FIRST MID ILLINOIS BANCSHARES INC
Form 8-K
February 15, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K

CURRENT REPORT
Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of Earliest Event Reported):
DECEMBER 31, 2005

FIRST MID-ILLINOIS BANCSHARES, INC.
(Exact Name of Registrant as Specified in its Charter)

DELAWARE
(State of Other Jurisdiction of Incorporation)

| | |
|---|---|
| 0-13368 | 37-1103704 |
| (Commission File Number) | (IRS Employer Identification No.) |

1515 CHARLESTON AVENUE, MATTOON, IL 61938
(Address Including Zip Code of Principal Executive Offices)

(217) 234-7454
(Registrant's Telephone Number,
including Area Code)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

[ ] Written communications pursuant to Rule 425 under the Securities Act (17CFR 230.425)

[ ] Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17CFR 240.14a-12)

[ ] Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17CFR 240.14d-2(b))

[ ] Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17CFR 240.13e-4(c))

Item 8.01. Other Events

Incorporated by reference is the quarterly shareholder report issued by the Registrant on February 14, 2006, attached as Exhibit 99, providing information concerning the Registrant's financial statements as of December 31, 2005.

Item 9.01. Financial Statements and Exhibits

(d) Exhibits

Exhibit 99 - Quarterly shareholder report as of and for the period ending December 31, 2005

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has dully caused this Report to be signed on its behalf by the undersigned hereunto duly authorized.

FIRST MID-ILLINOIS BANCSHARES, INC.

Dated: February 14, 2006

/s/ William S. Rowland

William S. Rowland
Chairman and Chief Executive Officer

INDEX TO EXHIBITS

| Exhibit Number | Description |
|---|---|
| 99 | Quarterly shareholder report issued February 14, 2006 |

Exhibit 99

[GRAPHIC OMITTED][GRAPHIC OMITTED]

First Mid-Illinois Bancshares, Inc. had a successful 2005, with diluted earnings per share increasing to $2.16 compared to $2.13 per share in 2004. Net income increased to $9,807,000 in 2005 compared to $9,751,000 in 2004. As a result, the

Company increased its annual dividend to $.50 per share in 2005 from $.45 per share in 2004.

We are also pleased to report that we have reached an agreement to acquire Mansfield Bancorp, Inc., the parent company for Peoples State Bank of Mansfield. Peoples is a profitable community bank with approximately $127 million in assets, loans outstanding of $60 million, deposits of $111 million, and equity of $15 million as of December 31, 2005. Peoples has locations in Mansfield, Mahomet and Weldon, Illinois-communities that are contiguous to our existing branch footprint. Peoples was first chartered in 1910 and shares our commitment to customer service and community banking. The cost of the acquisition is expected to be approximately $24 million in cash. No First Mid stock will be issued in this acquisition. The agreement is subject to approval by Mansfield's shareholders as well as by banking regulators. We believe this is an excellent opportunity for First Mid to grow and to add to shareholder value. We expect the transaction to close during the second quarter of 2006.

With respect to our 2005 results, net interest income, mortgage banking revenues, trust revenues, and insurance commissions all had meaningful increases during the year overcoming the challenging interest rate environment of 2005. Short-term interest rates continued to increase during the year leading to greater funding costs for many financial institutions. The ability to grow our community banking line and increased business from the trust and insurance lines were important to our performance in 2005.

Net interest income increased by $513,000 to $28,893,000 in 2005 as a result of growth in loan balances. Loan balances increased to $638 million at year end as compared to $598 million on December 31, 2004 with the majority of the growth in commercial real estate loans. Deposit balances at year-end were essentially the same as a year ago as competition for deposits has remained intense throughout our market area. However, repurchase agreement balances of commercial customers increased by $7.5 million from December 31, 2004. The balance sheet growth more than compensated for the decline in margin. The Company's net interest margin for 2005 was 3.66% as compared to 3.75% for 2004.

Increased residential mortgage originations and greater refinance activity led to mortgage banking revenues increasing by $220,000 in 2005. Also, as a result of new business underwritten, insurance commissions were $120,000 greater in 2005 than in 2004. Trust revenues also increased by $102,000 during the year with growth in trust assets due to market value increases and from new customers. During the fourth quarter of 2005, the market value of trust assets increased to over $400 million for the first time in our history.

In addition, one other factor in the increase in non-interest income was the sale of securities that resulted in gains of $281,000 greater than last year. We review the balance sheet for liquidity and yield on a regular basis and make decisions to sell when the market opportunities warrant.

We continue to manage our costs as operating expenses increased by less than 1% from $25.1 million in 2004 to $25.4 million in 2005 despite incurring costs of opening a new facility in Highland and a new office location for The Checkley Agency, Inc.

Credit quality remains of high importance to banks and is an area where we invest significant energies. Our 2005 provision for loan losses amounted to $1,091,000 as compared with $588,000 for 2004. While we would, of course, prefer to have no losses, our net charge-offs continue to be below peer banks and are reasonable given the size of our portfolio. Total non-performing assets were $3.9 million on December 31, 2005 as compared to $4.0 million on December 31, 2004.

We have demonstrated a track record of good performance and are excited about the future. Thank you for your continued support of First Mid-Illinois Bancshares, Inc.

Sincerely,

/s/ William S. Rowland

William S. Rowland
Chairman and Chief Executive Officer

February 14, 2006

First Mid-Illinois Bancshares, Inc.
1515 Charleston Avenue
Mattoon, Illinois 61938
217-234-7454
www.firstmid.com

CONDENSED CONSOLIDATED BALANCE SHEETS

| (In thousands, except share data) (unaudited) | Dec 31, 2005 | Dec 31, 2004 |
|---|---|---|
| Assets | | |
| Cash and due from banks | $19,131 | $19,119 |
| Federal funds sold and other interest-bearing deposits | 426 | 4,435 |
| Investment securities: | | |
| Available-for-sale, at fair value | 155,841 | 168,821 |
| Held-to-maturity, at amortized cost (estimated fair value of $1,442 and $1,598 at December 31, 2005 and December 31, 2004, respectively) | 1,412 | 1,552 |
| Loans | 638,133 | 597,849 |
| Less allowance for loan losses | (4,648) | (4,621) |
| Net loans | 633,485 | 593,228 |
| Premises and equipment, net | 15,168 | 15,227 |
| Goodwill, net | 9,034 | 9,034 |
| Intangible assets, net | 2,778 | 3,346 |
| Other assets | 13,298 | 11,966 |
| Total assets | $850,573 | $826,728 |
| Liabilities and Stockholders' Equity | | |
| Deposits: | | |
| Non-interest bearing | $95,305 | $85,524 |
| Interest bearing | 553,764 | 564,716 |
| Total deposits | 649,069 | 650,240 |
| Repurchase agreements with customers | 67,380 | 59,835 |
| Junior subordinated debentures | 10,310 | 10,310 |
| Other borrowings | 44,500 | 29,900 |
| Other liabilities | 6,988 | 7,289 |
| Total liabilities | 778,247 | 757,574 |
| Stockholders' Equity: | | |
| Common stock ($4 par value; authorized 18,000,000 shares; issued 5,633,621 shares | | |

| | | |
|---|---|---|
| in 2005 and 5,578,897 shares in 2004) | 22,534 | 22,316 |
| Additional paid-in capital | 19,439 | 17,845 |
| Retained earnings | 60,867 | 53,259 |
| Deferred compensation | 2,440 | 2,204 |
| Accumulated other comprehensive income | (739) | 623 |
| Treasury stock at cost, 1,241,359 shares in 2005 and 1,121,546 shares in 2004 | (32,215) | (27,093) |
| Total stockholders' equity | 72,326 | 69,154 |
| Total liabilities and stockholders' equity | $850,573 | $826,728 |

CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(In thousands) (unaudited)

| For the twelve months ended December 31, | 2005 | 2004 |
|---|---|---|
| Interest income: | | |
| Interest and fees on loans | $38,071 | $33,793 |
| Interest on investment securities | 6,184 | 6,053 |
| Interest on federal funds sold and other | 325 | 178 |
| Total interest income | 44,580 | 40,024 |
| Interest expense: | | |
| Interest on deposits | 11,719 | 9,122 |
| Interest on repurchase agreements with customers | 1,496 | 455 |
| Interest on subordinated debt | 643 | 382 |
| Interest on other borrowings | 1,829 | 1,685 |
| Total interest expense | 15,687 | 11,644 |
| Net interest income | 28,893 | 28,380 |
| Provision for loan losses | 1,091 | 588 |
| Net interest income after provision for loan losses | 27,802 | 27,792 |
| Non-interest income: | | |
| Trust revenues | 2,356 | 2,254 |
| Brokerage commissions | 383 | 428 |
| Insurance commissions | 1,567 | 1,447 |
| Service charges | 4,719 | 4,746 |
| Securities gains, net | 373 | 92 |
| Mortgage banking revenues | 742 | 522 |
| Other | 2,378 | 2,150 |
| Total non-interest income | 12,518 | 11,639 |
| Non-interest expense: | | |
| Salaries and employee benefits | 13,310 | 13,626 |
| Net occupancy and equipment expense | 4,401 | 4,259 |
| Amortization of intangible assets | 568 | 623 |
| Other | 7,106 | 6,631 |
| Total non-interest expense | 25,385 | 25,139 |
| Income before income taxes | 14,935 | 14,292 |
| Income taxes | 5,128 | 4,541 |
| Net income | $9,807 | $9,751 |

Per Share Information
(unaudited)

| For the twelve months ended December 31, | 2005 | 2004 |
|---|---|---|
| Basic earnings per share | $2.22 | $2.17 |
| Diluted earnings per share | $2.16 | $2.13 |
| Book value per share at December 31 | $16.47 | $15.53 |
| Market price of stock at December 31 | $40.55 | $38.00 |

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(In thousands) (unaudited)

| For the twelve months ended December 31, | 2005 | 2004 |
|---|---|---|
| Balance at beginning of period | $69,154 | $70,595 |
| Net income | 9,807 | 9,751 |
| Dividends on stock | (2,199) | (2,023) |
| Issuance of stock | 1,637 | 2,050 |
| Purchase of treasury stock | (4,851) | (10,365) |
| Deferred compensation adjustment | 140 | 104 |
| Changes in accumulated other comprehensive income (loss) | (1,362) | (958) |
| Balance at end of period | $72,326 | $69,154 |