

 **FORESIGHT**

financial group, inc.

www.foresightfg.com

Dear Stockholders,

Your company experienced a relatively successful, although highly stressful operating year in 2009, as basic earnings per common share improved to \$1.36 from \$1.30 in 2008. When you review the financial data in this Annual Report, especially considering the turbulent economic times prevalent throughout the year, it will be apparent that the Boards and Management Teams of the Foresight Banks overall performed admirably, with fortitude. Although not up to historical levels, this resulted in Foresight's best performance ever relative to its community banking peers and competitors, as economic problems continued to cause significant deterioration in the bank results both locally and nationally. Just how rough a year was it? Let's review some salient points.

With an already deeply troubled economic environment worsening as 2009 began, the U.S. government continued to take multiple actions intended to stabilize and improve the economy. Short term interest rates were kept at nearly 0% throughout the year by the Federal Reserve, Congress authorized massive stimulus spending packages, various tax incentives, and twice extended duration of unemployment benefits, leading to by far the largest budget deficit ever, nearly \$2 trillion. Despite all of these efforts, unemployment rose to over 10% nationally, while in Foresight's market area unemployment reached 18%, and has remained near those levels. Locally, housing, construction, and real estate sales were less than 20% of the 2007 level, despite 20-30% average price declines. With such horrific economic conditions, along with the continued effects of the credit market collapse of 2008 on the banking industry, hundreds of banks have failed and hundreds more are expected in 2010. Even though the FDIC more than tripled the cost to banks for deposit insurance, the FDIC deposit insurance fund was depleted by year end 2009. When the publicly available year end financial reports were released, this revealed that few banks in Foresight's market area were even minimally profitable; several incurred substantial losses, and some will likely struggle to survive another year.

As the year progressed, some improvement began to surface—"green shoots" was the phrase developed for them. Because of weak economic conditions, inflation was non-existent, bond markets reacted favorably, and a mortgage refinance boom was facilitated as the Federal Reserve purchased mortgage bonds and expanded its balance sheet in unprecedented fashion. This benefited homeowners and consumers significantly, so as conditions stabilized and confidence improved, consumer spending recovered somewhat. Positive effects that bode well for the future included reductions in the consumer debt level and a dramatic increase in the savings rate. The stock market indexes bottomed out in March 2009 at about a 50% decline, and then steadily recovered about two-thirds of those losses on average by year end. The \$700 billion TARP Capital program was not fully funded, but was pivotal in restoring confidence to the financial markets, and the banking sector has been repaying its segment at a rapid rate, with a profit to the taxpayers. Congress has committed to restore effective regulatory controls over the activities of the Wall Street financial institutions whose reckless speculation caused the collapse of the credit markets and the economic pain "Main Street" continues to suffer through. Time will tell, but getting through 2009 in a "relatively positive" manner should bode well for Foresight's future prospects.

The troubled economy did have substantial negative impact on Foresight's asset quality and profitability in 2009, as net income of \$5,483,000, although up 15% from 2008, was 17% below 2007's record net income of \$6,591,000. Without a doubt, high credit costs and the increasing volume of non-performing assets present the most critical challenges. Credit costs were moderate in 2007 at \$0.6 million, but increased to \$4.8 million in 2008 and \$6.8 million in 2009. Non-performing assets have trended upward as well, from \$3.2 million in 2007, to \$17.7 million in 2008, and at December 31, 2009 totaled \$24.2 million. Accordingly, the allowance for possible loan losses was increased from \$6.1 million in 2007 to \$7.4 million in 2008, and to \$10.7 million at year end 2009. With credit risk this severe, and the economy so uncertain, the Foresight Board determined it would be appropriate to take a

major protective step, by accepting \$15 million in preferred stock from the U.S. Treasury under the TARP Capital program in May 2009. This action, along with the positive financial performance in 2009, results in Foresight maintaining strong capital ratios that exceed regulatory “well-capitalized” standards by at least 50%. This strong capitalization level positions Foresight to continue delivering excellent community banking services to its present customers and communities, as well as to prosper and grow by acquisition of additional banks, or markets should the economic environment present favorable opportunities.

The management teams of the Foresight Banks achieved excellent results in several key areas that drove profitability in 2009 to help offset the high credit costs described above. Foresight’s profitability, as measured by return on assets, was 71 basis points, compared to its peer group which incurred an average net loss of 5 basis points. Foresight’s net operating overhead expenses were 1.56% of average assets, compared to the peer groups’ much higher 2.24% expense ratio—this management driven area accounts for almost 90% of the higher profitability of Foresight relative to peers in 2009. Key components of this positive difference our management team achieved included: net interest income grew by 14.5%, non-interest income increased 27.5%, and operating overhead expense increased only 6.0% excluding FDIC deposit insurance costs.

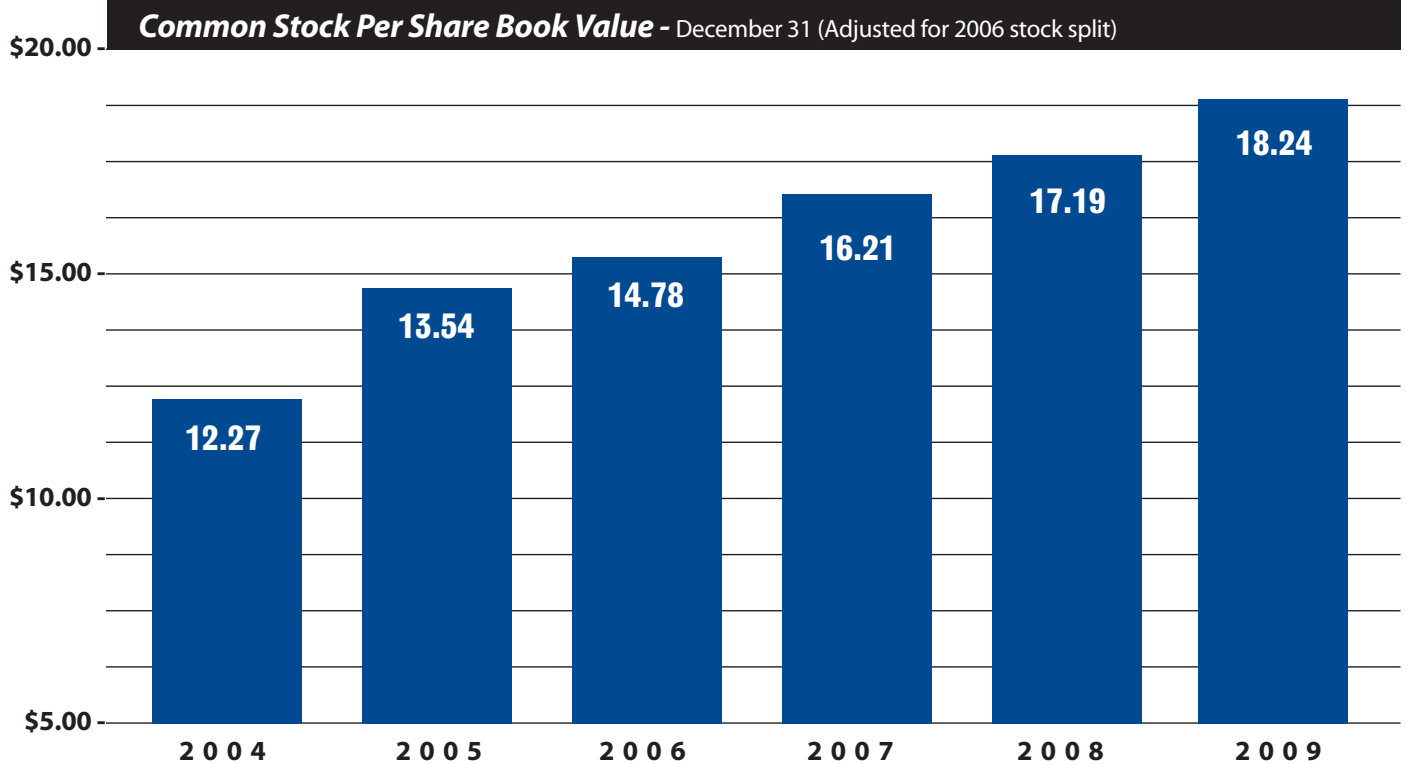
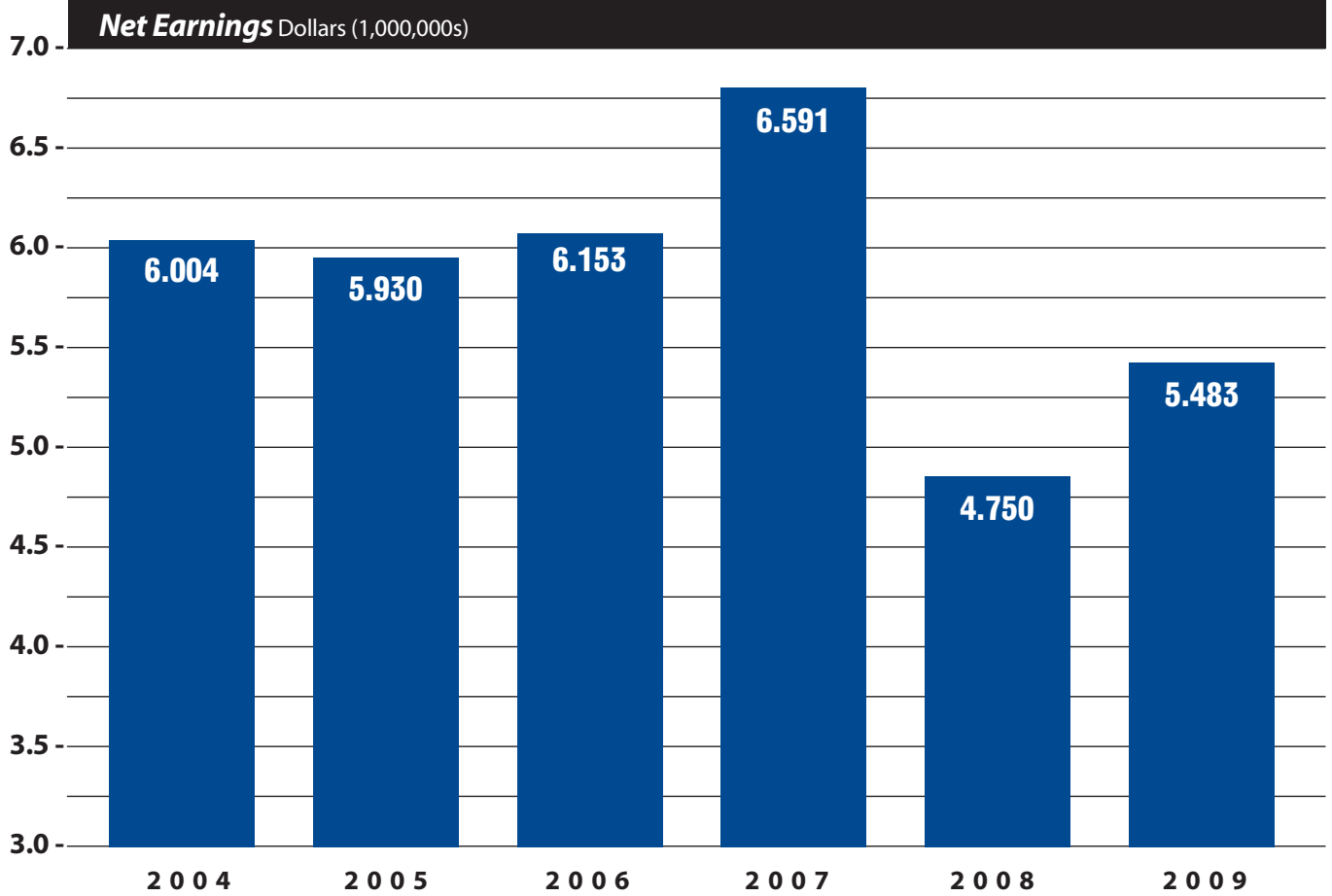
The financial performance of the company along with the increased capital strength from the preferred stock issue, positioned the company to continue paying cash dividends to common stockholders at the same level as 2008, totaling \$.32 per share. The Foresight Board expects to continue cash dividends at this level as long as the company’s financial performance trend continues to be favorable. Market trading price for Foresight’s common stock remains depressed and unreflective of intrinsic value, but did increase by over 25% to \$9.84 at year end 2009 from \$7.75 in 2008.

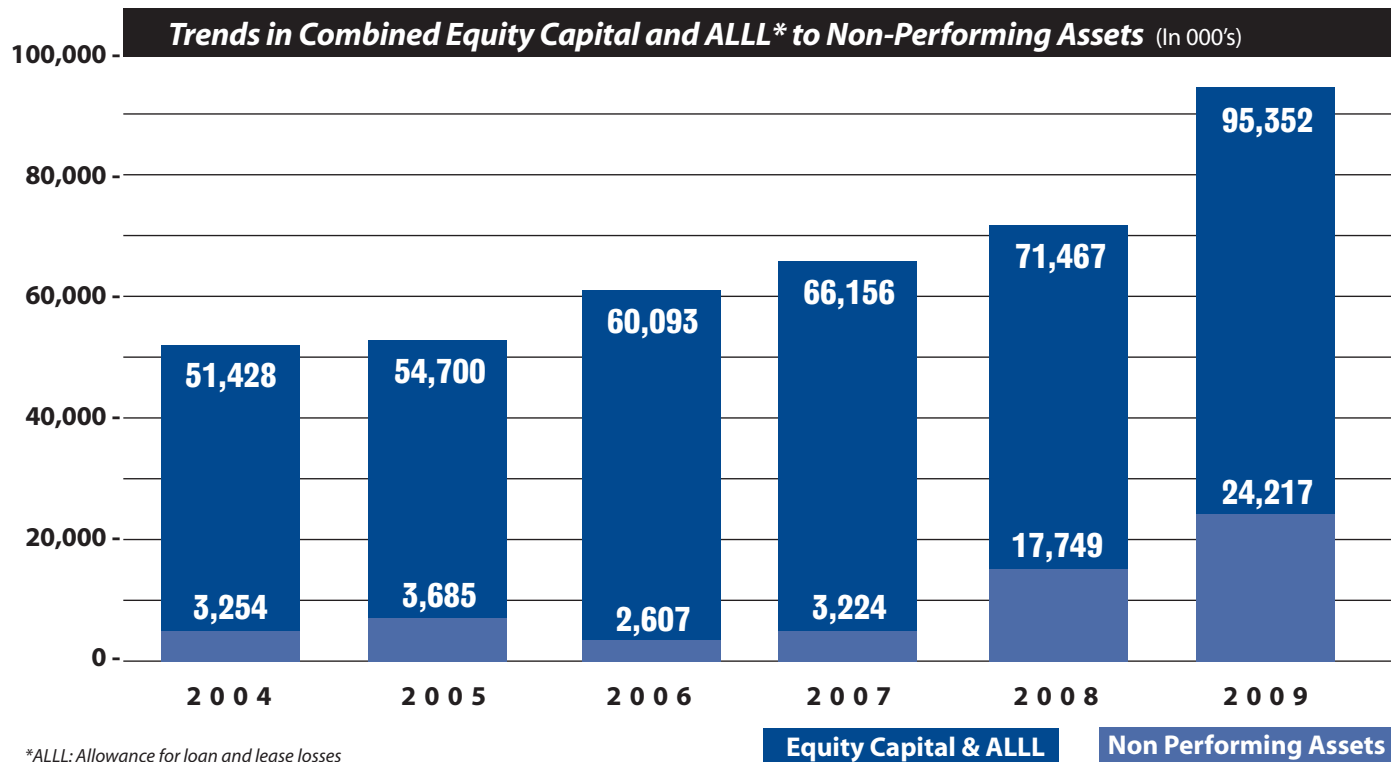
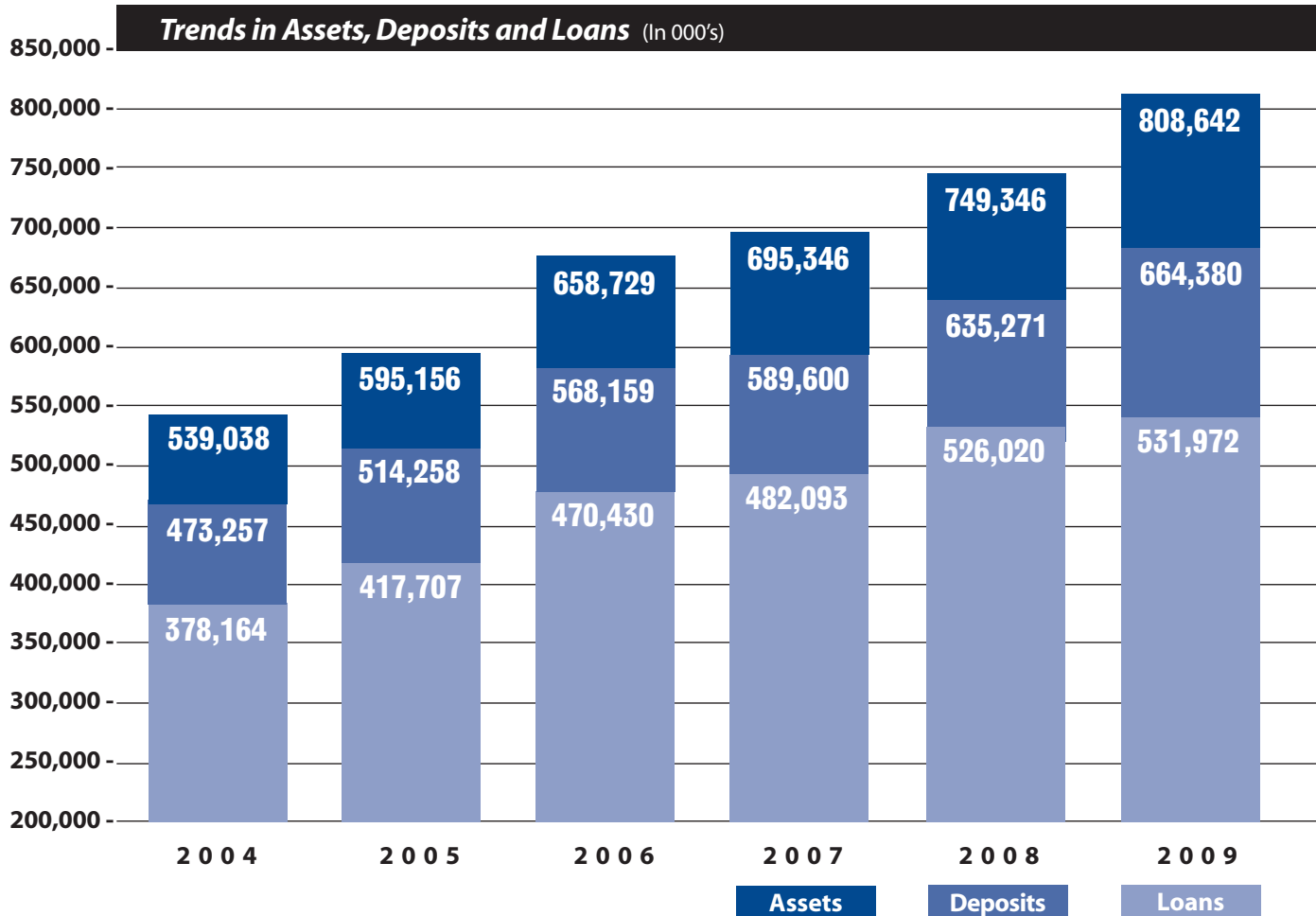
The year 2009 ended with significant uncertainties over the depth and timing of economic recovery, the consequences of the multiple measures undertaken by the U.S. government, and the outcome of the distressed credit environment. It required a great amount of fortitude during 2009 for the Foresight Board and management team to navigate the turbulent economic times. On a sad note, Foresight lost Jim Schneiderman to respiratory illness in February 2010 at the age of 63. Jim was truly one of our best and brightest “navigators”, and the first President of Foresight. Jim was a great community banker and visionary, who often told us to keep “**Moving Forward**”. A memorial tribute to Jim is included at the end of this report. Please join the Foresight family in honoring Jim’s incredible commitment and contribution to Foresight’s success and legacy by continuing to support our mission of **Community Building through Community Banking**, and to follow Jim’s message to keep “**Moving Forward**”.

Respectfully and Gratefully,



President and CEO





*ALLL: Allowance for loan and lease losses

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”



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, 2009 and 2008, 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, 2009. 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, 2009 and 2008, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2009, 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
March 1, 2010

CONSOLIDATED BALANCE SHEETS

(000s omitted except share data)

December 31,	A S S E T S	2009	2008
Cash and due from banks		\$14,520	\$14,958
Interest-bearing deposits in banks		3,108	395
Federal funds sold		680	2,805
Total cash and cash equivalents		18,308	18,158
Securities:			
Securities held-to-maturity (HTM)		3,776	5,227
Securities available-for-sale (AFS)		224,239	172,989
Non-marketable equity securities, at cost		1,809	1,620
Loans held for sale		447	591
Loans, net of allowance for loan losses of \$10,759 and \$7,400, respectively		531,972	526,020
Foreclosed assets		570	1,041
Premises and equipment, net		9,053	9,324
Other assets		18,468	14,376
Total assets		\$808,642	\$749,346
LIABILITIES AND STOCKHOLDERS' EQUITY			
Liabilities:			
Deposits:			
Noninterest-bearing		\$51,530	\$52,133
Interest-bearing		612,850	583,138
Total deposits		664,380	635,271
Federal funds purchased		4,732	1,036
Securities sold under agreements to repurchase		24,354	17,847
Federal Home Loan Bank (FHLB) advances and other borrowings		26,500	26,350
Accrued interest payable and other liabilities		4,083	4,775
Total liabilities		724,049	685,279
Stockholders' equity:			
Preferred stock (no par value; authorized 500,000 shares; 15,750 shares issued)		15,094	0
Common stock (\$.25 par value; authorized 5,000,000 shares; 3,866,537 shares issued)		966	966
Additional paid-in capital		7,487	7,454
Retained earnings		62,353	58,547
Treasury stock, at cost (207,657 shares)		(4,060)	(4,060)
Accumulated other comprehensive income		2,753	1,160
Total stockholders' equity		84,593	64,067
Total liabilities and stockholders' equity		\$808,642	\$749,346

CONSOLIDATED STATEMENTS OF INCOME

(000s omitted except share data)

For the years ended December 31,

	2009	2008	2007
Interest and dividend income:			
Loans, including fees	\$31,848	\$33,816	\$36,672
Debt securities:			
Taxable	5,498	5,048	4,414
Tax-exempt	3,444	2,830	2,424
Dividends	0	0	21
Interest-bearing deposits in banks	32	18	25
Federal funds sold	15	131	361
Total interest and dividend income	40,837	41,843	43,917
Interest expense:			
Deposits	15,267	18,985	21,576
Federal funds purchased	9	101	157
Securities sold under agreements to repurchase	139	207	484
FHLB borrowings and other	715	967	839
Total interest expense	16,130	20,260	23,056
Net interest and dividend income	24,707	21,583	20,861
Provision for loan losses	6,405	4,515	563
Net interest and dividend income, after provision for loan losses	18,302	17,068	20,298
Noninterest income:			
Customer service fees	1,553	1,592	1,585
Gain (loss) on sales and calls of AFS securities, net	437	246	(25)
Gain on sales of loans, net	855	329	418
Loan servicing fees, net	775	511	577
Other	2,068	1,782	1,146
Total noninterest income	5,688	4,460	3,701
Noninterest expenses:			
Salaries and employee benefits	9,201	8,475	8,567
Occupancy expense of premises, net	1,918	2,018	1,967
Outside services	575	423	412
Data processing	841	817	795
Foreclosed assets, net	352	286	17
Other	4,462	3,555	3,099
Total noninterest expenses	17,349	15,574	14,857
Income before income taxes	6,641	5,954	9,142
Income tax expense	1,158	1,204	2,551
Net income	\$5,483	\$4,750	\$6,591
Earnings per common share:			
Basic	\$1.36	\$1.30	\$1.78
Diluted	\$1.36	\$1.29	\$1.77

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

For the years ended December 31,

	Preferred Stock	Common Stock	Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive (Loss) Income	Total
Balance, January 1, 2007	\$0	\$966	\$7,401	\$49,412	(\$2,867)	(\$423)	<u>\$54,489</u>
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	<u>960</u>
Total comprehensive income							<u>7,551</u>
Cash dividends (\$.28 per share)				(1,034)			(1,034)
Purchases of treasury stock (44,431 shares)					(961)		(961)
Stock-based compensation expense			16				<u>16</u>
Balance, December 31, 2007	0	966	7,417	54,969	(3,828)	537	<u>60,061</u>
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	<u>623</u>
Total comprehensive income							<u>5,373</u>
Cash dividends (\$.32 per share)				(1,172)			(1,172)
Purchases of treasury stock (12,600 shares)					(232)		(232)
Stock-based compensation expense			37				<u>37</u>
Balance, December 31, 2008	0	966	7,454	58,547	(4,060)	1,160	<u>64,067</u>
Comprehensive income:							
Net income				5,483			5,483
Other comprehensive income -							
Change in unrealized gain on securities available-for-sale, net of reclassification and tax effect						1,593	<u>1,593</u>
Total comprehensive income							<u>7,076</u>
Cash dividends (\$.32 per share)				(1,174)			(1,174)
Issuance of preferred stock	15,000						15,000
Accretion of preferred stock warrants	94			(94)			0
Cash dividends on preferred stock				(409)			(409)
Stock-based compensation expense			33				<u>33</u>
Balance, December 31, 2009	<u>\$15,094</u>	<u>\$966</u>	<u>\$7,487</u>	<u>\$62,353</u>	<u>(\$4,060)</u>	<u>\$2,753</u>	<u>\$84,593</u>

CONSOLIDATED STATEMENTS OF CASH FLOWS

(000s omitted except share data)

For the years ended December 31,

	2009	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	\$5,483	\$4,750	\$6,591
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Provision for loan losses	6,405	4,515	563
Depreciation	818	909	926
Net amortization (accretion) of securities	230	(18)	214
Deferred income tax benefit	(1,251)	(467)	(251)
Net (gain) loss on the sales and calls of AFS securities	(437)	(246)	25
Stock-based compensation expense	33	37	16
Net change in:			
Servicing rights	(311)	(102)	(61)
Loans held for sale	144	(263)	(142)
Other assets	(3,531)	668	(559)
Accrued expenses and other liabilities	(689)	(323)	(67)
Net cash provided by operating activities	6,894	9,460	7,255
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from sales of AFS securities	17,736	10,108	2,048
Proceeds from maturities, calls, and paydowns of HTM securities	1,520	1,283	6,518
Proceeds from maturities, calls, and paydowns of AFS securities	43,772	60,752	18,584
Purchases of HTM securities	0	0	(5,653)
Purchases of AFS securities	(110,028)	(84,632)	(45,776)
Purchases of non-marketable equity securities	(189)	(156)	(60)
Loan originations and principal collections, net	(12,357)	(48,442)	(12,226)
Net change in foreclosed assets	471	361	(100)
Purchases of premises and equipment	(548)	(303)	(1,156)
Net cash used in investing activities	(59,623)	(61,029)	(37,821)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net change in deposits	29,109	45,671	21,441
Net change in securities sold under agreements to repurchase	6,507	3,389	874
Cash dividends paid	(1,583)	(1,172)	(1,034)
Net change in federal funds purchased	3,696	(5,490)	5,697
Proceeds from exercise of stock options, net of tax benefit	0	0	0
Purchases of treasury stock	0	(232)	(961)
Proceeds from issuance of preferred stock	15,000	0	0
Proceeds from lines of credit and FHLB advances and other borrowings	18,250	21,250	15,475
Payments on lines of credit and FHLB advances and other borrowings	(18,100)	(14,500)	(12,375)
Net cash provided by financing activities	52,879	48,916	29,117
Net increase (decrease) in cash and cash equivalents	150	(2,653)	(1,449)
Cash and cash equivalents at beginning of year	18,158	20,811	22,260
Cash and cash equivalents at end of year	\$18,308	\$18,158	\$20,811

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

For the years ended December 31,

2009 2008 2007

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

Cash paid during the year for:

Interest	\$16,652	\$20,489	\$23,050
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Income taxes	\$1,934	\$1,671	\$2,801
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SUPPLEMENTAL SCHEDULE OF NONCASH AND FINANCING ACTIVITIES:

Foreclosed assets acquired in settlement of loans	\$470	\$1,326	\$849
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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) *Subsequent Events*

The Company has evaluated subsequent events for recognition and disclosure through March 1, 2010, which is the date the financial statements were available to be issued.

(d) *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.

(e) *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.

(f) *Interest-bearing Deposits in Banks*

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

(1) Summary of Significant Accounting Policies (continued)

(g) 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.

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.

(h) 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. FHLB stock is periodically evaluated for impairment based on the ultimate recovery of par value.

(i) 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.

(j) 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(000s omitted except share data)

(1) Summary of Significant Accounting Policies (continued)

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

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.

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 and general components. The specific component relates to loans that are classified as impaired. For loans that are classified as impaired, an allowance is established when the discounted cash flows, collateral value or observable market price of the impaired loan is lower than the carrying value of that loan. The general component covers non-impaired 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.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(000s omitted except share data)**(1) Summary of Significant Accounting Policies (continued)*****(j) Loans and Allowance for Loan Losses (continued)***

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.

(k) 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 accounting standards and are recorded at fair value, if material.

(l) 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.

(m) 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.

(n) 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(000s omitted except share data)

(1) Summary of Significant Accounting Policies (continued)

(o) 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.

(p) 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.

(q) 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.

(r) 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.

The Company adopted guidance issued by the Financial Accounting Standards Board (FASB) with respect to accounting for uncertainty in income taxes as of January 1, 2009. A tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded. The effect of adopting this new guidance was not material.

(s) 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.

(1) Summary of Significant Accounting Policies (continued)

(t) 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. The dividends on preferred stock and the accretion of the preferred warrants are subtracted from net income in arriving at the net income available to common stockholders.

(u) 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.

(v) 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.

(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) 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.

(y) 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, it projected a forfeiture rate of ten percent on the stock options granted in 2008.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(000s omitted except share data)

(1) Summary of Significant Accounting Policies (continued)

(z) Adoption of New Accounting Standards

In September 2006, the Financial Accounting Standards Board (FASB) issued guidance which defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. This guidance also establishes a fair value hierarchy about 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 guidance was effective for fiscal years beginning after November 15, 2007. In February 2008, the FASB issued guidance that delayed the effective date of this fair value guidance for all nonfinancial assets and nonfinancial 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, and interim periods within those fiscal years. The impact of adoption was not material.

In June 2009, the FASB replaced The Hierarchy of Generally Accepted Accounting Principles, with the FASB Accounting Standards Codification (The Codification) as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with GAAP. The Codification was effective for financial statements issued for periods ending after September 15, 2009.

In April 2009, the FASB amended existing guidance for determining whether impairment is other-than-temporary for debt securities. The guidance requires an entity to assess whether it intends to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. If either of these criteria is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings. For securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows: 1) other-than-temporary impairment (OTTI) related to other factors, which is recognized in other comprehensive income and 2) OTTI related to credit loss, which must be recognized in the income statement. The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis. Additionally, disclosures about other-than-temporary impairments for debt and equity securities were expanded. This guidance was effective for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The impact of adoption was not material.

(aa) Newly Issued Not Yet Effective Accounting Standards

In June 2009, the FASB amended previous guidance relating to transfers of financial assets. This guidance must be applied as of the beginning of a company's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period and for interim and annual reporting periods thereafter. This guidance must be applied to transfers occurring on or after the effective date. The disclosure provisions were also amended and apply to transfers that occurred both before and after the effective date of this guidance. The effect of adopting this new guidance is not expected to have a material effect on the consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(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 2009	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
State and municipal	\$3,776	\$118	(\$54)	\$3,840

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

Available-for-Sale 2009	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. agency	\$45,997	\$781	(\$266)	\$46,512
State and municipal	94,374	2,154	(577)	95,951
Mortgage-backed - residential	79,392	2,418	(34)	81,776
	\$219,763	\$5,353	(\$877)	\$224,239

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 - residential	59,196	1,320	(27)	60,489
	\$171,105	\$3,712	(\$1,828)	\$172,989

For the years ended December 31, 2009, 2008 and 2007, proceeds from sales of available-for-sale securities amounted to \$17,736, \$10,108 and \$2,048, respectively. Gross realized gains and losses from the sales and calls of available-for-sale securities for the years ended December 31 are as follows:

	2009	2008	2007
Realized gains	\$440	\$295	\$2
Realized losses	(\$3)	(\$49)	(\$27)

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

(2) Securities (continued)

Securities with carrying amounts of approximately \$108,892 and \$99,087 at December 31, 2009 and 2008, 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, 2009 are shown below by contractual maturities, except for U.S. agencies which are shown by contractual maturities or their expected call dates if the call dates are considered likely to occur based on present market conditions. 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	\$606	\$626
Due after one year through five years	1,379	1,435
Due after five years through ten years	584	575
Due after ten years	1,207	1,204
	\$3,776	\$3,840

Available-for-Sale	Amortized Cost	Fair Value
Due in one year or less	\$16,843	\$17,116
Due after one year through five years	29,432	30,337
Due after five years through ten years	25,342	25,718
Due after ten years	68,754	69,292
	140,371	142,463
Mortgage-backed - residential	79,392	81,776
	\$219,763	\$224,239

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, 2009 and 2008:

	2009					
	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	\$418	\$34	3	\$145	\$20	2
Total temporarily impaired	\$418	\$34	3	\$145	\$20	2

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

(2) Securities (continued)

	2008					
	Held-to-Maturity					
	Less than 12 Months			12 Months or More		
	Gross Unrealized	No. of		Gross Unrealized	No. of	
	Fair Value	Loss	Securities	Fair Value	Loss	Securities
State and municipal	\$670	\$41	5	\$311	\$53	4
Total temporarily impaired	\$670	\$41	5	\$311	\$53	4

	2009					
	Available-for-Sale					
	Less than 12 Months			12 Months or More		
	Gross Unrealized	No. of		Gross Unrealized	No. of	
	Fair Value	Loss	Securities	Fair Value	Loss	Securities
U.S. agency	\$14,898	\$258	49	\$492	\$8	1
State and municipal	18,047	277	76	4,648	300	28
Mortgage-backed - residential	4,599	34	8	0	0	0
Total temporarily impaired	\$37,544	\$569	133	\$5,140	\$308	29

	2008					
	Available-for-Sale					
	Less than 12 Months			12 Months or More		
	Gross Unrealized	No. of		Gross Unrealized	No. of	
	Fair Value	Loss	Securities	Fair Value	Loss	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 - residential	7,440	21	14	421	6	1
Total temporarily impaired	\$36,194	\$1,502	138	\$3,809	\$326	28

Unrealized losses on 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 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(000s omitted except share data)

(3) Loans

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

	2009	2008
Agricultural	\$38,124	\$37,061
Commercial	164,928	160,278
Real estate	326,155	321,712
Consumer installment	13,524	14,369
	542,731	533,420
Allowance for loan losses	(10,759)	(7,400)
	\$531,972	\$526,020

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

	2009	2008	2007
Balance at beginning of year	\$7,400	\$6,095	\$5,604
Provision charged to operations, net	6,405	4,515	563
Recoveries on loans previously charged-off	95	117	487
	13,900	10,727	6,654
Less loans charged-off	(3,141)	(3,327)	(559)
Balance at end of year	\$10,759	\$7,400	\$6,095

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

	2009	2008
Impaired loans without a valuation allowance	\$4,776	\$0
Impaired loans with a valuation allowance	\$25,487	\$17,353
Total impaired loans	\$30,263	\$17,353
Valuation allowance related to impaired loans	\$4,543	\$2,260
Total non-accrual loans	\$22,910	\$15,765
Average balance of impaired loans	\$23,646	\$10,041

Interest income and other loan income recognized on impaired loans during 2009 approximated \$260. Interest income and other loan income recognized on impaired loans during 2008 and 2007 were considered immaterial. At December 31, 2009 and 2008, the Banks had loans amounting to approximately \$737 and \$944, 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.

(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, 2009 and 2008, were approximately \$208,015 and \$172,506, respectively. Custodial escrow balances maintained in conjunction with serviced loans were approximately \$1,355 and \$1,234 at December 31, 2009 and 2008, respectively.

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

(4) Loan Servicing (continued)

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

	2009	2008	2007
Mortgage servicing rights:			
Balance at beginning of year	\$970	\$868	\$808
Mortgage servicing rights capitalized	1,174	555	347
Mortgage servicing rights amortized	(867)	(453)	(287)
Balance at end of year	\$1,277	\$970	\$868

The approximate fair values of the mortgage servicing rights were deemed to be greater than their carrying values as of December 31, 2009, 2008, and 2007, 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, 2009 and 2008, the Company had approximately \$620 and \$5,014 in interest rate lock commitments outstanding. As of December 31, 2009 and 2008, the Company had approximately \$620 and \$5,014 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, 2009 and 2008.

(6) Premises and Equipment

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

	2009	2008
Land	\$1,524	\$1,524
Buildings and leasehold improvements	9,842	9,426
Furniture, fixtures, and equipment	7,800	7,669
	19,166	18,619
Less accumulated depreciation	10,113	9,295
	\$9,053	\$9,324

Depreciation expense for the years ended December 31, 2009, 2008 and 2007 amounted to \$818, \$909, and \$926, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(000s omitted except share data)

(7) Other Assets

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

	2009	2008
Cash surrender value of bank-owned life insurance	\$4,966	\$5,332
Accrued interest receivable	5,588	5,446
Mortgage servicing rights, net of amortization	1,277	970
Net deferred tax assets	1,746	1,535
Federal Deposit Insurance Corporation assessments	3,459	0
Other	1,432	1,093
	\$18,468	\$14,376

(8) Time Deposits

The aggregate amount of time deposits with minimum a denomination of \$100 was approximately \$137,118 and \$148,217 at December 31, 2009 and 2008, respectively.

At December 31, 2009, the scheduled maturities of time deposits are as follows:

2010	\$243,903
2011	99,841
2012	45,152
2013	6,094
2014 and thereafter	2,718
	\$397,708

(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. Additionally, dividends are limited under the terms of the TARP agreement as described in Note 22.

(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 \$206, \$191, and \$215, for 2009, 2008, and 2007, 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.

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

(10) Employee Benefit Plans (continued)

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 \$10,099 and \$10,882 as of December 31, 2009 and 2008, respectively (see Note 7). The Banks accrue for the total amounts to be paid over the employee's active service life. The accrued benefits were \$963, \$1,009, and \$1,025 at December 31, 2009, 2008, and 2007, respectively. Salary-continuation expenses were \$47, \$74, and \$68 in 2009, 2008, and 2007, respectively.

(11) Income Taxes

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

	2009	2008	2007
Current – federal	\$1,854	\$1,318	\$2,353
– state	555	353	449
	2,409	1,671	2,802
Deferred – federal	(1,091)	(403)	(221)
– state	(160)	(64)	(30)
	(1,251)	(467)	(251)
Total income tax expense	\$1,158	\$1,204	\$2,551

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:

	2009		2008		2007	
	Amount	% of Pretax Earnings	Amount	% of Pretax Earnings	Amount	% of Pretax Earnings
Statutory federal tax	\$2,258	34.0%	\$2,024	34.0%	\$3,108	34.0%
Increase (decrease) in taxes resulting from:						
Tax-exempt interest	(1,318)	(19.8%)	(1,141)	(19.2%)	(937)	(10.3%)
Bank-owned life insurance	(164)	(2.5%)	(70)	(1.2%)	(61)	(0.7%)
State taxes, net of federal benefit	260	3.9%	199	3.4%	276	3.0%
Other	122	1.8%	192	3.2%	165	1.8%
Effective tax rates	\$1,158	17.4%	\$1,204	20.2%	\$2,551	27.8%

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(000s omitted except share data)

(11) Income Taxes (continued)

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, 2009 and 2008 are summarized as follows:

	2009	2008
Deferred tax assets:		
Allowance for loan losses	\$4,195	\$2,886
Deferred compensation and other	417	405
Total gross deferred tax assets	4,612	3,291
Deferred tax liabilities:		
FHLB stock dividend	129	129
Security accretion	41	70
Available-for-sale securities	1,722	725
Tax depreciation in excess of book depreciation	472	447
Mortgage servicing rights and other	502	385
Total gross deferred tax liabilities	2,866	1,756
Net deferred tax assets	\$1,746	\$1,535

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.

Loans to related parties amounted to approximately \$11,028 and \$9,814 at December 31, 2009 and 2008, respectively.

Deposit accounts from related parties totaled approximately \$8,240 and \$7,129 at December 31, 2009 and 2008, 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.

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

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

Financial instruments with off-balance-sheet risk (continued):

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:

	2009	2008
Lines of credit and other loan commitments	\$95,506	\$90,201
Commercial letters of credits	443	518
Performance and standby letters of credit	458	1,150
	\$96,407	\$91,869

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 guidance. The fair value of these financial guarantees is considered immaterial.

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 \$24,354 and \$17,847 at December 31, 2009 and 2008, respectively, and are secured by investment securities with fair values of approximately \$25,517 and \$20,763. The weighted-average interest rates on these agreements were 0.76% and 1.59% at December 31, 2009 and 2008, respectively. Securities sold under agreements to repurchase mature on a daily basis.

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

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

<i>FHLB:</i>	2009	2008
Fixed-rate advances with rates ranging from of .44% to 4.61% with weighted-average rates of 2.28% and 3.87% as of December 31, 2009 and 2008, respectively. Interest is payable monthly with principal due at maturity.	\$21,200	\$21,850
Variable-rate advances with rates ranging from .36% to .54%, with weighted-average rates of .38% and 1.57% as of December 31, 2009 and 2008, respectively. Interest is payable monthly with principal due at maturity.	4,000	3,000
	\$25,200	\$24,850

Advances are collateralized by 1-4 family mortgage loans and other qualifying loans. The total amounts of collateral securing FHLB advances were approximately \$77,120 and \$64,819 as of December 31, 2009 and 2008, respectively.

Other Borrowings:

The Company has a \$2,000 revolving line of credit with a balance of \$0 at December 31, 2009 and 2008. 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, 2009. As of the date of this report, the line of credit had not been renewed.

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 at a rate of 25-basis points over the federal funds rate or .50% at December 31, 2009. Outstanding advances were \$1,300 and \$1,500 at December 31, 2009 and 2008, respectively. Advances are secured by investment securities pledged to the Federal Reserve Bank.

At December 31, 2009, the scheduled maturities of Federal Home Loan Bank advances and other borrowings are as follows:

	2009	2008
2009	\$0	\$15,600
2010	16,550	7,750
2011	7,300	3,000
2012	1,300	0
2013	850	0
2014	500	0
	\$26,500	\$26,350

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(000s omitted except share data)

(16) Disclosures About Fair Value of Financial Instruments

FASB guidance 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. Accounting guidance excludes certain financial instruments and certain 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.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(000s omitted except share data)

(16) 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, 2009		December 31, 2008	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	\$18,307	\$18,307	\$18,158	\$18,158
Securities	228,015	228,079	178,216	178,210
Non-marketable equity securities	1,809	1,809	1,620	1,620
Loans held for sale	447	447	591	591
Loans, net of allowance	531,972	533,813	526,020	530,653
Accrued interest receivable	5,588	5,588	5,446	5,446
Financial liabilities:				
Deposits	\$664,387	\$670,475	\$635,271	\$638,932
Federal funds purchased	4,732	4,732	1,036	1,036
Securities sold under agreements to repurchase	24,354	24,354	17,847	17,847
FHLB advances and other borrowings	26,500	26,678	26,350	27,011
Accrued interest payable	1,745	1,745	2,265	2,265

(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. 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:

	2009	2008	2007
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%-22.0%	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	N/A
Weighted average fair value of options granted	N/A	\$5.08	N/A

As of December 31, 2009, stock-based compensation expense not yet recognized totaled \$109, and is expected to be recognized over a weighted-average remaining period of 2.9 years.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(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, 2009:

	2009	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Shares under option, beginning of year	99,530	\$15.71	5.08	\$0
Granted during the year	0			
Forfeited and canceled during the year	0			
Exercised during the year	0			
Shares under option, end of year	99,530	\$15.71	4.08	\$0
Options exercisable, end of year	73,614	\$14.05	2.76	\$0
Shares available for grant, end of year	104,730			

	Number of Options	Weighted Average Fair Value at Grant
Non-vested options, December 31, 2008	33,078	\$20.27
Granted during the year	0	0
Vested during the year	(7,162)	19.73
Forfeited or expired during the year	0	0
Non-vested options, December 31, 2009	25,916	\$20.42

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

(17) Stock-Compensation Plans (continued)

The following table summarizes information about fixed stock options outstanding at December 31, 2009:

Exercise Price	Number Outstanding at 12/31/09	Remaining Contractual Life (Years)	Number Exercisable at 12/31/09
\$10.50	10,000	.5	10,000
\$12.25	30,010	1.5	30,010
\$12.00	9,760	2.5	9,760
\$17.75	13,130	4.5	13,130
\$19.25	8,030	5.5	6,424
\$20.50	28,600	8.0	4,290
	99,530		73,614

(18) Earnings Per Common Share

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

	2009	2008	2007
Net income	\$5,483	\$4,750	\$6,591
Less - preferred stock dividends	(409)	0	0
Less - accretion of preferred stock warrants	(94)	0	0
Net income available to common stockholders	\$4,980	\$4,750	\$6,591
Average number of common shares outstanding	3,658,880	3,664,114	3,695,987
Effect of dilutive options	0	10,270	25,428
Average number of common shares outstanding used to calculate diluted earnings per common share	3,658,880	3,674,384	3,721,415

The total outstanding options of common stock which were excluded in the computation of diluted earnings per common share for the years ended 2009, 2008 and 2007 were 99,530, 49,760 and 0, respectively because they were considered anti-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.

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

(19) Regulatory Matters (continued)

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, 2009, that the Company and the Banks meet all capital-adequacy requirements to which they are subject.

As of December 31, 2009, 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.

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

	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, 2009:						
Total Capital to Risk						
Weighted Assets:						
Company	\$88,988	15.14%	\$47,031	8.00%	N/A	N/A
Northwest	20,739	12.10%	13,712	8.00%	\$17,140	10.00%
German	15,216	11.94%	10,196	8.00%	12,745	10.00%
Davis	11,595	14.27%	6,499	8.00%	8,123	10.00%
Freeport	16,930	11.72%	11,559	8.00%	14,448	10.00%
Lena	8,609	16.65%	4,138	8.00%	5,172	10.00%
Tier-I Capital to Risk						
Weighted Assets:						
Company	\$81,599	13.88%	\$23,515	4.00%	N/A	N/A
Northwest	18,579	10.84%	6,856	4.00%	\$10,284	6.00%
German	13,618	10.68%	5,098	4.00%	7,647	6.00%
Davis	10,576	13.02%	3,249	4.00%	4,874	6.00%
Freeport	15,121	10.47%	5,779	4.00%	8,669	6.00%
Lena	7,961	15.39%	2,069	4.00%	3,103	6.00%
Tier-I Capital to Average Assets:						
Company	\$81,599	10.18%	\$32,070	4.00%	N/A	N/A
Northwest	18,579	8.06%	9,218	4.00%	\$11,522	5.00%
German	13,618	8.09%	6,730	4.00%	8,413	5.00%
Davis	10,576	8.92%	4,744	4.00%	5,930	5.00%
Freeport	15,121	8.06%	7,507	4.00%	9,384	5.00%
Lena	7,961	9.95%	3,201	4.00%	4,001	5.00%

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(000s omitted except share data)

(19) Regulatory Matters (continued)

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%

(20) Other Comprehensive Income

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

	2009	2008	2007
Holding gains on securities available-for-sale	\$3,029	\$1,254	\$1,537
Less reclassification adjustments for (gains) losses recognized in income	(437)	(246)	25
Net unrealized gains	2,592	1,008	1,562
Deferred tax effect	(999)	(385)	(602)
Other comprehensive income	\$1,593	\$623	\$960

(21) Fair-Value Measurement

Fair value is 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. 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.

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

(21) Fair-Value Measurement (continued)

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

Securities available-for-sale: The fair values of the Company's securities available-for-sale 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. The values determined by matrix pricing are considered Level 2 fair value measurements.

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.

Foreclosed assets: Nonrecurring adjustments to certain commercial and residential and real estate properties classified as foreclosed assets are measured at the lower of carrying amount or fair value, less selling costs. Fair values are generally based on third party appraisals of the property, resulting in a Level 3 classification. In cases where the carrying amount exceeds the fair value, less costs to sell, an impairment loss is recognized.

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

As of December 31, 2009	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	\$224,239		\$224,239	
Assets measured at fair value on a non-recurring basis:				
Assets:				
Collateral-dependent impaired loans	\$20,944			\$20,944
Foreclosed assets	\$570			\$570
 As of December 31, 2008				
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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(000s omitted except share data)

(21) Fair-Value Measurement (continued)

Collateral-dependent impaired loans, which are measured for impairment using the fair value of collateral, had a carrying value of \$25,487 and \$17,353, with specific reserves of \$4,543 of \$2,260 as of December 31, 2009 and 2008, respectively.

Foreclosed assets which are measured at the lower of carrying or fair value less costs to sell, had a carrying amount of \$570, which is comprised of the outstanding balance of \$580, net of an allowance for losses of \$10 as of December 31, 2009.

(22) TARP Capital Purchase Plan

On May 15, 2009, as part of the United States Treasury Department's (UST) Troubled Asset Relief Program (TARP) Capital Purchase Program, the Company issued 15,000 shares of fixed rate cumulative perpetual preferred stock (Series A preferred stock) to the UST for total proceeds of \$15,000,000. The Series A preferred stock has no par value and a redemption value of \$1,000 per share. The UST also received warrants to purchase 750 shares of fixed rate cumulative preferred stock (Series B preferred stock) for an exercise price of \$.01 per share. The UST immediately exercised the warrants. The Series B preferred stock has no par value and a redemption value of \$1,000 per share. The Series A and Series B preferred stock are redeemable by the Company at any time. The dividend rate on the Series A preferred stock is 5% for the first five years and 9% thereafter. The dividend rate on the Series B preferred stock is 9%. Dividends on the preferred stock are cumulative and are payable quarterly in arrears on the 15th of February, May, August and November. The redemption value of the 750 shares of Series B preferred stock is being accreted as an increase to preferred stock over five years which is the Company's expected redemption period. The Series A and Series B preferred stock is included as Tier-1 capital for regulatory purposes.

Under the terms of the TARP agreement, the Company is subject to certain dividend limitations. Generally, without the UST's consent, the Company is limited to a maximum quarterly dividend of \$.08 per common share until May 14, 2012. Additionally, without the UST's consent, the Company is limited to a maximum dividend of 103% of the aggregate per share dividends of the prior fiscal year for the period from May 15, 2012 to May 14, 2019. Subsequent to May 14, 2019, without the UST's consent, the Company may not pay a dividend until the Series A and Series B preferred stock is redeemed.

Additionally under the terms of the TARP agreement, without the consent of the UST, the Company generally may not acquire additional shares of treasury stock, except in connection with the administration of any employee benefit plan in the ordinary course of business and consistent with past practice. The TARP agreement also places certain restrictions on executive compensation, the effect of which is not expected to have a material effect on the consolidated financial statements.

CONSOLIDATING SCHEDULE 1 - BALANCE SHEET

(000s omitted except share data)

December 31, 2009

A S S E T S	German-American State Bank	State Bank of Davis
Cash and due from banks	\$3,255	\$1,098
Interest-bearing deposits in banks	1,410	14
Federal funds sold		
Securities:		
Securities held-to-maturity		3,640
Securities available-for-sale	45,824	38,075
Non-marketable equity securities, at cost	506	229
Loans held for sale		
Loans, net	118,213	73,495
Foreclosed assets	273	83
Premises and equipment	960	789
Other assets	4,355	1,714
Investment in subsidiary banks		
Total assets	\$174,796	\$119,137
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits:		
Noninterest bearing	\$10,195	\$6,768
Interest-bearing	139,661	92,784
Total deposits	149,856	99,552
Federal funds purchased	1,267	33
Securities sold under agreements to repurchase		4,713
Federal Home Loan Bank borrowings and other	8,300	3,750
Accrued interest payable and other liabilities	1,083	323
Total liabilities	160,506	108,371
Stockholders' equity:		
Preferred stock		
Common stock	400	100
Additional paid-in capital	2,709	1,522
Retained earnings	10,509	8,954
Treasury stock		
Accumulated other comprehensive income	672	190
Total stockholders' equity	14,290	10,766
Total liabilities and stockholders' equity	\$174,796	\$119,137

Northwest Bank	State Bank	Lena State Bank	Foresight Financial Group, Inc.	Eliminations	Consolidated Total
\$5,993	\$2,469	\$1,705	\$4,463	(\$4,463)	\$14,520
65	1,600	19			3,108
	680				680
136					3,776
50,611	54,614	35,115			224,239
452	369	253			1,809
447					447
158,925	127,928	43,055	10,356		531,972
214					570
4,093	2,015	466	730		9,053
6,788	2,157	2,916	538		18,468
			68,608	(68,608)	
\$227,724	\$191,832	\$83,529	\$84,695	(\$73,071)	\$808,642

\$23,532	\$11,288	\$4,210		(\$4,463)	\$51,530
171,152	143,384	65,869			612,850
194,684	154,672	70,079		(4,463)	664,380
55		3,377			4,732
4,527	15,114				24,354
8,000	5,450	1,000			26,500
1,232	601	743	\$101		4,083
208,498	175,837	75,199	101	(4,463)	724,049

			15,094		15,094
1,450	1,000	500	966	(3,450)	966
3,071	4,524	3,646	7,486	(15,471)	7,487
14,057	9,597	3,815	62,355	(46,934)	62,353
			(4,060)		(4,060)
648	874	369	2,753	(2,753)	2,753
19,226	15,995	8,330	84,594	(68,608)	84,593
\$227,724	\$191,832	\$83,529	\$84,695	(\$73,071)	\$808,642

For the year ended December 31, 2009

	German-American State Bank	State Bank of Davis
Interest and dividend income:		
Loans, including fees	\$7,203	\$4,199
Securities:		
Taxable	1,188	903
Tax-exempt	639	879
Dividends		
Interest-bearing deposits in banks	19	
Federal funds sold	3	3
Total interest and dividend income	9,052	5,984
Interest expense:		
Deposits	3,376	2,423
Federal funds purchased	2	1
Securities sold under agreements to repurchase		30
Federal Home Loan Bank advances and other borrowings	193	132
Total interest expense	3,571	2,586
Net interest and dividend income	5,481	3,398
Provision for loan losses	1,590	410
Net interest and dividend income, after provision for loan losses	3,891	2,988
Noninterest income:		
Customer service fees	418	136
Equity in earnings of subsidiaries		
Gain on sales and calls of AFS securities, net	163	47
Gain on sales of loans, net		
Loan-servicing fees		
Other	467	167
Total noninterest income	1,048	350
Noninterest expenses:		
Salaries and employee benefits	1,716	864
Occupancy expense of premises, net	402	143
Outside services	143	86
Data processing	240	101
Foreclosed assets, net	116	61
Other	926	507
Total noninterest expenses	3,543	1,762
Income before income taxes	1,396	1,576
Income tax expense (benefit)	312	296
Net income	\$1,084	\$1,280

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
\$10,404	\$7,377	\$2,665			\$31,848
1,109	1,435	863			5,498
761	653	512			3,444
			13		32
4	3	2			15
12,278	9,468	4,042	13	0	40,837
4,527	3,302	1,639			15,267
3	2	1			9
21	87		1		139
164	192	34			715
4,715	3,583	1,674	1	0	16,130
7,563	5,885	2,368	12	0	24,707
2,200	665	340	1,200		6,405
5,363	5,220	2,028	(1,188)	0	18,302
601	247	151			1,553
			\$6,505	(\$6,505)	0
117	61	49			437
855					855
775					775
815	408	172	39		2,068
3,163	716	372	6,544	(6,505)	5,688
3,925	1,619	745	332		9,201
879	303	175	16		1,918
55	112	104	75		575
209	225	66			841
175					352
1,696	806	430	97		4,462
6,939	3,065	1,520	520	0	17,349
1,587	2,871	880	4,836	(6,505)	6,641
147	891	159	(647)		1,158
\$1,440	\$1,980	\$721	\$5,483	(\$6,505)	\$5,483

GENERAL INFORMATION

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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

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Judd Thrumen

**Lena State Bank
Lena, IL**

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

**State Bank
Freeport, IL**

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

* - (1946 - 2010)

Remembering Jim Schneiderman, "a man with foresight"

December 30, 1946 - February 19, 2010



by **Jim Butler and Kerry Hoops** - Foresight is defined as "the act of looking forward or prudent forethought". Nothing speaks more eloquently of the life of James A. "Jim" Schneiderman than the word "foresight". Jim was one of the original founding members of Foresight Financial Group. It was his vision that positioned our banking organization for where it is today.

Unfortunately, on February 19, 2010, the Foresight Financial Group lost one of its founders and a sitting member of its Board, Jim Schneiderman. The loss was also deeply felt at the German-American State Bank where Jim continued to serve as Chairman of the Board as well as Chief Financial Officer. His banking knowledge, dedication, and experience will be missed throughout the Foresight organization. His life in many ways was like a ripple upon the ocean, so wide and ranging was his involvement, not only on the banking scene, but in numerous organizations and community activities. These will forever bear his imprint.

A graduate of Forreston High School, Jim earned a Bachelor of Science Degree, followed by a Masters Degree from Illinois State University. Jim put his education quickly to work, first teaching at Hinsdale South High School before returning to his hometown, German Valley, in 1975 to join the German-American State Bank. Jim eventually served the bank as its president from 1980 until 2007, continuing to serve as Chairman of the Board and Chief Financial Officer until the time of his death. During his tenure, the bank grew from one location in German Valley to four locations, adding branches in Seward, Pecatonica and Winnebago.

In 1986, in response to changes in the Illinois Banking law, Jim became one of the guiding forces that lead to the formation of the

Foresight Financial Group. He served as its initial president and subsequently served on its Board of Directors. His wise counsel and active involvement on the Foresight board was profound and will be deeply missed.

His name will also live on in the many organizations that he served. Just to name them is a lengthy process. He was the organizing member of the Forrestville Valley Education Foundation Board, a member of the Highland Community College Foundation Board, Malcolm Eaton Enterprises Foundation Board of Directors, the Stephenson County Senior Center Board, a director on the Northwestern Illinois Mutual Insurance Company Board of Directors, a German Valley Village Board trustee, and a director on the Northwest Bank of Rockford Board of Directors. Additionally Jim was involved with and held various positions within the Community Bankers Association of Illinois and the Independent Community Bankers Association. Most importantly, and cherished by Jim, was his very active and lifelong involvement with the German Valley Christian Reformed Church where he served as elder, deacon, Sunday School teacher and more recently as vice president and clerk of its council.

Ever the farm boy at heart, Jim was most at peace farming, working the fields during his vacations and time off. Never married, Jim left behind a wonderful family including brothers, a sister and many nieces and nephews. Also left to carry on his work and vision is his bank family at German American State Bank and at the Foresight Financial Group.

In the final accounting though, what Jim did is far less important than who he was. Few would deny that Jim was a profoundly decent person who truly lived life by the Golden Rule. His thirty five year banking career presented him with the daily opportunity to help others realize their dreams and aspirations. Through good times as well as difficult economic times, his dedication and commitment to helping others never wavered. At Jim's funeral the theme of the presiding pastor's message was, "Moving Forward", and that so accurately describes Jim's life. He was not one to sit still. He was always looking forward, always planning for the future and the success of Foresight is forever indebted to his hard work and dedication. Therefore, out of respect for Jim, we must keep moving forward with great vision and foresight!

A Tribute to Jim Schneiderman, a True Community Banker

It was my privilege to work with Jim Schneiderman for 11 years. Jim hired me in 1999 to lead a new branch German-American State Bank was building in Pecatonica, my home town. For me, Jim was the best kind of boss—he rarely questioned what I was doing in Pecatonica but was always available if I needed help.

Most of the time I spent with Jim over the years was in meetings—a lot of meetings. Jim was the type of executive who would let others state their positions or opinions and then near the end, Jim would speak up. He usually had the keenest insight and brought the issue to a close with a positive note and always with the customer's interest first.

Jim really "walked the talk" when it came to community banking. He was all about helping people build their lives and the lives around them. Whether he was assisting a farmer with their annual financial plan, talking with a retired person about their investments or simply approving

cashing a check, Jim gave every customer the utmost respect and courtesy. He really appreciated the fact someone chose to do business with German-American State Bank.

In 2007, when Jim determined that he wanted to turn over the day-to-day operations of the bank to someone else, I was excited to take on the challenge knowing Jim would be there to back me up. Unfortunately that wasn't meant to be. But as Jim always said, "let's keep moving forward". So all of us at German-American State Bank will do just that—keep moving forward—providing the economic and human resources that we always have to build our communities and improve the lives of our customers, just as Jim did for almost 35 years. We are all better people for having experienced Jim's quiet, calm influence. We will miss him very much.

Jeffrey M. Sterling, President & CEO,
German-American State Bank

