2010 annual report

FORESIGHT

financial group, inc.

perseverance

COMMUNITY BUILDING
THROUGH COMMUNITY BANKING

FORESIGHT
financial group, inc.

www.foresightfg.com

STATE BANK of DAVIS

German American
STATE BANK
Traditional Banking ... Lifetime Solutions

State Bank
Freeport, IL

Northwest Bank

LENA STATE BANK

Dear Stockholders,

In managing through another difficult operating year influenced by a weak economy during 2010, the Foresight group of community bankers showed **PERSEVERANCE**—persisting in spite of significant counter influences, economic opposition, and regulatory discouragement in pursuing our mission of **Community Building through Community Banking.** The image of the mountain climber on the cover of this report reminds us of the continual effort, diligence, and prudent risk management it takes to reach the "summit" of successful performance in behalf of each of our stakeholders—customers, communities, team members, and stockholders. Measured strictly in terms of financial results, the year 2010 was better than 2009, with net income of $5,815,000, up 6% from $5,483,000. Although this result is below what we would expect to achieve in a more normal economy, it was once again far superior to the industry peer average. Foresight's profitability, return on average assets of .71%, was nearly 2.5 times the national peer group average of .28%. This was short of our goal of 1.0% return on average assets, but we were pleased overall given the economic conditions of 2010.

Several pertinent facts illustrate just how severe the economic damage of the 2008-2009 recession has been. In our local market area, we began the year with an unemployment rate of about 18%, much higher than the national average of about 10%. By year end, with gradual improvement and a return to modest economic growth, these rates had improved to about 14% and 9% respectively, but still quite high compared to historical norms. During this recession, the U.S. economy lost 2.3 million jobs in manufacturing, and 3.0 million jobs in residential housing related industries. There have been over 200 bank failures in each of the past two years, and this is expected to continue for at least the next year or two. The list of problem financial institutions tracked by the Federal Deposit Insurance Corporation has reached nearly 900 of the remaining 7,800 institutions. In the past two decades, the number of U.S. financial institutions has declined from over 15,000 to this level for many reasons, and industry experts say there are more reasons than ever for this declining trend to continue. This should be of great concern to politicians and policy makers, as community banks are a major source of support to small and mid-sized businesses, the engines of innovation behind American enterprise, which have historically driven economic growth and job creation.

It is widely believed by many economists that material improvement in the economy will have to come from strengthening the small and mid-sized business sectors, which in turn will reduce unemployment to more typical levels. The modest improvement in the economy in 2010 was driven by continuation of historically low interest rates, but was "uneven" as large corporations were the principal beneficiaries of lower employment and operating costs. Manufacturing and agriculture became the brighter pockets of prosperity, but are now clouded by the risk of commodity and energy related inflation that could derail the fledgling recovery. Improvement in the overall economy will be critical to enhancing community banks like Foresight's future prospects and performance, which are closely tied to the fortunes of small and mid-sized businesses.

With this economic background, we should now reflect upon Foresight's many achievements in 2010 from the **PERSEVERANCE** of the management teams, beyond just the increase in net income and solid profitability mentioned previously:

- Four of the five Foresight banks increased net income for 2010 over 2009—three of the banks achieved record highs for net income.
- Profitability efficiency above peer group average continues to be related directly to strong management of net operating overhead costs, with Foresight at 1.67% of average assets compared to the peer group average of 2.25%—this efficiency placed Foresight among the best 10% in its' national peer group for 2010.
- While keeping overhead costs low, the group made significant contributions to many community causes and key local institutions in excess of $250,000, including funding by German American State Bank of a major endowment for future scholarships for deserving local students to attend Highland Community College in honor and memory of the late Jim Schneiderman, Foresight's original President in 1986, and a continuing Board member for 23 years.
- Reflective of the strong agricultural economy, and supported by our strong capital position enhanced with the TARP Capital to ensure continued ability to lend to deserving customers, the Foresight banks increased their loan volume by 9% in 2010, most impressive considering the peer group average was about a 4% decline in loan volume. This growth was aided

substantially by the increased usage of several lending programs supported by Federal government agencies, including the SBA (Small Business Administration), the Farm Credit System, and USDA (U.S. Dept. of Agriculture). A major transaction assembled by State Bank of Davis, that took most of the year to complete, included a USDA guaranty that is believed to be the largest transaction of this type ever done by the Illinois office of the USDA.

- Many significant loan customers whose business fortunes were damaged severely by the recession were nurtured back to survival and beyond by our teams of our caring and committed commercial lenders, and are now repositioned to prosper again in better economic times ahead.
- Major organizational progress was achieved in terms of human capital acquisition and development, along with appropriate investment in training and leadership development programs to enhance our management succession plans—Tom Walsh was named President at Northwest Bank of Rockford in August 2010, bringing his wealth of knowledge and over 25 years executive management experience to lead the future of the bank and contribute to Foresight as well.
- Foresight was recognized in the June 2010 issue of U.S. Banker magazine as one of the top 200 Community Banks—the third time in the past five years. State Bank, Freeport was also listed by the Independent Community Bankers Association of America as one the top 20 banks in the nation in their peer group as measured by return on stockholders equity.

While we are proud of these results and achievements for 2010, your management and Board recognizes the most daunting of obstacles remains with the credit risk imbedded in the portfolios, with the ongoing troubled economy and its impact on collateral values and marketability. Non-accrual loans and foreclosed real estate continue to hold at a burdensome level of $23 million, down only about $1 million in the past year, even though credit costs of $9.5 million were charged to operating income. Although this is better performance than peer average, the charts shown in the following pages illustrate that the strong revenue gains and good expense control achieved in all phases of our business operations in 2010 were needed just to offset the impact of the elevated credit costs. Going forward, we believe that accomplishing the tasks of significantly reducing credit costs, while maintaining operating costs and revenues, would go a long way toward improving profits to a level needed to begin aggressive retirement of the TARP capital investment, a key step to improving the trading price of Foresight's common stock.

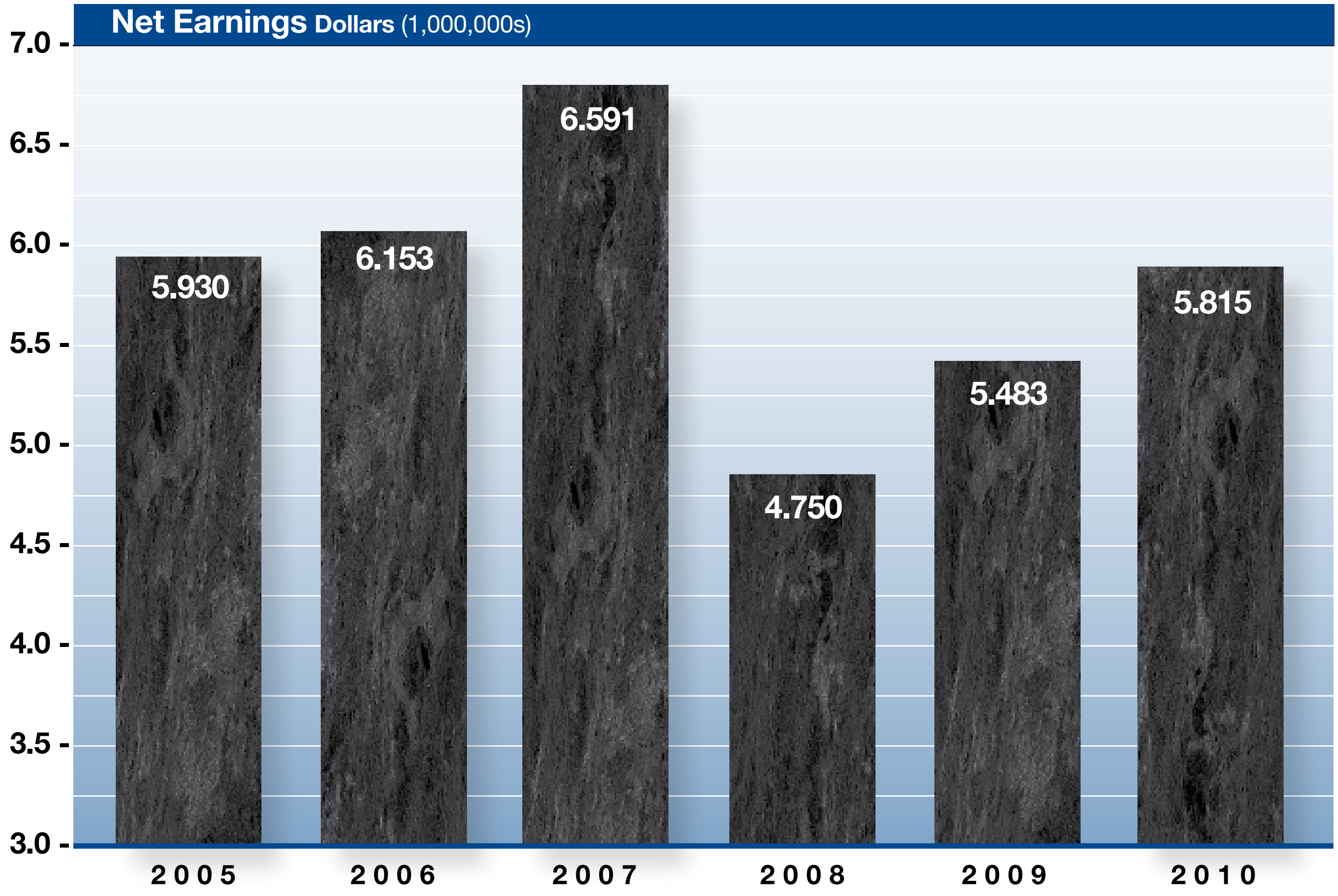
Last but not least, another major challenge from Regulatory change is upon us. With the passage in the summer of 2010 of the Dodd-Frank Wall Street Reform and Consumer Protection Act, it was the intent of Congress to carve out several exceptions to benefit community banks compared to the restrictions and limitations justifiably imposed on the largest banks and Wall Street. Although some of the carve outs will be helpful to a degree, the overall impact of this landmark legislation with over 2,000 pages of new laws that experts expect will lead to over 20,000 pages of new regulations, will be highly burdensome to community banks who lack the resources and critical mass to absorb dealing with this barrage of rules in a cost effective manner. What was intended to address the Wall Street abuses that damaged the economy may well contribute to the further decline in the viability of community banking franchises. The fight for mitigation of the changes has begun with the banking trade associations more active than ever in lobbying Congress as the implementing regulations are released.

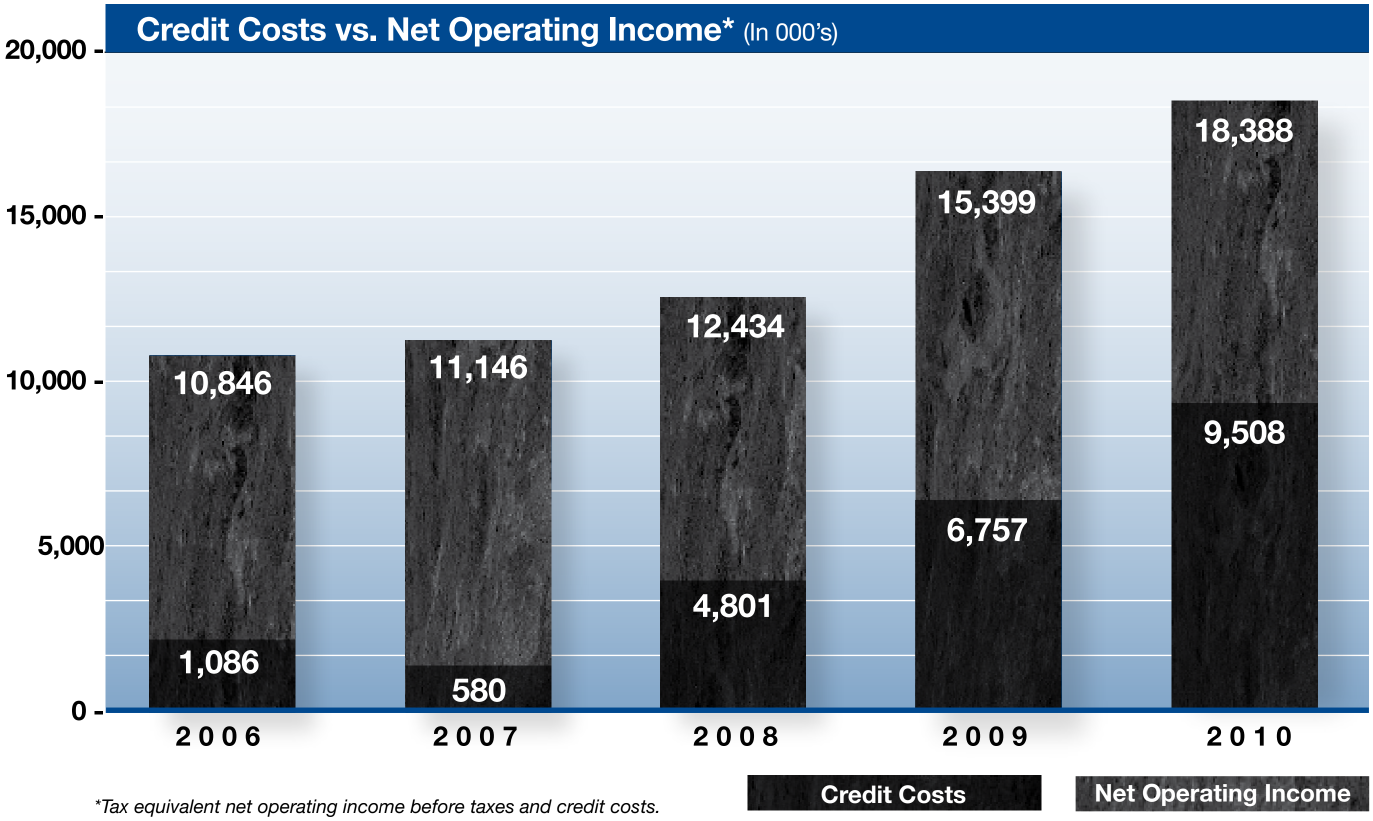
With all the challenges discussed, the Foresight executive management team and Board are extremely grateful to our team members and stockholders for their **PERSEVERANCE** as we keep moving forward on our mission of **Community Building through Community Banking.** Each has made sacrifices along the way in 2010, including the 50% reduction in our common stock dividends. Foresight's team members now collectively represent the largest stockholder of our company through our corporate 401-K retirement plan. We are all in this mission together, and by continuing to work with **PERSEVERANCE**, we will prevail in our successful tradition of **Community Building through Community Banking**.

Respectfully and Gratefully,

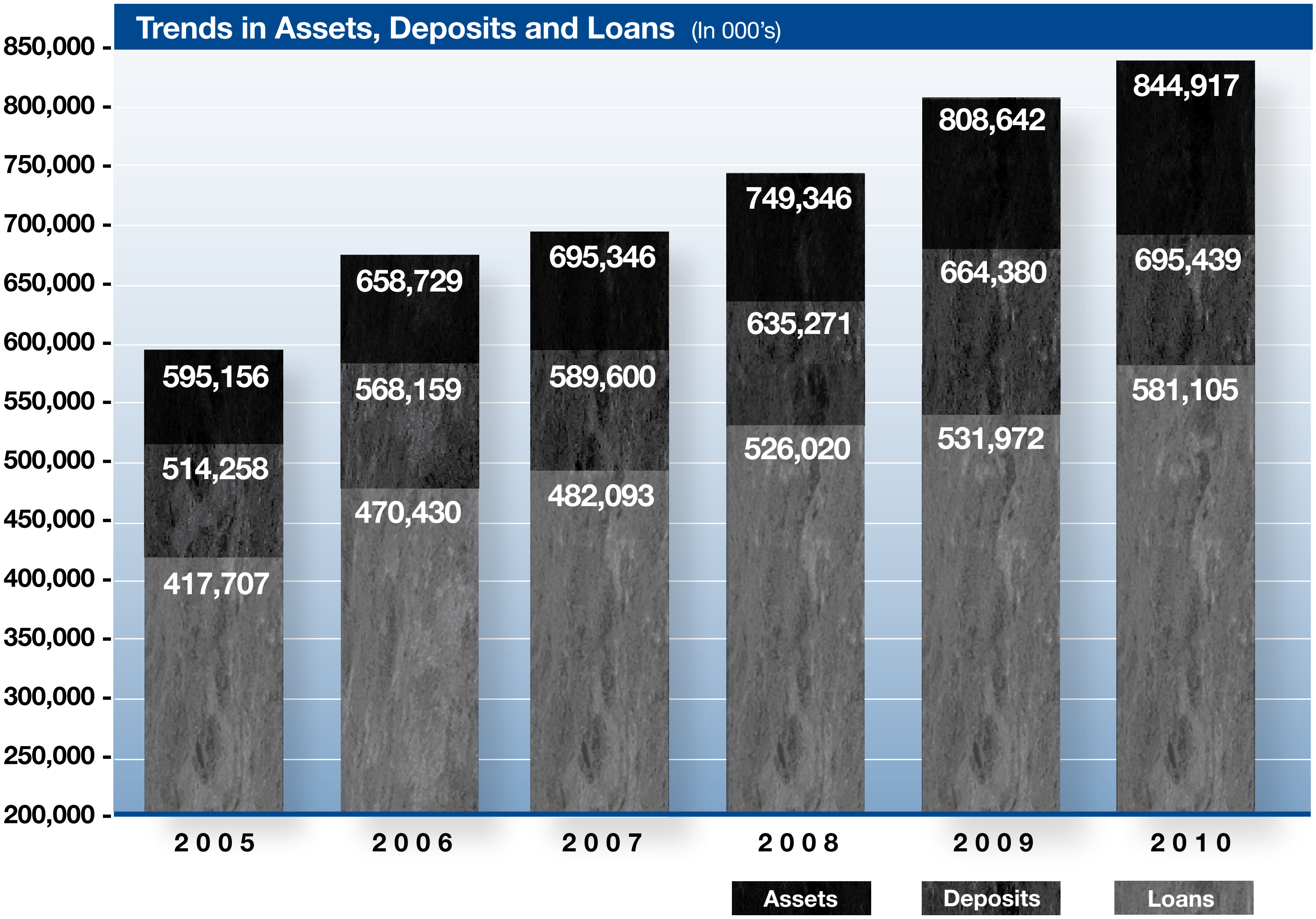
Stephen G. Gaddis

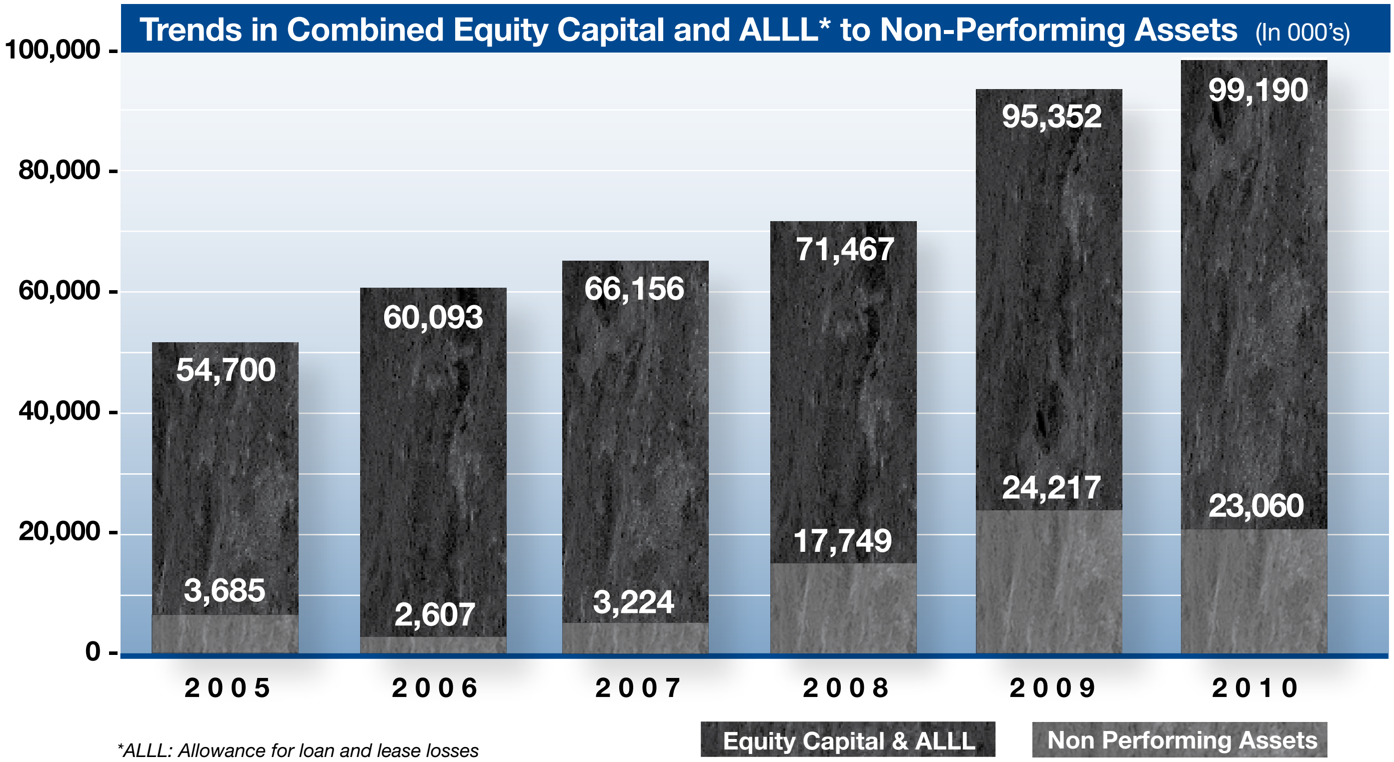
President and CEO





*Tax equivalent net operating income before taxes and credit costs.





**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"

WIPFLi LLP
CPAs and Consultants

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Foresight Financial Group, Inc.

We have audited the accompanying consolidated balance sheet of Foresight Financial Group, Inc. and Subsidiaries as of December 31, 2010, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the year then ended. 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 audit. The consolidated balance sheet of Foresight Financial Group, Inc. and Subsidiaries as of December 31, 2009 and consolidated statements of income, changes in stockholders' equity and cash flows for the two years ended December 31, 2009 were audited by Lindgren, Callihan, Van Osdol & Co., Ltd., whose practice was acquired by Wipfli LLP as of October 1, 2010 and whose report dated March 1, 2010 expressed an unqualified opinion on those statements.

We conducted our audit 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 audit provides 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, 2010, and the results of their operations and their cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was 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.

Wipfli LLP

Sterling, Illinois
March 7, 2011

CONSOLIDATED BALANCE SHEETS

(000s omitted except share data)

December 31,

ASSETS	2010	2009
Cash and due from banks	**$12,676**	$14,520
Interest-bearing deposits in banks	**829**	3,108
Federal funds sold	**4,988**	680
Total cash and cash equivalents	**18,493**	18,308
Securities:		
Securities held-to-maturity (HTM)	**2,597**	3,776
Securities available-for-sale (AFS)	**202,100**	224,239
Non-marketable equity securities, at cost	**2,053**	1,809
Loans held for sale	**1,179**	447
Loans, net of allowance for loan losses of $12,165 and $10,759, respectively	**581,105**	531,972
Foreclosed assets, net	**7,408**	570
Premises and equipment, net	**10,443**	9,053
Other assets	**19,539**	18,468
Total assets	**$844,917**	$808,642

LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits:		
Noninterest-bearing	**$62,146**	$51,530
Interest-bearing	**633,293**	612,850
Total deposits	**695,439**	664,380
Federal funds purchased	**2,084**	4,732
Securities sold under agreements to repurchase	**26,327**	24,354
Federal Home Loan Bank (FHLB) advances and other borrowings	**29,700**	26,500
Accrued interest payable and other liabilities	**4,342**	4,083
Total liabilities	**757,892**	724,049
Stockholders' equity:		
Preferred stock (no par value; authorized 500,000 shares; 15,750 shares issued)	**15,244**	15,094
Common stock ($.25 par value; authorized 5,000,000 shares; 3,866,794 and 3,866,537 shares issued, respectively)	**966**	966
Additional paid-in capital	**7,568**	7,487
Retained earnings	**66,179**	62,353
Treasury stock, at cost (207,657 shares)	**(4,060)**	(4,060)
Accumulated other comprehensive income	**1,128**	2,753
Total stockholders' equity	**87,025**	84,593
Total liabilities and stockholders' equity	**$844,917**	$808,642

See Notes to Consolidated Financial Statements.

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

For the years ended December 31,	2010	2009	2008
Interest and dividend income:			
Loans, including fees	**$32,209**	$31,848	$33,816
Debt securities:			
Taxable	**4,642**	5,498	5,048
Tax-exempt	**4,061**	3,444	2,830
Interest-bearing deposits in banks	**36**	32	18
Federal funds sold	**7**	15	131
Total interest and dividend income	**40,955**	40,837	41,843
Interest expense:			
Deposits	**11,832**	15,267	18,985
Federal funds purchased	**13**	9	101
Securities sold under agreements to repurchase	**180**	139	207
FHLB and other borrowings	**418**	715	967
Total interest expense	**12,443**	16,130	20,260
Net interest and dividend income	**28,512**	24,707	21,583
Provision for loan losses	**8,382**	6,405	4,515
Net interest and dividend income, after provision for loan losses	**20,130**	18,302	17,068
Noninterest income:			
Customer service fees	**1,520**	1,553	1,592
Gain on sales and calls of AFS securities, net	**180**	437	246
Gain on sales of loans, net	**797**	855	329
Loan servicing fees, net	**777**	775	511
Other	**2,614**	2,068	1,782
Total noninterest income	**5,888**	5,688	4,460
Noninterest expenses:			
Salaries and employee benefits	**10,045**	9,201	8,475
Occupancy expense of premises, net	**1,900**	1,918	2,018
Outside services	**699**	575	423
Data processing	**837**	841	817
Foreclosed assets, net	**1,126**	352	286
Other	**4,835**	4,462	3,555
Total noninterest expenses	**19,442**	17,349	15,574
Income before income taxes	**6,576**	6,641	5,954
Income tax expense	**761**	1,158	1,204
Net income	**$5,815**	$5,483	$4,750
Earnings per common share:			
Basic	**$1.32**	$1.36	$1.30
Diluted	**$1.32**	$1.36	$1.29

See Notes to Consolidated Financial Statements.

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

For the years ended December 31,

	Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income	Total
Balance, January 1, 2008	$0	$966	$7,417	$54,969	($3,828)	$537	$60,061
Comprehensive income:							
Net income				4,750			4,750
Other comprehensive income - Change in unrealized gain on securities available-for-sale, net of reclassification and tax effect						623	623
Total comprehensive income							5,373
Cash dividends ($.32 per share)				(1,172)			(1,172)
Purchases of treasury stock (12,600 shares)					(232)		(232)
Stock-based compensation expense			37				37
Balance, December 31, 2008	0	966	7,454	58,547	(4,060)	1,160	64,067
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	1,593
Total comprehensive income							7,076
Cash dividends ($.32 per share)				(1,174)			(1,174)
Issuance of preferred stock	15,000						15,000
Accretion of preferred stock warrants	94			(94)			0
Cash dividends on preferred stock				(409)			(409)
Stock-based compensation expense			33				33
Balance, December 31, 2009	15,094	966	7,487	62,353	(4,060)	2,753	84,593
Comprehensive income:							
Net income				5,815			5,815
Other comprehensive loss - Change in unrealized gain on securities available-for-sale, net of reclassification and tax effect						(1,625)	(1,625)
Total comprehensive income							4,190
Cash dividends ($.28 per share)				(1,025)			(1,025)
Accretion of preferred stock warrants	150			(150)			0
Cash dividends on preferred stock				(814)			(814)
Stock-based compensation expense			81				81
Balance, December 31, 2010	$15,244	$966	$7,568	$66,179	($4,060)	$1,128	$87,025

See Notes to Consolidated Financial Statements.

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

For the years ended December 31,

	2010	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	**$5,815**	$5,483	$4,750
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Provision for loan losses	**8,382**	6,405	4,515
Depreciation	**741**	818	909
Net amortization (accretion) of securities	**1,094**	230	(18)
Deferred income tax benefit	**(822)**	(1,251)	(467)
Net gain on the sales and calls of AFS securities	**(180)**	(437)	(246)
Stock-based compensation expense	**81**	33	37
Net change in:			
Servicing rights	**(251)**	(311)	(102)
Loans held for sale	**(732)**	144	(263)
Other assets	**1,016**	(3,531)	668
Accrued expenses and other liabilities	**259**	(689)	(323)
Net cash provided by operating activities	**15,403**	6,894	9,460
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from sales of AFS securities	**14,551**	17,736	10,108
Proceeds from maturities, calls, and paydowns of HTM securities	**999**	1,520	1,283
Proceeds from maturities, calls, and paydowns of AFS securities	**56,977**	43,772	60,752
Purchases of AFS securities	**(52,762)**	(110,028)	(84,632)
Purchases of non-marketable equity securities	**(244)**	(189)	(156)
Loan originations and principal collections, net	**(57,515)**	(12,357)	(48,442)
Net change in foreclosed assets	**(6,838)**	471	361
Purchases of premises and equipment, net	**(2,131)**	(548)	(303)
Net cash used in investing activities	**(46,963)**	(59,623)	(61,029)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net change in deposits	**31,059**	29,109	45,671
Net change is securities sold under agreements to repurchase	**1,973**	6,507	3,389
Cash dividends paid	**(1,839)**	(1,583)	(1,172)
Net change in federal funds purchased	**(2,648)**	3,696	(5,490)
Purchases of treasury stock	**0**	0	(232)
Proceeds from issuance of preferred stock	**0**	15,000	0
Proceeds from lines of credit and FHLB advances and other borrowings	**19,750**	18,250	21,250
Payments on lines of credit and FHLB advances and other borrowings	**(16,550)**	(18,100)	(14,500)
Net cash provided by financing activities	**31,745**	52,879	48,916
Net increase (decrease) in cash and cash equivalents	**185**	150	(2,653)
Cash and cash equivalents at beginning of year	**18,308**	18,158	20,811
Cash and cash equivalents at end of year	**$18,493**	$18,308	$18,158

See Notes to Consolidated Financial Statements.

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

For the years ended December 31,	2010	2009	2008
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Cash paid during the year for:			
Interest	**$12,790**	$16,652	$20,489
Income taxes	**$1,905**	$1,934	$1,671
SUPPLEMENTAL SCHEDULE OF NONCASH AND FINANCING ACTIVITIES:			
Foreclosed assets acquired in settlement of loans	**$8,598**	$470	$1,326

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, Lena, Winnebago, Pecatonica, and Seward, 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 7, 2011, 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 loan losses, fair values of securities, fair values of foreclosed assets, 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, securities sold under agreements to repurchase, 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.

(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.

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. Loans for which the terms have been modified to provide a concession, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings and classified as impaired. 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. Troubled debt restructurings are measured at the present value of estimated future cash flows using the loan's effective rate at inception, unless collateral dependent, then reported net of the fair value of collateral.

(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. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Costs after acquisition are generally expensed. Revenues and expenses from operations and changes in the valuation allowance are included in net expenses from foreclosed assets.

(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 may also recognize a liability for unrecognized tax benefits from uncertain tax positions. Unrecognized tax benefits represent the differences between a tax position taken or expected to be taken in a tax return and the benefit recognized and measured in the financial statements. Interest and penalties related to unrecognized tax benefits are classified as income taxes, if applicable. No liabilities for unrecognized tax benefits from uncertain tax positions have been recorded.

(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, since forfeitures have not been significant.

(z) Reclassifications

Certain amounts in the 2009 consolidated financial statements have been reclassified to conform to the 2010 presentation.

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

(1) Summary of Significant Accounting Policies (continued)

(aa) Adoption of New 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 had no material effect on the consolidated financial statements.

(ab) Newly Issued Not Yet Effective Accounting Standards

In July 2010, the FASB issued a new accounting standard disclosure requirement about the credit quality of financing receivables and the allowance for credit losses. This standard requires additional disclosures including a rollforward schedule of the allowance for credit losses for the year on a portfolio segment basis, with the ending balance further broken down on the basis of impairment method. Additionally, the following, by class of loans, should be disclosed at the end of the period: non-accrual status, impairment status and amounts, credit quality indicators, aging of past-due amounts, the nature and extent of troubled debt restructurings that occurred during the period and their effect on the allowance for credit losses, and any significant purchases and sales of loans that occurred during the reporting period. The disclosures are effective for annual reporting periods ending on or after December 15, 2011.

(2) Securities

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

Held-to-Maturity 2010	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
State and municipal	**$2,597**	**$34**	**($72)**	**$2,559**

Held-to-Maturity 2009	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
State and municipal	$3,776	$118	($54)	$3,840

Available-for-Sale 2010	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government sponsored agencies	**$36,224**	**$634**	**($139)**	**$36,719**
State and municipal	**96,295**	**1,075**	**(2,269)**	**95,101**
Mortgage-backed - residential	**67,744**	**2,604**	**(68)**	**70,280**
	$200,263	**$4,313**	**($2,476)**	**$202,100**

Available-for-Sale 2009	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government sponsored agencies	$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

For the years ended December 31, 2010, 2009 and 2008, proceeds from sales of available-for-sale securities amounted to $14,554, $17,736 and $10,108, 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:

	2010	2009	2008
Realized gains	**$257**	$440	$295
Realized losses	**($77)**	($3)	($49)

(2) Securities (continued)

Securities with carrying amounts of approximately $100,674 and $108,892 at December 31, 2010 and 2009, 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, 2010 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	$422	$429
Due after one year through five years	858	871
Due after five years through ten years	189	193
Due after ten years	1,128	1,066
	$2,597	$2,559

Available-for-Sale	Amortized Cost	Fair Value
Due in one year or less	$16,793	$17,018
Due after one year through five years	27,447	28,210
Due after five years through ten years	27,683	27,669
Due after ten years	60,596	58,923
	132,519	131,820
Mortgage-backed - residential	67,744	70,280
	$200,263	$202,100

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, 2010 and 2009:

2010
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	$342	$17	2	$258	$55	3
Total temporarily impaired	$342	$17	2	$258	$55	3

(2) Securities (continued)

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

2010
Available-for-Sale

	Less than 12 Months			12 Months or More		
	Fair Value	Gross Unrealized Loss	No. of Securities	Fair Value	Gross Unrealized Loss	No. of Securities
U.S. Government sponsored agencies	$7,884	$139	26	$0	$0	0
State and municipal	49,925	1,831	195	1,722	438	17
Mortgage-backed - residential	5,519	68	10	0	0	0
Total temporarily impaired	$63,328	$2,038	231	$1,722	$438	17

2009
Available-for-Sale

	Less than 12 Months			12 Months or More		
	Fair Value	Gross Unrealized Loss	No. of Securities	Fair Value	Gross Unrealized Loss	No. of Securities
U.S. Government sponsored agencies	$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

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:

	2010	2009
Agricultural	**$40,003**	$38,124
Commercial	**186,652**	164,928
Real estate	**354,040**	326,155
Consumer installment	**12,575**	13,524
	593,270	542,731
Allowance for loan losses	**(12,165)**	(10,759)
	$581,105	$531,972

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

	2010	2009	2008
Balance at beginning of year	**$10,759**	$7,400	$6,095
Provision charged to operations, net	**8,362**	6,405	4,515
Recoveries on loans previously charged-off	**442**	95	117
	19,563	13,900	10,727
Less loans charged-off	**(7,398)**	(3,141)	(3,327)
Balance at end of year	**$12,165**	$10,759	$7,400

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

	2010	2009
Impaired loans without a valuation allowance	**$6,440**	$5,824
Impaired loans with a valuation allowance	**$16,375**	$25,487
Total impaired loans	**$22,815**	$31,311
Valuation allowance related to impaired loans	**$3,922**	$4,543
Total non-accrual loans	**$13,622**	$22,910
Average balance of impaired loans	**$26,920**	$23,646

Interest income and other loan income recognized on impaired loans during 2010 and 2009 approximated $347 and $260, respectively. Interest income and other loan income recognized on impaired loans during 2008 were considered immaterial. At December 31, 2010 and 2009, the Banks had loans amounting to approximately $2,030 and $737, 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.

Troubled debt restructurings approximated $5,412 and $1,117 at December 31, 2010 and 2009, respectively. The Bank allocated approximately $296 and $47 of specific reserves to customers whose loan terms have been modified in troubled debt restructurings as of December 31, 2010 and 2009, respectively. The total troubled debt restructurings and allocated specific reserves are included in the above impaired loan information. The Company has no commitments to loan additional funds to customers with outstanding loans classified as troubled debt restructurings.

(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, 2010 and 2009, were approximately $235,528 and $208,015, respectively. Custodial escrow balances maintained in conjunction with serviced loans were approximately $1,905 and $1,355 at December 31, 2010 and 2009, respectively.

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

	2010	2009	2008
Mortgage servicing rights:			
Balance at beginning of year	**$1,277**	$970	$868
Mortgage servicing rights capitalized	**970**	1,174	555
Mortgage servicing rights amortized	**(718)**	(867)	(453)
Balance at end of year	**$1,529**	$1,277	$970

The approximate fair values of the mortgage servicing rights were deemed to be greater than their carrying values as of December 31, 2010, 2009, and 2008, 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, 2010 and 2009, the Company had approximately $706 and $620 in interest rate lock commitments outstanding. As of December 31, 2010 and 2009, the Company had approximately $706 and $620 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, 2010 and 2009.

(6) Foreclosed Assets

Foreclosed assets are presented net of an allowance for losses. Activity in the allowance for losses on foreclosed assets for the years ended December 31, was as follows:

	2010	2009	2008
Balance at beginning of year	**$20**	$0	$19
Provision for losses	**900**	20	0
Charge-offs	**10**	0	19
Recoveries	**0**	0	0
Balance at end of year	**$910**	$20	$0

(7) Premises and Equipment

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

	2010	2009
Land	**$2,049**	$1,524
Buildings and leasehold improvements	**10,593**	9,842
Furniture, fixtures, and equipment	**8,650**	7,800
	21,292	19,166
Less accumulated depreciation	**10,849**	10,113
	$10,443	$9,053

Depreciation expense for the years ended December 31, 2010, 2009 and 2008 amounted to $741, $818, and $909, respectively.

(8) Other Assets

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

	2010	2009
Cash surrender value of bank-owned life insurance	**$4,759**	$4,966
Accrued interest receivable	**5,644**	5,588
Mortgage servicing rights, net of amortization	**1,529**	1,277
Net deferred tax assets	**3,583**	1,746
Federal Deposit Insurance Corporation assessments	**2,531**	3,459
Other	**1,493**	1,432
	$19,539	$18,468

(9) Time Deposits

The aggregate amount of time deposits with minimum a denomination of $100 was approximately $154,686 and $137,118 at December 31, 2010 and 2009, respectively.

At December 31, 2010, the scheduled maturities of time deposits are as follows:

2011	$230,408
2012	107,197
2013	40,294
2014	9,505
2015 and thereafter	23,464
	$410,868

(10) 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 23.

(11) Employee Benefit Plans

The Company and the Banks maintain a 401(k) plan with profit sharing features 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 $237, $206, and $191, for 2010, 2009, and 2008, respectively. Each plan participant elects how the employer contributions are invested. Participants choose between purchasing the Company's common stock and investing in the plan's investment funds.

In addition, Northwest, German-American, and Lena maintain salary-continuation plans whereby certain officers are provided with guaranteed annual payments for periods ranging from ten to thirteen years after reaching a retirement age of 65. The salary-continuation plans are funded by whole life insurance policies purchased by the Banks which had an aggregate death benefit of approximately $8,943 and $10,099 as of December 31, 2010 and 2009, 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 $912, $963, and $1,009 at December 31, 2010, 2009, and 2008, respectively. Salary-continuation expenses were $48, $47, and $74 in 2010, 2009, and 2008, respectively.

(12) Income Taxes

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

	2010	2009	2008
Current – federal	**$1,140**	$1,854	$1,318
– state	**443**	555	353
	1,583	2,409	1,671
Deferred – federal	**(752)**	(1,091)	(403)
– state	**(70)**	(160)	(64)
	(822)	(1,251)	(467)
Total income tax expense	**$761**	$1,158	$1,204

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:

	2010		2009		2008	
	Amount	**% of Pretax Earnings**	Amount	% of Pretax Earnings	Amount	% of Pretax Earnings
Statutory federal tax	**$2,236**	**34.0%**	$2,258	34.0%	$2,024	34.0%
Increase (decrease) in taxes resulting from:						
Tax-exempt interest	**(1,518)**	**(23.1%)**	(1,318)	(19.8%)	(1,141)	(19.2%)
Bank-owned life insurance	**(346)**	**(5.3%)**	(164)	(2.5%)	(70)	(1.2%)
State taxes, net of federal benefit	**246**	**3.7%**	260	3.9%	199	3.4%
Other	**143**	**2.2%**	122	1.8%	192	3.2%
Effective tax rates	**$761**	**11.5%**	$1,158	17.4%	$1,204	20.2%

(12) 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, 2010 and 2009 are summarized as follows:

	2010	2009
Deferred tax assets:		
Allowance for loan losses	**$4,744**	$4,195
Allowance for losses on foreclosed assets and non-accrual interest	**435**	27
Deferred compensation and other	**642**	390
Total gross deferred tax assets	**5,821**	4,612
Deferred tax liabilities:		
FHLB stock dividend	**129**	129
Security accretion	**34**	41
Available-for-sale securities	**708**	1,722
Tax depreciation in excess of book depreciation	**772**	472
Mortgage servicing rights and other	**595**	502
Total gross deferred tax liabilities	**2,238**	2,866
Net deferred tax assets	**$3,583**	$1,746

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

(13) 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 $10,637 and $11,208 at December 31, 2010 and 2009, respectively.

Deposit accounts from related parties totaled approximately $8,647 and $8,240 at December 31, 2010 and 2009, respectively.

(14) 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.

(14) 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:

	2010	2009
Unused lines of credit and other loan commitments	**$112,593**	$95,506
Commercial letters of credits	**808**	443
Performance and standby letters of credit	**475**	458
	$113,876	$96,407

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.

(15) Securities Sold Under Agreements to Repurchase

Securities sold under agreements to repurchase amounted to $26,327 and $24,354 at December 31, 2010 and 2009, respectively, and are secured by investment securities with fair values of approximately $34,449 and $25,517. The weighted-average interest rates on these agreements was 0.76% at both December 31, 2010 and 2009. Securities sold under agreements to repurchase mature on a daily basis.

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

FHLB:	2010	2009
Fixed-rate advances with rates ranging from .30% to 4.44% with weighted-average rates of 1.32% and 2.28% as of December 31, 2010 and 2009, respectively. Interest is payable monthly with principal due at maturity.	**$29,200**	$21,200
Variable-rate advances with weighted-average rates of .58% and .38% as of December 31, 2010 and 2009, respectively. Interest is payable monthly with principal due at maturity.	**500**	4,000
	$29,700	$25,200

Advances are collateralized by 1-4 family mortgage loans and other qualifying loans. The total amounts of collateral securing FHLB advances were approximately $90,624 and $77,120 as of December 31, 2010 and 2009, respectively.

The Banks participate in the Federal Reserve Bank of Chicago's Discount Window Lending Program. Primary advances generally mature daily and bear interest at a general approved rate in relation to the federal funds rate. The primary advance interest rate at December 31, 2010 was 75-basis points. Outstanding advances were $0 and $1,300 at December 31, 2010 and 2009, respectively. Advances are secured by investment securities pledged to the Federal Reserve Bank.

At December 31, 2010, the scheduled maturities of Federal Home Loan Bank advances and other borrowings are as follows:

	2010	2009
2010	**$0**	$16,550
2011	**19,300**	7,300
2012	**3,050**	1,300
2013	**4,600**	850
2014	**1,750**	500
2015	**1,000**	0
	$29,700	$26,500

(17) 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.

(17) 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, 2010		December 31, 2009	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	**$18,493**	**$18,493**	$18,307	$18,307
Securities	**204,697**	**204,697**	228,015	228,079
Non-marketable equity securities	**2,053**	**2,053**	1,809	1,809
Loans held for sale	**1,179**	**1,179**	447	447
Loans, net of allowance	**581,105**	**580,991**	531,972	533,813
Accrued interest receivable	**5,644**	**5,644**	5,588	5,588
Financial liabilities:				
Deposits	**$695,439**	**$700,054**	$664,380	$670,475
Federal funds purchased	**2,084**	**2,084**	4,732	4,732
Securities sold under agreements to repurchase	**26,327**	**26,327**	24,354	24,354
FHLB advances and other borrowings	**29,700**	**29,809**	26,500	26,678
Accrued interest payable	**1,415**	**1,415**	1,745	1,745

(18) Stock-Compensation Plans

The Company has entered into non-qualified and incentive stock option agreements whereby shares of common stock were made available for purchase by certain executive officers. All incentive and non-qualified options have been issued pursuant to various shareholder approved stock option plans. In May of 2008, the stockholders' approved an additional 100,000 shares of common stock be made available for future purchase by certain officers. Under these agreements, the exercise price of each option equals the market price of the Company's stock on the grant date. The options' maximum terms are ten years. The options vest under a three, five or seven year period after the date of grant. The Company's general practice is to use previously authorized but unissued shares of common stock to satisfy stock option exercises. Currently, the Company has a sufficient number of authorized common shares to satisfy expected stock option exercises but treasury stock may also be used.

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

	2010	2009	2008
Risk-free interest rate	**1.23%-6.00%**	2.72%-6.00%	2.72%-6.00%
Expected option life	**10**	10	10
Expected stock-price volatility	**12.7%-37.0%**	12.7%-22.0%	12.7%-22.0%
Dividend yield	**0.53%-1.75%**	0.53%-1.75%	0.53%-1.75%
Intrinsic value of option exercised	**$3**	N/A	N/A
Weighted average fair value of options granted	**$2.90**	N/A	$5.08

(18) Stock-Compensation Plans (continued)

For the years ended December 31, 2010, 2009 and 2008, the Company recognized $81, $33 and $37 in compensation expense for stock options, respectively. No tax benefits were recognized for the three year period ended December 31, 2010. As of December 31, 2010, stock-based compensation expense not yet recognized totaled $447, and is expected to be recognized over a weighted-average remaining period of 2.8 years.

During 2010, the Company modified the exercise price on 49,760 fully and partially vested incentive stock options outstanding affecting thirteen employees. The options were originally granted in 2004, 2005 and 2008 and represented a weighted average exercise price of $19.57 per share. As a result of the modification, the weighted average exercise price on the modified options was reduced to $10.43 per share. This overall reduction in the weighted average exercise price for the options outstanding is reflected in the table below. Consistent with generally accepted accounting principles, the Company revaluated the fair value of the modified options resulting in additional compensation expense of $75 to be recognized over the remaining vesting period. For the modified options already fully vested, the Company recognized the additional compensation expense in 2010. The fair value of the stock options granted in 2008, 2005 and 2004 were revised from $5.08, $12.55 and $9.37 per share, respectively as originally reported to modified fair values of $7.21, $14.08, and $10.74 per share, respectively.

The following tables summarize the activity of options and non-vested shares granted, exercised, or forfeited for the year ended December 31, 2010:

	2010	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Shares under option, beginning of year	99,530	$15.71	4.08	$0
Granted during the year	113,320	10.29		
Forfeited and canceled during the year	(17,643)	11.33		
Exercised during the year	(2,117)	10.50		$3
Shares under option, end of year	193,090	$10.63	7.07	$13
Options exercisable, end of year	62,610	$11.42	2.70	$3
Shares available for grant, end of year	1,170			

	Number of Options	Weighted Average Fair Value at Grant
Non-vested options, December 31, 2009	25,916	$20.42
Granted during the year	113,320	10.29
Vested during the year	(8,756)	10.18
Forfeited or expired during the year	0	0
Non-vested options, December 31, 2010	130,480	$10.26

(18) Stock-Compensation Plans (continued)

The exercise of 2,117 stock options in 2010 involved a like-kind exchange of 1,860 shares of the Company's common stock valued at the current market value on the date of exercise plus additional cash. This like-kind exchange resulted in the issuance of 257 additional shares of common stock.

The following table summarizes information about fixed stock options outstanding at December 31, 2010:

Exercise Price	Number Outstanding at 12/31/10	Remaining Contractual Life (Years)	Number Exercisable at 12/31/10
$10.00	28,600	7.0	11,440
$10.25	113,320	9.5	0
$10.50	20,000	9.5	0
$11.00	8,030	4.5	8,030
$11.00	13,130	3.5	13,130
$12.25	30,010	0.5	30,010
	193,090		62,610

(19) Earnings Per Common Share

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

	2010	2009	2008
Net income	**$5,815**	$5,483	$4,750
Less - preferred stock dividends	**(818)**	(409)	0
Less - accretion of preferred stock warrants	**(150)**	(94)	0
Net income available to common stockholders	**$4,847**	$4,980	$4,750
Average number of common shares outstanding	**3,659,058**	3,658,880	3,664,114
Effect of dilutive options	**1,216**	0	10,270
Average number of common shares outstanding used to calculate diluted earnings per common share	**3,660,274**	3,658,880	3,674,384

The total outstanding options of common stock which were excluded in the computation of diluted earnings per common share for the years ended 2010, 2009 and 2008 were 71,170, 99,530 and 49,760, respectively because they were considered anti-dilutive.

(20) Regulatory Matters

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

(20) 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, 2010, that the Company and the Banks meet all capital-adequacy requirements to which they are subject.

As of December 31, 2010, 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, 2010:						
Total Capital to Risk Weighted Assets:						
Company	$93,715	14.81%	$50,614	8.00%	N/A	N/A
Northwest	22,236	12.49%	14,238	8.00%	$17,798	10.00%
German	17,539	12.48%	11,245	8.00%	14,057	10.00%
Davis	12,430	13.35%	7,449	8.00%	9,312	10.00%
Freeport	19,027	11.89%	12,798	8.00%	15,998	10.00%
Lena	8,757	16.64%	4,210	8.00%	5,263	10.00%
Tier-I Capital to Risk Weighted Assets:						
Company	$85,756	13.55%	$25,307	4.00%	N/A	N/A
Northwest	19,983	11.23%	7,119	4.00%	$10,679	6.00%
German	15,778	11.22%	5,623	4.00%	8,434	6.00%
Davis	11,261	12.09%	3,725	4.00%	5,587	6.00%
Freeport	17,021	10.64%	6,399	4.00%	9,599	6.00%
Lena	8,095	15.38%	2,105	4.00%	3,158	6.00%
Tier-I Capital to Average Assets:						
Company	$85,756	10.14%	$33,832	4.00%	N/A	N/A
Northwest	19,983	8.39%	9,524	4.00%	$11,905	5.00%
German	15,778	8.82%	7,157	4.00%	8,946	5.00%
Davis	11,261	8.71%	5,173	4.00%	6,466	5.00%
Freeport	17,021	8.42%	8,087	4.00%	10,108	5.00%
Lena	8,095	10.01%	3,236	4.00%	4,045	5.00%

(20) Regulatory Matters (continued)

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%

(21) Other Comprehensive Income (Loss)

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

	2010	2009	2008
Holding (losses) gains on securities available-for-sale	**($2,459)**	$3,029	$1,254
Less reclassification adjustments for gains recognized in income	**(180)**	(437)	(246)
Net unrealized (losses) gains	**(2,639)**	2,592	1,008
Deferred tax effect	**1,014**	(999)	(385)
Other comprehensive (loss) income	**($1,625)**	$1,593	$623

(22) 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.

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

(22) 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.

Mortgage servicing rights: Loan servicing rights are initially recorded at approximate fair value and are subsequently measured using the amortization method which requires servicing rights to be amortized into non-interest income in proportion to, and over the period of, the estimated future net servicing income of the underlying loans.

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, 2010		**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	**$202,100**		**$202,100**	
Assets measured at fair value on a non-recurring basis:				
Assets:				
Collateral-dependent impaired loans	**$12,453**			**$12,453**
Foreclosed assets	**$7,408**			**$7,408**
Mortgage servicing rights	**$1,529**			**$1,529**

(22) Fair-Value Measurement (continued)

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
Mortgage servicing rights	$1,277			$1,277

Collateral-dependent impaired loans, which are measured for impairment using the fair value of collateral, had a carrying value of $16,375 and $25,487, with specific reserves of $3,922 of $4,543 as of December 31, 2010 and 2009, respectively.

Foreclosed assets, which are measured at the lower of carrying or fair value less costs to sell, had a carrying amount of $7,408 and $570, which is comprised of the outstanding balance of $8,318 and $590, net of an allowance for losses of $910 and $20 as of December 31, 2010 and 2009, respectively.

(23) TARP Capital Purchase Plan (in actual dollars)

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 has not had a material effect on the consolidated financial statements.

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

December 31, 2010

ASSETS	German-American State Bank	State Bank of Davis
Cash and due from banks	$2,356	$1,329
Interest-bearing deposits in banks	725	26
Federal funds sold		1,609
Securities:		
Securities held-to-maturity		2,496
Securities available-for-sale	42,214	31,919
Non-marketable equity securities, at cost	534	267
Loans held for sale		
Loans, net	133,271	88,840
Foreclosed assets, net	141	114
Premises and equipment	1,186	983
Other assets	4,270	1,951
Investment in subsidiary banks		
Total assets	$184,697	$129,534
LIABILITIES AND STOCKHOLDLERS' EQUITY		
Liabilities:		
Deposits:		
Noninterest bearing	$13,131	$8,964
Interest-bearing	143,826	99,228
Total deposits	156,957	108,192
Federal funds purchased	1,321	
Securities sold under agreements to repurchase		5,005
Federal Home Loan Bank borrowings and other	9,000	4,750
Accrued interest payable and other liabilities	1,303	331
Total liabilities	168,581	118,278
Stockholders' equity:		
Preferred stock		
Common stock	400	100
Additional paid-in capital	2,718	1,536
Retained earnings	12,660	9,625
Treasury stock		
Accumulated other comprehensive income (loss)	338	(5)
Total stockholders' equity	16,116	11,256
Total liabilities and stockholders' equity	$184,697	$129,534

Northwest Bank	State Bank	Lena State Bank	Foresight Financial Group, Inc.	Eliminations	Consolidated Total
$6,416	$2,186	$389	$5,530	($5,530)	$12,676
55	16	7			829
673		2,706			4,988
101					2,597
44,139	53,021	30,807			202,100
599	400	253			2,053
1,179					1,179
167,844	145,245	45,327	578		581,105
692			6,461		7,408
4,981	2,016	526	751		10,443
7,256	2,466	2,944	652		19,539
			73,265	(73,265)	
$233,935	$205,350	$82,959	$87,237	($78,795)	$844,917

Northwest Bank	State Bank	Lena State Bank	Foresight Financial Group, Inc.	Eliminations	Consolidated Total
$25,113	$14,211	$4,334		($3,607)	$62,146
173,364	150,617	68,181		(1,923)	633,293
198,477	164,828	72,515		(5,530)	695,439
	763				2,084
7,077	14,245				26,327
7,000	7,450	1,500			29,700
1,183	610	703	$212		4,342
213,737	187,896	74,718	212	(5,530)	757,892
			15,244		15,244
1,450	1,000	500	966	(3,450)	966
5,090	4,535	3,662	7,568	(17,541)	7,568
13,443	11,485	3,933	66,179	(51,146)	66,179
			(4,060)		(4,060)
215	434	146	1,128	(1,128)	1,128
20,198	17,454	8,241	87,025	(73,265)	87,025
$233,935	$205,350	$82,959	$87,237	($78,795)	$844,917

For the year ended December 31, 2010

	German-American State Bank	State Bank of Davis
Interest and dividend income:		
Loans, including fees	$7,291	$4,406
Securities:		
Taxable	1,024	765
Tax-exempt	752	881
Dividends		
Interest-bearing deposits in banks	27	
Federal funds sold	1	2
Total interest and dividend income	9,095	6,054
Interest expense:		
Deposits	2,781	2,040
Federal funds purchased	3	1
Securities sold under agreements to repurchase		52
Federal Home Loan Bank advances and other borrowings	132	49
Total interest expense	2,916	2,142
Net interest and dividend income	6,179	3,912
Provision for loan losses	900	620
Net interest and dividend income, after provision for loan losses	5,279	3,292
Noninterest income:		
Customer service fees	415	124
Equity in earnings of subsidiaries		
Gain on sales and calls of AFS securuties, net	57	11
Gain on sales of loans, net		
Loan-servicing fees		
Other	1,285	159
Total noninterest income	1,757	294
Noninterest expenses:		
Salaries and employee benefits	1,870	888
Occupancy expense of premises, net	393	154
Outside services	179	113
Data processing	232	95
Foreclosed assets, net	27	11
Other	1,096	486
Total noninterest expenses	3,797	1,747
Income before income taxes	3,239	1,839
Income tax expense (benefit)	674	403
Net income	$2,565	$1,436

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
$10,262	$7,724	$2,526			$32,209
1,012	1,173	668			4,642
897	900	631			4,061
			9		36
1	2	1			7
12,172	9,799	3,826	9	0	40,955
3,091	2,566	1,354			11,832
6	2	1			13
27	101		0		180
81	146	10			418
3,205	2,815	1,365	0	0	12,443
8,967	6,984	2,461	9	0	28,512
5,550	745	267	300		8,382
3,417	6,239	2,194	(291)	0	20,130
588	243	150			1,520
			$6,982	($6,982)	0
72	13	27			180
797					797
777					777
446	527	172	25		2,614
2,680	783	349	7,007	(6,982)	5,888
4,377	1,789	781	340		10,045
871	285	169	28		1,900
118	138	123	28		699
214	238	58			837
188			900		1,126
1,746	715	455	337		4,835
7,514	3,165	1,586	1,633	0	19,442
(1,417)	3,857	957	5,083	(6,982)	6,576
(943)	1,205	154	(732)		761
($474)	$2,652	$803	$5,815	($6,982)	$5,815

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
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Robert W. Stenstrom
Thomas R. Walsh

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German Valley, IL

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Gary R. Johnson
James G. Sacia
Jeff Sterling
Richard Weigle

State Bank of Davis
Davis, IL

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John Jeschke
Brent Myers
Thomas Olsen
Gerald Osowski
Dr. Carolyn Sluiter
Judd Thruman

Lena State Bank
Lena, IL

Todd Bussian, O.D.
Dr. Gordon Dammann
John Jeschke
Jim Moest
Brent Myers
Steven Rothschadl

State Bank
Freeport, IL

Douglas Cross
Dr. Joe Kanosky
Fred Kundert
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Sharon Summers
Doug Wagner

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