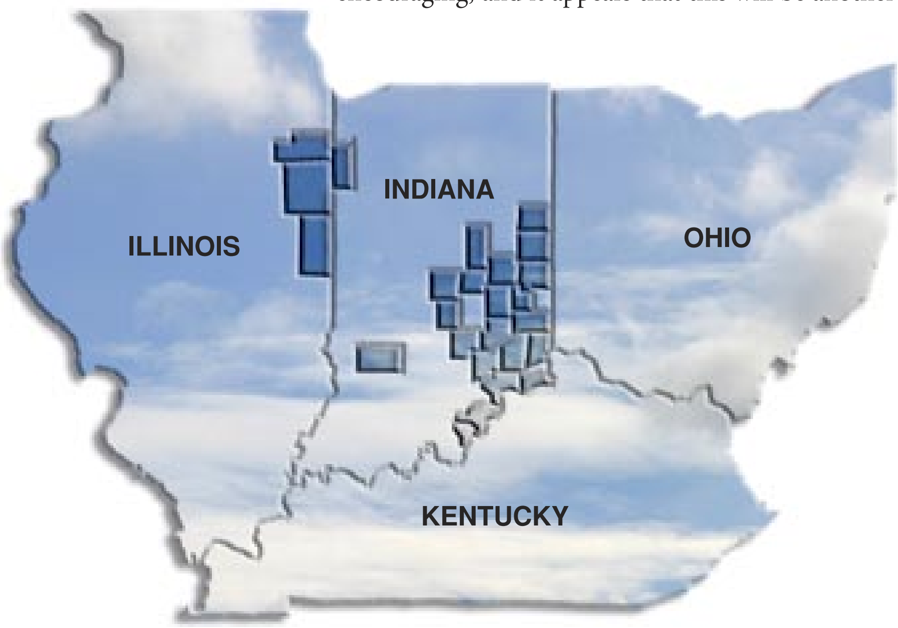


time we make a conversion, we necessarily increase costs in that year, but it remains the fastest path to long-term profitability and increased efficiency.

We also made several additions to support future organic growth. We formed our own title agency and mortgage company to supplant those services we were previously outsourcing. We did this because we are now able to close loans faster and serve more customers. Despite the costs involved to begin these new companies, our title agency reached a break-even point in its first year of operations.

Almost every non-banking operation within the Company improved last year as well. We witnessed a substantial increase in Internet banking, and our early adoption of the Federal Government's Check 21 Program will further solidify the move to the Internet for many of our customers. Wealth management fees grew 17 percent year over year, and this area of fee generation should continue as we roll out these services in our newer markets. Annuity sales have doubled in the last two years, and our insurance agency continues to grow profitably. A considerable portion of the insurance business involves customers calling a toll free number for an insurance quote. While this was a critical part of the sales equation, it was labor intensive. At the end of 2005, we redesigned the insurance call center, which will provide potential customers with faster quotations and in turn, free up our more experienced sales agents to spend additional time on the business that requires a higher level of sophistication. This will undoubtedly generate more profitable business in the future.

We developed the Health Savings Account product for individuals and small businesses in mid-2005, which we began offering to the public in January of this year. These accounts are attractive for both employers and their employees because fund contributions have tax advantages, are highly portable, and grow tax free in the account. They have proved highly attractive to companies that are trying to stave off skyrocketing medical insurance premiums. Early results of our new program are quite encouraging, and it appears that this will be another growth driver in the years to come.



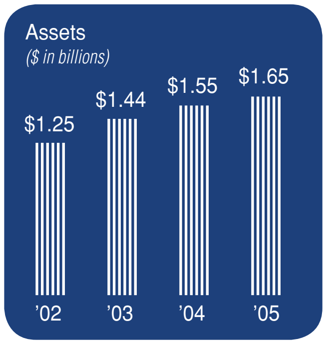
Management Transition

In October, our chief financial officer, Donald Benziger, left the Company to take another financial position with a privately held bank. After an extensive search, we promoted James (Jamie)

Illinois*
Kankakee
Iroquois
Vermillion

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

**Location by county*



*(Adjusted for splits and dividends)

M. Anderson, one of our own, to the post of chief financial officer. A five-year veteran of MainSource, he will oversee the Company's accounting and SEC reporting functions, as well as provide interest rate risk management and investment strategy. Jamie has been an integral part in the recent acquisition analysis, and we welcome the expertise he brings to the senior management team.

Stock Sale and Stock Price Performance

Shareholders will note that our appetite for prudent growth has been quite strong for the past several years. Assets have grown to $1.65 billion, doubling in the past seven years. Essentially, we have been able to reduce the dilutive effect of acquisitions because we structure our acquisitions so that they are accretive to earnings in rather short order. However, the recent Madison Bank and Trust acquisition came to us unexpectedly. To capitalize on this opportunity, we sold 1.7 million shares of common stock at $17.50 per share in June. In July, our underwriters exercised their right to buy an additional 260,800 shares. Net proceeds to the Company were approximately $32.7 million. We used the bulk of these proceeds to pay for this acquisition.

Our stock price has risen so dramatically in the past five years that at some point it had to accommodate some profit taking. This happened in 2005 along with a pull back of most financial stocks. The stock on January 3, 2005, was $22.85 per share. It closed the year at $17.85. It's not the type of performance that we have been used to over the past five years. Wall Street can indeed be fickle. However, the return on our stock has dramatically outpaced both the S&P 500 and the NASDAQ composite index over the past five years.

Financial Results

Earnings for 2005 were $16.2 million compared to $16.8 million earned in 2004. Earnings declined late in the fourth quarter because we repositioned our investment portfolio by selling $85 million in underperforming securities. This reduced earnings approximately $2.4 million on a pre-tax basis, but the sale will enable us to increase our performance on that portion of our investments by 200 basis points in the future. Assets increased six percent to $1.65 billion from $1.55 billion, and deposits rose 10 percent to $1.35 billion. Shareholder's equity increased 31 percent to $161 million from $123 million in 2004.

We increased the dividend 9.2 percent last year to 52 cents a share. This marks the 17th consecutive year of dividend increases. While I am disappointed in last year's earnings, the added acquisition and conversion expenses, as well as the security portfolio restructuring, are now behind us. Thus, we expect that earnings for 2006 will be improved and will return to the level of performance to which our Company has grown accustomed.

We thank our directors for their vision and guidance, our employees for their dedication and commitment, our customers for their loyalty and patronage, and our shareholders for their support and investment. We look forward to next year and believe the foundation developed this past year will bear fruit in 2006.

James L. Saner, Sr.
President and Chief Executive Officer
March 16, 2006

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.

Brian J. Crall
Deputy Secretary
Executive Cabinet Office
State of Kentucky

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

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

D. J. Hines
Chief Executive Officer
Schuler Bauer Real Estate Services

Douglas I. Kunkel
Vice President of Operations
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

James M. Anderson
Senior Vice President and CFO

John C. Parker
Senior Vice President of Operations

MainSource Bank of Indiana

Daryl R. Tressler
Chairman and CEO
MainSoure Bank of Indiana

John G. Seale, *CPA*
Partner
RBSK Partners PC

Norman L. Winkler
Farmer
Winkler – Smith Farms

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

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Retired President and CEO
MainSource Financial Group

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Miers Farm Corporation

Lawrence R. Rueff, *D.V.M.*
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Buckhead Mountain Grill

Edward J. Zoeller
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Larry Gesse
Partner
Rogers and Gesse Attorneys At Law

John G. Hall
Mayor
City of North Vernon, Indiana

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Chairman and CEO

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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

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

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Farmer
A & R Farms, Inc.

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

James M. Anderson
Chief Financial Officer
MainSource Financial Group

MainSource Bank of Illinois Senior Management

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Chairman, President and CEO

William J. Krones
Senior Vice President
Director of Lending

Georgann J. Butterfield
Vice President
Director of Retail Services

MainSource Insurance, LLC

Jerry J. Vollmer
President and CEO

James L. Saner, Sr.,
Managing Director

Daryl R. Tressler
Managing Director

MainSource Title, LLC

Mark W. Dunevant
President

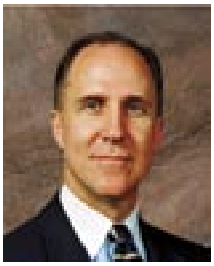
Paul R. White
Operating Manager

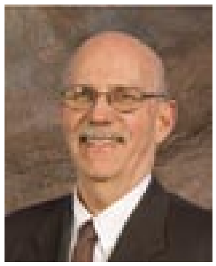
James L. Saner, Sr.
Managing Director

Daryl R. Tressler
Managing Director


Robert E. Hoptry


William G. Barron


Brian J. Crall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