Community
Building
Through
Community
Banking

2007 ANNUAL REPORT

State Bank

Freeport, IL

LENA STATE BANK

German American

STATE BANK

1907

Traditional Banking … Lifetime Solutions

Northwest Bank

W E S

STATE BANK of DAVIS

FORESIGHT

financial group, inc.

www.foresightfg.com

Dear Shareholders,

The United States economy started out in 2007 on a relatively positive trend, with GDP growth continuing at a pace consistent with the long term economic expansion that began as a recovery from the tragic events of September 11, 2001. As the year progressed, faced with a deteriorating housing market and other pressing global economic issues, the Federal Reserve Bank began to lower short term interest rates in an effort to sustain the rate of economic growth, even at the risk of accelerating inflation from increases in key commodity prices, particularly energy. By mid-year, a liquidity crisis developed in the credit markets related to sub-prime mortgages and collateralized debt securities, most of which were owned by the world's largest financial organizations. In short order, these large organizations suffered huge write-offs which created large losses, weakened their capital bases, and a recession mentality had become evident by year end. One key result of this sequence of events was an interest rate environment that pressured the interest margins of nearly all banks, including community banks like Foresight.

In preparing the annual operating budgets for 2007, Foresight's management team recognized that the unfavorable interest rate environment, along with the presence of irrational price competition for loan and deposit customers from some local banks, would likely restrict Foresight's realistic growth opportunities, after the previous two years of double digit growth. Accordingly, for 2007 emphasis was shifted to managing credit and operating costs, enhancing customer service, and improving non-interest income. Successfully applying these strategies delivered a record financial performance year in 2007, despite a decline in interest margin, as net income reached $6,591,000, an increase of 7.1% from the previous record earnings year in 2006. In a year when a majority of banks experienced profit declines, we are extremely pleased to have achieved these results for our shareholders, while serving our customers and communities, and implementing the latest in competitive technology. To accomplish this in 2007, and to better position Foresight to prosper in future years, several changes were made in our executive leadership group. These actions and results are well grounded in our corporate values and continuing mission of ***Community Building through Community Banking.***

Several factors contributed to the overall positive financial results for 2007:

- Non-interest income increased over 9%, despite a modest decline in mortgage banking revenues, as multiple initiatives were implemented. A key component was State Bank, Freeport opening a Trust Services division in partnership with Savant Capital Management, to provide selected trust and investment management services for customers in all markets served by the Foresight Banks.

- Non-interest operating expenses actually declined modestly, as investment in new technology and strong control of expenses were embraced quite successfully by all the Foresight Banks. This was accomplished while investing nearly $.5 million in infrastructure for customer service technology, and a similar amount for upgrade and remodeling of Northwest Bank of Rockford's East State office. These investments have resulted in a fully functional real time processing environment and informational data base which uses state of the art "Check 21 Era" image processing, which is monitored 24/7 in a secure network, with ongoing intrusion detection and prevention technology.

- Credit costs as represented by the combined expense of foreclosed assets and the provision for loan losses improved by $406,000 pre-tax (37%), while the reserve set aside for possible future loan losses increased to a Company record high of 1.25% of total loans outstanding. Non-accrual loans and foreclosed assets declined to .37% of total assets, which is less than half the average of Illinois peer banks of about .90%. The improving local agricultural economy was a major influence behind these positive figures.

As noted in many of our communications to our Shareholders in recent years, our management succession and development initiatives have been given priority attention, as being essential to our future success under our corporate philosophies. This body of work proved highly beneficial during 2007 as many changes had to be put in action. Jim Schneiderman announced in early 2007 that he wanted to reduce his responsibilities after more than two decades as President of German-American State Bank. A lengthy, but rewarding process followed wherein the Board interviewed two of the Bank's senior executives, and both candidates stated that they would like to be named President, but only if the other candidate would agree to remain on the management team. We feel this truly exemplifies the Foresight values, when our management puts the best interests of the Bank and its constituents above individual ambitions. Just when the Board was ready to announce their decision to promote Jeffrey Sterling to President and Kerry Hoops to Executive Vice President in September, Jim became seriously ill, resulting in immediate implementation of the succession plan. This included assistance from several other Foresight executives, and has resulted in a very successful transition. Now with Jim's improving health, he can look forward to returning as Chairman of the Bank's Board, with great pride that we all share in this excellent successor management team. Also during 2007, executive management was restructured at both our Operations Center and the Lena State Bank, which has positioned both units for improved future results consistent with our corporate philosophies. We want to especially recognize and thank Brent Meyers, Greg Cross, and Dean Cooke for their efforts in making these changes effective.

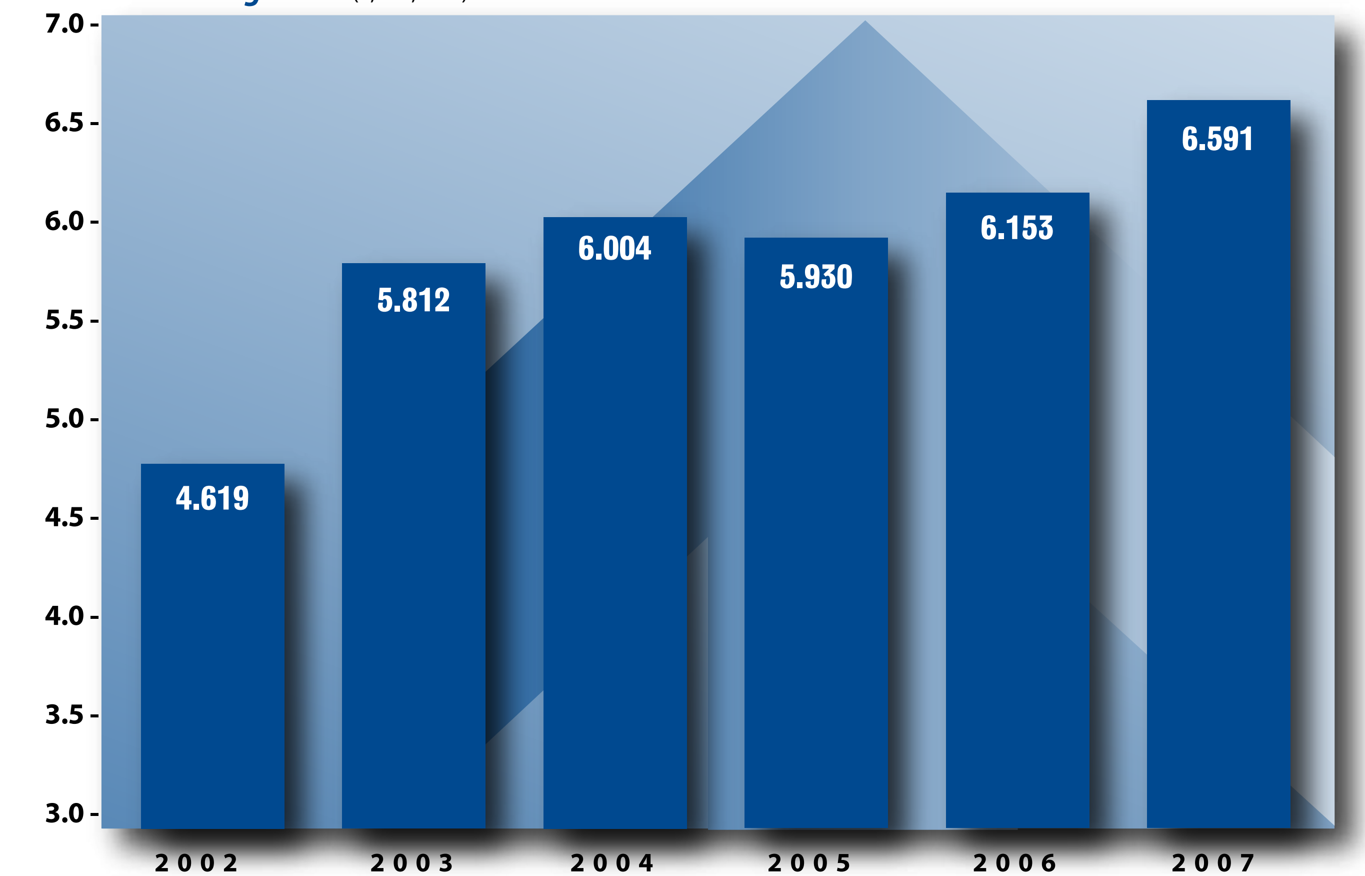
Recognizing the strong financial results in 2007, the Foresight Board increased cash dividends by 27%, and authorized nearly $1 million in stock repurchases. However, with a severely depressed market for bank stocks tainted by the slowing economy and large financial institutions' problems, our stock trading price declined for the first time in many years, to $20.50 at year end 2007. We feel our positive financial position will enable a strong rebound when bank stocks return to favor in the future. In closing, we want to express our sincere appreciation for your support in allowing us to serve as good stewards of the Foresight mission of ***Community Building through Community Banking.***

Respectfully,

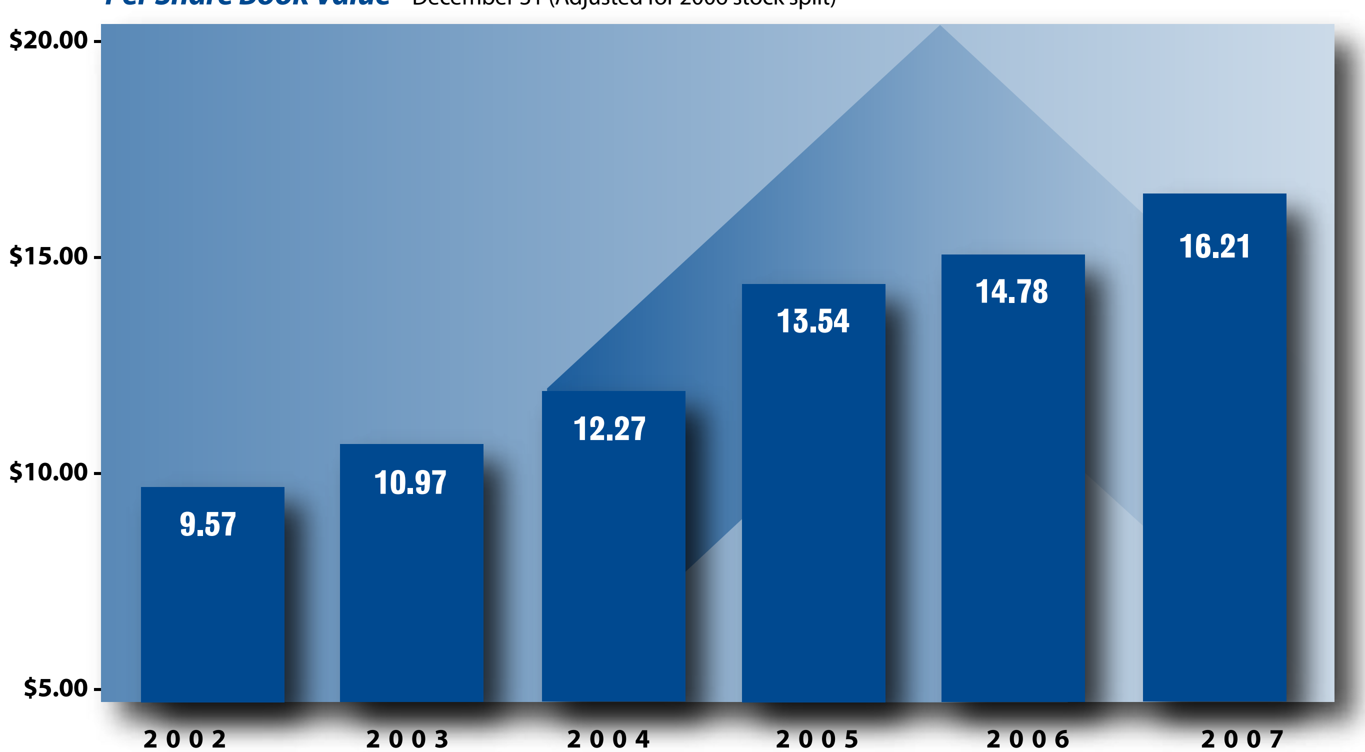
Stephen G. Gaddis   Douglas Cross

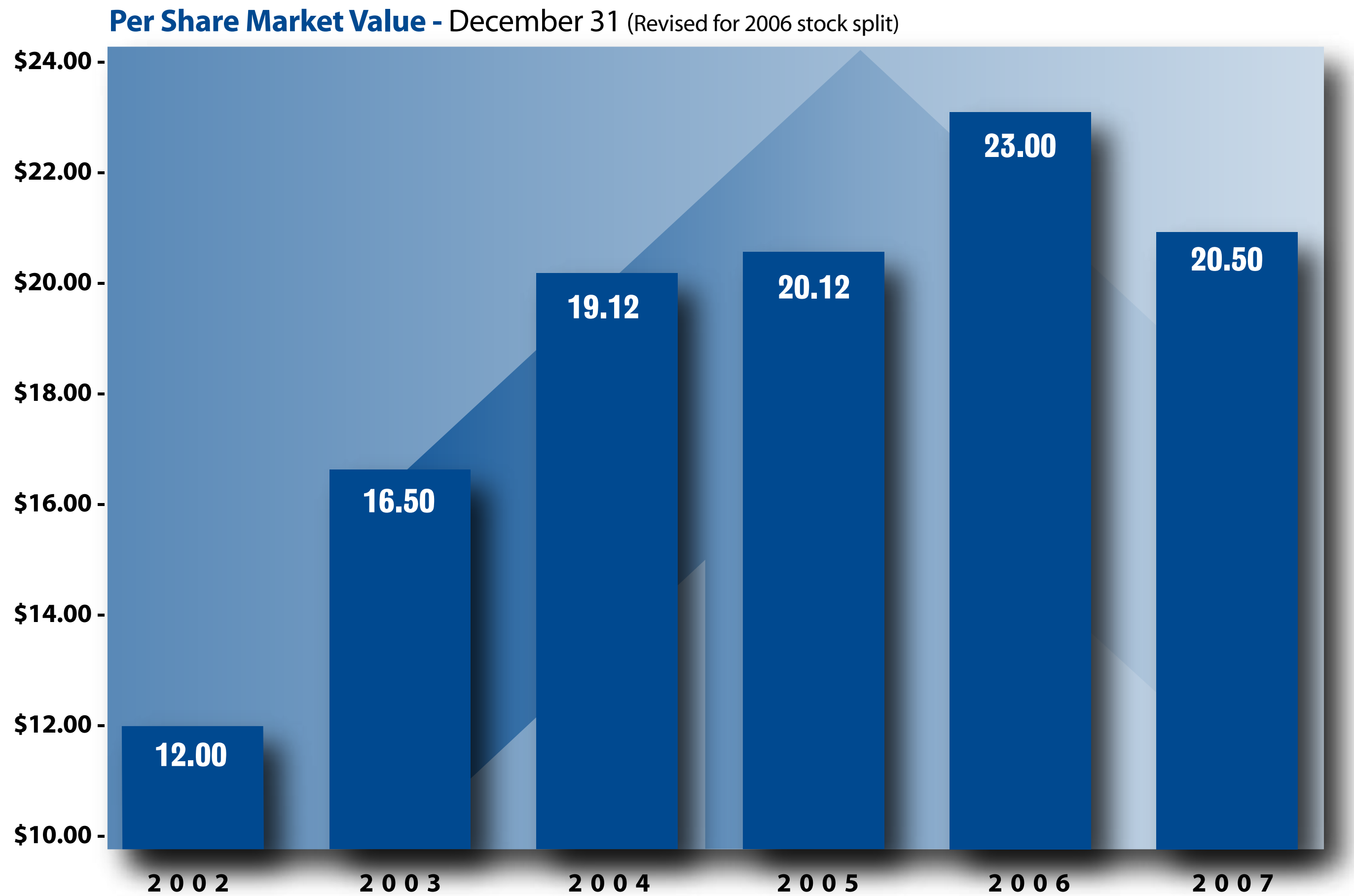
Stephen G. Gaddis, President   Douglas M. Cross, Executive Vice President

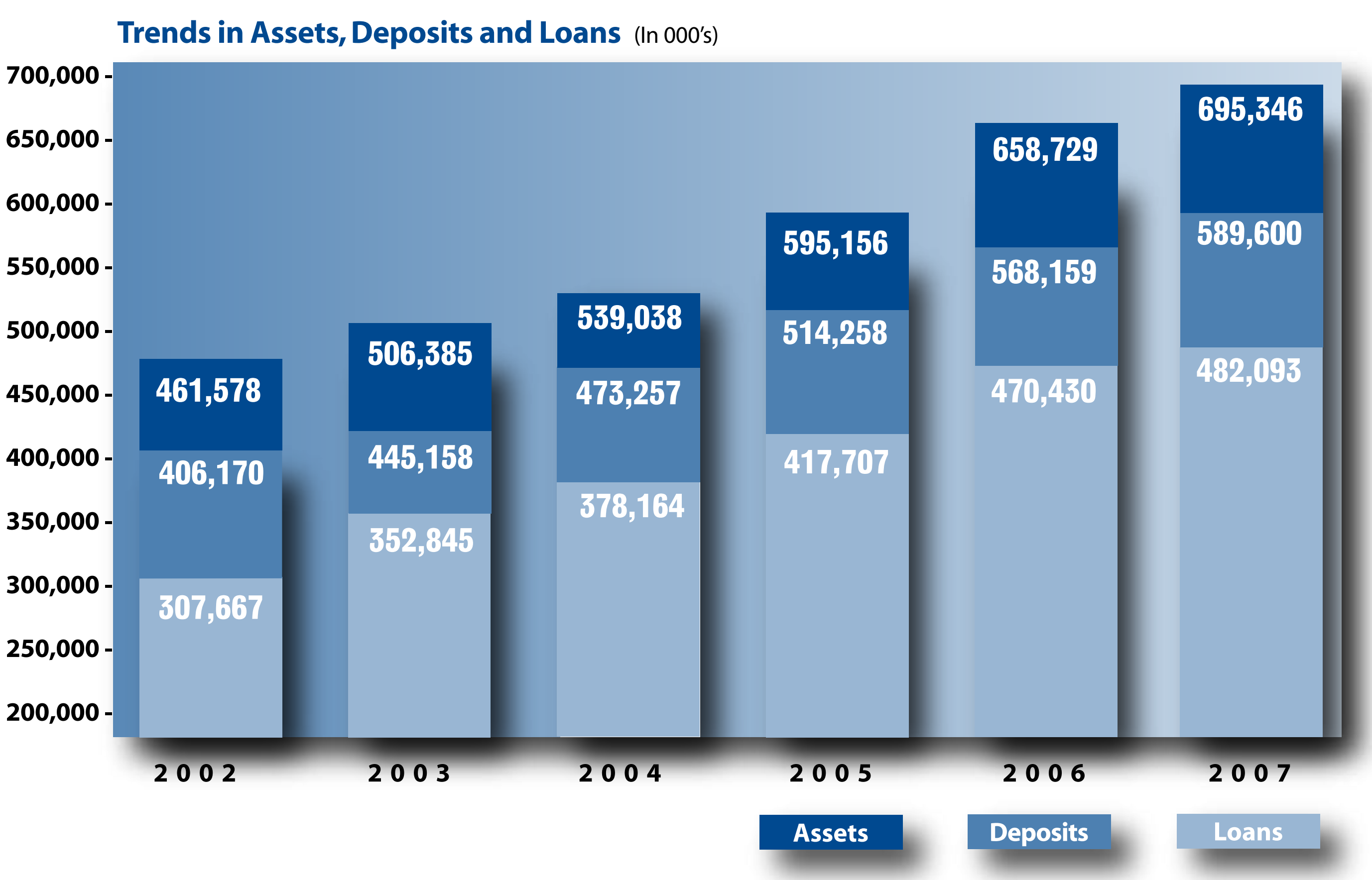
Net Earnings Dollars (1,000,000s)



Per Share Book Value - December 31 (Adjusted for 2006 stock split)




Per Share Market Value - December 31 (Revised for 2006 stock split)
$24.00
$22.00
$20.00
$18.00
$16.00
$14.00
$12.00
$10.00
12.00
16.50
19.12
20.12
23.00
20.50
2002
2003
2004
2005
2006
2007


Trends in Assets, Deposits and Loans (In 000's)
700,000
650,000
600,000
550,000
500,000
450,000
400,000
350,000
300,000
250,000
200,000
461,578
406,170
307,667
506,385
445,158
352,845
539,038
473,257
378,164
595,156
514,258
417,707
658,729
568,159
470,430
695,346
589,600
482,093
2002
2003
2004
2005
2006
2007
Assets
Deposits
Loans

John Jeschke
Chairman of the Board
Foresight Financial Group, Inc.

Stephen G. Gaddis
President and Chief Executive Officer
Foresight Financial Group, Inc.

Douglas Cross
President, State Bank
Freeport, IL

Brent Myers
President, State Bank of Davis, Davis, IL
President, Lena State Bank, Lena, IL

Richard Rosenstiel
President, Northwest Bank of Rockford
Rockford, IL

James Schneiderman
Chairman of the Board,
German-American State Bank
German Valley, IL

Jeff Sterling
President, German-American State Bank
German Valley, IL

Kerry Hoops
Executive Vice President
German American State Bank
German Valley, IL

LCV

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Foresight Financial Group, Inc.

We have audited the accompanying consolidated balance sheets of Foresight Financial Group, Inc. and Subsidiaries as of December 31, 2007 and 2006, and the related consolidated statements of income, stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 2007. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated 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 Foresight Financial Group, Inc. and Subsidiaries as of December 31, 2007 and 2006, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2007, in conformity with accounting principles generally accepted in the United States of America.

Our audits were made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating information included in Schedules 1 and 2 is presented for purposes of additional analyses and is not a required part of the consolidated financial statements. Such consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

Lindgren, Callihan, VanOsdol & Co., Ltd.

Sterling, Illinois
February 29, 2008

Lindgren, Callihan, Van Osdol & Co., Ltd.
Certified Public Accountants & Consultants
403 E. Third Street
Sterling, IL 61081
ph 815.626.1277
fax 815.626.9118
www.lcvcpa.com
Rockford, Illinois
Sterling, Illinois
Dixon, Illinois
Freeport, Illinois

CONSOLIDATED BALANCE SHEETS
(000s omitted except share data)

December 31, ASSETS	2007	2006
Cash and due from banks	**$18,345**	$16,988
Interest-bearing deposits in banks	**442**	1,649
Federal funds sold	**2,024**	3,623
Total cash and cash equivalents	**20,811**	22,260
Securities:		
Securities held-to-maturity (HTM)	**6,443**	7,315
Securities available-for-sale (AFS)	**158,012**	131,539
Non-marketable equity securities, at cost	**1,464**	1,405
Loans held for sale	**328**	186
Loans, net of allowance for loan losses of $6,095 and $5,604, respectively	**482,093**	470,430
Foreclosed assets, net of allowance for losses of $19 and $341, respectively	**1,402**	1,302
Premises and equipment, net	**9,930**	9,700
Other assets	**14,863**	14,592
Total assets	**$695,346**	$658,729
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits:		
Noninterest-bearing	**$54,760**	$52,950
Interest-bearing	**534,840**	515,209
Total deposits	**589,600**	568,159
Federal funds purchased	**6,526**	829
Securities sold under agreements to repurchase	**14,458**	13,584
Federal Home Loan Bank (FHLB) borrowings	**19,600**	16,500
Accrued interest payable and other liabilities	**5,101**	5,168
Total liabilities	**635,285**	604,240
Stockholders' equity:		
Preferred stock (no par value; authorized 500,000 shares; no shares issued)	**0**	0
Common stock ($.25 par value; authorized 5,000,000 shares; 3,866,537 shares issued)	**966**	966
Additional paid-in capital	**7,417**	7,401
Retained earnings	**54,969**	49,412
Treasury stock, at cost (195,057 and 150,626 shares, respectively)	**(3,828)**	(2,867)
Accumulated other comprehensive income (loss)	**537**	(423)
Total stockholders' equity	**60,061**	54,489
Total liabilities and stockholders' equity	**$695,346**	$658,729

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF INCOME
(000s omitted except share data)

For the years ended December 31,

	2007	2006	2005
Interest and dividend income:			
Loans, including fees	**$36,672**	$33,612	$26,715
Debt securities:			
Taxable	**4,414**	3,618	3,150
Tax-exempt	**2,424**	2,122	1,978
Dividends	**21**	45	68
Interest-bearing deposits in banks	**25**	102	67
Federal funds sold	**361**	371	172
Total interest and dividend income	**43,917**	39,870	32,150
Interest expense:			
Deposits	**21,819**	17,525	11,098
Federal funds purchased	**157**	199	141
Securities sold under agreements to repurchase	**241**	467	231
FHLB borrowings	**839**	792	527
Total interest expense	**23,056**	18,983	11,997
Net interest and dividend income	**20,861**	20,887	20,153
Provision for loan losses	**563**	781	1,108
Net interest and dividend income, after provision for loan losses	**20,298**	20,106	19,045
Noninterest income:			
Customer service fees	**1,585**	1,375	1,403
Gain (loss) on sales of AFS securities, net	**(25)**	(50)	10
Gain on sales of loans, net	**418**	492	544
Loan servicing fees, net	**577**	541	486
Other	**1,146**	1,031	723
Total noninterest income	**3,701**	3,389	3,166
Noninterest expenses:			
Salaries and employee benefits	**8,567**	8,552	8,016
Occupancy expense of premises, net	**1,967**	1,961	1,709
Outside services	**412**	414	396
Data processing	**795**	699	655
Foreclosed assets, net	**17**	305	422
Other	**3,099**	2,966	2,724
Total noninterest expenses	**14,857**	14,897	13,922
Income before income taxes	**9,142**	8,598	8,289
Income tax expense	**2,551**	2,445	2,359
Net income	**$6,591**	$6,153	$5,930
Earnings per common share:			
Basic	**$1.78**	$1.66	$1.59
Diluted	**$1.77**	$1.65	$1.57

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(000s omitted except share data)

For the years ended December 31,

	Common Stock	Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (loss)	Total
Balance, January 1, 2005	$949	$7,266	$38,888	($1,142)	$685	$46,646
Comprehensive income:						
Net income			5,930			5,930
Other comprehensive loss - Change in unrealized gain on securities available-for-sale, net of reclassification and tax effect					(1,326)	(1,326)
Total comprehensive income						4,604
Cash dividends ($.20 per share)			(746)			(746)
Purchases of treasury stock (49,356 shares)				(947)		(947)
Stock options exercised, net of tax benefit	6	50				56
Balance, December 31, 2005	955	7,316	44,072	(2,089)	(641)	49,613
Comprehensive income:						
Net income			6,153			6,153
Other comprehensive loss - Change in unrealized gain on securities available-for-sale, net of reclassification and tax effect					218	218
Total comprehensive income						6,371
Cash dividends ($.22 per share)			(813)			(813)
Purchases of treasury stock (37,902 shares)				(778)		(778)
Stock based compensation expense		16				16
Stock options exercised, net of tax benefit	11	69				80
Balance, December 31, 2006	966	7,401	49,412	(2,867)	(423)	54,489
Comprehensive income:						
Net income			6,591			6,591
Other comprehensive income - Change in unrealized loss on securities available-for-sale, net of reclassification and tax effect					960	960
Total comprehensive income						7,551
Cash dividends ($.28 per share)			(1,034)			(1,034)
Purchases of treasury stock (44,431 shares)				(961)		(961)
Stock based compensation expense		16				16
Balance, December 31, 2007	$966	$7,417	$54,969	($3,828)	$537	$60,061

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(000s omitted except share data)

For the years ended December 31,

	2007	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	**$6,591**	$6,153	$5,930
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Provision for loan losses	**563**	781	1,108
Depreciation	**926**	921	818
Net amortization of securities	**214**	175	327
Net change in deferred income tax	**(251)**	(391)	(313)
Net (gain) loss on the sale of AFS securities	**25**	50	(10)
Federal Home Loan Bank stock dividends	**0**	0	(75)
Stock-based compensation expense	**16**	16	0
Net mortgage servicing right (income) amortization	**(61)**	(22)	8
Net change in loans held for sale	**(142)**	(102)	69
Net change in other assets	**(559)**	(1,704)	(569)
Net change in accrued expenses and other liabilities	**(67)**	964	627
Net cash provided by operating activities	**7,255**	6,841	7,920
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from sales of AFS securities	**2,048**	3,115	3,135
Proceeds from maturities, calls and paydowns of HTM securities	**6,518**	5,614	482
Proceeds from maturities, calls and paydowns of AFS securities	**18,584**	13,838	19,630
Proceeds from redemption of non-marketable equity securities	**0**	216	0
Purchases of HTM securities	**(5,653)**	(5,250)	(1,301)
Purchases of AFS securities	**(45,776)**	(27,601)	(31,903)
Purchases of non-marketable equity securities	**(60)**	(25)	(40)
Loan originations and principal collections, net	**(12,226)**	(53,588)	(40,725)
Net change in foreclosed assets	**(100)**	727	(6)
Purchases of premises and equipment	**(1,156)**	(763)	(2,381)
Net cash used in investing activities	**(37,821)**	(63,717)	(53,109)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net change in deposits	**21,441**	53,901	48,807
Net change is securities sold under agreements to repurchase	**874**	5,580	198
Dividends paid	**(1,034)**	(813)	(746)
Net change in federal funds purchased	**5,697**	(1,498)	(232)
Proceeds from exercise of stock options, net of tax benefit	**0**	80	56
Purchases of treasury stock	**(961)**	(778)	(947)
Proceeds from lines of credit and FHLB borrowings	**15,475**	19,000	9,500
Payments on lines of credit and FHLB borrowings	**(12,375)**	(19,250)	(5,750)
Net cash provided by financing activities	**29,117**	56,222	50,886
Net (decrease) increase in cash and cash equivalents	**(1,449)**	(654)	5,697
Cash and cash equivalents at beginning of year	**22,260**	22,914	17,217
Cash and cash equivalents at end of year	**$20,811**	$22,260	$22,914

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)
(000s omitted except share data)

For the years ended December 31,	**2007**	2006	2005
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Cash paid during the year for:			
Interest	**$23,050**	$18,174	$11,451
Income taxes	**$2,801**	$2,321	$2,487
SUPPLEMENTAL SCHEDULE OF NONCASH AND FINANCING ACTIVITIES:			
Foreclosed assets acquired in settlement of loans	**$849**	$615	$905

See Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(000s omitted except share data)

(1) Summary of Significant Accounting Policies

The accounting and reporting policies of Foresight Financial Group, Inc. (Company) and its wholly owned subsidiaries (Banks) conform to accounting principles generally accepted in the United States of America and to general practices within the banking industry. The following is a description of the more significant accounting policies:

(a) Nature of Operations

The Company provides a variety of banking services to individuals and businesses through its facilities in the Rockford, Freeport, German Valley, Davis, and Lena, Illinois areas. Its primary deposit products are demand deposits and certificates of deposit and its primary lending products are agribusiness, commercial, real estate, and installment loans.

(b) Basis of Consolidation

The consolidated financial statements include the accounts and results of operations of the Company and its wholly owned subsidiaries, German-American State Bank (German), State Bank of Davis (Davis), State Bank (Freeport), Northwest Bank of Rockford (Northwest), and Lena State Bank (Lena) (Banks). All significant intercompany accounts and transactions have been eliminated in consolidation.

(c) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The allowance for loan losses, mortgage servicing rights, deferred income taxes and fair values of financial instruments are particularly subject to change in the near-term.

(d) Cash and Cash Equivalents

For purposes of the consolidated statements of cash flows, cash and cash equivalents include cash and balances due from banks, interest-bearing deposits in banks, and federal funds sold, all of which mature within ninety days. Cash flows from loans, foreclosed assets, deposits, federal funds purchased, and treasury stock are reported net.

(e) Interest-bearing Deposits in Banks

Interest-bearing deposits generally mature within one year and are carried at cost.

(f) Securities

Debt securities that management has the positive intent and ability to hold to maturity are classified as held to maturity (HTM) and recorded at amortized cost. Securities not classified as HTM are classified as available for sale (AFS) and recorded at fair value, with unrealized gains or losses excluded from earnings and reported in other comprehensive income.

(1) Summary of Significant Accounting Policies (continued)

(f) Securities (continued)

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Declines in the fair value of HTM and AFS securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses.

In estimating other-than-temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

(g) Non-Marketable Equity Securities

The Banks, as members of the Federal Home Loan Bank (FHLB) system, are required to maintain a minimum investment in capital stock of the FHLB in an amount equal to the greater of 1% of their mortgage-related assets or 5% of advances from the FHLB. The Banks may choose to invest in amounts greater than the minimum investment. Excess capital stock redemptions are subject to guidelines established by the FHLB. FHLB stock is reported at cost since no ready market exists and it has no quoted market value.

(h) 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.

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

(i) Loans and Allowance for Loan Losses

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are stated at the amount of unpaid principal balances less the allowance for loan losses. Interest income is accrued daily on the outstanding balances.

A loan is considered to be delinquent when payments have not been made according to contractual terms, typically evidenced by nonpayment of a monthly installment by the due date. The accrual of interest on loans is discontinued at the time the loan is 90-days delinquent unless the credit is well-secured and in the process of collection. Credit card loans and other personal loans are typically charged off no later than 180 days delinquent. Generally, loans are placed on non-accrual or charged-off at an earlier date if collection of principal or interest is considered doubtful.

(1) Summary of Significant Accounting Policies (continued)

(i) Loans and Allowance for Loan Losses (continued)

Generally, interest accrued but not collected for loans that are placed on nonaccrual status or charged off is reversed against interest income. The interest on these loans is accounted for on the cash basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Loan origination fees approximate direct loan origination costs and are generally recognized as income upon receipt.

The allowance for loan losses is maintained at a level which, in management's judgment, is adequate to absorb credit losses relating to specifically identified loans, as well as probable credit losses inherent in the loan portfolio. The amount of the allowance is based on management's evaluation of the collectibility of the loan portfolio, including the nature and volume of the portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of the underlying collateral, credit concentrations, trends in historical loss experience, specific impaired loans, and economic conditions. Because of uncertainties inherent in the estimation process, management's estimate of credit losses inherent in the loan portfolio and the related allowance may change materially in the near term. The allowance is increased by a provision for loan losses, which is charged to expense and reduced by charge-offs, net of recoveries.

The allowance consists of specific, general, and unallocated components. The specific component relates to loans that are classified as substandard or special mention loans. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows or collateral value of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors. An unallocated component is maintained to cover uncertainties that could affect management's estimate of the probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

A loan is impaired when it is probable, based on current information and events, the Bank will be unable to collect all contractual principal and interest payments due in accordance with the terms of the loan agreement. Impaired loans are measured on an individual basis based on the present value of expected future cash flows discounted at the loan's effective interest rate or, as a practical expedient, at the loan's observable market price or the fair value of the collateral if the loan is collateral dependent. The amount of impairment, if any, and any subsequent changes are included in the allowance for loan losses.

For impaired loans, accrual of interest is discontinued when management believes, after considering collection efforts and other factors, that the borrower's financial condition is such that the collection of interest is doubtful. Cash collections on impaired loans are credited to the loan receivable balance, and no interest income is recognized on those loans until the principal balance has been collected.

(1) Summary of Significant Accounting Policies (continued)

(j) Loan Commitments

The Banks enter into off-balance-sheet financial instruments consisting of commitments to extend credit and letters of credit issued to meet customer financing needs. Loan commitments are recorded when they are funded. Standby or performance letters of credit are considered financial guarantees in accordance with FASB Interpretation No. 45 and are recorded at fair value, if material.

(k) Loan Servicing

The cost of originated mortgage servicing rights is amortized in proportion to, and over the period of, estimated net servicing revenues. Impairment of mortgage servicing rights is assessed based on the fair value of those rights. The amount of impairment is the amount by which the capitalized mortgage servicing rights exceed their fair value. Fair value is determined using prices for similar assets with similar characteristics, when available, or based upon discounted cash flows using market-based assumptions.

Residential mortgage loans are generally sold to the secondary market. At the time the loans are sold, a gain or loss is calculated based on the cash received versus the carrying value of the assets transferred.

Servicing fee income is recorded for fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding principal and are recorded as income when earned. The amortization of mortgage servicing rights is netted against loan servicing fee income

(l) Foreclosed Assets

Assets acquired through or instead of loan foreclosure are initially recorded at fair value less estimated cost of disposal when acquired. If fair value declines subsequent to foreclosure, a valuation allowance is recorded through expense. Costs after acquisition are generally expensed. Revenues and expenses from operations are included in net expenses from foreclosed assets.

(m) Premises and Equipment

Premises and equipment are carried at cost less accumulated depreciation, based on the estimated useful lives of the assets. Depreciation is generally computed on the straight-line method over estimated useful lives ranging from 3 to 40 years.

(n) Bank-Owned Life Insurance

The Bank has purchased life insurance policies on certain key employees. Bank-owned life insurance is recorded at its cash surrender value, or the amount that can be realized.

(o) Significant Group Concentrations of Credit Risk

Most of the Company's activities are with customers located in the area and communities noted above. Note 2 details the types of securities that the Company invests in. Note 3 details the types of lending that the Company engages in. The Company does not have any significant concentrations with any one industry or customer.

(1) Summary of Significant Accounting Policies (continued)

(p) Income Taxes

Deferred taxes are provided on a liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carryforwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment. The Company files consolidated Federal and State income tax returns.

(q) Comprehensive Income

Accounting principles generally require the Company to include in net income recognized revenue, expenses, gains and losses. Certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported as a separate component of the equity section of the balance sheet. Such items, along with net income, are components of comprehensive income.

(r) Earnings Per Share

Basic earnings per share (EPS) represent income available to common stockholders divided by the weighted-average number of common shares outstanding during the period. Diluted EPS reflects additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. Potential common shares that may be issued by the Company relate solely to outstanding stock options and are determined using the treasury stock method.

(s) Loss Contingencies

Loss contingencies, including claims and legal actions arising from time to time 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 now are such matters that could have a material effect on the consolidated financial statements.

(t) 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 to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

(u) Securities Sold Under Agreements to Repurchase

Securities sold under agreements to repurchase liabilities represent amounts advanced by various customers. Securities are pledged to cover these liabilities, which are not covered by federal deposit insurance.

(1) Summary of Significant Accounting Policies (continued)

(v) Stock Compensation Plans

Effective January 1, 2006, the Company adopted Financial Accounting Standards Board (FASB) Statement No. 123 (R), Share-Based Payment, using a modified prospective application. Prior to that date, the Company accounted for stock options under APB Opinion No. 25, Accounting for Stock Issued to Employees. In accordance with SFAS 123(R), compensation expense for share-based awards is recorded over the vesting period at the fair value of the award at the time of grant. The recording of such compensation expense began on January 1, 2006 for shares not vested as of that date and for all new grants subsequent to that date. Prior years' results have not been restated. The exercise price of stock options granted under the Company's incentive plan is equal to the fair market value of the underlying stock at the grant date. The Company assumes no projected forfeitures on its stock-based compensation since actual historical forfeiture rates on its stock-based incentive awards have been negligible.

(w) Trust Assets

Assets of the trust department of State Bank, other than trust cash on deposit at the Bank, are not included in these financial statements because they are not assets of the Company.

(x) Effect of Newly Issued but Not Yet Effective Accounting Standards

In September of 2006, the Financial Accounting Standards Board (FASB) issued Statement No. 157, Fair Value Measurements. This Statement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. This Statement establishes a fair value hierarchy for the assumptions used to measure fair value and clarifies assumptions about risk and the effect of a restriction on the sale or use of an asset. This Standard is effective for fiscal years beginning after November 15, 2007. The impact of adoption will not be material.

In February of 2007, the FASB issued Statement No. 159, The Fair Value Option for Financial Assets and Financial Liabilities. The standard provides companies with an option to report selected financial assets and liabilities at fair value and establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. The new standard is effective on January 1, 2008. The Company did not elect the fair value option for any financial assets or financial liabilities as of January 1, 2008.

(000s omitted except share data)

(2) Securities

The following tables reflect the amortized costs and approximate fair values of securities at December 31:

Held-to-Maturity 2007	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
State and municipal	**$6,443**	**$126**	**($35)**	**$6,534**

Held-to-Maturity 2006	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
State and municipal	$7,065	$152	($27)	$7,190
Corporate bonds	250	0	0	250
	$7,315	$152	($27)	$7,440

Available-for-Sale 2007	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. agency	**$67,178**	**$783**	**($105)**	**$67,856**
State and municipal	**58,993**	**552**	**(313)**	**59,232**
Mortgage-backed	**30,965**	**197**	**(238)**	**30,924**
	$157,136	**$1,532**	**($656)**	**$158,012**

Available-for-Sale 2006	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. agency	$62,268	$174	($641)	$61,801
State and municipal	46,686	489	(207)	46,968
Mortgage-backed	23,273	34	(537)	22,770
	$132,227	$697	($1,385)	$131,539

For the years ended December 31, 2007, 2006 and 2005, proceeds from sales of available-for-sale securities amounted to $2,048, $3,115, and $3,135. Gross realized gains and losses from the sale of available-for-sale securities for the years ended December 31 are as follows:

	2007	2006	2005
Realized gains	**$2**	$11	$18
Realized losses	**($27)**	($61)	($8)

Securities with carrying amounts of approximately $73,968 and $70,758 at December 31, 2007 and 2006 respectively, were pledged to secure public deposits and for other purposes as required or permitted by law.

(000s omitted except share data)

(2) Securities (continued)

The amortized costs and fair values of securities at December 31, 2007 by contractual maturities are shown below. Expected maturities may differ from contractual maturities on mortgage-backed securities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

Held-to-Maturity	Amortized Cost	Fair Value
Due in one year or less	$572	$573
Due after one year through five years	2,437	2,490
Due after five years through ten years	2,016	2,048
Due after ten years	1,418	1,423
	$6,443	$6,534

Available-for-Sale	Amortized Cost	Fair Value
Due in one year or less	$17,300	$17,305
Due after one year through five years	50,035	50,520
Due after five years through ten years	33,589	33,919
Due after ten years	25,247	25,344
	126,171	127,088
Mortgage-backed	30,965	30,924
	$157,136	$158,012

The following tables show the fair values and unrealized losses aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2007 and 2006:

2007
Held-to-Maturity

	Less than 12 Months			12 Months or More		
	Fair Value	Gross Unrealized Loss	No. of Securities	Fair Value	Gross Unrealized Loss	No. of Securities
State and municipal	$411	$11	5	$414	$24	3
Total temporarily impaired	$411	$11	5	$414	$24	3

2006
Held-to-Maturity

	Less than 12 Months			12 Months or More		
	Fair Value	Gross Unrealized Loss	No. of Securities	Fair Value	Gross Unrealized Loss	No. of Securities
State and municipal	$50	$1	3	$467	$26	2
Total temporarily impaired	$50	$1	3	$467	$26	2

(000s omitted except share data)

(2) Securities (continued)

2007 Available-for-Sale

	Less than 12 Months			12 Months or More		
	Fair Value	Gross Unrealized Loss	No. of Securities	Fair Value	Gross Unrealized Loss	No. of Securities
U.S. agency	**$1,042**	**$5**	**3**	**$19,396**	**$101**	**33**
State and municipal	**11,500**	**226**	**67**	**8,891**	**87**	**35**
Mortgage-backed	**2,640**	**4**	**5**	**13,592**	**233**	**40**
Total temporarily impaired	**$15,182**	**$235**	**75**	**$41,879**	**$421**	**108**

2006 Available-for-Sale

	Less than 12 Months			12 Months or More		
	Fair Value	Gross Unrealized Loss	No. of Securities	Fair Value	Gross Unrealized Loss	No. of Securities
U.S. agency	$7,665	$60	15	$36,450	$581	80
State and municipal	9,611	75	39	9,483	132	36
Mortgage-backed	6,950	194	23	10,714	343	28
Total temporarily impaired	$24,226	$329	77	$56,647	$1,056	144

Unrealized losses have not been recognized into income because the bonds are of high credit quality, management has the intent and ability to hold for the foreseeable future, and 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 decline.

(3) Loans

The composition of the loan portfolio at December 31 is as follows:

	2007	2006
Agricultural	**$35,156**	$30,628
Commercial	**125,827**	123,462
Real estate	**313,353**	304,657
Consumer installment	**13,852**	17,287
	488,047	476,034
Allowance for loan losses	**(6,095)**	(5,604)
	$482,093	$470,430

(000s omitted except share data)

(3) Loans (continued)

The following is a summary of the activity in the allowance for loan losses for the years ended December 31:

	2007	2006	2005
Balance at beginning of year	**$5,604**	$5,087	$4,782
Provision charged to operations, net	**563**	781	1,108
Recoveries on loans previously charged-off	**487**	247	380
	6,654	6,115	6,270
Less loans charged-off	**(559)**	(511)	(1,183)
Balance at end of year	**$6,095**	$5,604	$5,087

The following is a summary of information pertaining to impaired and non-accrual loans as of December 31:

	2007	2006
Impaired loans without a valuation allowance	**$0**	$0
Impaired loans with a valuation allowance	**$1,260**	$793
Total impaired loans	**$1,260**	$793
Valuation allowance related to impaired loans	**$292**	$228
Total non-accrual loans	**$1,260**	$793
Average balance of impaired loans	**$981**	$1,108

Interest income and other loan income recognized on impaired loans during 2007, 2006 and 2005 was considered immaterial. At December 31, 2007 and 2006 the Banks had loans amounting to approximately $502 and $569, respectively that were over 90-days past due and still accruing interest. The Banks have no commitments to loan additional funds to the borrowers of impaired or nonaccrual loans.

(4) Secondary Mortgage Market Activities

Loans serviced for others are not included in the accompanying consolidated balance sheets. Mortgage loans serviced for others as of December 31, 2007 and 2006, were approximately $160,737 and $153,911, respectively. Custodial escrow balances maintained in conjunction with serviced loans were approximately $1,113 and $992 at December 31, 2007 and 2006, respectively.

The following summarizes the activity pertaining to mortgage servicing rights for the years ended December 31:

	2007	2006	2005
Mortgage servicing rights:			
Balance at beginning of year	**$808**	$785	$793
Mortgage servicing rights capitalized	**347**	316	271
Mortgage servicing rights amortized	**(287)**	(293)	(279)
Balance at end of year	**$868**	$808	$785

The approximate fair values of the mortgage servicing rights were deemed to be greater than their carrying values as of December 31, 2007, 2006, and 2005, although the differences between the fair values and carrying values were considered immaterial.

(000s omitted except share data)

(5) Premises and Equipment

The components of premises and equipment at December 31 are as follows:

	2007	2006
Land	**$1,524**	$1,524
Buildings and leasehold improvements	**9,412**	8,774
Furniture, fixtures, and equipment	**7,407**	6,899
	18,343	17,197
Less accumulated depreciation	**8,413**	7,497
	$9,930	$9,700

Depreciation expense for the years ended December 31, 2007, 2006 and 2005 amounted to $926, $921, and $818, respectively.

(6) Other Assets

The components of other assets at December 31 are as follows:

	2007	2006
Cash surrender value of bank-owned life insurance	**$5,135**	$4,955
Accrued interest receivable	**6,413**	5,897
Mortgage servicing rights, net of amortization	**868**	808
Net deferred tax assets	**1,456**	1,803
Other	**991**	1,129
	$14,863	$14,592

(7) Time Deposits

The aggregate amount of time deposits with minimum a denomination of $100 was approximately $134,308 and $122,631 at December 31, 2007 and 2006, respectively.

At December 31, 2007, the scheduled maturities of time deposits are as follows:

2008	$250,072
2009	74,503
2010	29,541
2011	10,646
2012	8,730
Thereafter	54
	$373,546

(000s omitted except share data)

(8) Dividends

State banking regulations restrict the amount of dividends that a bank may pay to its stockholders. The regulations provide that dividends are limited to the balance of undivided profits, subject to capital-adequacy requirements, plus an additional amount equal to the bank's current-year earnings through the date of any declaration of dividends.

(9) Employee Benefit Plans

The Company and the Banks maintain a 401(k) plan covering substantially all employees under which they match 50% of eligible employee contributions to a maximum employee contribution of 6% of annual salary. Total 401(k) expense was approximately $194, $178, and $180, for 2007, 2006, and 2005, respectively. All employer contributions are used to purchase the Company's common stock or at the choice of the employee invested in the investments funds elected by the employee.

In addition, Northwest, German, and Lena, maintain salary-continuation plans whereby certain officers are provided with guaranteed annual payments for periods ranging from ten to thirteen years after reaching a retirement age of 65. The salary-continuation plans are funded by whole life insurance policies purchased by the Banks which had an aggregate death benefit of approximately $10,600 and $10,595 as of December 31, 2007 and 2006, respectively (see Note 6). The Banks accrue for the total amounts to be paid over the employee's active service life. The accrued benefits were $1,025, $1,040, and $1,056 at December 31, 2007, 2006, and 2005, respectively. Salary-continuation expenses were $68, $67, and $63 in 2007, 2006, and 2005, respectively.

(10) Income Taxes

The components of income tax expense (benefit) for the years ended December 31 are as follows:

	2007	2006	2005
Current – federal	**$2,353**	$2,408	$2,237
– state	**449**	442	435
	2,802	2,850	2,672
Deferred – federal	**(221)**	(356)	(276)
– state	**(30)**	(49)	(37)
	(251)	(405)	(313)
Total income tax expense	**$2,551**	$2,445	$2,359

(000s omitted except share data)

(10) Income Taxes (continued)

A reconciliation of the differences between the statutory federal income tax rate and the effective federal income tax rate with the resulting dollar amounts is shown in the following table:

	2007		2006		2005	
	Amount	**% of Pretax Earnings**	Amount	% of Pretax Earnings	Amount	% of Pretax Earnings
Statutory federal tax	**$3,108**	**34.0%**	$2,923	34.0%	$2,818	34.0%
Increase (decrease) in taxes resulting from:						
Tax-exempt interest	**(937)**	**(10.3%)**	(764)	(8.9%)	(709)	(8.6%)
Bank-owned life insurance	**(61)**	**(0.7%)**	(58)	(0.7%)	(56)	(0.6%)
State taxes, net of federal benefit	**276**	**3.0%**	259	3.0%	241	2.9%
Other	**165**	**1.8%**	85	1.0%	65	0.8%
Effective tax rates	**$2,551**	**27.8%**	$2,445	28.4%	$2,359	29.4%

The tax effects of existing temporary differences that give rise to significant portions of the deferred tax liabilities and deferred tax assets at December 31, 2007 and 2006 are summarized as follows:

	2007	2006
Deferred tax assets:		
Allowance for loan losses	**$2,380**	$1,955
Available-for-sale securities	**0**	264
Deferred compensation and other	**430**	575
Total gross deferred tax assets	**2,810**	2,794
Deferred tax liabilities:		
FHLB stock dividend	**129**	129
Security accretion	**106**	75
Available-for-sale securities	**338**	0
Tax depreciation in excess of book depreciation	**434**	463
Mortgage servicing rights and other	**347**	324
Total gross deferred tax liabilities	**1,354**	991
Net deferred tax assets	**$1,456**	$1,803

(11) Transactions with Related Parties

The Company and subsidiary banks have had, and may be expected to have in the future, loans or other banking transactions in the ordinary course of business with directors, significant stockholders, principal officers, their immediate families, and affiliated companies in which they are principal stockholders (commonly referred to as related parties). In management's opinion, these loans and transactions were on the same terms as those for comparable loans and transactions with non-related parties.

(000s omitted except share data)

(11) Transactions with Related Parties (continued)

Loans to related parties amounted to approximately $8,832 and $8,551 at December 31, 2007 and 2006, respectively.

Of the total insider balances noted above, the Company had approximately $28 and $37 that were sold as participation loans to Banks outside the Company at December 31, 2007 and 2006, respectively.

Deposit accounts from related parties totaled approximately $6,605 and $5,885 at December 31, 2007 and 2006, respectively.

(12) Financial Instruments with Off-Balance-Sheet Risk and Commitments

Financial instruments with off-balance-sheet risk:

The Banks are parties to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of their customers. These financial instruments include commitments to extend credit, credit lines, letters of credit, and overdraft protection. They involve, to varying degrees, elements of credit risk in excess of amounts recognized on the consolidated balance sheets.

The Banks' exposures to credit losses in the event of nonperformance by the other parties to the financial instruments for commitments to extend credit and letters of credit are represented by the contractual amounts of those instruments. The Banks use the same credit policies in making commitments and issuing letters of credit as they do for on-balance-sheet instruments.

A summary of the contractual amounts of the Banks' exposure to off-balance-sheet risk as of December 31 is approximately as follows:

	2007	2006
Lines of credit and other loan commitments	**$108,211**	$84,083
Commercial letters of credits	**641**	3,223
Performance and standby letters of credit	**548**	653
	$109,400	$87,959

Commitments to extend credit are agreements to lend to customers as long as there are no violations of any conditions established in the contracts. Commitments generally have fixed expiration dates or other termination clauses and may require the payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Banks evaluate each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Banks upon extension of credit, is based on management's credit evaluation of the counterparty. Collateral held varies but may include accounts receivable, inventory, crops, livestock, property and equipment, residential real estate, and income-producing commercial properties. Credit card commitments are unsecured.

Standby and performance letters of credit are conditional commitments issued by the Banks to guarantee the performance of a customer to a third party. They are considered financial guarantees under FASB Interpretation No. 45. The fair value of these financial guarantees is considered immaterial.

(000s omitted except share data)

(12) Financial Instruments with Off-Balance Sheet Risk and Commitments (continued)

Concentration of credit risk:

The Company and its subsidiary banks provide several types of loans to customers including real estate, agricultural, commercial, and installment loans. The largest component of loans is secured by residential real estate, commercial real estate, or other interest in real property. Lending activities are conducted with customers in a wide variety of industries as well as with individuals with a wide variety of credit requirements. The Company does not have a concentration of loans in any specific industry. Credit risk, as it relates to the Company's business activities, tends to be geographically concentrated in that the majority of the customer base lies within the surrounding communities served by its subsidiary banks.

(13) Securities Sold Under Agreements to Repurchase

Securities sold under agreements to repurchase amounted to $14,458 and $13,584 at December 31, 2007 and 2006, and are secured by investment securities with fair values of approximately $18,330 and $17,189. The weighted-average interest rates on these agreements were 2.58% and 4.08% at December 31, 2007 and 2006, respectively. Securities sold under agreements to repurchase mature on a daily basis.

(14) Borrowed Funds

Various fixed-rate advances from the Federal Home Loan Bank were obtained with total outstanding balances of $19,600 and $16,500 at December 31, 2007 and 2006, respectively, with interest rates ranging from 3.93% to 5.60% and from 3.77% to 5.60%, respectively. At December 31, 2007 and 2006, the weighted average interest rates were 4.82% and 4.90%, respectively. Interest is payable monthly with principal payments due at maturity.

At December 31, 2007, the scheduled maturities of Federal Home Loan Bank advances are as follows:

	2007	2006
2007		$3,250
2008	**$8,500**	8,500
2009	**8,100**	3,250
2010	**2,000**	500
2011	**1,000**	1,000
2012	**0**	0
	$19,600	$16,500

Advances are collateralized by 1-4 family mortgage loans and other qualifying loans. The total amounts of collateral securing FHLB advances were approximately $48,042 and $47,474 as of December 31, 2007 and 2006, respectively.

The Company has a $2,000 revolving line of credit with a balance of $0 at December 31, 2007 and 2006. The revolving line of credit matures August 14, 2008 and bears interest based on the Wall Street Journal Prime Rate minus 1.00%, adjusted as the prime rate changes. Prepayments can be made on the note without penalty. Advances on the line of credit are secured by all the shares of capital stock of the subsidiary banks. The loan agreement contains certain restrictive covenants. The Company was in compliance with all such covenants at December 31, 2007.

(15) Disclosures About Fair Value of Financial Instruments

SFAS Statement No. 107, "Disclosures about Fair Value of Financial Instruments", requires disclosure of fair value information about financial instruments, whether or not recognized in the balance sheet, for which it is practicable to estimate that value. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In that regard, the derived fair value estimates may not be realized in immediate settlement of the instrument. Statement 107 excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements. These fair value disclosures may not represent the fair value of the Company.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash and cash equivalents: The carrying amounts are reasonable estimates of fair value.

Securities: Fair value equals quoted market price where available. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities.

Non-marketable equity securities: No ready market exists for the equity securities as they have no quoted market value. The carrying amount of equity securities approximates its fair value.

Loans held for sale: The fair values of loans held for sale are based on commitments on hand from investors or prevailing market prices.

Loans: The fair value of loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings for the same remaining maturities.

Deposits: The fair value of demand deposits, savings accounts, and certain money market deposits is the amount payable at the reporting date. The fair value of fixed maturity certificates of deposit is estimated using a discounted cash flow calculation that applies interest rates currently offered for deposits of similar remaining maturities.

Federal funds purchased and securities sold under agreements to repurchase: The carrying amounts of federal funds and securities sold under agreements to repurchase approximate fair value.

FHLB borrowings: The fair value of FHLB advances was estimated using discounted cash flow analyses based on the Company's current incremental borrowing rates for similar types of borrowing arrangements.

Accrued interest: The carrying amounts of accrued interest approximate fair value.

Off-balance-sheet financial instruments: No estimated fair value is attributable to unused lines of credit and letters of credit as they are deemed immaterial.

(000s omitted except share data)

(15) Disclosures About Fair Value of Financial Instruments (continued)

The estimated fair values of the Company's financial instruments as of December 31 are as follows:

	December 31, 2007		December 31, 2006	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	**$20,811**	**$20,811**	$22,260	$22,260
Securities	**164,455**	**164,546**	138,854	138,979
Non-marketable equity securities,	**1,464**	**1,464**	1,405	1,405
Loans held for sale	**328**	**328**	186	186
Loans, net of allowance	**482,083**	**482,758**	470,430	466,266
Accrued interest receivable	**6,413**	**6,413**	5,897	5,897
Financial liabilities:				
Deposits	**$589,600**	**$592,134**	$568,159	$568,336
Federal funds purchased	**6,526**	**6,526**	829	829
Securities sold under agreements to repurchase	**14,458**	**14,458**	13,584	13,584
FHLB borrowings	**19,600**	**19,854**	16,500	16,509
Accrued interest payable	**2,495**	**2,495**	2,490	2,490

(16) Other Comprehensive Income (loss):

Other comprehensive income (loss) components and related taxes for the years ended December 31 were as follows:

	2007	2006	2005
Holding gains (losses) on securities available-for-sale	**$1,587**	$312	($2,161)
Less reclassification adjustments for losses (gains) recognized in income	**(25)**	50	(10)
Net unrealized gains (losses)	**1,562**	362	(2,171)
Deferred tax effect	**(602)**	(144)	845
Other comprehensive income (loss)	**$960**	$218	($1,326)

(17) Stock Compensation Plans

The Company has entered into non-qualified and incentive stock option agreements whereby shares of common stock were made available for purchase by certain executive officers. All incentive and non-qualified options have been issued pursuant to various shareholder approved stock option plans. Under these agreements, the exercise price of each option equals the market price of the Company's stock on the grant date. The options' maximum terms are ten years. The options vest under a three or five-year period after the date of grant.

(000s omitted except share data)

(17) Stock Compensation Plans (continued)

Effective January 1, 2006, the Company adopted SFAS 123(R), Share-Based Payment using a modified prospective application. Prior to adopting this standard, the Company accounted for stock options under APB Opinion No. 25, Accounting for Stock Issued to Employees. As a result of the adoption of SFAS 123(R), the Company, during the year ended December 31, 2006, began recording expense associated with the awarding of stock options. Prior-year results have not been restated to reflect this change. The following tables show the effects on income, net of tax benefits, of share-based expenses recorded in the years ended December 31, 2007 and 2006, as well as the pro-forma effect on income and earnings per share had the Company used the accounting methodology under SFAS No. 123(R) for the fiscal year ended December 31, 2005:

	2007	2006	2005
Total employee stock-based compensation expense recognized in income	$16	$16	$0

	2005
Net income, as reported	$5,930
Deduct: Stock-based compensation expense determined under fair value based method net of any applicable tax benefit	(95)
Pro forma net income	$5,835
Basic earnings per share as reported	$1.59
Pro forma basic earnings per share	$1.57
Diluted earnings per share as reported	$1.57
Pro forma diluted earnings per share	$1.54

The fair value of each option granted was determined using the following assumptions as of grant date:

	2007	2006	2005
Risk-free interest rate	**2.72%-6.00%**	2.72%-6.00%	2.72%-6.00%
Expected option life	**10**	10	10
Expected stock-price volatility	**12.7%-15.0%**	12.7%-15.0%	12.7%-15.0%
Dividend yield	**0.53%-1.75%**	0.53%-1.75%	0.53%-1.75%
Intrinsic value of option exercised	**0**	$1,749	$656
Weighted average fair value of options granted	**N/A**	N/A	$6.28

As of December 31, 2007, stock-based compensation expense not yet recognized totaled $33, and is expected to be recognized over a weighted-average remaining period of 1.66 years.

(000s omitted except share data)

(17) Stock Compensation Plans (continued)

The fair value of each option award is estimated on the date of grant using a closed form option valuation (Black-Scholes) model that uses the assumptions noted in the table below. Expected volatilities are based on historical volatilities of the Company's common stock. The Company uses historical data to estimate option exercise and post-vesting termination behavior. The expected term of options granted is based on historical data and represents the period of time that options granted are expected to be outstanding, which takes into account that the options are not transferable. The risk-free interest rate for the expected term of the option is based on the U.S. Treasury yield in effect at the time of the grant.

The following tables summarize the activity of options and non-vested shares granted, exercised, or forfeited for the year ended December 31 2007:

	2007	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Shares under option, beginning of year	75,930	$13.68	5.44	$708
Granted during the year	0			
Forfeited and canceled during the year	(5,000)	12.25		
Exercised during the year	0			
Shares under option, end of year	70,930	$13.78	4.50	$477
Options exercisable, end of year	63,580	$13.21	4.20	$464
Share available for grant, end of year	33,330			

	Number of Options	Weighted Average Market Value at Grant
Non-vested options, December 31, 2006	10,222	$18.69
Granted during the year	0	
Vested during the year	2,872	18.59
Forfeited or expired during the year	0	
Non-vested options, December 31, 2007	7,350	$18.73

The following table summarizes information about fixed stock options outstanding at December 31, 2007:

Exercise Price	Number Outstanding at 12/31/07	Remaining Contractual Life (Years)	Number Exercisable at 12/31/07
$10.50	10,000	2.5	10,000
$12.25	30,010	3.5	30,010
$12.00	9,760	4.5	9,760
$17.75	13,130	6.5	10,598
$19.25	8,030	7.5	3,212
	70,930		63,580

(000s omitted except share data)

(18) Earnings Per Common Share

For the years ended December 31, earnings per common share have been computed based on the following:

	2007	2006	2005
Net income applicable to common stock	**$6,591**	$6,153	$5,930
Average number of common shares outstanding	**3,695,987**	3,697,346	3,726,770
Effect of dilutive options	**25,428**	26,533	58,510
Average number of common shares outstanding used to calculate diluted earnings per common share	**3,721,415**	3,723,879	3,785,280

No outstanding stock options of common stock were excluded in the computation of diluted earnings per common share for 2007, 2006 or 2005, because they were all dilutive.

(19) Regulatory Matters

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

Quantitative measures established by regulation to ensure capital adequacy require the Company and the subsidiaries to maintain minimum amounts and ratios (set forth in the following table) of total and Tier I capital (as defined in the regulations) to risk-weighted assets, and of Tier I capital to average assets. Management believes that as of December 31, 2007, that the Company and the Banks meet all capital-adequacy requirements to which they are subject.

As of December 31, 2007, the most recent notifications from the Federal Deposit Insurance Corporation (FDIC) categorized all five Banks as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, minimum total risk based, Tier I risk based, and Tier I leverage ratios as set forth in the table must be maintained. There are no conditions or events occurring since the FDIC notified each Bank that management believes have changed the categories of the Banks.

(19) Regulatory Matters (continued)

The actual capital amounts and ratios for the Company and Banks as of December 31 are presented in the following table:

	Actual		Minimum Capital Requirement		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount In $000s	Ratio	Amount In $000s	Ratio	Amount In $000s	Ratio
As of December 31, 2007:						
Total Capital to Risk Weighted Assets:						
Company	**$65,339**	**12.19%**	**$42,889**	**8.00%**	**N/A**	**N/A**
Northwest	**19,568**	**11.35%**	**13,787**	**8.00%**	**$17,233**	**10.00%**
German	**13,613**	**11.53%**	**9,443**	**8.00%**	**11,804**	**10.00%**
Davis	**9,542**	**13.38%**	**5,704**	**8.00%**	**7,130**	**10.00%**
Freeport	**13,226**	**10.76%**	**9,832**	**8.00%**	**12,290**	**10.00%**
Lena	**7,839**	**15.46%**	**4,056**	**8.00%**	**5,070**	**10.00%**
Tier I Capital to Risk Weighted Assets:						
Company	**$59,384**	**11.08%**	**$21,444**	**4.00%**	**N/A**	**N/A**
Northwest	**17,677**	**10.26%**	**6,893**	**4.00%**	**$10,340**	**6.00%**
German	**12,354**	**10.47%**	**4,721**	**4.00%**	**7,082**	**6.00%**
Davis	**8,758**	**12.28%**	**2,852**	**4.00%**	**4,278**	**6.00%**
Freeport	**11,762**	**9.57%**	**4,916**	**4.00%**	**7,374**	**6.00%**
Lena	**7,282**	**14.36%**	**2,028**	**4.00%**	**3,042**	**6.00%**
Tier I Capital to Average Assets:						
Company	**$59,384**	**8.67%**	**$27,393**	**4.00%**	**N/A**	**N/A**
Northwest	**17,677**	**8.44%**	**8,375**	**4.00%**	**$10,469**	**5.00%**
German	**12,354**	**8.10%**	**6,099**	**4.00%**	**7,623**	**5.00%**
Davis	**8,758**	**8.48%**	**4,132**	**4.00%**	**5,165**	**5.00%**
Freeport	**11,762**	**8.03%**	**5,858**	**4.00%**	**7,322**	**5.00%**
Lena	**7,282**	**10.03%**	**2,903**	**4.00%**	**3,628**	**5.00%**
As of December 31, 2006:						
Total Capital to Risk Weighted Assets:						
Company	$60,293	11.75%	$41,041	8.00%	N/A	N/A
Northwest	17,894	10.95%	13,070	8.00%	$16,338	10.00%
German	12,724	11.88%	8,566	8.00%	10,708	10.00%
Davis	8,598	12.23%	5,625	8.00%	7,031	10.00%
Freeport	11,592	10.40%	8,913	8.00%	11,141	10.00%
Lena	7,666	12.72%	4,821	8.00%	6,026	10.00%
Tier I Capital to Risk Weighted Assets:						
Company	$54,773	10.68%	$20,520	4.00%	N/A	N/A
Northwest	16,363	10.02%	6,535	4.00%	10,500	6.00%
German	11,385	10.063%	4,283	4.00%	7,007	6.00%
Davis	7,831	11.14%	2,812	4.00%	4,796	6.00%
Freeport	10,302	9.25%	4,457	4.00%	6,667	6.00%
Lena	7,084	11.76%	2,410	4.00%	3,664	6.00%
Tier I Capital to Average Assets:						
Company	$54,773	8.37%	$26,177	4.00%	N/A	N/A
Northwest	16,363	7.79%	8,400	4.00%	$10,500	5.00%
German	11,385	8.12%	5,605	4.00%	7,007	5.00%
Davis	7,831	8.16%	3,837	4.00%	4,796	5.00%
Freeport	10,302	7.73%	5,334	4.00%	6,667	5.00%
Lena	7,084	9.67%	2,931	4.00%	3,664	5.00%

CONSOLIDATING SCHEDULE 1 - BALANCE SHEET
(000s omitted except share data)

December 31, 2007

ASSETS	German-American State Bank	State Bank of Davis
Cash and due from banks	$3,853	$1,467
Interest-bearing deposits in banks	311	52
Federal funds sold	5	407
Securities:		
Securities held-to-maturity		6,196
Securities available-for-sale	35,968	30,768
Non-marketable equity securities, at cost	412	219
Loans held for sale		
Loans, net	107,802	62,919
Foreclosed assets, net	987	
Premises and equipment	1,215	495
Other assets	3,962	1,287
Investment in subsidiary banks		
Total assets	$154,515	$103,810
LIABILITIES AND STOCKHOLDLERS' EQUITY		
Liabilities:		
Deposits:		
Noninterest bearing	$9,922	$6,079
Interest-bearing	125,561	82,685
Total deposits	135,483	88,764
Federal funds purchased	124	1,694
Securities sold under agreements to repurchase		339
Federal Home Loan Bank borrowings	5,000	3,750
Accrued interest payable and other liabilities	1,366	384
Total liabilities	141,973	94,931
Stockholders' equity:		
Common stock	400	100
Additional paid-in capital	2,700	1,509
Retained earnings	9,254	7,149
Treasury stock		
Accumulated other comprehensive loss	188	121
Total stockholders' equity	12,542	8,879
Total liabilities and stockholders' equity	$154,515	$103,810

Northwest Bank	State Bank	Lena State Bank	Foresight Financial Group, Inc.	Eliminations	Consolidated Total
$7,651	$4,348	$1,025	$891	($890)	$18,345
37	1	41			442
0	896	716			2,024
247					6,443
37,507	28,726	25,043			158,012
437	143	253			1,464
328					328
156,556	113,748	41,068			482,093
381	0	34			1,402
4,654	2,247	544	775		9,930
4,747	1,698	2,961	208		14,863
			58,372	(58,372)	0
$212,545	$151,807	$71,685	$60,246	($59,262)	$695,346
$24,872	$11,447	$3,331		($891)	$54,760
149,396	116,988	60,210			534,840
174,268	128,435	63,541		(891)	589,600
4,708					6,526
6,188	7,931				14,458
8,000	2,850				19,600
1,556	751	859	$185		5,101
194,720	139,967	64,400	185	(891)	635,285
1,450	1,000	500	966	(3,450)	966
3,056	4,514	3,628	7,417	(15,407)	7,417
13,172	6,248	3,154	54,969	(38,977)	54,969
			(3,828)		(3,828)
147	78	3	537	(537)	537
17,825	11,840	7,285	60,061	(58,371)	60,061
$212,545	$151,807	$71,685	$60,246	($59,262)	$695,346

For the year ended December 31, 2007

	German-American State Bank	State Bank of Davis
Interest and dividend income:		
Loans, including fees	$7,996	$4,943
Securities:		
Taxable	1,043	727
Tax-exempt	522	688
Dividends	6	3
Interest-bearing deposits in banks	18	2
Federal funds sold	37	76
Total interest and dividend income	9,622	6,439
Interest expense:		
Deposits	4,910	3,165
Federal funds purchased	22	20
Securities sold under agreements to repurchase		4
Federal Home Loan Bank borrowings	164	194
Total interest expense	5,096	3,383
Net interest and dividend income	4,526	3,056
Provision for loan losses	5	30
Net interest and dividend income, after provision for loan losses	4,521	3,026
Noninterest income:		
Customer service fees	416	137
Equity in earnings of subsidiaries		
Gain (loss) gain on sales of AFS securuties, net	2	(21)
Gain on sales of loans, net		
Loan servicing fees		
Other	334	74
Total noninterest income	752	190
Noninterest expenses:		
Salaries and employee benefits	1,738	809
Occupancy expense of premises, net	416	165
Outside services	82	79
Data processing	276	102
Foreclosed assets, net	5	
Other	686	316
Total noninterest expenses	3,203	1,471
Income before income taxes	2,070	1,745
Income tax expense (benefit)	601	423
Net income	$1,469	$1,322

CONSOLIDATING SCHEDULE 2 - STATEMENT OF INCOME
(000s omitted except share data)

Northwest Bank	State Bank	Lena State Bank	Foresight Financial Group, Inc.	Eliminations	Consolidated Total
$11,984	$8,288	$3,461			$36,672
989	883	772			4,414
691	240	283			2,424
6	2	4			21
2	0	3			25
133	65	50			361
13,805	9,478	4,573	0	0	43,917
6,611	4,785	2,348			21,819
93	10	12			157
237	0				241
391	90	0			839
7,332	4,885	2,360	0	0	23,056
6,473	4,593	2,213	0	0	20,861
360	168	0			563
6,113	4,425	2,213	0	0	20,298
706	178	148			1,585
			$6,851	($6,851)	0
		(6)			(25)
418					418
577					577
400	179	143	16		1,146
2,101	357	285	6,867	(6,851)	3,701
3,575	1,396	739	310		8,567
877	304	186	19		1,967
16	92	118	25		412
175	178	64			795
12					17
1,119	590	305	83		3,099
5,774	2,560	1,412	437	0	14,857
2,440	2,222	1,086	6,430	(6,851)	9,142
629	767	292	(161)		2,551
$1,811	$1,455	$794	$6,591	($6,851)	$6,591

GENERAL INFORMATION

Foresight Financial Group, Inc.
3106 North Rockton Ave.
Rockford, IL 61103

Phone: 815/969-8699
Fax: 815/969-8959
E-mail: dcooke@ffgbank.net

Registrar, Transfer Agent and
Change of Address:

Foresight Financial Group, Inc. at its
Corporate Address

Foresight common stock is listed
on the NASDAQ Bulletin Board
under the symbol FGFH

For more information,
contact Foresight
Financial Group, Inc. at its
Corporate Address
or visit our
website at
www.foresightfg.com

DIRECTORS

Foresight Financial Group, Inc.
Rockford, IL

Douglas M. Cross
Stephen G. Gaddis
John Jeschke
James A. Schneiderman
Carolyn Sluiter
Robert W. Stenstrom
Doug Wagner
Richard L. Weigle

Northwest Bank of Rockford
Rockford, IL

Stephen G. Gaddis
Theodore S. Ingrassia, Jr.
Charles B. Kullberg
Joseph B. Ognibene
Richard Rosenstiel
James A. Schneiderman
Robert W. Stenstrom

German-American State Bank
German Valley, IL

Robert Borneman
Jack Janssen
William Jewell
Gary R. Johnson
James G. Sacia
James A. Schneiderman
Jeff Sterling
Richard Weigle

State Bank of Davis
Davis, IL

Dan Dietmeier
John Jeschke
Brent Myers
Thomas Olsen
Gerald Osowski
Carolyn Sluiter
Judd Thruman

Lena State Bank
Lena, IL

Gordon Dammann
Robert Daws
Stephen G. Gaddis
Brent Myers
Steven Rothschadl
Todd Bussian

State Bank
Freeport, IL

Douglas Cross
Dr. Joe Kanosky
Fred Kundert
Richard Rosenstiel
Marilyn Smit
Brian Stewart
Sharon Summers
Doug Wagner

NOTES

We

are a market driven,
people oriented
community banking
organization dedicated
to enhancing shareholder value by
providing our customers with
diversified financial services that
help them achieve
economic success and
financial security. We will pursue
these goals while balancing
shareholder and customer interests
with the ongoing welfare of our
employees and local
communities.

The member banks of our group
maintain a high degree
of independence and
sensitivity to the concerns of the
local communities and markets that
we choose to serve. We will seek to
expand sensibly into new markets
when we believe that our business
model and community banking
philosophy can be
successfully extended.

In summary:

"Community Building through Community Banking"

FORESIGHT
financial group, inc.

3106 North Rockton Avenue • Rockford, Illinois 61103-2839 • www.foresightfg.com • 815.969.8699