

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1996-11-14** | Period of Report: **1996-09-30**
SEC Accession No. **0000941622-96-000019**

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FILER

CENTRAL ILLINOIS FINANCIAL CO INC

CIK: **941622** | IRS No.: **371338484** | State of Incorpor.: **DE** | Fiscal Year End: **1231**
Type: **10-Q** | Act: **34** | File No.: **033-90342** | Film No.: **96665394**
SIC: **6021** National commercial banks

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(D) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended September 30, 1996

Commission File Number: 33-90342

CENTRAL ILLINOIS FINANCIAL CO., INC.
(Exact name of Registrant as specified in its charter)

DELAWARE
(State or other jurisdiction
of incorporation or organization)

37-1338484
(I.R.S. Employer Identification
Number)

100 WEST UNIVERSITY, CHAMPAIGN, ILLINOIS 61820
(Address of principal executive offices) (Zip Code)

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

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

YES X NO

Indicate the number of shares outstanding of the registrant's common stock, as of November 1, 1996:

Central Illinois Financial Co., Inc. Common Stock 4,930,204
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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CENTRAL ILLINOIS FINANCIAL CO., INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
September 30, 1996 and December 31, 1995
(Unaudited, dollars in thousands)

	<C> Sep. 30, 1996	<C> Dec. 31, 1995
ASSETS		
Cash and due from banks	\$23,500	\$26,900
Federal funds sold	17,000	53,800
Securities available-for-sale	112,901	73,457
Securities held-to-maturity (approximate market value of \$17,595 at September 30, 1996 and \$21,528 at December 31, 1995)	17,556	21,430
Other equity securities	1,731	2,417
Mortgage loans held-for-sale	1,107	9,421
Loans, net of allowance for loan losses of \$5,588 and \$5,882 at September 30, 1996 and December 31, 1995, respectively	284,948	311,519
Premises and equipment	10,777	10,992
Accrued interest receivable	4,399	4,443
Other assets	5,768	6,207
Total assets	479,687	520,586
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits:		
Demand - noninterest bearing	53,915	66,693
Demand - interest bearing	118,626	107,363
Savings	18,577	23,997
Time deposits \$100 and over	24,449	42,839
Other time	155,631	178,265
Total deposits	371,198	419,157
Federal funds purchased and securities sold under repurchase agreements	42,422	36,273
Federal Home Loan Bank advances	9,000	9,000
Accrued interest payable	1,404	1,964
Other liabilities	4,961	5,784
Total liabilities	428,985	472,178
Stockholders' equity:		
Common stock, \$0.01 par value; 6,500,000 shares authorized:		
4,958,891 shares issued	50	50
Paid in capital	19,066	19,066
Retained earnings	32,490	29,180
Less: Treasury Stock, at cost, 28,487 shares in 1996	(378)	0
Unrealized holding loss on debt and equity securities available-for-sale	(526)	112
Total stockholders' equity	50,702	48,408
Total liabilities and stockholders' equity	\$479,687	\$520,586

CENTRAL ILLINOIS FINANCIAL CO., INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
For the Nine Months Ended September 30, 1996 and 1995
(Unaudited, dollars in thousands, except per share data)

<TABLE>

<S>

	<C>	<C>
	1996	1995
Interest income:		
Loans, including fees		
Taxable	\$19,729	\$22,322
Exempt from federal income tax	18	19
Securities available-for-sale	4,234	2,498
Securities held-to-maturity		
Taxable	374	1,196
Exempt from federal income tax	288	376
Other Equity Securities	98	115
Federal funds sold	1,549	414
Total interest income	26,290	26,940
Interest expense:		
Deposits	11,345	11,144
Federal funds purchased and securities sold under repurchase agreements	1,503	1,354
Federal Home Loan Bank advances	448	447
Total interest expense	13,296	12,945
Net interest income	12,994	13,995
Provision for loan losses	375	150
Net interest income after provision for loan losses	12,619	13,845
Other income:		
Trust fees	1,479	1,116
Service charges on deposit accounts	537	506
Gains on sale of debt securities	0	3
Gain (Loss) on sales of mortgage loans held-for-sale, net	197	(51)
Other	1,148	1,161
Total other income	3,361	2,735
Other expenses:		
Salaries and employee benefits	5,943	6,885
Net occupancy	1,123	1,041
Equipment	737	884
Data processing	541	368
Federal deposit insurance premiums	2	416
Other	2,719	3,842
Total other expenses	11,065	13,436
Income from continuing operations before income tax expense	4,915	3,144
Income tax expense	1,605	1,326
Income from continuing operations	3,310	1,818
Income from discontinued operations (net of tax effect of \$293 in 1995)	0	570
Net income	\$3,310	\$2,388
Per share data:		
Income from continuing operations	\$0.66	\$0.37
Income from discontinued operations	0.00	0.11
Net income	\$0.66	\$0.48

See accompanying notes to Condensed Consolidated Financial Statements.

</TABLE>

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CENTRAL ILLINOIS FINANCIAL CO., INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
For the Three Months Ended September 30, 1996 and 1995
(Unaudited, dollars in thousands, except per share data)

<TABLE>

<S>

	<C>	<C>
	1996	1995
Interest income:		
Loans, including fees		
Taxable	\$6,426	\$7,696
Exempt from federal income tax	6	7
Securities available-for-sale	1,661	793
Securities held-to-maturity		
Taxable	143	315
Exempt from federal income tax	95	129
Other Equity Securities	31	37
Federal funds sold	243	179
Total interest income	8,605	9,156
Interest expense:		
Deposits	3,660	4,003
Federal funds purchased and securities sold under repurchase agreements	490	471
Federal Home Loan Bank advances	150	151
Total interest expense	4,300	4,625
Net interest income	4,305	4,531
Provision for loan losses	75	75
Net interest income after provision for loan losses	4,230	4,456
Other income:		
Trust fees	382	349
Service charges on deposit accounts	167	167
Gains on sale of debt securities	0	1
Gains (losses) on sales of mortgage loans held-for-sale, net	182	(62)
Other	394	349
Total other income	1,125	804
Other expenses:		
Salaries and employee benefits	1,963	2,615
Net occupancy	385	397
Equipment	249	288
Data processing	180	140
Federal deposit insurance premiums	1	(23)
Other	772	1,112
Total other expenses	3,550	4,529
Income from continuing operations before income tax expense	1,805	731
Income tax expense	594	253
Net income	\$1,211	\$478
Per share data:		
Net income	\$0.24	\$0.10
Weighted average shares outstanding	5,005,686	4,998,700

CENTRAL ILLINOIS FINANCIAL CO., INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Nine Months Ending September 30, 1996 and 1995
(Unaudited, in thousands)

<TABLE>

<S>

	<C>	<C>
	1996	1995
Cash flows from operating activities:		
Net income	\$3,310	\$2,388
Adjustments to reconcile net income to net cash provided by (used in) operating activities		
Depreciation and amortization	876	901
Debt and equity securities amortization, net	135	94
Provision for loan losses	375	150
Debt and equity securities gains	0	(3)
(Gain) loss on sales of loans, net	(197)	51
Gain on sale of subsidiary	0	(570)
(Gain) loss on premises and equipment, net	2	(1)
Decrease (increase) in accrued interest receivable	44	(677)
(Decrease) increase in accrued interest payable	(560)	349
Decrease in other assets	403	1,076
Decrease in other liabilities	(76)	(672)
Decrease (increase) in mortgage loans held-for-sale	336	(8,108)
Stock appreciation rights	3	88
Net cash provided by (used in) operating activities	4,651	(4,934)
Investing activities:		
Net decrease (increase) in loans	34,371	(7,313)
Proceeds from maturity of investments in debt securities:		
Held-to-maturity	11,838	18,596
Available-for-sale	23,438	17,651
Proceeds from sales of investments in debt and equity securities:		
Available-for-sale	0	2,717
Other equity securities	718	0
Purchases of investments in debt and equity securities:		
Held-to-maturity	(8,399)	(9,231)
Available-for-sale	(64,648)	(15,269)
Other equity securities	(32)	0
Principal paydowns from mortgage-backed and mortgage-related securities		
Held-to-maturity	353	509
Available-for-sale	746	1,228
Purchases of premises and equipment	(667)	(1,747)
Proceeds from sale of premises and equipment	0	2
Net cash provided by (used in) investing activities	(2,282)	7,143
Financing activities:		
Net decrease in demand and savings deposits	(6,935)	(18,433)
Net decrease in time deposits \$100 and over	(18,390)	(3,177)
Net (decrease) increase in other time deposits	(22,634)	18,727
Net increase (decrease) in federal funds purchased and securities sold under repurchase agreements	6,149	(4,402)
Dividends paid	(378)	(483)
Net Treasury Stock transactions	(378)	0
Net change in common stock	(3)	3
Net cash used in financing activities	(42,569)	(7,765)

Net decrease in cash and cash equivalents	(40,200)	(5,556)
Cash and cash equivalents at beginning of period	80,700	36,486
Cash and cash equivalents at end of period	\$40,500	\$30,930

Additional cash flows information:

Interest paid	13,856	12,598
Income taxes paid	972	1,490
Transfer of mortgage loans held-for-sale to loans	8,175	0

See accompanying notes to Condensed Consolidated Financial Statements.

</TABLE>

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CENTRAL ILLINOIS FINANCIAL CO., INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. BASIS OF PRESENTATION

The accompanying unaudited Condensed Consolidated Financial Statements have been prepared in accordance with the instructions to Form 10-Q and therefore do not include all information and footnotes necessary for fair presentation of financial position, results of operations, and cash flows in conformity with generally accepted accounting principles.

In the opinion of management, the Condensed Consolidated Financial Statements of Central Illinois Financial Co., Inc. (the "Company") and subsidiaries as of September 30, 1996 and for the three-month and nine-month periods ended September 30, 1996 and 1995 include all adjustments necessary for fair presentation of the results of those periods. All such adjustments are of a normal recurring nature.

Results of operations for the three-month and nine-month periods ended September 30, 1996 are not necessarily indicative of the results which may be expected for the year ended December 31, 1996.

NOTE 2. BUSINESS COMBINATION

On December 13, 1994, BankIllinois Financial Co. and Central Illinois Financial Corporation entered into an Agreement and Plan of Merger which provided for a "merger of equals" between the two companies, structured as a merger of the two companies into the Company. The merger, which was accounted for as a pooling of interests, was completed on June 30, 1995. Accordingly, prior period Condensed Consolidated Financial Statements have been restated as though the prior entities had been consolidated for all periods presented.

NOTE 3. STOCK DIVIDEND

At its regular board meeting on March 12, 1996, the Board of Directors of the Company declared a one-for-twenty, or five percent, common stock dividend. The record date of the stock dividend was May 1, 1996, and the distribution date, May 15, 1996. The accompanying unaudited Condensed Consolidated Financial Statements have been restated to take the stock dividend into account.

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NOTE 4. MORTGAGE LOANS HELD-FOR-SALE

During September 1996, the Company transferred approximately \$8,175,000 of mortgage loans held-for-sale to the Company's loan portfolio with the intent to hold until maturity. The loans were recorded at the lower of cost or fair market value at the date of transfer. Unrealized holding losses of approximately \$16,000 will be accreted into earnings over the remaining life of the mortgages as a yield adjustment.

NOTE 5. NEW ACCOUNTING RULES AND REGULATIONS

During June 1996, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 125, "Accounting for Transfers and Servicing of Financial Assets and Liabilities and Extinguishment of Liabilities" ("SFAS 125"). SFAS 125 provides accounting and reporting standards for transfers of financial assets and extinguishments of liabilities. Those standards are based on consistent application of a financial-components approach that focuses on control. Under that approach, after a transfer of financial assets, an entity recognizes the financial and servicing assets it controls and the liabilities it has incurred, derecognizes financial assets when control has been surrendered, and derecognizes liabilities when extinguished. This Statement provides consistent standards for distinguishing transfers of financial assets that are sales from transfers that are secured borrowings. SFAS 125 is effective for transfers and servicing of financial assets and extinguishments of liabilities occurring after December 31, 1996, and it is to be applied prospectively. Earlier or retroactive application is not permitted. The Company does not anticipate that the adoption of SFAS 125 will have a significant impact on its financial statements.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FINANCIAL CONDITION

ASSETS AND LIABILITIES

Total assets decreased \$40,899,000, or 7.9%, from \$520,586,000 at December 31, 1995 to \$479,687,000 at September 30, 1996. Decreases in cash and due from banks, federal funds sold, investments in securities held-to-maturity, other equity securities, and loans, offset somewhat by an increase in securities available-for-sale, resulted in the decrease in assets.

Federal funds sold decreased \$36,800,000, or 68.4%, at September 30, 1996 compared to December 31, 1995. This decrease was a result of excess federal funds sold being used to purchase securities available-for-sale as well as fund the decrease in deposits.

The decrease in cash and due from banks of \$3,400,000, or 12.6%, at September 30, 1996 compared to December 31, 1995 was attributable to a smaller dollar amount of deposit items in the process of collection at September 30, 1996 compared to December 31, 1995.

Investments in equity securities decreased \$686,000, or 28.4%, at September 30, 1996 compared to December 31, 1995. This decrease was primarily a result of the sale of FHLB stock. Investments in debt securities held-to-maturity decreased \$3,874,000, or 18.1%, at September 30, 1996 compared to December 31, 1995. This decrease was a result of investments maturing and the proceeds being reinvested in securities available-for-sale, which increased \$39,444,000, or 53.7%, from December 31, 1995 to September 30, 1996.

Mortgage loans held-for-sale decreased \$8,314,000, or 88.2%, from

December 31, 1995 to September 30, 1996. The decrease was a direct result of management's decision in September that all mortgage loans not committed for sale should be held in the Company's loan portfolio. These loans were transferred with the intention of holding them until maturity. Included in the transfer were approximately \$7,628,000 of adjustable-rate mortgages and \$547,000 of fixed-rate mortgages. Management's intention is to hold few fixed-rate mortgages in the Company's portfolio.

Loans decreased \$26,865,000, or 8.5%, from December 31, 1995 to September 30, 1996. Included in the decrease were a \$9,769,000, or 8.1%, decrease in commercial, financial, and agricultural loans, a \$407,000, or 0.3%, decrease in real estate loans, and a \$16,689,000, or 24.4%, decrease in installment and consumer loans. Management has expended substantial time reviewing the Company's lending process in the months following the merger. Much of the decrease in loans can be attributed to management's emphasis on appropriate loan structure and pricing as well as a competitive local lending environment.

Total deposits decreased \$47,959,000, or 11.4%, from \$419,157,000 at December 31, 1995 to \$371,198,000 at September 30, 1996. The decrease includes a \$12,778,000, or 19.2%, decrease in noninterest bearing demand deposits, a \$5,420,000, or 22.6%, decrease in savings deposits, an \$18,390,000, or 42.9%, decrease in time deposits \$100,000 and over, and a

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decrease of \$22,634,000, or 12.7%, in other time deposits. These decreases were somewhat offset by an increase of \$11,263,000, or 10.5%, in interest bearing demand deposits. The decrease in deposits was attributable to management's emphasis on appropriate pricing in a competitive market as well as some seasonal run-off. Total deposits were \$391,794,000 at September 30, 1995 compared to \$371,198,000 at September 30, 1996.

CAPITAL

Total stockholders' equity increased \$2,294,000 from December 31, 1995 to September 30, 1996. The change is summarized as follows:

	(IN THOUSANDS)
Stockholders' equity, December 31, 1995	\$48,408
Net income	3,310
Purchase of Treasury Stock	(378)
Purchase of fractional shares related to stock dividend	(3)
Stock appreciation rights	3
Change in unrealized holding gain (loss) on investments in debt and equity securities available-for-sale	(638)
Stockholders' equity, September 30, 1996	\$50,702

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

Qualitative measures established by regulation to ensure capital

adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined). Management believes that the Bank, as of September 30, 1996, meets all capital adequacy requirements to which it is subject.

As of September 30, 1996, the most recent notification from the Federal Deposit Insurance Corporation categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier I risk-based and Tier I leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the institution's category.

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The Company's consolidated actual capital amounts and ratios are also presented in the table below (in thousands):

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<S>	<C>	<C>	<C>	<C>	<C>	<C>
As of September 30, 1996:						
Total capital						
(to risk-weighted assets)	\$55,070	17.6%	=>\$25,026	=>8.0%	=>\$31,283	=>10.0%
Tier I capital						
(to risk-weighted assets)	51,139	16.3%	=>12,513	=>4.0%	=>18,770	=>6.0%
Tier I capital						
(to average assets)	51,139	10.7%	=>19,114	=>4.0%	=>23,892	=>5.0%
As of December 31, 1995:						
Total capital						
(to risk-weighted assets)	52,517	15.0%	=>27,962	=>8.0%	=>34,953	=>10.0%
Tier I capital						
(to risk-weighted assets)	48,148	13.8%	=>13,981	=>4.0%	=>20,972	=>6.0%
Tier I capital						
(to average assets)	48,148	9.7%	=>19,855	=>4.0%	=>24,819	=>5.0%

<TABLE>

RATE SENSITIVITY OF EARNING ASSETS AND INTEREST BEARING LIABILITIES
As of September 30, 1996
(In thousands)

	1-30 Days	31-90 Days	91-180 Days	181-365 Days	Over 1-year	Total
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Federal funds sold	\$17,000	\$0	\$0	\$0	\$0	\$17,000
Debt and equity securities <F1>	3,120	7,954	18,969	17,082	85,063	132,188
Loans <F2>	80,750	21,152	25,485	38,948	125,308	291,643
Total interest earning assets	\$100,870	\$29,106	\$44,454	\$56,030	\$210,371	\$440,831
Savings and interest bearing demand deposits	\$137,203	\$0	\$0	\$0	\$0	\$137,203
Time deposits	12,287	25,227	30,837	34,420	77,309	180,080
Federal funds purchased and securities sold under repurchase agreements	36,133	5,395	150	273	471	42,422
Federal Home Loan Bank advances	0	0	0	0	9,000	9,000
Total interest bearing liabilities	\$185,623	\$30,622	\$30,987	\$34,693	\$86,780	\$368,705
Net asset (liability) funding gap	(\$84,753)	(\$1,516)	\$13,467	\$21,337	\$123,591	\$72,126
Repricing gap	0.54	0.95	1.43	1.62	2.42	1.20
Cumulative repricing gap	0.54	0.60	0.71	0.82	1.20	1.20

<FN>
<F1> Debt and equity securities include securities available-for-sale.
<F2> Loans include mortgage loans held-for-sale.
</FN>
</TABLE>

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At September 30, 1996, the Company was liability-sensitive due to the levels of savings and interest bearing demand deposits, short-term time deposits, federal funds purchased and securities sold under repurchase agreements. As such, the effect of a decrease in the interest rate for all interest earning assets and interest bearing liabilities of 100 basis points would increase annualized net interest income by approximately \$848,000 in the 1-30 days category and \$863,000 in the 1-90 days category assuming no management intervention. An increase in interest rates would have the opposite effect for the same time periods.

LIQUIDITY

The Company was able to meet liquidity needs during the first nine months of 1996. A review of the Condensed Consolidated Statement of Cash Flows included in the accompanying financial statements shows that the Company's cash and cash equivalents decreased \$40,200,000 from December 31, 1995 to September 30, 1996. This decrease came from net cash used in financing and investing activities offset by cash provided by operating activities.

Net cash provided by operating activities reflects net earnings plus or minus certain noncash and other adjustments to arrive at net cash provided by operating activities. In the nine-month period ended September 30, 1996, net cash provided by operating activities was \$9,585,000 more than the net cash provided by operating activities for the same period in 1995. The biggest reason for the increase in 1996 over 1995 was that mortgage loans held-for-sale decreased by \$336,000 during the first nine months of 1996 compared to an increase of \$8,108,000 during the same period during 1995, a \$8,444,000 decrease. The decrease in mortgage loans held-for-sale in 1996 is net of the transfer during September 1996 of approximately \$8,175,000 of mortgage loans held-for-sale to the Company's loan portfolio with the intent to hold until maturity. Accrued interest receivable decreased \$44,000 during the first nine months of 1996, compared to an increase of \$677,000 during the same period in 1995, a \$721,000 change. In addition, other liabilities decreased \$76,000 during the first nine months of 1996 compared to a decrease of \$672,000 during the same period in 1995, a \$596,000 change. Cash provided was also positively affected by an increase in net income of \$922,000 and an increase in provision for loan losses of \$225,000 during the first nine months of 1996 compared to the same period in 1995. Cash provided from operating activities in 1995 was also somewhat offset by the noncash gain on disposal of subsidiary of \$570,000 included in 1995 net income. Cash provided by operating activities was offset by an decrease in accrued interest payable of \$560,000 during the first nine months of 1996 compared to an increase of \$349,000 during the same period in 1995, a change of \$909,000. Cash provided by operating activities was also offset by a decrease in other assets of \$403,000 during the first nine months of 1996 compared to a decrease of \$1,076,000 during the same period in 1995, a change of \$673,000. Cash provided by operating activities was also offset by a gain on sales of loans of \$197,000 during the first nine months of 1996 compared to a loss of \$51,000 during the same period in 1995, a change of \$248,000.

Net cash used in investing activities was \$2,282,000 in the nine-month period ended September 30, 1996 compared to cash provided of \$7,143,000 for the same period in 1995. This resulted from a decrease in loans for the first nine months of 1996 of \$34,371,000, a \$41,684,000 change from an increase of \$7,313,000 during the same period in 1995. This

increase was more than offset by purchases of investment securities, securities held-for-sale, and other equity securities of \$73,079,000 in the nine months ended September 30, 1996. During the same time period, the Company received proceeds from maturities of investment securities and securities held-for-sale totaling \$35,276,000. During the first nine months of 1995, the Company had purchases of investment securities and securities held-for-sale of \$24,500,000 and proceeds from maturity of investment securities and securities held-for-sale totaling \$36,247,000. During the first nine months of 1996, the Company received proceeds from the sale of other equity securities of \$718,000. During the same time period in 1995, the Company received proceeds from the sale of securities held-for-sale of \$2,717,000.

Net cash used in financing activities for the first nine months of 1996 was \$42,569,000 compared to cash used of \$7,765,000 during the same period in 1995. Included in the increase in cash used is a decrease in total deposits of \$47,959,000 during the first nine months of 1996 compared to a decrease of \$2,883,000 during the same period in 1995. The decrease in deposits in 1996 was somewhat offset by an increase in federal funds purchased and securities sold under repurchase agreements of \$6,149,000 in 1996. Federal funds purchased and securities sold under repurchase agreements decreased \$4,402,000 during the same period in 1995.

PROVISION AND ALLOWANCE FOR LOAN LOSSES

The provision for loan losses is based on management's evaluation of the loan portfolio in light of national and local economic conditions, changes in the composition and volume of the loan portfolio, changes in the volume of past due and nonaccrual loans, and other relevant factors. The allowance for loan losses, which is reported as a deduction from loans, is available for loan charge-offs. The allowance is increased by the provision charged to expense and is reduced by loan charge-offs net of loan recoveries. The balance of the allowance for loan losses was \$5,588,000 at September 30, 1996 compared to \$5,882,000 at December 31, 1995. Although the allowance for loan loss balance decreased by \$294,000 since the end of 1995, a recovery of \$282,000 was received in October which increased the allowance back to the 1995 year-end level. The allowance for loan losses as a percentage of outstanding loans was 1.9% at both September 30, 1996 and December 31, 1995. Additionally, the allowance for loan losses as a percentage of nonperforming assets was 125.4% at September 30, 1996 compared to 163.7% at December 31, 1995. This ratio has improved with the recent recovery since the end of the third quarter. Management has expended substantial time on a review of the Company's lending process in the months following the merger and believes that the increase in nonperforming assets since December 31, 1995 is a result of emphasis placed on early detection of problem assets and is not necessarily an indication of deterioration in the credit quality of the Company's loan portfolio. Management remains confident that problem assets have been effectively identified and that the allowance for loan losses remains adequate to absorb possible losses in the portfolio.

RESULTS OF OPERATIONS

RESULTS OF OPERATIONS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1996

Net income for the first nine months of 1996 was \$3,310,000, a \$922,000, or 38.6%, increase from the first nine months of 1995. Included in 1995 results were a \$570,000 gain, net of tax, on the sale of discontinued

operations and merger and restructuring expenses, net of tax, of \$1,395,000. Net income per share per share increased \$0.18, or 37.5%, to \$0.66 in the first nine months of 1996 from \$0.48 in the same period of 1995.

Income from continuing operations for the first nine months of 1996 was \$3,310,000, a \$1,492,000, or 82.1%, increase compared to the same period in 1995. Income from continuing operations increased \$0.29 per share, or 78.4%, to \$0.66 in the first nine months of 1996 from \$0.37 in the same period of 1995.

Net interest income was \$1,001,000, or 7.2% less for the first nine months of 1996 compared to 1995. Total interest income was \$650,000, or 2.4% lower in 1996 compared to 1995, and interest expense increased \$351,000, or 2.7%. The increase in interest expense was primarily due to higher interest rates on interest bearing liabilities.

The decrease in total interest income included a decrease of \$2,594,000, or 11.6%, in interest income on loans. This decrease reflects a \$37,476,000, or 11.0%, decrease in average loans outstanding during the first nine months of 1996 compared to the same period in 1995. The decrease in total interest income on loans was somewhat offset by increases in interest income on federal funds and securities available-for-sale due to increased funds being invested in these asset categories.

The provision for loan losses recorded was \$375,000 during the first nine months of 1996. This was \$225,000, or 150.0%, more than the amount recorded during the first nine months of 1995. Management has expended considerable time since the merger in 1995 evaluating the credit quality of the Company's loan portfolio and standardizing its credit analysis procedures and standards. The provision during the first nine months of 1996 was based on management's analysis of the Bank's loan portfolio and adequacy of allowance for loan losses.

Other income increased \$626,000, or 22.9%, during the first nine months of 1996 compared to the first nine months of 1995. Included in this increase were increases of \$363,000, or 32.5%, in trust fees, and \$248,000, or 486.3%, in gains on sales of mortgage loans held-for-sale.

Total other expenses decreased \$2,371,000, or 17.6%, during the first nine months of 1996 compared to the first nine months of 1995. Included in the decrease were decreases in salaries and employee benefits of \$942,000, equipment of \$147,000, federal deposit insurance premiums of \$414,000 and other expenses of \$1,123,000. The reduction in salary and employee benefits reflected the restructuring the Company completed during 1995. Included in the reduction of equipment expense was a reduction in computer-related equipment expenses related to a portion of the Company's computer operation which is now being out-sourced. The reduction in federal deposit insurance premiums was a direct result of a reduction in premium

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assessments. The reduction in other includes a \$914,000 decrease in merger-related expenses which was somewhat offset by increased marketing expenses related to an aggressive marketing campaign initiated in mid-1995.

Somewhat offsetting these decreases were increases in occupancy of \$82,000 and data processing fees of \$173,000. Included in the increase in net occupancy were expenses related to a branch opened in mid-1995 as well as costs incurred as a result of operations being consolidated due to the merger. The data processing increase was a result of more data processing being out-sourced in 1996 than in 1995.

Income from discontinued operations decreased to zero due to the conclusion of a sales agreement relating to the operations that were

discontinued. In 1992, the Company divested its interest in a wholly owned subsidiary, and the total sales price was based upon the annual operating revenues of the former subsidiary for the period July 1, 1992 through June 30, 1995 up to a maximum certain dollar amount. All remaining gains on this sale were recognized during the first quarter of 1995. Thus, no income from discontinued operations was recognized for the nine months ended September 30, 1996.

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED SEPTEMBER 30, 1996

Net income for the third quarter of 1996 was \$1,211,000, a \$733,000, or 153.3%, increase compared to the same period in 1995. Included in 1995 results were merger and restructuring expenses, net of tax, of \$481,000. Net income per share increased \$0.14, or 140.0%, to \$0.24 in 1996 from \$0.10 in 1995.

Net interest income was \$226,000, or 5.0% less for the third quarter of 1996 compared to 1995. Total interest income was \$551,000, or 6.0% lower in the third quarter of 1996 compared to the third quarter of 1995, and interest expense decreased \$325,000, or 7.0%, during the same periods.

The decrease in total interest income of \$551,000 included a decrease of \$1,271,000, or 16.5%, in interest income on loans. This decrease is attributable to the decrease in average loans outstanding during the third quarter of 1996 compared to the third quarter of 1995. The decrease in interest income on loans was somewhat offset by an increase in interest income on securities available-for-sale due to increased funds being invested in this asset category.

The provision for loan losses recorded was \$75,000 during the third quarter of both 1996 and 1995. The provision was based on management's analysis of the Bank's loan portfolio and adequacy of allowance for loan losses. Management has expended considerable time since the merger in 1995 evaluating the credit quality of the Company's loan portfolio and standardizing its credit analysis procedures and standards.

Other income increased \$321,000, or 39.9%, during the third quarter of 1996 compared to the third quarter of 1995. Included in this increase was an increase of \$244,000, or 393.6%, in gains on mortgage loans held-for-sale.

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Total other expenses decreased \$979,000, or 21.6%, during the third quarter of 1996 compared to the third quarter of 1995. Included in the decrease were decreases in salaries and employee benefits of \$652,000, occupancy of \$12,000, equipment of \$39,000, and other expenses of \$340,000. The reduction in salary and employee benefits is attributable to the restructuring the Company completed during 1995. Included in the reduction of equipment expense is a reduction in computer-related equipment expenses related to a portion of the Company's computer operation which is now being out-sourced. The reduction in other is attributable to efficiencies gained from the consolidation as well as a \$112,000 decrease in merger-related expenses included in 1995.

Somewhat offsetting these decreases were increases in data processing fees of \$40,000 and federal deposit insurance premiums of \$24,000. The increase in federal deposit insurance premiums was a direct result of a refund in premium assessments in the third quarter of 1995. The data processing increase was a result of more data processing being out-sourced in 1996 than in 1995.

RECENT REGULATORY DEVELOPMENTS

On September 30, 1996, President Clinton signed into law the "Economic Growth and Regulatory Paperwork Reduction Act of 1996" (the "Regulatory Reduction Act"). Subtitle G of the Regulatory Reduction Act consists of the "Deposit Insurance Funds Act of 1996" (the "DIFA"). The DIFA provides for a one-time special assessment on each depository institution holding deposits subject to assessment by the FDIC for the Savings Association Insurance Fund (the "SAIF") in an amount which, in the aggregate, will increase the designated reserve ratio of the SAIF (i.e., the ratio of the insurance reserves of the SAIF to total SAIF-insured deposits) to 1.25% on October 1, 1996. Subject to certain exceptions, the special assessment is payable in full on November 27, 1996. The Bank holds no SAIF-assessable deposits and, therefore, is not subject to the special assessment.

Prior to the enactment of the DIFA, a substantial amount of the SAIF assessment revenue was used to pay the interest due on bonds issued by the FICO, the entity created in 1987 to finance the recapitalization of the Federal Savings and Loan Insurance Corporation, the SAIF's predecessor insurance fund. Pursuant to the DIFA, the interest due on outstanding FICO bonds will be covered by assessments against both SAIF and BIF member institutions beginning January 1, 1997. Between January 1, 1997 and December 31, 1999, FICO assessments against BIF-member institutions, such as the Bank, cannot exceed 20% of the FICO assessments charged SAIF-member institutions. From January 1, 2000 until the FICO bonds mature in 2019, FICO assessments will be shared by all FDIC-insured institutions on a pro rata basis. The FDIC estimates that the FICO assessments for the period January 1, 1997 through December 31, 1999 will be approximately 0.013% of deposits for BIF members versus approximately 0.064% of deposits for SAIF members, and will be less than 0.025% of deposits thereafter.

The DIFA also provides for a merger of the BIF and the SAIF on January 1, 1999, provided there are no state or federally chartered, FDIC-insured savings associations on that date. To facilitate the merger of the BIF and the SAIF, the DIFA directs the Treasury Departments to conduct a study on the development of a common charter and to submit a report,

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along with appropriate legislative recommendations, to the Congress by March 31, 1997.

In addition to the DIFA, the Regulatory Reduction Act includes a number of statutory changes designed to eliminate duplicative, redundant or unnecessary regulatory requirements. Among other things, the Regulatory Reduction Act establishes streamlined notice procedures for the commencement of new non-banking activities by bank holding companies, establishes time frames within which the FDIC must act on applications by state banks to engage in activities which, although permitted for the state bank under applicable state law, are not permissible activities for national banks, and excludes ATM closures and certain branch office relocations from the prior notice requirements applicable to branch closings. The Regulatory Reduction Act also clarifies the liability of a financial institution, when acting as a lender or in a fiduciary capacity, under the federal environmental clean-up laws. Although the full impact of the Regulatory Reduction Act on the operations of the Company and the Bank cannot be determined at this time, management believes that the legislation will reduce compliance costs to some extent and allow the Company and the Bank somewhat greater operating flexibility.

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PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The are no material pending legal proceedings to which the Company or its subsidiaries is a party other than ordinary routine litigation incidental to their respective businesses.

ITEM 2. CHANGES IN SECURITIES

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

a. Exhibits

27. Financial Data Schedule

b. Reports

On August 6, 1996, a report was filed on Form 8-K, dated July 30, 1996, to report under Item 5 regarding a change in auditors for the fiscal year ending December 31, 1996.

On August 9, 1996, amendment no. 1 to the Form 8-K dated July 30, 1996 was filed. The purpose of the amendment was to correct the EDGAR coding of the original Form 8-K.

On August 20, 1996, amendment no. 2 to the Form 8-K dated July 30, 1996 was filed. The purpose of the amendment was the submission of the required letter from the Company's former auditors under Item 7 of the Form 8-K.

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SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CENTRAL ILLINOIS FINANCIAL CO., INC.

Date: November 15, 1996

By: /s/ David B. White

Executive Vice President
and Chief Financial Officer

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