LENA STATE BANK

State Bank
Freeport, IL

FORESIGHT
financial group, inc.

German American
STATE BANK
1907

Northwest Bank

STATE BANK of DAVIS

FORESIGHT
financial group, inc.

www.foresightfg.com

Dear Shareholders,

As you read this letter and annual report, please keep in perspective that the year 2008 was without any doubt, the worst for the Banking and Financial industry since the Great Depression; but fortunately, Foresight has again performed well above its industry peers. The global economic downturn that began in 2007, after shocking losses were reported by global financial giants stemming from their ill-advised involvement with sub-prime mortgages, worsened steadily throughout 2008. The S&P 500 stock index dropped 37%, the worst performance since 1931, and globally stocks declined 45%. Financial industry stocks were the hardest hit, with many of Wall Street's large investment banking companies going out of business by failure, or mergers designed to avoid failure. In the second half of the year, the primary mortgage lending giants, Fannie Mae and Freddie Mac, were seized by the U.S. government in order to stabilize mortgage markets. To restore some semblance of confidence needed for the financial system to work, central banks globally took numerous unprecedented actions, including direct investments by the U. S. Treasury in financial institutions, insurance companies, and automobile manufacturers.

Although Foresight's financial performance was negatively impacted for 2008 by the adverse economic conditions, profitability and capital strength continued above industry peers.

The housing industry remains in a state of shock, as home prices declined another 12%, losing $2.4 trillion in market value during 2008, while mortgage delinquencies were the highest ever recorded at 11.1% in the U.S.A., while similar or even worse figures were experienced globally. The speed and severity of the declines are unprecedented in the global economy that has developed in the past half-century. As these events unfolded, the community bankers at Foresight were challenged in multiple ways to deal with customer reactions to daily news media coverage of the shocking economic events and resultant uncertainty. Foresight's community bankers have worked closely with customers to help them deal with the economic adversity that continues in 2009 and perhaps well beyond, even as additional actions are taken on an almost daily basis by the U.S. government and other nations. The impact to Foresight's customers and our local market area have been significant, as unemployment has soared to over 10%, while the local housing market has dropped precipitously after a decade of strong results, with sales of newly constructed residential properties at a near standstill.

Although Foresight's financial performance was negatively impacted for 2008 by the adverse economic conditions, profitability and capital strength continued above industry peers. Net income for the year of $4,750,000 was down 28% from the record level of $6,591,000 recorded for 2007. Return on average assets of 66 basis points was far above our peer group's 38 basis points. Three of the Foresight Banks increased income in 2008 over 2007, two of which were record results. The profit decline was directly related to major credit losses recognized from the deterioration in the residential development and construction markets. Credit costs of $4.8 million were recorded in 2008, compared to the relatively modest $600,000 booked in 2007. This $4.2 million additional expense was partially offset by: 1) increase in net interest margin of $.7 million, 2) $.8 million increase (22%) in non-interest income, and 3) a $1.3 million reduction in income tax expense burden.

We are proud of the banks' efforts to contain the two largest operating overhead cost categories, as the combined compensation and occupancy expenses actually declined slightly in 2008 from 2007. Customer growth was nicely above industry peer averages, with total assets growing by 7.8% to $749.3 million, total loans up 9.2% to $533.4 million, and total deposits gaining 7.6% to $ 635.3 million. Despite these overall relatively positive results, Foresight common stock declined in market value along with virtually all stocks in the banking industry to a year end trading price of $7.75 per share, which is less than 50% of book value. We clearly believe that this trading price in not reflective of the intrinsic value of Foresight.

Foresight and its banks remain strongly capitalized, maintaining capital levels far above the regulatory standards for well capitalized institutions as summarized in the chart section and the footnotes to the audited financial statements in this annual report. Cash dividends to common stockholders were increased by 14% during 2008, to a total of $.32 per share. Dividend payouts and capital levels are under ongoing review by the Foresight Board with even more scrutiny under these times of economic stress, and contingency plans have been identified, should conditions change. Recently, the FDIC has announced special assessments on the banking industry that would raise deposit insurance premiums; this would significantly lower industry profits as much as 20-30% at a time when banks are struggling. This is just one example of the many daunting challenges Foresight's bankers will face in 2009 and beyond.

As shown on the front cover on this annual report, "FORTITUDE" is the new key word to guide Foresight's bankers in dealing with this troubled operating environment. FORTITUDE is defined as "strength of mind that enables a person to meet danger or bear pain or adversity with courage." Foresight's bankers and customers will need "FORTITUDE" to navigate through these difficult times until a strong economy returns.

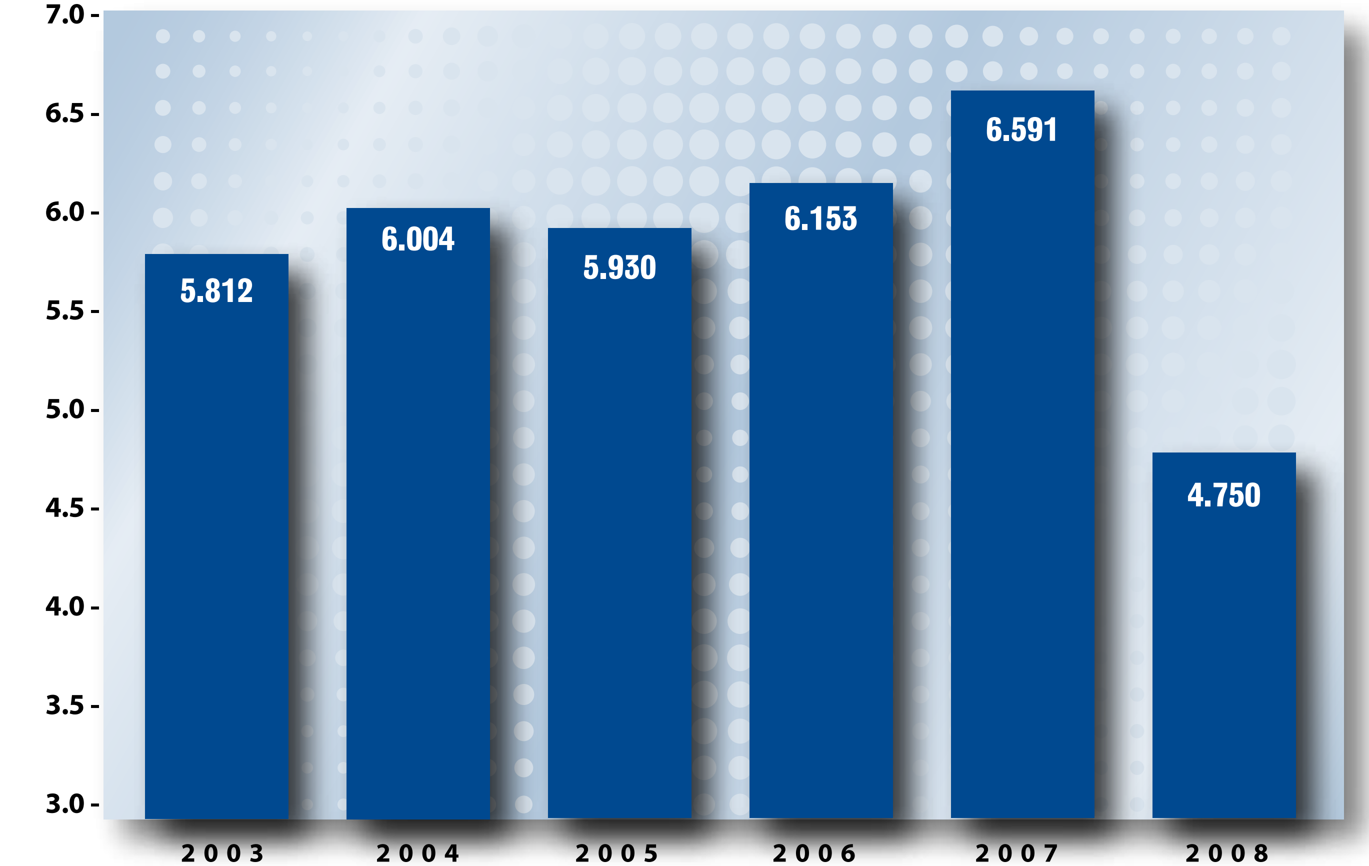
The patience of our shareholders to continue their unwavering support of our mission of **Community Building through Community Banking** will be more important than ever if Foresight is to continue its legacy of success as we are tested by the challenges of the turbulent economic environment.

Respectfully,

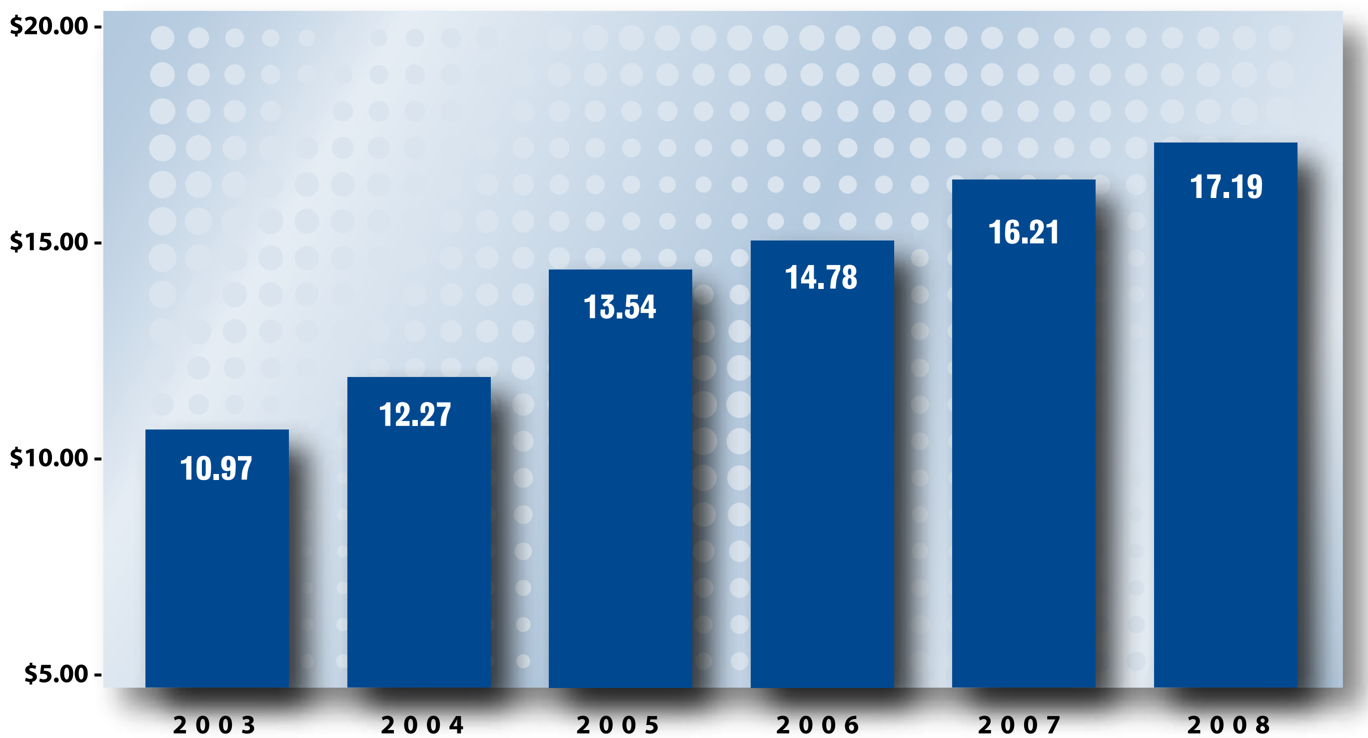
Stephen G. Gaddis   Douglas Cross

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

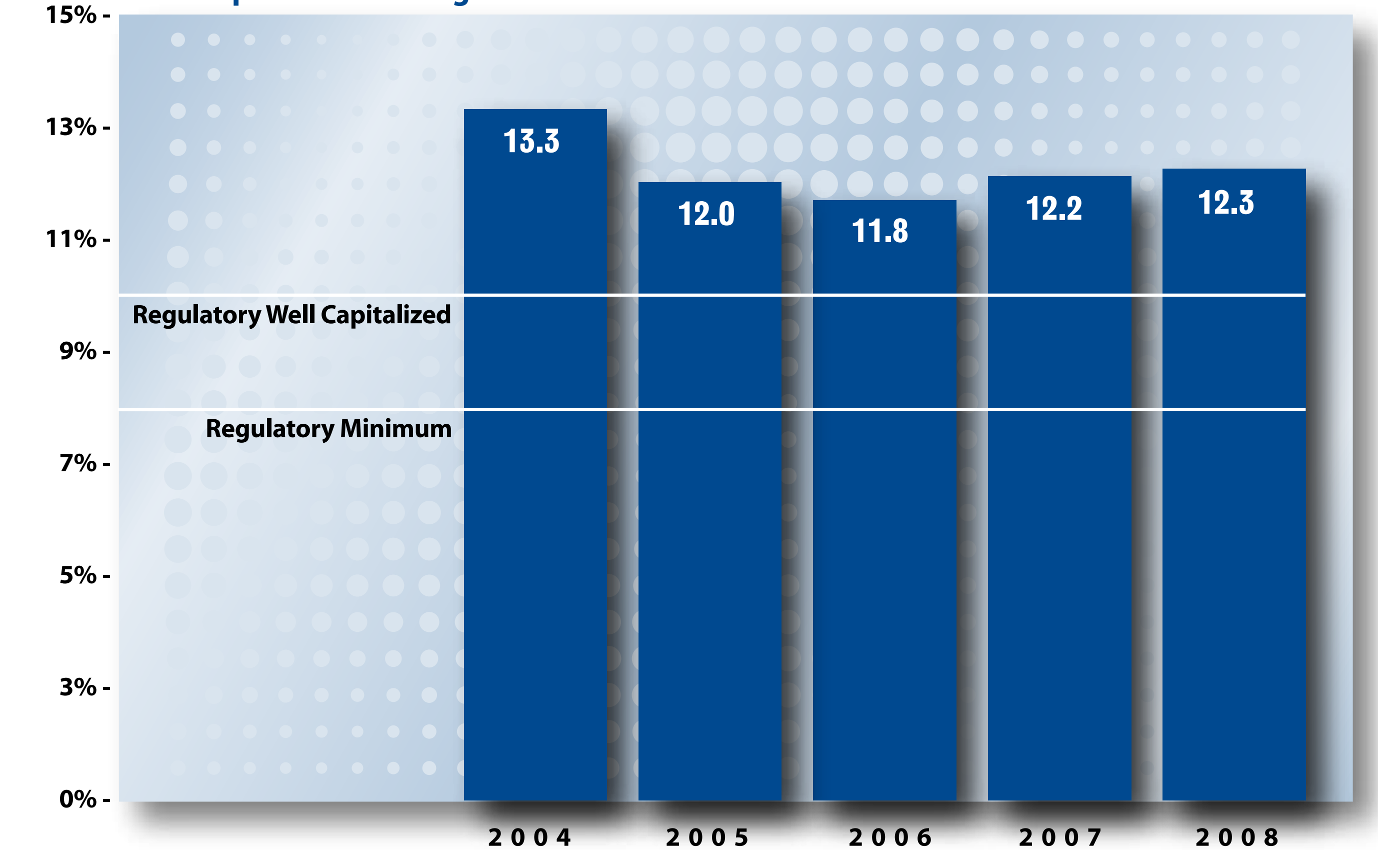
Net Earnings Dollars (1,000,000s)



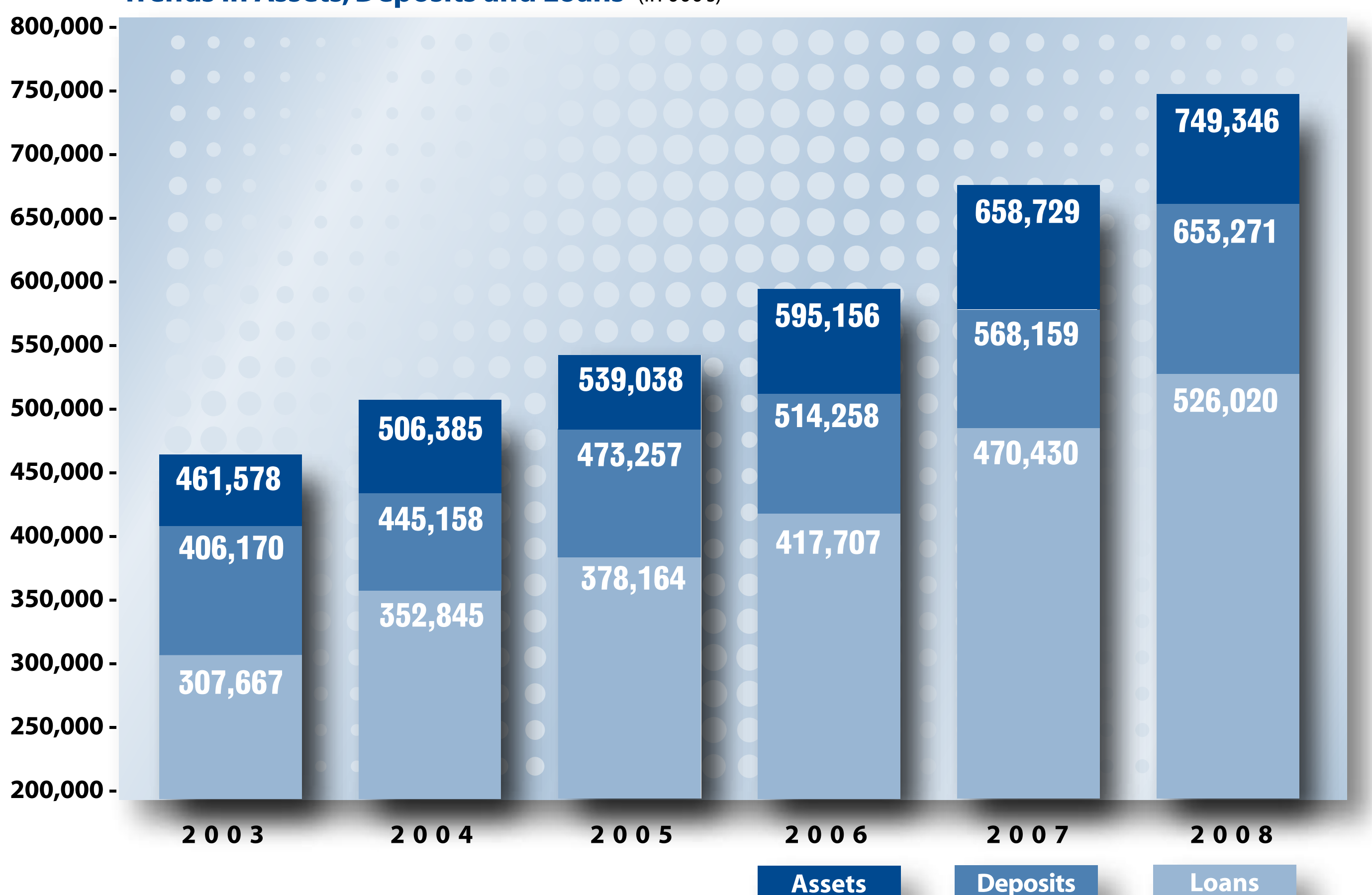
Per Share Book Value - December 31 (Adjusted for 2006 stock split)



Total Capital to Risk Weighted Assets



Trends in Assets, Deposits and Loans (In 000's)



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"

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, 2008 and 2007, 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, 2008. 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, 2008 and 2007, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2008, 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.

March 5, 2009
Sterling, Illinois

Lindgren, Callihan, Van Osdol & Co., Ltd.
Certified Public Accountants & Consultants

403 E. Third Street
P.O. Box 98
Sterling IL 61081

ph 815.626.1277
fax 815.626.9118
www.lcvcpa.com

Dixon, Illinois
Freeport, Illinois
Mendota, Illinois
Rockford, Illinois

CONSOLIDATED BALANCE SHEETS

(000s omitted except share data)

December 31,		
ASSETS	**2008**	2007
Cash and due from banks	**$14,958**	$18,345
Interest-bearing deposits in banks	**395**	442
Federal funds sold	**2,805**	2,024
Total cash and cash equivalents	**18,158**	20,811
Securities:		
Securities held-to-maturity (HTM)	**5,227**	6,443
Securities available-for-sale (AFS)	**172,989**	158,012
Non-marketable equity securities, at cost	**1,620**	1,464
Loans held for sale	**591**	328
Loans, net of allowance for loan losses of $7,400 and $6,095, respectively	**526,020**	482,093
Foreclosed assets	**1,041**	1,402
Premises and equipment, net	**9,324**	9,930
Other assets	**14,376**	14,863
Total assets	**$749,346**	$695,346
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits:		
Noninterest-bearing	**$52,133**	$54,760
Interest-bearing	**583,138**	534,840
Total deposits	**635,271**	589,600
Federal funds purchased	**1,036**	6,526
Securities sold under agreements to repurchase	**17,847**	14,458
Federal Home Loan Bank (FHLB) advances and other borrowings	**26,350**	19,600
Accrued interest payable and other liabilities	**4,775**	5,101
Total liabilities	**685,279**	635,285
Stockholders' equity:		
Preferred stock (no par value; authorized 500,000 shares; no shares issued)	**0**	0
Common stock ($.25 par value; authorized 5,000,000 shares; 3,866,537 shares issued)	**966**	966
Additional paid-in capital	**7,454**	7,417
Retained earnings	**58,547**	54,969
Treasury stock, at cost (207,657 and 195,057 shares, respectively)	**(4,060)**	(3,828)
Accumulated other comprehensive income	**1,160**	537
Total stockholders' equity	**64,067**	60,061
Total liabilities and stockholders' equity	**$749,346**	$695,346

See Notes to Consolidated Financial Statements.

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

For the years ended December 31,

	2008	2007	2006
Interest and dividend income:			
Loans, including fees	**$33,816**	$36,672	$33,612
Debt securities:			
Taxable	**5,048**	4,414	3,618
Tax-exempt	**2,830**	2,424	2,122
Dividends	**0**	21	45
Interest-bearing deposits in banks	**18**	25	102
Federal funds sold	**131**	361	371
Total interest and dividend income	**41,843**	43,917	39,870
Interest expense:			
Deposits	**18,985**	21,576	17,525
Federal funds purchased	**101**	157	199
Securities sold under agreements to repurchase	**207**	484	467
FHLB borrowings and other	**967**	839	792
Total interest expense	**20,260**	23,056	18,983
Net interest and dividend income	**21,583**	20,861	20,887
Provision for loan losses	**4,515**	563	781
Net interest and dividend income, after provision for loan losses	**17,068**	20,298	20,106
Noninterest income:			
Customer service fees	**1,592**	1,585	1,375
Gain (loss) on sales and calls of AFS securities, net	**246**	(25)	(50)
Gain on sales of loans, net	**329**	418	492
Loan servicing fees, net	**511**	577	541
Other	**1,782**	1,146	1,031
Total noninterest income	**4,460**	3,701	3,389
Noninterest expenses:			
Salaries and employee benefits	**8,475**	8,567	8,552
Occupancy expense of premises, net	**2,018**	1,967	1,961
Outside services	**423**	412	414
Data processing	**817**	795	699
Foreclosed assets, net	**286**	17	305
Other	**3,555**	3,099	2,966
Total noninterest expenses	**15,574**	14,857	14,897
Income before income taxes	**5,954**	9,142	8,598
Income tax expense	**1,204**	2,551	2,445
Net income	**$4,750**	$6,591	$6,153
Earnings per common share:			
Basic	**$1.30**	$1.78	$1.66
Diluted	**$1.29**	$1.77	$1.65

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 (Loss) Income	Total
Balance, January 1, 2006	$955	$7,316	$44,072	($2,089)	($641)	$49,613
Comprehensive income:						
Net income			6,153			6,153
Other comprehensive income - Change in unrealized loss on securities available-for-sale, net of reclassification and tax effect					218	218
Total comprehensive income						6,371
Cash dividends ($.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 ($.28 per share)			(1,034)			(1,034)
Purchases of treasury stock (44,431 shares)				(961)		(961)
Stock-based compensation expense		16				16
Balance, December 31, 2007	966	7,417	54,969	(3,828)	537	60,061
Comprehensive income:						
Net income			4,750			4,750
Other comprehensive income - Change in unrealized gain on securities available-for-sale, net of reclassification and tax effect					623	623
Total comprehensive income						5,373
Cash dividends ($.32 per share)			(1,172)			(1,172)
Purchases of treasury stock (12,600 shares)				(232)		(232)
Stock-based compensation expense		37				37
Balance, December 31, 2008	$966	$7,454	$58,547	($4,060)	$1,160	$64,067

See Notes to Consolidated Financial Statements.

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

For the years ended December 31,

	2008	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	**$4,750**	$6,591	$6,153
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Provision for loan losses	**4,515**	563	781
Depreciation	**909**	926	921
Net (accretion) amortization of securities	**(18)**	214	175
Deferred income tax benefit	**(467)**	(251)	(391)
Net (gain) loss on the sales and calls of AFS securities	**(246)**	25	50
Stock-based compensation expense	**37**	16	16
Net change in:			
Servicing rights	**(102)**	(61)	(22)
Loans held for sale	**(263)**	(142)	(102)
Other assets	**668**	(559)	(1,704)
Accrued expenses and other liabilities	**(323)**	(67)	964
Net cash provided by operating activities	**9,460**	7,255	6,841
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from sales of AFS securities	**10,108**	2,048	3,115
Proceeds from maturities, calls, and paydowns of HTM securities	**1,283**	6,518	5,614
Proceeds from maturities, calls, and paydowns of AFS securities	**60,752**	18,584	13,838
Proceeds from redemption of non-marketable equity securities	**0**	0	216
Purchases of HTM securities	**0**	(5,653)	(5,250)
Purchases of AFS securities	**(84,632)**	(45,776)	(27,601)
Purchases of non-marketable equity securities	**(156)**	(60)	(25)
Loan originations and principal collections, net	**(48,442)**	(12,226)	(53,588)
Net change in foreclosed assets	**361**	(100)	727
Purchases of premises and equipment	**(303)**	(1,156)	(763)
Net cash used in investing activities	**(61,029)**	(37,821)	(63,717)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net change in deposits	**45,671**	21,441	53,901
Net change is securities sold under agreements to repurchase	**3,389**	874	5,580
Cash dividends paid	**(1,172)**	(1,034)	(813)
Net change in federal funds purchased	**(5,490)**	5,697	(1,498)
Proceeds from exercise of stock options, net of tax benefit	**0**	0	80
Purchases of treasury stock	**(232)**	(961)	(778)
Proceeds from lines of credit and FHLB advances and other borrowings	**21,250**	15,475	19,000
Payments on lines of credit and FHLB advances and other borrowings	**(14,500)**	(12,375)	(19,250)
Net cash provided by financing activities	**48,916**	29,117	56,222
Net decrease in cash and cash equivalents	**(2,653)**	(1,449)	(654)
Cash and cash equivalents at beginning of year	**20,811**	22,260	22,914
Cash and cash equivalents at end of year	**$18,158**	$20,811	$22,260

See Notes to Consolidated Financial Statements.

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

For the years ended December 31,	**2008**	2007	2006
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Cash paid during the year for:			
Interest	**$20,489**	$23,050	$18,174
Income taxes	**$1,671**	$2,801	$2,321
SUPPLEMENTAL SCHEDULE OF NONCASH AND FINANCING ACTIVITIES:			
Foreclosed assets acquired in settlement of loans	**$1,326**	$849	$615

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 possible loan losses, fair values of securities, deferred tax assets and liabilities 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.

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

(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 established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of specific, general, and unallocated components. The specific component relates to loans that are classified as doubtful, substandard or special mention. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) 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 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 considered 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. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. 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, 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) Mortgage-Banking Derivatives

Commitments to fund mortgage loans (interest-rate locks) to be sold into the secondary market and mandatory delivery forward commitments for the future delivery of these mortgage loans are to be accounted for as derivatives not qualifying for hedge accounting. The fair values of these mortgage derivatives are to be estimated based on the net future cash flows related to the associated servicing of the loans and on changes in mortgage interest rates from the date of the commitments. Changes in fair values on these derivatives are to be included in net gains on sales of loans. The Company has deemed the effect of these derivatives to be immaterial to the consolidated financial statements and has elected not to record fair values associated with these derivatives.

(m) 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.

(n) 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.

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

(1) Summary of Significant Accounting Policies (continued)

(o) 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.

(p) 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 in which the Company invests. Note 3 details the types of lending in which the Company engages. The Company does not have any significant concentrations with any one industry or customer.

(q) Income Taxes

Deferred income tax assets and liabilities are determined using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is determined based on the tax effects of the temporary differences between the book and tax bases of the various balance sheet assets and liabilities and gives current recognition to changes in tax rates and laws. The Company files consolidated Federal and State income tax returns.

(r) 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.

(s) 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.

(t) 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.

(1) Summary of Significant Accounting Policies (continued)

(u) 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.

(v) 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.

(w) Stock Compensation Plans

The Company records the cost of stock-based employee compensation using the fair-value method. 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 Company has historically assumed no projected forfeitures on its stock based compensation; however, projected a forfeiture rate of ten percent on the stock options granted in 2008.

(x) 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.

(y) Recent Accounting Standards and Pronouncements

In September 2006 the Financial Accounting Standards Board (FASB) issued Statement No. 157, "Fair Value Measurements (FAS 157)." 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. The Standard was effective for fiscal years beginning after November 15, 2007. The impact of adoption of FAS 157 was not material.

In February 2008 the FASB issued Staff Position (FSP) 157-2, "Effective Date of FASB Statement No. 157." This FSP delays the effective date of FAS 157 for all non-financial assets and non-financial liabilities except those that are recognized or disclosed at fair value on a recurring basis (at least annually) to fiscal years beginning after November 15, 2008. Major categories of assets that are recognized or disclosed at fair value for which the Company has not applied the provisions of FAS 157 include Other Real Estate Owned, Goodwill and Intangible assets.

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

(1) Summary of Significant Accounting Policies (continued)

(y) Recent Accounting Standards and Pronouncements (continued)

In February 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 was effective for the Company 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.

In June 2006 the FASB issued Interpretation No. 48 ("FIN 48"), "Accounting for Uncertainty in Income Taxes." FIN 48 provides detailed guidance for the financial statement recognition, measurement, and disclosure of uncertain tax positions recognized in an enterprise's financial statements in accordance with SFAS No. 109, "Accounting for Income Taxes." FIN 48 requires an entity to recognize the financial-statement impact of a tax position when it is more likely than not that the position will be sustained upon examination. On December 30, 2008 the FASB issued FASB Staff Position FIN 48-3 which deferred the effective implementation date of FIN 48 to the Company's annual financial statements ending on December 31, 2009 and the Company has elected to defer application of FIN 48. The Company does not expect that the adoption of FIN 48 will have a material effect on its financial position, results of operations, or cash flows.

(2) Securities

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

Held-to-Maturity 2008	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
State and municipal	**$5,227**	**$87**	**($94)**	**$5,220**

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

Available-for-Sale 2008	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. agency	**$50,052**	**$1,759**	**($6)**	**$51,805**
State and municipal	**61,857**	**633**	**(1,795)**	**60,695**
Mortgage-backed	**59,196**	**1,320**	**(27)**	**60,489**
	$171,105	**$3,712**	**($1,828)**	**$172,989**

(000s omitted except share data)

(2) Securities (continued)

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

For the years ended December 31, 2008, 2007 and 2006, proceeds from sales of available-for-sale securities amounted to $10,108, $2,048, and $3,115. Gross realized gains and losses from the sales and calls of available-for-sale securities for the years ended December 31 are as follows:

	2008	2007	2006
Realized gains	**$295**	$2	$11
Realized losses	**($49)**	($27)	($61)

Securities with carrying amounts of approximately $99,087 and $73,968 at December 31, 2008 and 2007 respectively, were pledged to secure public deposits and for other purposes as required or permitted by law.

The amortized costs and fair values of securities at December 31, 2008 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	**$423**	**$415**
Due after one year through five years	**2,292**	**2,321**
Due after five years through ten years	**1,340**	**1,347**
Due after ten years	**1,172**	**1,137**
	$5,227	**$5,220**

Available-for-Sale	Amortized Cost	Fair Value
Due in one year or less	**$7,382**	**$7,517**
Due after one year through five years	**34,908**	**35,722**
Due after five years through ten years	**39,626**	**39,762**
Due after ten years	**29,993**	**29,499**
	111,909	**112,500**
Mortgage-backed	**59,196**	**60,489**
	$171,105	**$172,989**

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

(2) Securities (continued)

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, 2008 and 2007:

2008 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	**$670**	**$41**	**5**	**$311**	**$53**	**4**
Total temporarily impaired	**$670**	**$41**	**5**	**$311**	**$53**	**4**

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

2008 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	**$1,563**	**$6**	**3**	**$0**	**$0**	**0**
State and municipal	**27,191**	**1,475**	**121**	**3,388**	**320**	**27**
Mortgage-backed	**7,440**	**21**	**14**	**421**	**6**	**1**
Total temporarily impaired	**$36,194**	**$1,502**	**138**	**$3,809**	**$326**	**28**

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	$100	33
State and municipal	11,500	226	67	8,891	87	35
Mortgage-backed	2,640	4	5	13,592	234	40
Total temporarily impaired	$15,182	$235	75	$41,879	$421	108

(000s omitted except share data)

(2) Securities (continued)

Unrealized losses on state and municipal securities 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 state and municipal market interest rates. The fair value is expected to recover as the bonds approach their maturity dates and/or market rates. The unrealized losses on the remaining securities have not been recognized into income because the bonds are of high credit quality and management has the intent and ability to hold for the foreseeable future.

(3) Loans

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

	2008	2007
Agricultural	**$37,061**	$35,156
Commercial	**160,278**	125,827
Real estate	**321,712**	313,353
Consumer installment	**14,369**	13,852
	533,420	488,188
Allowance for loan losses	**(7,400)**	(6,095)
	$526,020	$482,093

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

	2008	2007	2006
Balance at beginning of year	**$6,095**	$5,604	$5,087
Provision charged to operations, net	**4,515**	563	781
Recoveries on loans previously charged-off	**117**	487	247
	10,727	6,654	6,115
Less loans charged-off	**(3,327)**	(559)	(511)
Balance at end of year	**$7,400**	$6,095	$5,604

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

	2008	2007
Impaired loans without a valuation allowance	**$0**	$0
Impaired loans with a valuation allowance	**$17,353**	$1,260
Total impaired loans	**$17,353**	$1,260
Valuation allowance related to impaired loans	**$2,260**	$292
Total non-accrual loans	**$15,765**	$1,260
Average balance of impaired loans	**$10,041**	$981

Interest income and other loan income recognized on impaired loans during 2008, 2007 and 2006 was considered immaterial. At December 31, 2008 and 2007 the Banks had loans amounting to approximately $944 and $502, 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 non-accrual loans.

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

(4) Loan Servicing

Loans serviced for others are not included in the accompanying consolidated balance sheets. Mortgage loans serviced for others as of December 31, 2008 and 2007, were approximately $172,506 and $160,737, respectively. Custodial escrow balances maintained in conjunction with serviced loans were approximately $1,234 and $1,113 at December 31, 2008 and 2007, respectively.

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

	2008	2007	2006
Mortgage servicing rights:			
Balance at beginning of year	**$868**	$808	$785
Mortgage servicing rights capitalized	**555**	347	316
Mortgage servicing rights amortized	**(453)**	(287)	(293)
Balance at end of year	**$970**	$868	$808

The approximate fair values of the mortgage servicing rights were deemed to be greater than their carrying values as of December 31, 2008, 2007, and 2006, although the differences between the fair values and carrying values were considered immaterial.

(5) Mortgage Banking Loan Commitments

The Company enters into commitments to fund residential mortgage loans (interest rate locks) at specified times in the future, with the intention that these loans will be subsequently sold to third-party investors. A mortgage loan commitment binds the Company to lend funds to a potential borrower at a specified interest rate and within a specified period of time, generally up to 60-days after inception of the rate lock. It is the Company's practice to enter into mandatory delivery forward commitments for the future delivery of residential mortgage loans to third-party investors when an interest rate lock commitment is granted. These mandatory delivery forward commitments bind the Company to deliver a residential mortgage loan to a third-party investor even if the underlying loan never funds. As of December 31, 2008 and 2007, the Company had approximately $5,014 and $1,049 in interest rate lock commitments outstanding. As of December 31, 2008 and 2007, the Company had approximately $5,014 and $1,049 in mandatory delivery forward commitments outstanding. These outstanding mortgage loan commitments are considered to be derivatives. The fair values associated with these derivatives were considered to be immaterial as of December 31, 2008 and 2007.

(000s omitted except share data)

(6) Premises and Equipment

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

	2008	2007
Land	**$1,524**	$1,524
Buildings and leasehold improvements	**9,426**	9,412
Furniture, fixtures, and equipment	**7,669**	7,407
	18,619	18,343
Less accumulated depreciation	**9,295**	8,413
	$9,324	$9,930

Depreciation expense for the years ended December 31, 2008, 2007 and 2006 amounted to $909, $926, and $921, respectively.

(7) Other Assets

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

	2008	2007
Cash surrender value of bank-owned life insurance	**$5,332**	$5,135
Accrued interest receivable	**5,446**	6,413
Mortgage servicing rights, net of amortization	**970**	868
Net deferred tax assets	**1,535**	1,456
Other	**1,093**	991
	$14,376	$14,863

(8) Time Deposits

The aggregate amount of time deposits with minimum a denomination of $100 was approximately $148,217 and $134,308 at December 31, 2008 and 2007, respectively.

At December 31, 2008, the scheduled maturities of time deposits are as follows:

2009	$251,737
2010	105,742
2011	35,834
2012	10,519
2013 and thereafter	5,591
	$409,423

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

(9) 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.

(10) 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 $191, $215, and $178, for 2008, 2007, and 2006, respectively. Each plan participant elects how the employer contributions are invested. Participants choose between purchasing the Company's common stock and investing in the plan's investment funds.

In addition, Northwest, German-American, 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 $10,882 and $10,600 as of December 31, 2008 and 2007, 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 $1,009, $1,025, and $1,040 at December 31, 2008, 2007, and 2006, respectively. Salary-continuation expenses were $74, $68, and $67 in 2008, 2007, and 2006, respectively.

(11) Income Taxes

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

	2008	2007	2006
Current – federal	**$1,318**	$2,353	$2,408
– state	**353**	449	442
	1,671	2,802	2,850
Deferred – federal	**(403)**	(221)	(356)
– state	**(64)**	(30)	(49)
	(467)	(251)	(405)
Total income tax expense	**$1,204**	$2,551	$2,445

(000s omitted except share data)

(11) 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:

	2008		2007		2006	
	Amount	**% of Pretax Earnings**	Amount	% of Pretax Earnings	Amount	% of Pretax Earnings
Statutory federal tax	**$2,024**	**34.0%**	$3,108	34.0%	$2,923	34.0%
Increase (decrease) in taxes resulting from:						
Tax-exempt interest	**(1,141)**	**(19.2%)**	(937)	(10.3%)	(764)	(8.9%)
Bank-owned life insurance	**(70)**	**(1.2%)**	(61)	(0.7%)	(58)	(0.7%)
State taxes, net of federal benefit	**199**	**3.4%**	276	3.0%	259	3.0%
Other	**192**	**3.2%**	165	1.8%	85	1.0%
Effective tax rates	**$1,204**	**20.2%**	$2,551	27.8%	$2,445	28.4%

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, 2008 and 2007 are summarized as follows:

	2008	2007
Deferred tax assets:		
Allowance for loan losses	**$2,886**	$2,380
Deferred compensation and other	**405**	430
Total gross deferred tax assets	**3,291**	2,810
Deferred tax liabilities:		
FHLB stock dividend	**129**	129
Security accretion	**70**	106
Available-for-sale securities	**725**	338
Tax depreciation in excess of book depreciation	**447**	434
Mortgage servicing rights and other	**385**	347
Total gross deferred tax liabilities	**1,756**	1,354
Net deferred tax assets	**$1,535**	$1,456

No valuation allowance has been recorded since deferred tax assets are expected to be realized.

(12) 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)

(12) Transactions with Related Parties (continued)

Loans to related parties amounted to approximately $9,814 and $8,832 at December 31, 2008 and 2007, respectively.

Deposit accounts from related parties totaled approximately $7,129 and $6,605 at December 31, 2008 and 2007, respectively.

(13) 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:

	2008	2007
Lines of credit and other loan commitments	**$90,201**	$108,211
Commercial letters of credits	**518**	641
Performance and standby letters of credit	**1,150**	548
	$91,869	$109,400

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)

(13) 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.

(14) Securities Sold Under Agreements to Repurchase

Securities sold under agreements to repurchase amounted to $17,847 and $14,458 at December 31, 2008 and 2007, and are secured by investment securities with fair values of approximately $20,763 and $18,330. The weighted-average interest rates on these agreements were 1.59% and 2.58% at December 31, 2008 and 2007, respectively. Securities sold under agreements to repurchase mature on a daily basis.

(15) Federal Home Loan Bank (FHLB) Advances and Other Borrowings

FHLB:	**2008**	**2007**
Fixed-rate advances with rates ranging from of 3.84% to 5.3% with weighted-average rates of 3.87% and 4.79% as of December 31, 2008 and 2007, respectively. Interest is payable monthly with principal due at maturity.	**$21,850**	$18,600
Variable-rate advances with rates ranging from .24% to 5.36%, with weighted-average rates of 1.57% and 5.36% as of December 31, 2008 and 2007, respectively. Interest is payable monthly with principal due at maturity.	**3,000**	1,000
	$24,850	$19,600

Advances are collateralized by 1-4 family mortgage loans and other qualifying loans. The total amounts of collateral securing FHLB advances were approximately $64,819 and $48,042 as of December 31, 2008 and 2007, respectively.

Other Borrowings:
The Company has a $2,000 revolving line of credit with a balance of $0 at December 31, 2008 and 2007. The revolving line of credit matures on February 15, 2010 and bears interest based on the Wall Street Journal Prime Rate and adjusts as the prime rate changes with a minimum interest rate of 4.5%. 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, 2008.

German has an advance from the Federal Reserve Bank of Chicago's Discount Window Lending Program. Advances mature 90-days from the advance date and bear interest based on 25 basis points over the federal funds rate or .50% at December 31, 2008. Outstanding advances were $1,500 and $0 at December 31, 2008 and 2007, respectively. Advances are secured by investment securities pledged to the Federal Reserve Bank.

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

(15) Federal Home Loan Bank (FHLB) Advances and Other Borrowings (continued)

At December 31, 2008, the scheduled maturities of Federal Home Loan Bank borrowings and other are as follows:

	2008	2007
2008	**$0**	$8,500
2009	**15,600**	8,100
2010	**7,750**	2,000
2011	**3,000**	1,000
2012	**0**	0
2013	**0**	0
	$26,350	$19,600

(16) 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: See Fair Value Measurements footnote discussions.

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: For variable-rate loans that re-price frequently and with no significant change in credit risk, fair values are based on carrying values. Fair values for other loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. For fair value estimates for collateral-dependent impaired loans see Fair Value Measurements footnote discussions.

(000s omitted except share data)

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

Deposits: The fair values disclosed for demand deposits, savings accounts, and certain money market deposits are, by definition, equal to the amount payable on demand at the reporting date (carrying amounts). Fair values for certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits.

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 advances: 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.

Other borrowings: The carrying amounts of other borrowings approximate their fair value.

Accrued interest: The carrying amounts of accrued interest approximate their 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.

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

	December 31, 2008		December 31, 2007	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	**$18,158**	**$18,158**	$20,811	$20,811
Securities	**178,216**	**178,210**	164,455	164,546
Non-marketable equity securities,	**1,620**	**1,620**	1,464	1,464
Loans held for sale	**591**	**591**	328	328
Loans, net of allowance	**526,020**	**530,653**	482,083	482,758
Accrued interest receivable	**5,446**	**5,446**	6,413	6,413
Financial liabilities:				
Deposits	**$635,271**	**$638,932**	$589,600	$592,134
Federal funds purchased	**1,036**	**1,036**	6,526	6,526
Securities sold under agreements to repurchase	**17,847**	**17,847**	14,458	14,458
FHLB advances and other borrowings	**26,350**	**27,011**	19,600	19,854
Accrued interest payable	**2,265**	**2,265**	2,495	2,495

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

(17) Other Comprehensive Income

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

	2008	2007	2006
Holding gains on securities available-for-sale	**$1,254**	$1,537	$312
Less reclassification adjustments for (gains) losses recognized in income	**(246)**	25	50
Net unrealized gains	**1,008**	1,562	362
Deferred tax effect	**(385)**	(602)	(144)
Other comprehensive income	**$623**	$960	$218

(18) 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. In May of 2008, the stockholders' approved an additional 100,000 shares of common stock be made available for future purchase by certain officers. 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, five, or seven-year period after the date of grant.

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

	2008	2007	2006
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%-22.0%**	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	**N/A**	N/A	$1,749
Weighted average fair value of options granted	**$5.08**	N/A	N/A

As of December 31, 2008, stock-based compensation expense not yet recognized totaled $141, and is expected to be recognized over a weighted-average remaining period of 3.2 years.

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.

(000s omitted except share data)

(18) Stock-Compensation Plans (continued)

The following tables summarize the activity of options and non-vested shares granted, exercised, or forfeited for the year ended December 31, 2008:

	2008	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Shares under option, beginning of year	70,930	$13.21	4.50	$477
Granted during the year	30,500	20.50		0
Forfeited and canceled during the year	(1,900)	20.50		
Exercised during the year	0			
Shares under option, end of year	99,530	$15.71	5.08	$0
Options exercisable, end of year	66,452	$13.44	3.32	$0
Shares available for grant, end of year	104,730			

	Number of Options	Weighted Average Market Value at Grant
Non-vested options, December 31, 2007	7,350	$18.73
Granted during the year	30,500	20.50
Vested during the year	(2,872)	18.59
Forfeited or expired during the year	(1,900)	20.50
Non-vested options, December 31, 2008	33,078	$20.27

The following table summarizes information about fixed stock options outstanding at December 31, 2008:

Exercise Price	Number Outstanding at 12/31/08	Remaining Contractual Life (Years)	Number Exercisable at 12/31/08
$10.50	10,000	1.5	10,000
$12.25	30,010	2.5	30,010
$12.00	9,760	3.5	9,760
$17.75	13,130	5.5	11,864
$19.25	8,030	6.5	4,818
$20.50	28,600	9.0	0
	99,530		66,452

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

(19) Earnings Per Common Share

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

	2008	2007	2006
Net income applicable to common stock	**$4,750**	$6,591	$6,153
Average number of common shares outstanding	**3,664,114**	3,695,987	3,697,346
Effect of dilutive options	**10,270**	25,428	26,533
Average number of common shares outstanding used to calculate diluted earnings per common share	**3,674,384**	3,721,415	3,723,879

The total outstanding options of common stock which were excluded in the computation of diluted earnings per common share for the year ended 2008 were 49,760 and 0 for the years ended 2007 and 2006 because they were considered anti-dilutive.

(20) 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 its 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, 2008, that the Company and the Banks meet all capital-adequacy requirements to which they are subject.

As of December 31, 2008, 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 which management believes have changed the categories of the Banks.

(20) 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, 2008:						
Total Capital to Risk Weighted Assets:						
Company	**$69,900**	**12.25%**	**$45,650**	**8.00%**	**N/A**	**N/A**
Northwest	**19,386**	**11.28%**	**13,753**	**8.00%**	**$17,192**	**10.00%**
German	**14,467**	**11.58%**	**9,995**	**8.00%**	**12,494**	**10.00%**
Davis	**10,413**	**13.41%**	**6,212**	**8.00%**	**7,776**	**10.00%**
Freeport	**14,900**	**10.77%**	**11,066**	**8.00%**	**13,833**	**10.00%**
Lena	**8,089**	**14.34%**	**4,513**	**8.00%**	**5,641**	**10.00%**
Tier-I Capital to Risk Weighted Assets:						
Company	**$62,766**	**11.00%**	**$22,825**	**4.00%**	**N/A**	**N/A**
Northwest	**17,231**	**10.02%**	**6,877**	**4.00%**	**$10,315**	**6.00%**
German	**12,905**	**10.33%**	**4,998**	**4.00%**	**7,496**	**6.00%**
Davis	**9,590**	**12.35%**	**3,106**	**4.00%**	**4,659**	**6.00%**
Freeport	**13,238**	**9.57%**	**5,533**	**4.00%**	**8,300**	**6.00%**
Lena	**7,531**	**13.35%**	**2,256**	**4.00%**	**3,384**	**6.00%**
Tier-I Capital to Average Assets:						
Company	**$62,766**	**8.43%**	**$29,786**	**4.00%**	**N/A**	**N/A**
Northwest	**17,231**	**7.91%**	**8,710**	**4.00%**	**$10,887**	5.00%
German	**12,905**	**7.89%**	**6,539**	**4.00%**	**8,173**	5.00%
Davis	**9,590**	**8.51%**	**4,510**	**4.00%**	**5,638**	5.00%
Freeport	**13,238**	**7.72%**	**6,855**	**4.00%**	**8,569**	5.00%
Lena	**7,531**	**9.59%**	**3,142**	**4.00%**	**3,928**	5.00%
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%

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

(21) Fair-Value Measurement

Financial Accounting Standards Board's Statement No. 157, "Fair Value Measurements (FAS 157)," defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. FAS 157 also establishes a fair-value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the Company has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect the Company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The following is a description of valuation methodologies used for assets recorded at fair value:

Securities available-for-sale securities: The fair values of the Company's securities are primarily determined by matrix pricing, which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted prices for specific securities, but rather by relying on the securities' relationship to other benchmark quoted securities.

Collateral-dependent impaired loans: The Company does not record loans at fair value on a recurring basis. However, from time to time, fair value adjustments are recorded on these loans to reflect (1) partial write-downs, through charge-offs or specific reserve allowances, that are based on the current appraised or market-quoted value of the underlying collateral or (2) the full charge-off of the loan carrying value. In some cases, the properties for which market quotes or appraised values have been obtained are located in areas where comparable sales data is limited, outdated, or unavailable. Fair-value estimates for collateral-dependent impaired loans are obtained from real-estate brokers or other third-party consultants.

The following table presents the Company's approximate fair-value hierarchy for the assets measured at fair value as of December 31, 2008:

		Fair Value Measurements at Reporting Date Using		
	Total	**(Level 1)**	**(Level 2)**	**(Level 3)**
Assets measured at fair value on a recurring basis:				
Assets:				
Securities available-for-sale	$172,989		$172,989	
Assets measured at fair value on a non-recurring basis:				
Assets:				
Collateral-dependent impaired loans	$15,093			$15,093

Collateral-dependent impaired loans, which are measured for impairment using the fair value of collateral, had a carrying value of $17,353, with a specific reserve of $2,260.

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

December 31, 2008

A S S E T S	German-American State Bank	State Bank of Davis
Cash and due from banks	$2,325	$1,048
Interest-bearing deposits in banks	218	53
Federal funds sold		715
Securities:		
Securities held-to-maturity		5,055
Securities available-for-sale	36,774	30,040
Non-marketable equity securities, at cost	433	229
Loans held for sale		
Loans, net	118,669	72,074
Foreclosed assets	327	213
Premises and equipment	1,110	453
Other assets	3,640	1,312
Investment in subsidiary banks		
Total assets	$163,496	$111,192
LIABILITIES AND STOCKHOLDLERS' EQUITY		
Liabilities:		
Deposits:		
Noninterest bearing	$9,657	$6,147
Interest-bearing	130,914	88,691
Total deposits	140,571	94,838
Federal funds purchased	1,036	
Securities sold under agreements to repurchase		1,776
Federal Home Loan Bank borrowings and other	7,500	4,500
Accrued interest payable and other liabilities	1,192	432
Total liabilities	150,299	101,546
Stockholders' equity:		
Common stock	400	100
Additional paid-in capital	2,704	1,515
Retained earnings	9,801	7,975
Treasury stock		
Accumulated other comprehensive income	292	56
Total stockholders' equity	13,197	9,646
Total liabilities and stockholders' equity	$163,496	$111,192

Northwest Bank	State Bank	Lena State Bank	Foresight Financial Group, Inc.	Eliminations	Consolidated Total
$6,286	$4,282	$1,017	$1,396	($1,396)	$14,958
60	36	28			395
1,536	442	112			2,805
172					5,227
38,266	41,120	26,789			172,989
437	268	253			1,620
591					591
161,166	127,372	46,739			526,020
492		9			1,041
4,376	2,137	496	752		9,324
4,895	1,522	2,617	390		14,376
			61,655	(61,655)	
$218,277	$177,179	$78,060	$64,193	($63,051)	$749,346

$22,811	$11,757	$3,157		($1,396)	$52,133
163,115	135,098	65,320			583,138
185,926	146,855	68,477		(1,396)	635,271
					1,036
5,380	10,691				17,847
8,000	5,350	1,000			26,350
1,471	709	844	$127		4,775
200,777	163,605	70,321	127	(1,396)	685,279
1,450	1,000	500	966	(3,450)	966
3,065	4,520	3,637	7,454	(15,441)	7,454
12,717	7,718	3,394	58,546	(41,604)	58,547
			(4,060)		(4,060)
268	336	208	1,160	(1,160)	1,160
17,500	13,574	7,739	64,066	(61,655)	64,067
$218,277	$177,179	$78,060	$64,193	($63,051)	$749,346

For the year ended December 31, 2008

	German-American State Bank	State Bank of Davis
Interest and dividend income:		
Loans, including fees	$7,688	$4,463
Securities:		
Taxable	1,175	989
Tax-exempt	546	842
Dividends		
Interest-bearing deposits in banks	12	1
Federal funds sold	27	16
Total interest and dividend income	9,448	6,311
Interest expense:		
Deposits	4,181	2,941
Federal funds purchased	19	30
Securities sold under agreements to repurchase		21
Federal Home Loan Bank advances and other borrowings	253	200
Total interest expense	4,453	3,192
Net interest and dividend income	4,995	3,119
Provision for loan losses	882	45
Net interest and dividend income, after provision for loan losses	4,113	3,074
Noninterest income:		
Customer service fees	407	140
Equity in earnings of subsidiaries		
Gain on sales and calls of AFS securuties, net	82	24
Gain on sales of loans, net		
Loan-servicing fees		
Other	695	129
Total noninterest income	1,184	293
Noninterest expenses:		
Salaries and employee benefits	1,672	803
Occupancy expense of premises, net	407	166
Outside services	76	86
Data processing	263	83
Foreclosed assets, net	191	23
Other	915	383
Total noninterest expenses	3,524	1,544
Income before income taxes	1,773	1,823
Income tax expense (benefit)	477	397
Net income	$1,296	$1,426

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
$10,775	$7,824	$3,066			$33,816
971	1,079	834			5,048
688	390	364			2,830
1	2	2			18
26	41	21			131
12,461	9,336	4,287	0	0	41,843
5,651	4,144	2,068			18,985
35	7	10			101
70	116				207
313	185	16			967
6,069	4,452	2,094	0	0	20,260
6,392	4,884	2,193	0	0	21,583
3,300	288				4,515
3,092	4,596	2,193	0	0	17,068
645	233	167			1,592
			$4,964	($4,964)	
106	21	13			246
329					329
511					511
421	285	238	14		1,782
2,012	539	418	4,978	(4,964)	4,460
3,543	1,487	743	227		8,475
924	310	189	22		2,018
35	101	107	18		423
216	199	56			817
72					286
1,254	535	376	92		3,555
6,044	2,632	1,471	359	0	15,574
(940)	2,503	1,140	4,619	(4,964)	5,954
(673)	834	300	(131)		1,204
($267)	$1,669	$840	$4,750	($4,964)	$4,750

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
Dr. Carolyn Sluiter
Robert W. Stenstrom
Doug Wagner
Richard L. Weigle

Northwest Bank of Rockford
Rockford, IL

Stephen G. Gaddis
Charles B. Kullberg
John J. Morrissey
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
Dr. Carolyn Sluiter
Judd Thruman

Lena State Bank
Lena, IL

Todd Bussian
Gordon Dammann
John Jeschke
Jim Moest
Brent Myers
Steven Rothschadl

State Bank
Freeport, IL

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