2013 ANNUAL REPORT

ENTERPRISING · ENTERPRISING

COMMUNITY
BUILDING
THROUGH
COMMUNITY
BANKING

FORESIGHT
financial group, inc.

www.foresightfg.com

northwestbank

State Bank
Freeport, IL

LENA STATE BANK

German American
STATE BANK
Traditional Banking ... Lifetime Solutions

STATE BANK of DAVIS

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"

Dear Stockholders,

We are pleased to report that your company experienced an all time record net income of $6.84 million for 2013 despite the obstacles presented by a local economy that is still struggling to recover. Coupled with modest improvement in the overall U.S. economy in the past year, we are proud of the efforts put forth by our community bank group teams, which worked with notable perseverance to serve our customers and communities, and to manage the company's resources well. For the first time since 2008, Foresight's credit costs declined from the prior year, dropping by about $8 million from 2012, while our teams continued working through adversity with customers who are still recovering from the economic downturn. Basic earnings per common share more than tripled to $1.87 reflecting the 98% gain in net income, along with the beneficial impact of retiring the TARP preferred stock in late 2012. Foresight's return on average assets of .78% and return on stockholders' equity of 8.2% exceeded internal expectations and Midwest community bank peers.

Moderate progress was made in 2013 in reducing the relative burden of non-performing assets, which declined to a year- end total of $16 million. Reserves for loan losses were maintained at $14.8 million, over 2.4% of total loans, providing significant capacity to accelerate resolution of non-performing loans in 2014. Restoring asset quality to normal historical levels is still the most important goal for future performance improvement for the company going forward.

For the year, net interest income declined by 5.6%, as average loan volumes were lower during the year due to increased competition and economic conditions. Non-interest operating expenses increased by 4.8%, more than 50% of which is reflective of increased personnel costs to strengthen staffing within the organization as we plan for future growth and a strong internal future succession focus. Non-interest income declined 2.8% as mortgage banking revenues dropped in the second half of the year in response to higher market interest rates. Thus, the $8 million in reduced credit costs cited above were the driving force for the significant gain in net income. Risk-based Capital levels increased to more than 50% above regulatory requirements, and as a result, the Foresight Board of Directors decided to increase quarterly dividends to shareholders by 25% in the fourth quarter, and a common stock repurchase program was begun in the fall. The common stock market trading price increased during 2013 by about $7 per share to $18.75 per share at year end, which is still below book value of nearly $23 per share.

Another significant set of events set in motion in 2013 culminated in the promotion from within the Foresight group of key executives as part of our ongoing management succession plans for the bank group. Most notably, in December Mary Hartman was promoted to President of State Bank, Freeport, becoming the first female community bank executive to achieve that level of responsibility with a Foresight Bank. Doug Cross remains as Chairman of the Board for State Bank as the succession plan continues to progress in 2014. After thoughtful consideration and discerning during 2013, in January of 2014, Brent Myers was appointed by the Board of Directors as President and Chief Executive Officer of Foresight, the position held by Stephen Gaddis since 1993. We and the Board believe the company is well served by the continuity of promoting from within the organization proven community bankers that are highly successful, experienced, and energetic as successors to those who have been instrumental in leading the company the past two decades. Stephen Gaddis, who has lead and grown this organization for 21 years from a three bank charter group of $141 million to a five bank charter group of $873 million, has accepted a position as Vice President during 2014 to assist with an orderly transition of the President and CEO responsibilities to Brent Myers and his team of experienced and talented community bankers.

With the improvement in profitability, strong capital and reserve levels, and a relatively lower level of burdensome credit quality challenges, we are looking forward to building on the success of the past year during 2014 and beyond. With your continued support, we can continue to pursue in confidence our mission of ***Community Building through Community Banking.***

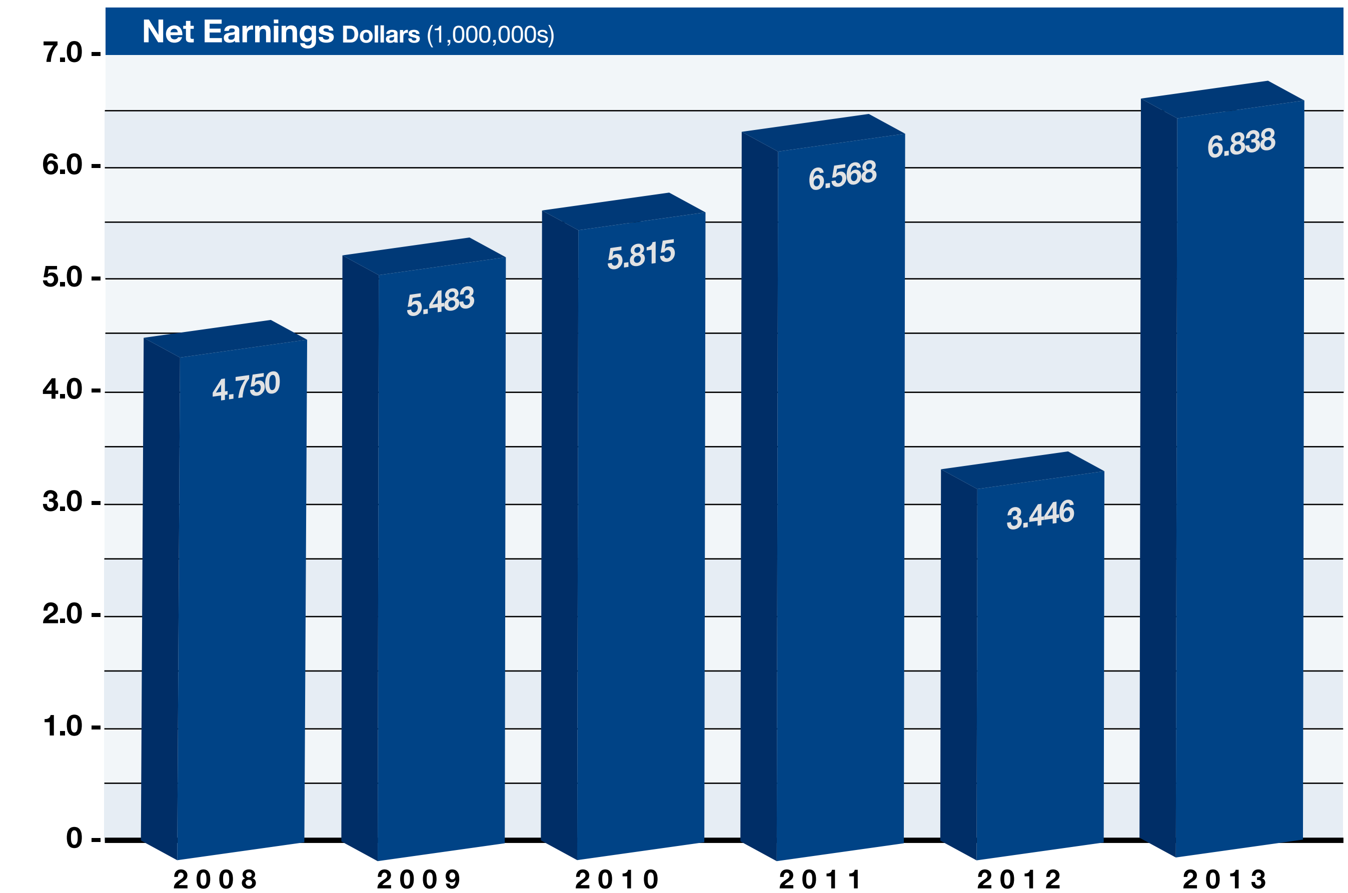
Respectfully,

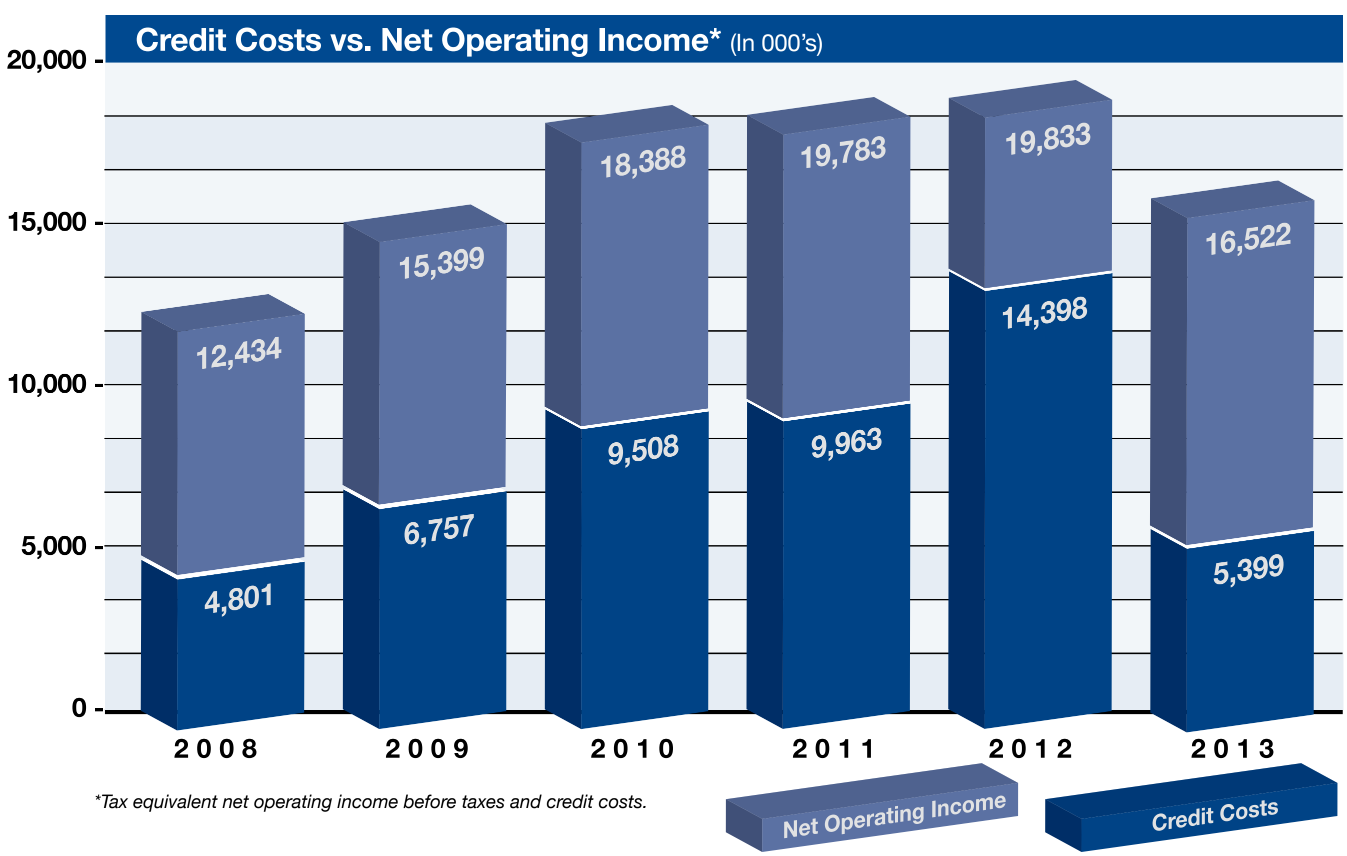
Brent Myers

Brent Myers, President and CEO

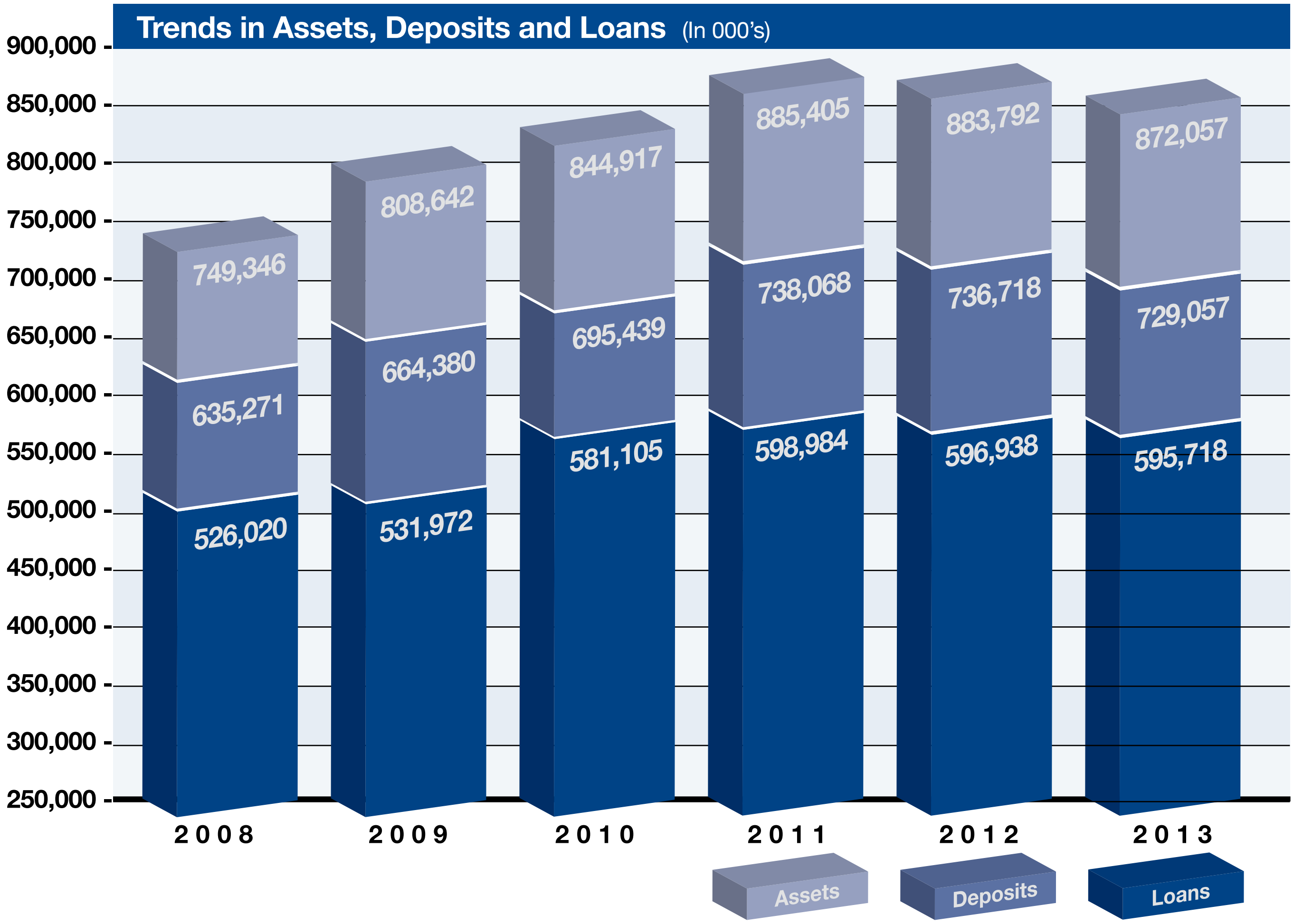
Stephen G. Gaddis

Stephen Gaddis, Vice President

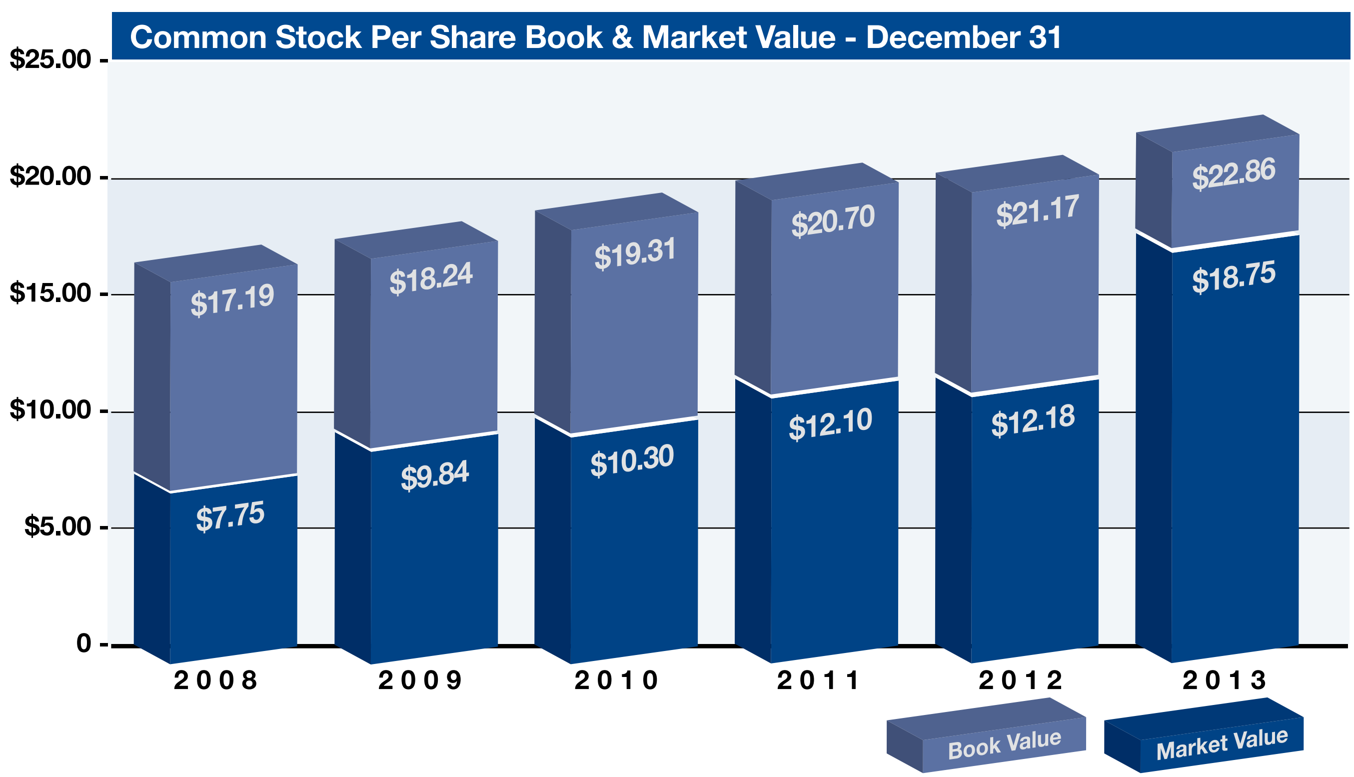




*Tax equivalent net operating income before taxes and credit costs.



Trends in Assets, Deposits and Loans (In 000's)
900,000
850,000
800,000
750,000
700,000
650,000
600,000
550,000
500,000
450,000
400,000
350,000
300,000
250,000
749,346
635,271
526,020
808,642
664,380
531,972
844,917
695,439
581,105
885,405
738,068
598,984
883,792
736,718
596,938
872,057
729,057
595,718
2008
2009
2010
2011
2012
2013
Assets
Deposits
Loans



Common Stock Per Share Book & Market Value - December 31
$25.00
$20.00
$15.00
$10.00
$5.00
0
$17.19
$7.75
$18.24
$9.84
$19.31
$10.30
$20.70
$12.10
$21.17
$12.18
$22.86
$18.75
2008
2009
2010
2011
2012
2013
Book Value
Market Value

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 financial statements of Foresight Financial Group, Inc. and Subsidiaries, which comprise the consolidated balances sheets as of December 31, 2013 and 2012, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2013, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2013 and 2012, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2013, in accordance with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements 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 information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Wipfli LLP

Rockford, Illinois
February 28, 2014

CONSOLIDATED BALANCE SHEETS
(000s omitted except share data)

	December 31,	
ASSETS	**2013**	2012
Cash and due from banks	**$16,787**	$19,733
Interest-bearing deposits in banks	**911**	2,634
Federal funds sold	**0**	2,137
Total cash and cash equivalents	**17,698**	24,504
Interest-bearing deposits in banks - term deposits	**4,963**	4,713
Securities:		
Securities held-to-maturity (HTM)	**1,584**	1,728
Securities available-for-sale (AFS)	**216,065**	213,845
Non-marketable equity securities, at cost	**2,220**	2,184
Loans held for sale	**1,521**	5,598
Loans, net of allowance for loan losses of $14,777 and $14,948, respectively	**595,718**	596,938
Foreclosed assets, net	**3,265**	6,770
Premises and equipment, net	**9,746**	10,230
Other assets	**19,278**	17,282
Total assets	**$872,058**	$883,792
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits:		
Noninterest-bearing	**$93,806**	$92,336
Interest-bearing	**635,251**	644,382
Total deposits	**729,057**	736,718
Federal funds purchased	**6,310**	5,114
Securities sold under agreements to repurchase	**23,365**	25,046
Federal Home Loan Bank (FHLB) advances and other borrowings	**15,350**	19,850
Subordinated debentures	**10,000**	10,000
Accrued interest payable and other liabilities	**3,749**	3,517
Total liabilities	**787,831**	800,245
Stockholders' equity:		
Preferred stock (no par value; authorized 500,000 shares; 15,750 shares issued)	**0**	0
Common stock ($.25 par value; authorized 5,000,000 shares; 3,879,357 and 3,867,169 shares issued, respectively)	**969**	966
Additional paid-in capital	**7,979**	7,763
Retained earnings	**79,036**	72,821
Treasury stock, at cost (209,657 and 207,657 shares, respectively)	**(4,098)**	(4,060)
Accumulated other comprehensive income	**340**	6,057
Total stockholders' equity	**84,226**	83,547
Total liabilities and stockholders' equity	$872,057	$883,792

See Notes to Consolidated Financial Statements.

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

For the years ended December 31,

	2013	2012	2011
Interest and dividend income:			
Loans, including fees	**$29,245**	$31,487	$33,530
Debt securities:			
Taxable	**2,945**	3,472	3,915
Tax-exempt	**3,736**	3,900	3,900
Interest-bearing deposits in banks and other	**83**	57	16
Federal funds sold	**13**	11	11
Total interest and dividend income	**36,022**	38,927	41,372
Interest expense:			
Deposits	**5,751**	7,231	9,313
Federal funds purchased	**9**	3	7
Securities sold under agreements to repurchase	**81**	128	167
FHLB and other borrowings	**203**	245	341
Subordinated debentures	**600**	189	0
Total interest expense	**6,644**	7,796	9,828
Net interest and dividend income	**29,378**	31,131	31,544
Provision for loan losses	**4,777**	13,444	7,195
Net interest and dividend income, after provision for loan losses	**24,601**	17,687	24,349
Noninterest income:			
Customer service fees	**1,166**	1,275	1,369
Gain on sales and calls of AFS securities, net	**156**	191	334
Gain on sales of loans, net	**1,535**	1,500	968
Loan servicing fees, net	**751**	832	616
Other	**2,379**	2,360	2,367
Total noninterest income	**5,987**	6,158	5,654
Noninterest expenses:			
Salaries and employee benefits	**12,508**	11,963	11,663
Occupancy expense of premises, net	**2,391**	2,152	1,999
Outside services	**212**	235	152
Data processing	**414**	297	281
Foreclosed assets, net	**622**	954	2,768
Other	**5,243**	4,818	4,566
Total noninterest expenses	**21,390**	20,419	21,429
Income before income taxes	**9,198**	3,426	8,574
Income tax expense	**2,360**	(20)	2,006
Net income	**$6,838**	$3,446	$6,568
Earnings per common share:			
Basic	**$1.87**	$0.60	$1.53
Diluted	**$1.84**	$0.60	$1.52

See Notes to Consolidated Financial Statements.

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

For the years ended December 31,

	2013	2012	2011
Net income	**$6,838**	$3,446	$6,568
Other comprehensive income:			
Unrealized holding (loss) gains on securities available for sale	**(9,574)**	1,228	7,603
Reclassification adjustments for net securities gains recognized in income	**(156)**	(191)	(334)
	(9,730)	1,037	7,269
Deferred income tax effect	**4,011**	(418)	(2,958)
Total other comprehensive income (loss)	**(5,719)**	619	4,311
Total comprehensive income	**$1,119**	$4,065	$10,879

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, 2011	$15,244	$966	$7,568	$66,179	($4,060)	$1,128	$87,025
Net income				6,568			6,568
Other comprehensive income						4,311	4,311
Cash dividends ($.16 per share)				(586)			(586)
Accretion of preferred stock warrants	150			(150)			0
Cash dividends on preferred stock				(818)			(818)
Stock-based compensation expense			98				98
Balance, December 31, 2011	15,394	966	7,666	71,193	(4,060)	5,439	96,598
Net income				3,446			3,446
Other comprehensive income						619	619
Redemption of preferred stock	(15,750)						(15,750)
Cash dividends ($.16 per share)				(586)			(586)
Accretion of preferred stock warrants	356			(356)			0
Cash dividends on preferred stock				(877)			(877)
Stock-based compensation expense			97				97
Balance, December 31, 2012	0	966	7,763	72,820	(4,060)	6,058	83,547
Net income				6,838			6,838
Other comprehensive income (loss)						(5,719)	(5,719)
Cash dividends ($.17 per share)				(621)			(621)
Purchase of treasury stock (2,000 shares)					(38)		(38)
Stock options exercised		3	121				124
Stock-based compensation expense			95				95
Balance, December 31, 2013	$0	$969	$7,979	$79,037	($4,098)	$339	$84,226

See Notes to Consolidated Financial Statements.

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

	For the years ended December 31,		
	2013	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	**$6,838**	$3,446	$6,568
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Provision for loan losses	**4,777**	13,444	7,195
Provision for foreclosed asset losses	**1,158**	744	2,410
Depreciation	**935**	862	799
Net amortization of securities	**1,303**	1,242	974
Deferred income tax benefit	**699**	(1,642)	(473)
Net gain on the sales and calls of AFS securities	**(156)**	(191)	(334)
Net (gain) loss on the sales of foreclosed assets	**(2,853)**	(207)	12
Stock-based compensation expense	**95**	97	98
Net change in:			
Servicing rights	**33**	(128)	8
Loans held for sale	**4,077**	(3,400)	(1,019)
Other assets	**1,284**	812	305
Accrued expenses and other liabilities	**232**	(1,226)	400
Net cash provided by operating activities	**18,422**	13,853	16,943
CASH FLOWS FROM INVESTING ACTIVITIES:			
Net change in interest-bearing deposits in banks - term deposits	**(250)**	(3,863)	(850)
Proceeds from sales of AFS securities	**15,917**	6,685	13,966
Proceeds from maturities, calls, and paydowns of HTM securities	**190**	359	606
Proceeds from maturities, calls, and paydowns of AFS securities	**40,642**	65,079	48,466
Purchases of AFS securities	**(69,702)**	(64,034)	(75,388)
Purchases of non-marketable equity securities	**(36)**	(7)	(124)
Loan originations and principal collections, net	**(5,046)**	(14,765)	(27,693)
Proceeds from sales of foreclosed assets	**6,688**	2,057	1,608
Purchases of premises and equipment, net	**(451)**	(977)	(471)
Net cash used in investing activities	**(12,048)**	**(9,466)**	**(39,880)**
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net change in deposits	**(7,661)**	(1,350)	42,629
Net change is securities sold under agreements to repurchase	**(1,681)**	(2,652)	1,371
Cash dividends paid	**(621)**	(1,463)	(1,404)
Net change in federal funds purchased	**1,196**	1,215	1,815
Proceeds from issuance of subordinated debentures	**0**	10,000	0
Redemption of preferred stock	**0**	(15,750)	0
Stock options excercised	**124**	0	0
Purchase of treasury stock	**(38)**	0	0
Proceeds from lines of credit and FHLB advances and other borrowings	**32,600**	17,000	10,500
Payments on lines of credit and FHLB advances and other borrowings	**(37,100)**	(11,550)	(25,800)
Net cash (used in) provided by financing activities	**(13,181)**	(4,550)	29,111
Net increase (decrease) in cash and cash equivalents	**(6,807)**	(163)	6,174
Cash and cash equivalents at beginning of year	**24,504**	24,667	18,493
Cash and cash equivalents at end of year	**$17,697**	$24,504	$24,667

See Notes to Consolidated Financial Statements.

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

For the years ended December 31,

	2013	2012	2011
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Cash paid during the year for:			
Interest	**$6,826**	$8,093	$10,040
Income taxes	**$1,935**	$2,009	$2,190
SUPPLEMENTAL SCHEDULE OF NONCASH AND FINANCING ACTIVITIES:			
Foreclosed assets acquired in settlement of loans	**$1,489**	$3,367	$2,619

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, Seward, Kankakee, Loves Park, and Machesney Park, 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) (collectively the "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 February 28, 2014, 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 generally mature within ninety days. Cash flows from interest-bearing deposits in banks, loans, deposits, federal funds purchased, and securities sold under agreements to repurchase are reported net.

(f) Interest-bearing Deposits in Banks

Interest-bearing deposits in banks are comprised of liquid non-maturing deposits in banks but also include some small balances in time deposits in banks with varying maturities. Interest-bearing deposits in banks 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.

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

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

(1) Summary of Significant Accounting Policies (continued)

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

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

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

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

The allowance consists of specific and general components. The specific component relates to loans classified as impaired. For loans classified as impaired, an allowance is established when the discounted cash flows or collateral value of the impaired loan is lower than the carrying value of that loan. The general component covers non-impaired loans and is based on historical-loss experience adjusted for qualitative factors. The historical loss experience is determined by portfolio segment and is based on the actual loss history experienced by the Company. This actual loss experience is supplemented with other economic factors based on the risks present for each portfolio segment. These economic factors include consideration of the following: levels of and trends in delinquencies and impaired loans; levels of and trends in charge-offs and recoveries; trends in volume and terms of loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures, and practices; experience, ability, and depth of lending management and other relevant staff; national and local economic trends and conditions; industry conditions; and effects of changes in credit concentrations.

A loan is considered impaired when it is probable, based on current information and events, the Company 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 less costs to sell if the loan is collateral dependent. The amount of impairment, if any, and 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 using the fair value of collateral method, less estimated costs to sell.

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

(1) Summary of Significant Accounting Policies (continued)

(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 Generally Accepted Accounting Standards and are recorded at fair value, if material.

(l) Loan Servicing

Mortgage servicing rights are recognized as separate assets when rights are acquired through a sale of loans and are reported in other assets. When the originating mortgage loans are sold into the secondary market, the Company allocates the total cost of the mortgage loans between mortgage servicing rights and the loans, based on their relative fair values. 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.

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 offset 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, accordingly, 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. Revenues and expenses from operations and changes in the valuation allowance 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 3 details the types of securities in which the Company invests. Note 4 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, net of taxes. Such items, along with net income, are components of comprehensive income.

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

(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.

(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 2011 and 2012 consolidated financial statements have been reclassified to conform to the 2013 presentation.

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

(1) Summary of Significant Accounting Policies (continued)

(aa) Newly Issued Not Yet Effective Accounting Standards

In January 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-04, Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure. The primary purpose of this new guidance is to clarify, for residential mortgage loans, when an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a residential mortgage loan. This new accounting standard is effective for financial statements issued for annual periods beginning after December 15, 2014. The Company does not believe this will have a significant impact on its financial statements.

In February 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2013-02, Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. When adopted, this guidance will require the Company to provide information about the amounts reclassified out of accumulated other comprehensive income by component, including the respective line items of net income significantly affected by those reclassifications. This new accounting standard is effective for reporting periods beginning after December 15, 2013. The adoption of this standard will likely require additional disclosures regarding amounts reclassified out of accumulated other comprehensive income.

In January 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-02, Accounting for Goodwill. This guidance will allow the Company to elect an accounting alternative to amortize goodwill on a straight-line basis over 10 years, or less than 10 years if another useful life is more appropriate. This new accounting standard is effective for financial statements issued for annual periods beginning after December 15, 2014. The Company is still evaluating whether it will elect this accounting alternative to goodwill and, if so, the impact it will have on its financial statements.

(2) Cash and Due From Banks

The Banks are required to maintain reserve balances, in cash or on deposit with the Federal Reserve Bank, based upon a percentage of deposits. The total required reserve balances as of December 31, 2013 and 2012 was approximately $899 and $435, respectively.

In the normal course of business, the Company maintains cash and due from bank balances in accounts with correspondent banks. Balances in these accounts may exceed the Federal Insurance Deposit Corporation's insured limit of $250,000.

(000s omitted except share data)

(3) Securities

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

Held-to-Maturity 2013	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
State and municipal	**$1,584**	**$41**	**($22)**	**$1,603**

Held-to-Maturity 2012	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
State and municipal	**$1,728**	**$108**	**$0**	**$1,836**

Available-for-Sale 2013	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government sponsored entities	**$45,565**	**$239**	**($2,188)**	**$43,616**
State and municipal	**95,008**	**3,169**	**(952)**	**97,225**
Mortgage-backed – residential	**74,924**	**1,329**	**(1,029)**	**75,224**
	$215,497	**$4,737**	**($4,169)**	**$216,065**

Available-for-Sale 2012	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government sponsored entities	**$32,916**	**$728**	**($97)**	**$33,547**
State and municipal	**95,497**	**7,277**	**(143)**	**102,631**
Mortgage-backed - residential	**75,289**	**2,476**	**(98)**	**77,667**
	$203,702	**$10,481**	**($338)**	**$213,845**

For the years ended December 31, 2013, 2012 and 2011, proceeds from sales of available-for-sale securities amounted to $15,917, $6,685 and $13,996, 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:

	2013	2012	2011
Realized gains	**$361**	$191	$368
Realized losses	**($205)**	$0	($34)

Securities with carrying amounts of approximately $91,924 and $99,121 at December 31, 2013 and 2012, 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, 2013 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.

(000s omitted except share data)

(3) Securities (continued)

Held-to-Maturity	Amortized Cost	Fair Value
Due in one year or less	$235	$235
Due after one year through five years	335	355
Due after five years through ten years	215	226
Due after ten years	799	787
	$1,584	$1,603

Available-for-Sale	Amortized Cost	Fair Value
Due in one year or less	$4,651	$4,690
Due after one year through five years	23,257	23,874
Due after five years through ten years	51,179	50,949
Due after ten years	61,486	61,328
	140,573	140,841
Mortgage-backed - residential	74,924	75,224
	$215,497	$216,065

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, 2013 and 2012:

	2013 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	$429	$22	2	$0	$0	0
Total temporarily impaired	$429	$22	2	$0	$0	0

	2013 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 entities	$30,520	$1,612	79	$4,523	$577	16
State and municipal	14,905	716	56	1,189	236	4
Mortgage-backed - residential	37,632	1,001	65	1,731	27	2
Total temporarily impaired	$83,057	$3,329	200	$7,443	$840	22

There were no held-to-maturity securities in an unrealized loss position at December 31, 2012.

(000s omitted except share data)

(3) Securities (continued)

	2012 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 entities	$11,601	$97	37	$0	$0	0
State and municipal	1,995	33	6	246	110	1
Mortgage-backed - residential	7,153	98	11	0	0	0
Total temporarily impaired	$20,749	$228	54	$246	$110	1

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 market interest rate fluctuations and current bond markets. 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.

(4) Loans

The following table presents total loans at December 31 by portfolio segment and class of loan:

	2013	2012
Real estate:		
Commercial real estate	**$182,993**	$180,822
Agricultural real estate	**79,076**	71,715
Residential real estate	**109,209**	110,903
Commercial:		
Commercial and industrial	**158,945**	175,945
Agricultural production	**68,124**	59,669
Consumer and other	**12,148**	12,832
	610,495	611,886
Allowance for loan losses	**(14,777)**	(14,948)
	$595,718	$596,938

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

(4) Loans (continued)

Detailed analysis of the allowance for loan losses by portfolio segments at December 31 are as follows:

	2013			
	Real Estate	Commercial	Consumer	Total
Balance at beginning of year	$10,290	$4,547	$111	$14,948
Provision charged to operations, net	3,386	1,346	45	4,777
Recoveries on loans previously charged-off	117	146	16	279
	13,793	6,039	172	20,004
Less loans charged-off	(2,975)	(2,181)	(71)	(5,227)
Balance at end of year	$10,818	$3,858	$101	$14,777
Allowance for loan losses:				
Individually evaluated for impairment	$5,205	$863	$15	$6,083
Collectively evaluated for impairment	5,613	2,995	86	8,694
Totals	$10,818	$3,858	$101	$14,777

	2012			
	Real Estate	Commercial	Consumer	Total
Balance at beginning of year	$7,216	$3,836	$121	$11,173
Provision charged to operations, net	12,110	1,319	15	13,444
Recoveries on loans previously charged-off	108	338	51	497
	19,434	5,493	187	25,114
Less loans charged-off	(9,144)	(946)	(76)	(10,166)
Balance at end of year	$10,290	$4,547	$111	$14,948
Allowance for loan losses:				
Individually evaluated for impairment	$4,776	$1,518	$22	$6,316
Collectively evaluated for impairment	5,514	3,029	89	8,632
Totals	$10,290	$4,547	$111	$14,948

	2011			
	Real Estate	Commercial	Consumer	Total
Balance at beginning of year	$7,331	$4,594	$240	$12,165
Provision charged to operations, net	5,888	1,376	(69)	7,195
Recoveries on loans previously charged-off	124	97	65	286
	13,343	6,067	236	19,646
Less loans charged-off	(6,127)	(2,231)	(115)	(8,473)
Balance at end of year	$7,216	$3,836	$121	$11,173
Allowance for loan losses:				
Individually evaluated for impairment	$2,934	$812	$8	$3,754
Collectively evaluated for impairment	4,282	3,024	113	7,419
Totals	$7,216	$3,836	$121	$11,173

(000s omitted except share data)

(4) Loans (continued)

Detailed analysis of loans evaluated for impairment by portfolio segment for the year ended December 31 follows:

	2013			
	Real Estate	Commercial	Consumer	Total
Loans:				
Individually evaluated for impairment	$27,883	$5,440	$119	$33,442
Collectively evaluated for impairment	343,395	221,629	12,029	577,053
Totals	$371,278	$227,069	$12,148	$610,495

	2012			
	Real Estate	Commercial	Consumer	Total
Loans:				
Individually evaluated for impairment	$21,118	$6,847	$196	$28,161
Collectively evaluated for impairment	342,322	228,767	12,636	583,725
Totals	$363,440	$235,614	$12,832	$611,886

Detailed information regarding impaired loans by class of loan as of December 31 follows:

	2013				
	Recorded Investment	Principal Balance	Related Allowance	Average Investment	Interest Recognized
Loans with no related allowance for loan losses:					
Real estate:					
Commercial real estate	$12,439	$14,304	N/A	$12,904	$586
Residential real estate	2,566	3,420	N/A	2,834	75
Agricultural real estate	662	662	N/A	659	31
Commercial					
Commercial & industrial	3,815	3,985	N/A	3,915	93
Agricultural production	0	0	N/A	0	0
Consumer and other	89	90	N/A	112	6
Totals	19,571	22,461		20,424	791
Loans with an allowance for loan losses:					
Real estate:					
Commercial real estate	5,897	5,904	2,897	5,895	329
Residential real estate	6,319	6,529	2,599	6,425	185
Agricultural real estate	0	0	0	0	0
Commercial					
Commercial & industrial	1,578	1,580	546	1,696	75
Agricultural production	47	47	26	50	0
Consumer and other	30	30	15	33	2
Totals	13,871	14,090	6,083	14,099	591
Grand Totals	$33,442	$36,551	$6,083	$34,523	$1,382

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

(4) Loans (continued)

	2012				
	Recorded Investment	Principal Balance	Related Allowance	Average Investment	Interest Recognized
Loans with no related allowance for loan losses:					
Real estate:					
Commercial real estate	$1,491	$1,602	N/A	$1,554	$54
Residential real estate	3,826	5,062	N/A	4,376	140
Agricultural real estate	167	167	N/A	174	0
Commercial					
Commercial & industrial	4,092	4,241	N/A	4,756	215
Agricultural production	0	0	N/A	0	0
Consumer and other	159	220	N/A	201	10
Total	9,735	11,292		11,061	419
Loans with an allowance for loan losses:					
Real estate:					
Commercial real estate	9,175	9,698	2,342	9,257	334
Residential real estate	6,459	7,340	2,434	6,673	225
Agricultural real estate	0	0	0	0	0
Commercial					
Commercial & industrial	2,401	3,962	1,186	2,505	92
Agricultural production	354	358	332	416	0
Consumer and other	37	38	22	40	2
Total	18,426	21,396	6,316	18,891	653
Grand Total	$28,161	$32,688	$6,316	$29,951	$1,072

(000s omitted except share data)

(4) Loans (continued)

	2011				
	Recorded Investment	Principal Balance	Related Allowance	Average Investment	Interest Recognized
Loans with no related allowance for loan losses:					
Real estate:					
Commercial real estate	$9,557	$10,163	N/A	$6,965	$227
Residential real estate	7,543	8,535	N/A	6,086	227
Agricultural real estate	295	295	N/A	215	0
Commercial					
Commercial & industrial	4,037	5,039	N/A	4,086	176
Agricultural production	0	0	N/A	0	0
Consumer and other	130	130	N/A	131	9
Total	21,562	24,162		17,483	639
Loans with an allowance for loan losses:					
Real estate:					
Commercial real estate	3,402	3,448	714	2,489	149
Residential real estate	7,459	8,072	2,220	6,211	339
Agricultural real estate	0	0	0	0	0
Commercial					
Commercial & industrial	998	1,015	472	771	54
Agricultural production	363	363	340	267	0
Consumer and other	60	99	8	62	2
Total	12,282	12,997	3,754	9,800	544
Grand Total	$33,844	$37,159	$3,754	$27,283	$1,183

The Company regularly evaluates various attributes of loans to determine the appropriateness of the allowance for loan losses. The Company generally monitors credit quality indicators for all loans using the following internally prepared ratings:

'Pass' ratings are assigned to loans with adequate collateral and debt service ability such that collectability of the contractual loan payments is highly probable.

'Special Mention' ratings are assigned to loans where management has some concern that the collateral or debt service ability may not be adequate, though the collectability of the contractual loan payments is still probable.

'Substandard' ratings are assigned to loans that do not have adequate collateral and/or debt service ability such that collectability of the contractual loan payments is no longer probable.

'Doubtful' ratings are assigned to loans that do not have adequate collateral and/or debt service ability, and collectability of the contractual loan payments is unlikely.

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

(4) Loans (continued)

Information regarding the credit quality indicators most closely monitored by class of loan at December 31 follows:

	2013				
	Pass	Special Mention	Substandard	Doubtful	Totals
Real estate:					
Commercial real estate	$161,622	$3,503	$17,868		$182,993
Residential real estate	95,867	5,956	7,386		109,209
Agricultural real estate	77,733	681	662		79,076
Commercial:					
Commercial & industrial	151,405	4,561	2,662	$317	158,945
Agricultural production	67,979	98		47	68,124
Consumer and other	12,003	27	118		12,148
Total	$566,609	$14,826	$28,696	$364	$610,495

	2012				
	Pass	Special Mention	Substandard	Doubtful	Totals
Real estate:					
Commercial real estate	$161,858	$12,720	$6,244		$180,822
Residential real estate	92,191	12,455	6,209	$48	110,903
Agricultural real estate	71,064	484	167		71,715
Commercial:					
Commercial & industrial	166,925	3,458	5,561		175,944
Agricultural production	59,306	9	301	54	59,670
Consumer and other	12,591	54	187		12,832
Total	$563,935	$29,180	$18,669	$102	$611,886

Loan aging information by class of loan at December 31 follows:

As of December 31, 2013	Loans Past Due 30-89 Days	Loans Past Due 90+ Days	Total Past Due
Real estate:			
Commercial real estate	$3,552	$2,044	$5,596
Residential real estate	3,596	4,493	8,089
Agricultural real estate		221	221
Commercial			
Commercial & industrial	461	560	1,021
Agricultural production	18		18
Consumer and other	211	8	219
Total	$7,838	$7,326	$15,164

(000s omitted except share data)

(4) Loans (continued)

As of December 31, 2013	Total Past Due	Total Current	Total Loans	90+ Days Due and Accruing Interest	Total Non-accrual Loans
Real Estate:					
Commercial real estate	$5,596	$177,397	$182,993		$4,492
Residential real estate	8,089	101,323	109,412	$419	5,831
Agricultural real estate	221	78,855	79,076	168	53
Commercial:					
Commercial & industrial	1,021	157,924	158,945	120	1,373
Agricultural production	18	68,305	68,323		47
Consumer and other	219	11,929	12,148	6	4
Total	$15,164	$595,733	$610,897	$713	$11,800

As of December 31, 2012	Loans Past Due 30-89 Days	Loans Past Due 90+ Days	Total Past Due
Real estate:			
Commercial real estate	$1,203	$1,715	$2,918
Residential real estate	1,424	2,641	4,065
Agricultural real estate			
Commercial			
Commercial & industrial	1,599	2,377	3,976
Agricultural production		301	301
Consumer and other	57	40	97
Total	$4,283	$7,074	$11,357

As of December 31, 2012	Total Past Due	Total Current	Total Loans	90+ Days Due and Accruing Interest	Total Non-accrual Loans
Real Estate:					
Commercial real estate	$2,918	$169,709	$172,627	$292	$2,428
Residential real estate	4,065	115,053	119,118	103	4,402
Agricultural real estate		71,715	71,715		167
Commercial:					
Commercial & industrial	3,976	171,960	175,936	12	2,432
Agricultural production	301	59,368	59,669		355
Consumer and other	97	12,724	12,821	11	64
Total	$11,357	$600,529	$611,886	$418	$9,848

When, for economic or legal reasons related the borrower's financial difficulties, the Company grants a concession to the borrower that the Company would not otherwise consider, the modified loan is classified as a troubled debt restructuring. Loan modifications may consist of forgiveness of interest and/or principal, a reduction of the interest rate, interest only payments for a period of time, and/or extending amortization terms. All troubled debt restructurings are classified as impaired loans.

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

(4) Loans (continued)

The following table presents information regarding modifications of loans that are classified as troubled debt restructurings by class of loan that occurred during the years ended December 31:

	2013		
	Number of Loans	Pre-Modification Investment	Post-Modification Investment
Real Estate:			
Commercial real estate	8	$8,832	$9,207
Residential real estate	0		
Agricultural real estate	0		
Commercial			
Commercial & industrial	4	491	491
Agricultural production	0		
Consumer and Other	0		
Total	12	$9,323	$9,698

	2012		
	Number of Loans	Pre-Modification Investment	Post-Modification Investment
Real Estate:			
Commercial real estate	5	$3,605	$3,605
Residential real estate	2	261	167
Agricultural real estate	0		
Commercial			
Commercial & industrial	0		
Agricultural production	0		
Consumer and Other	0		
Total	7	$3,866	$3,772

The following table summarizes troubled debt restructurings that defaulted at December 31, within 12 months of their modification date:

	As of December 31, 2013	
	Number of Loans	Recorded Investment
Real Estate:		
Commercial real estate	2	$738
Residential real estate	2	776
Total	4	$1,514

	As of December 31, 2012	
	Number of Loans	Recorded Investment
Real Estate:		
Commercial real estate	3	$3,886
Residential real estate	6	2,037
Total	9	$5,924

(000s omitted except share data)

(5) Loan Servicing

Loans serviced for others are not included in the accompanying consolidated balance sheets. Mortgage loans serviced for others as of December 31, 2013 and 2012, were approximately $311,845 and $277,333, respectively. Custodial escrow balances maintained in conjunction with serviced loans were approximately $2,861 and $2,536 at December 31, 2013 and 2012, respectively.

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

	2013	2012	2011
Mortgage servicing rights:			
Balance at beginning of year	**$1,648**	$1,521	$1,529
Mortgage servicing rights capitalized	**643**	940	643
Mortgage servicing rights amortized	**(676)**	(813)	(651)
Balance at end of year	**$1,615**	$1,648	$1,521

The approximate fair values of the mortgage servicing rights were deemed to be greater than their respective carrying values as of December 31, 2013, 2012, and 2011 and the differences between the fair values and carrying values were considered immaterial.

(6) 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, 2013 and 2012, the Company had approximately $538 and $3,537 in interest rate lock commitments outstanding. As of December 31, 2013 and 2012, the Company had approximately $2,293 and $11,440 in mandatory delivery forward commitments outstanding. These outstanding mortgage loan commitments are considered to be derivatives. The approximate fair values associated with these derivatives were considered to be immaterial as of December 31, 2013 and 2012.

(7) Allowance for Losses on Foreclosed Assets

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

	2013	2012	2011
Balance at beginning of year	**$3,711**	$3,320	$910
Provision for losses	**807**	744	2,410
Write-downs	**0**	0	0
Reductions from sales	**(2,626)**	(353)	0
Recoveries	**0**	0	0
Balance at end of year	**$1,892**	$3,711	$3,320

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

(8) Premises and Equipment

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

	2013	2012
Land	**$2,065**	$2,065
Buildings and leasehold improvements	**11,146**	10,978
Furniture, fixtures, and equipment	**9,967**	9,686
	23,178	22,729
Less accumulated depreciation	**13,432**	12,499
	$9,746	$10,230

Depreciation expense for the years ended December 31, 2013, 2012 and 2011 amounted to $935, $862 and $799, respectively.

(9) Other Assets

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

	2013	2012
Cash surrender value of bank-owned life insurance	**$5,282**	$5,110
Accrued interest receivable	**4,793**	4,935
Mortgage servicing rights, net of accumulated amortization	**1,615**	1,648
Net deferred tax assets	**5,480**	2,321
Federal Deposit Insurance Corporation assessments	**0**	1,334
Other	**2,107**	1,934
	$19,277	$17,282

(10) Time Deposits

The aggregate amount of time deposits with minimum a denomination of $100 was approximately $124,518 and $132,364 at December 31, 2013 and 2012, respectively.

At December 31, 2013, the scheduled maturities of time deposits are as follows:

2014	$149,507
2015	83,731
2016	57,831
2017	35,380
2018 and thereafter	23,027
	$349,476

(000s omitted except share data)

(11) 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 were limited under the terms of the TARP agreement, as described in Note 23, in 2011 and 2012.

(12) 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 $260, $215, and $247, for 2013, 2012, and 2011, respectively. Each plan participant elects how the employer contributions are invested. Participants choose between purchasing the Company's common stock or 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 $9,148 and $9,099 as of December 31, 2013 and 2012, respectively (see Note 9 for cash surrender value of bank-owned life insurance). The Banks accrue for the total amounts to be paid over the employee's active service life. The accrued benefits were $854, $875, and $894 at December 31, 2013, 2012, and 2011, respectively. Salary-continuation expenses were $42, $41, and $51 in 2013, 2012, and 2011, respectively.

(13) Income Taxes

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

	2013	2012	2011
Current – federal	**$1,035**	$992	$1,623
– state	**626**	630	857
	1,661	1,622	2,480
Deferred – federal	**524**	(1,270)	(144)
– state	**175**	(372)	(330)
	699	(1,642)	(474)
Total income tax expense	**$2,360**	($20)	$2,006

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

(13) Income Taxes (continued)

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

	2013		2012		2011	
	Amount	**% of Pretax Earnings**	Amount	% of Pretax Earnings	Amount	% of Pretax Earnings
Statutory federal tax	**$3,127**	**34.0%**	$1,165	34.0%	$2,915	34.0%
Increase (decrease) in taxes resulting from:						
Tax-exempt interest	**(1,339)**	**(14.6%)**	(1,413)	(41.2%)	(1,452)	(16.9%)
Bank-owned life insurance	**(59)**	**(0.6%)**	(65)	(1.9%)	(63)	(0.7%)
State taxes, net of federal benefit	**529**	**5.8%**	170	4.9%	348	4.1%
Other	**102**	**1.1%**	123	3.6%	258	3.0%
Effective tax rates	**$2,360**	**25.7%**	($20)	(.6%)	$2,006	23.5%

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, 2013 and 2012 are summarized as follows:

	2013	2012
Deferred tax assets:		
Allowance for loan losses	**$5,763**	$5,825
Allowance for losses on foreclosed assets and non-accrual interest	**660**	1,516
Deferred compensation and other	**858**	723
Total deferred tax assets	**7,281**	8,064
Deferred tax liabilities:		
FHLB stock dividend	**129**	129
Security accretion	**33**	47
Available-for-sale securities	**227**	4,085
Depreciation	**800**	848
Mortgage servicing rights and other	**612**	634
Total deferred tax liabilities	**1,801**	5,743
Net deferred tax assets	**$5,480**	$2,321

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

With few exceptions, the Company is no longer subject to federal or state examinations by tax authorities for years before 2011.

(000s omitted except share data)

(14) 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 $20,625 and $16,656 at December 31, 2013 and 2012, respectively.

Deposit accounts from related parties totaled approximately $10,074 and $10,233 at December 31, 2013 and 2012, respectively.

(15) Financial Instruments with Off-Balance-Sheet Risk and Concentrations

Financial instruments with off-balance-sheet risk:

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

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

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

	2013	2012
Unused lines of credit and other loan commitments	**$142,503**	$123,738
Commercial letters of credits	**377**	395
Performance and standby letters of credit	**394**	616
	$143,274	$124,749

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.

Standby, performance and commercial 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.

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

(15) Financial Instruments with Off-Balance-Sheet Risk and Concentrations (continued)

Concentration of credit risk:

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

(16) Securities Sold Under Agreements to Repurchase

Securities sold under agreements to repurchase amounted to $23,365 and $25,046 at December 31, 2013 and 2012, respectively, and are secured by investment securities with fair values of approximately $38,934 and $36,227. The weighted-average interest rates on these agreements were 0.29% and 0.18% at December 31, 2013 and 2012, respectively. Securities sold under agreements to repurchase mature on a daily basis.

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

FHLB:	**2013**	2012
Fixed-rate advances with rates ranging from .15% to 3.16% and weighted average of . 07% to 3.16% as of December 31, 2013 and 2012, respectively. Interest is payable monthly with principal due at maturity.	**$15,350**	$19,850

Advances are collateralized by 1-4 family mortgage loans and other qualifying loans. The total amounts of collateral securing FHLB advances were approximately $77,634 and $82,708 as of December 31, 2013 and 2012, 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, 2013 was 75-basis points. Outstanding advances were $0 at December 31, 2013 and 2012. Advances are secured by investment securities pledged totaling approximately $10,791 and $11,663 at December 31, 2013 and 2012, respectively, to the Federal Reserve Bank.

(000s omitted except share data)

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

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

	2013	2012
2013	**$0**	$11,100
2014	**9,250**	2,750
2015	**3,600**	4,000
2016	**1,800**	1,300
2017	**700**	700
2018	**0**	0
	$15,350	$19,850

The Company issued $10,000,000 of Subordinated Debentures in the fiscal year ended 2012 that qualify as Tier 2 regulatory capital (with certain limitations applicable) for the Company. The Company issued the Subordinated Debentures for capital raising purposes primarily for the redemption of preferred stock as part of the Troubled Asset Relief Program. Note 22 details the Troubled Asset Relief Program. The Debentures mature on August 30, 2019 and the Company may redeem some or all of the Subordinated Debentures at any time after the third anniversary of their issuance in accordance with the contract price limitations. The redemption may be subject to approval by the Federal Reserve and must be on a pro rata basis amongst all holders. The terms call for interest payments to be made quarterly in arrears on the last day of March, June, September and December. The annual rate of interest on the Subordinated Debentures is 6.00%. The interest payments can be deferred for so long as the Company or a specific Bank remains subject to any regulatory order limiting or prohibiting the payment of dividends or interest on indebtedness of the Company, including the Debentures. If interest payments are deferred the interest will accrue until paid. The agreement contains certain restrictive covenants that are effective if the Company is in default on the debentures.

(18) Fair Value Measurements

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.

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(000s omitted except share data)

(18) Fair Value Measurements (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. The fair value of collateral dependent impaired loans is generally based on recent real estate appraisals. Adjustments are routinely made in the appraisal process by independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification. Non-real estate collateral may be valued using an appraisal, net book value of the borrower's financial statements or aging reports, adjusted or discounted based on management's expertise and knowledge of the borrower and borrower's business. Fair value measurements prepared internally are based on management's comparisons to sales of comparable assets, but include significant unobservable data and are therefore considered Level 3 measurements.

Foreclosed assets: Real estate acquired through or in lieu of loan foreclosure are not measured at fair value on a recurring basis. However, other real estate is initially measured at fair value (less estimated costs to sell) when it is acquired and may also be measured at fair value (less estimated costs to sell) if it becomes subsequently impaired. The fair value measurement for each property may be obtained from an independent appraiser or prepared internally. Fair value measurements obtained from independent appraisers generally utilize a market approach based on sales of comparable assets and/or an income approach. Such measurements are usually considered Level 2 measurements. However, management routinely evaluates fair value measurements of independent appraisers by comparing actual selling prices to the most recent appraisals. If management determines significant adjustments should be made to the independent appraisals based on these evaluations, these measurements are considered Level 3 measurements. Fair value measurements prepared internally are based management's comparisons to sales of comparable assets, but include significant unobservable data and are therefore considered Level 3 measurements.

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. Loan servicing rights are valued for impairment subsequent to initial recording. Impairment is determined by stratifying rights into groupings based on predominant risk characteristics, such as interest rate, loan type and investor type. Loan servicing rights do not trade in an active market with readily observable prices. Accordingly, the Company determines the fair value of loan servicing rights by estimating the present value of the future cash flows associated with the loans being serviced. Key economic assumptions used in measuring the fair value of loan servicing rights include prepayment speeds and discount rates. While market-based data is used to determine the input assumptions, the Company incorporates its own estimates of assumptions market participants would use in determining fair value of loan servicing rights (Level 3).

(000s omitted except share data)

(18) Fair Value Measurements (continued)

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, 2013		**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	**$216,065**		**$216,065**	
Assets measured at fair value on a non-recurring basis:				
Assets:				
Collateral-dependent impaired loans	**$7,788**			**$7,788**
Foreclosed assets	**$3,265**			**$3,265**

Collateral-dependent impaired loans, which are measured for impairment using the fair value of collateral, had a carrying value of $13,871 with specific reserves of $6,083 as of December 31, 2013.

Foreclosed assets, which are measured at the lower of carrying or fair value less costs to sell, were carried at their fair value of $3,265, which is comprised of the outstanding balance of $5,157, net of an allowance for losses of $1,892 as of December 31, 2013.

The following table presents quantitative information about level 3 fair value measurements for financial instruments measured at fair value on a non-recurring basis at December 31, 2013:

	Fair Value	**Valuation Technique**	**Unobservable Input**
Collateral dependent impaired loans, net of specific reserves	$7,788	Sales comparison approach	Appraised values
Foreclosed assets	$3,265	Sales comparison approach	Appraised values

Management reduced the appraised values by estimated selling and holding costs in a range of 10% to 40%.

(000s omitted except share data)

(18) Fair Value Measurements (continued)

As of December 31, 2012	Total	Fair Value Measurements at Reporting Date Using (Level 1)	(Level 2)	(Level 3)
Assets measured at fair value on a recurring basis:				
Assets:				
Securities available-for-sale	$213,845		$213,845	
Assets measured at fair value on a non-recurring basis:				
Assets:				
Collateral-dependent impaired loans	$12,110			$12,110
Foreclosed assets	$6,770			$6,770

Collateral-dependent impaired loans, which are measured for impairment using the fair value of collateral, had a carrying value of $18,426 with specific reserves of $6,316 as of December 31, 2012.

Foreclosed assets, which are measured at the lower of carrying or fair value less costs to sell, were carried at their fair value of $6,770, which is comprised of the outstanding balance of $10,481, net of an allowance for losses of $3,711 as of December 31, 2012.

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.

Interest-bearing deposits in other banks: The carrying amounts are reasonable estimates of fair value.

Securities: See previous description in this footnote for securities available-for-sale. The fair values of the Company's securities held-to-maturity 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.

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.

(000s omitted except share data)

(18) Fair Value Measurements (continued)

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 previous description in this footnote.

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.

Subordinated debentures: The fair value of subordinated debentures approximates their fair value based on the Company's current incremental borrowing rate approximating the instruments current fixed rate.

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

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

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

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

	December 31, 2013		December 31, 2012	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	**$17,698**	**$17,698**	$24,504	$24,504
Interest-bearing deposits in other banks	**4,963**	**4,963**	4,713	4,713
Securities	**217,649**	**217,668**	215,573	215,681
Non-marketable equity securities	**2,220**	**2,220**	2,184	2,184
Loans held for sale	**1,521**	**1,521**	5,598	5,598
Loans, net of allowance	**595,718**	**597,900**	596,938	597,466
Accrued interest receivable	**4,793**	**4,793**	4,935	4,935
Financial liabilities:				
Deposits	**$729,057**	**$732,476**	$736,718	$741,050
Federal funds purchased	**6,310**	**6,310**	5,114	5,114
Securities sold under agreements to repurchase	**23,365**	**23,369**	25,046	25,051
FHLB advances and other borrowings	**15,350**	**15,447**	19,850	20,105
Subordinated Debentures	**10,000**	**10,000**	10,000	10,000
Accrued interest payable	**704**	**704**	886	886

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(19) 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 model (Black-Scholes) based on 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.

No options were granted for the years ended December 31, 2013, 2012, and 2011.

The fair value of options granted is estimated on the date of grant using the following weighted-average assumptions:

	2013	2012	2011
Risk-free interest rate	**N/A**	N/A	N/A
Expected option life	**N/A**	N/A	N/A
Expected stock-price volatility	**N/A**	N/A	N/A
Dividend yield	**N/A**	N/A	N/A

For the years ended December 31, 2013, 2012 and 2011, the Company recognized \$95, \$97 and \$98 in compensation expense for stock options, respectively. No tax benefits were recognized for the three year period ended December 31, 2013. As of December 31, 2013, stock-based compensation expense not yet recognized totaled \$142, and is expected to be recognized over a weighted-average remaining period of 1.4 years. The intrinsic value of options exercised during the years ended December 31, 2013, 2012 and 2011 was \$99, \$0 and \$4, respectively. The total fair value of shares vested during the years ended December 31, 2013, 2012 and 2011 was \$494, \$341 and \$338, respectively.

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. 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.

(000s omitted except share data)

(19) Stock-Compensation Plans (continued)

The following tables summarize the activity of options and non-vested shares granted, exercised, or forfeited for the year ended December 31, 2013:

	2013	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Shares under option, beginning of year	157,490	$10.32	6.4	$292
Granted during the year	0			
Forfeited and expired during the year	(2,389)	10.16		
Exercised during the year	(13,044)	10.77		100
Shares under option, end of year	142,057	$10.29	5.7	$1,202
Options exercisable, end of year	91,026	$10.30	5.5	$769
Shares available for grant, end of year	150,000			

	Number of Options	Weighted Average Fair Value at Grant
Non-vested options, December 31, 2012	79,351	$3.09
Granted during the year	0	
Vested during the year, net	(25,931)	3.66
Forfeited or expired during the year	(2,389)	4.44
Non-vested options, December 31, 2013	51,031	$2.79

The following table summarizes information about fixed stock options outstanding at December 31, 2013:

Exercise Price	Number Outstanding at 12/31/13	Remaining Contractual Life (Years)	Number Exercisable at 12/31/13
$10.00	23,497	4.0	16,754
$10.25	90,680	6.5	54,392
$10.50	20,000	6.5	12,000
$11.00	7,880	0.5	7,880
	142,057		91,026

During 2012, the Company approved a new equity incentive plan to promote the long-term financial success of the Company through stock based awards to employees, directors or service providers who contribute to that success. This equity incentive plan permits Company management to approve and grant a maximum of 150,000 shares of common stock based awards in the form of any combination of stock options, stock appreciation rights, stock awards or cash incentive awards. As of December 31, 2013, no awards under this plan have been granted.

(000s omitted except share data)

(19) Stock-Compensation Plans (continued)

In October 2013, the Company's Board of Directors authorized a stock repurchase program. The Company's Board of Directors had authorized an aggregate repurchase of up to 100,000 of common stock at market price. As of December 31, 2013 the Company had repurchased 2,000 shares under this program.

The purchase price for the shares of the Company's stock repurchased is reflected as a reduction to shareholders' equity. In accordance with Accounting Principles Board Opinion No. 6, "Status of Accounting Research Bulletins," the Company is required to allocate the purchase price of the repurchased shares as (i) a reduction to retained earnings until retained earnings are zero and then as an increase to accumulated deficit and (ii) a reduction of common stock and additional paid-in capital.

(20) Earnings Per Common Share

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

	2013	2012	2011
Net income	**$6,838**	$3,446	$6,568
Less - preferred stock dividends	**0**	(877)	(818)
Less - accretion of preferred stock warrants	**0**	(356)	(150)
Net income available to common stockholders	**$6,838**	$2,213	$5,600
Average number of common shares outstanding	**3,661,934**	3,659,504	3,659,306
Effect of dilutive options	**54,982**	28,345	26,162
Average number of common shares outstanding used to calculate diluted earnings per common share	**3,716,916**	3,687,849	3,685,468

(21) 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.

(21) 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 (as defined), and of Tier-I capital (as defined) to average assets (as defined). Management believes that as of December 31, 2013, that the Company and the Banks meet all capital-adequacy requirements to which they are subject.

As of December 31, 2013, 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, 2013:						
Total Capital to Risk Weighted Assets:						
Company	$102,007	15.59%	$52,340	8.00%	N/A	N/A
Northwest	24,558	14.25%	13,787	8.00%	$17,234	10.00%
German	20,843	13.41%	12,434	8.00%	15,543	10.00%
Davis	14,363	15.19%	7,566	8.00%	9,458	10.00%
Freeport	23,282	13.44%	13,863	8.00%	17,329	10.00%
Lena	8,993	16.09%	4,471	8.00%	5,588	10.00%
Tier-I Capital to Risk Weighted Assets:						
Company	$83,747	12.80%	$26,170	4.00%	N/A	N/A
Northwest	22,379	12.99%	6,894	4.00%	$10,340	6.00%
German	18,889	12.15%	6,217	4.00%	9,326	6.00%
Davis	13,175	13.93%	3,783	4.00%	5,675	6.00%
Freeport	21,089	12.17%	6,932	4.00%	10,398	6.00%
Lena	8,282	14.82%	2,235	4.00%	3,353	6.00%
Tier-I Capital to Average Assets:						
Company	$83,747	9.62%	$34,837	4.00%	N/A	N/A
Northwest	22,379	9.47%	9,455	4.00%	$11,818	5.00%
German	18,889	9.75%	7,753	4.00%	9,691	5.00%
Davis	13,175	9.38%	5,620	4.00%	7,025	5.00%
Freeport	21,089	9.80%	8,611	4.00%	10,764	5.00%
Lena	8,282	10.23%	3,240	4.00%	4,050	5.00%

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

(21) Regulatory Matters (continued)

<u>As of December 31, 2012:</u>						
Total Capital to Risk Weighted Assets:						
Company	$95,572	14.68%	$52,082	8.00%	N/A	N/A
Northwest	23,492	13.43%	13,989	8.00%	$17,486	10.00%
German	19,466	12.11%	12,861	8.00%	16,077	10.00%
Davis	13,568	14.26%	7,609	8.00%	9,511	10.00%
Freeport	21,495	13.10%	13,124	8.00%	16,405	10.00%
Lena	8,668	16.78%	4,132	8.00%	5,165	10.00%
Tier-I Capital to Risk Weighted Assets:						
Company	$77,350	11.88%	$26,041	4.00%	N/A	N/A
Northwest	21,277	12.17%	6,994	4.00%	$10,492	6.00%
German	17,444	10.85%	6,431	4.00%	9,646	6.00%
Davis	12,364	13.00%	3,805	4.00%	5,707	6.00%
Freeport	19,428	11.84%	6,562	4.00%	9,843	6.00%
Lena	8,011	15.51%	2,066	4.00%	3,099	6.00%
Tier-I Capital to Average Assets:						
Company	$77,350	8.74%	$35,403	4.00%	N/A	N/A
Northwest	21,277	8.78%	9,688	4.00%	$12,110	5.00%
German	17,444	8.57%	8,140	4.00%	10,175	5.00%
Davis	12,364	8.97%	5,512	4.00%	6,890	5.00%
Freeport	19,428	8.97%	8,660	4.00%	10,825	5.00%
Lena	8,011	10.05%	3,189	4.00%	3,987	5.00%

(22) 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. The Series A preferred stock had 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 had no par value and a redemption value of $1,000 per share. The Series A and Series B preferred stock were redeemable by the Company at any time. The dividend rate on the Series A preferred stock was 5% for the first five years and 9% thereafter. The dividend rate on the Series B preferred stock was 9%. Dividends on the preferred stock were cumulative and were 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 was being accreted as an increase to preferred stock over five years which was the Company's expected redemption period. The Series A and Series B preferred stock were included as Tier-1 capital for regulatory purposes.

Under the terms of the TARP agreement, the Company was subject to certain dividend limitations. Generally, without the UST's consent, the Company was limited to a maximum quarterly dividend of $.08 per common share until May 14, 2012. Additionally, without the UST's consent, the Company was 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.

Additionally under the terms of the TARP agreement, without the consent of the UST, the Company generally could 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 placed certain restrictions on executive compensation, the effect of which did not have a material effect on the consolidated financial statements.

(000s omitted except share data)

(22) TARP Capital Purchase Plan (in actual dollars) (continued)

Effective December 11, 2012, the Company redeemed the Series A and B preferred stock for total proceeds of $15,750. As a result, the Company is no longer under the terms of the TARP agreement as of December 31, 2012.

(23) Lease Commitments

One of the banks has an operating lease commitment on office space in Loves Park, Illinois. The terms of the lease require base lease amounts of $75 per year. The lease expires September 2014 and is renewable up to five additional one year terms. Rent expense of $75 and $18 were recognized in 2013 and 2012, respectively.

In addition, there is an operating lease agreement for bank premises in Rockford, Winnebago, and Kankakee, Illinois. The Rockford and Winnebago leases require payment of approximately $51 per year for 2013 and 2014, expiring April 2015. There is no formal lease for the Kankakee location. The Bank is verbally agreeing to pay $7 for 2014.

The minimum lease commitments are as follows:

2014	$166
2015	43

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

December 31, 2013

ASSETS	German-American State Bank	State Bank of Davis
Cash and due from banks	$3,407	$1,844
Interest-bearing deposits in banks	27	225
Federal funds sold		0
Interest-bearing deposits in banks - term deposits	748	1,215
Securities:		
Securities held-to-maturity		1,559
Securities available-for-sale	40,622	44,035
Non-marketable equity securities, at cost	534	313
Loans held for sale		
Loans, net	147,708	84,205
Foreclosed assets, net	85	148
Premises and equipment	996	1,018
Other assets	4,173	2,124
Investment in subsidiary banks		
Total assets	$198,300	$136,686
LIABILITIES AND STOCKHOLDLERS' EQUITY		
Liabilities:		
Deposits:		
Noninterest bearing	$21,072	$12,992
Interest-bearing	151,450	103,185
Total deposits	172,522	116,177
Federal funds purchased	1,283	3,099
Securities sold under agreements to repurchase		4,159
Federal Home Loan Bank borrowings and other	4,500	0
Subordinated debentures		
Accrued interest payable and other liabilities	983	304
Total liabilities	179,288	123,739
Stockholders’ equity:		
Preferred stock		
Common stock	400	100
Additional paid-in capital	2,775	1,571
Retained earnings	15,714	11,504
Treasury stock		
Accumulated other comprehensive income	123	(228)
Total stockholders’ equity	19,012	12,947
Total liabilities and stockholders’ equity	$198,300	$136,686

Northwest Bank	State Bank	Lena State Bank	Foresight Financial Group, Inc.	Eliminations	Consolidated Total
$6,666	$3,259	$1,611	$7,491	($7,491)	$16,787
49	7	3		600	911
0	0	0			0
1,000	1,250	1,350		(600)	4,963
25					1,584
51,111	48,820	31,477			216,065
672	448	253			2,220
1,521					1,521
159,567	157,552	46,655	31		595,718
2,218	171	180	463		3,265
4,519	1,807	488	918		9,746
5,473	2,808	3,277	1,421		19,276
			84,154	(84,154)	
$232,821	$216,122	$85,294	$94,478	($91,645)	$872,056
$30,966	$20,594	$8,331		($150)	$93,805
170,549	153,791	63,617		(7,341)	635,251
201,515	174,385	71,948		(7,491)	729,056
425	484	1,019			6,310
3,274	13,420	2,512			23,365
4,000	5,850	1,000			15,350
			$10,000		10,000
1,162	566	482	252		3,749
210,376	194,705	76,961	10,252	(7,491)	787,830
			0		0
1,450	1,000	500	969	(3,450)	969
7,175	4,579	3,685	7,979	(19,785)	7,979
13,754	15,510	4,097	79,035	(60,579)	79,035
			(4,098)		(4,098)
66	328	51	341	(340)	341
22,445	21,417	8,333	84,226	(84,154)	84,226
$232,821	$216,122	$85,294	$94,478	($91,645)	$872,056

For the year ended December 31, 2013

	German-American State Bank	State Bank of Davis
Interest and dividend income:		
Loans, including fees	$7,299	$4,278
Securities:		
Taxable	534	662
Tax-exempt	670	735
Dividends	2	1
Interest-bearing deposits in banks	11	8
Federal funds sold	2	5
Total interest and dividend income	8,518	5,689
Interest expense:		
Deposits	1,496	990
Federal funds purchased	3	1
Securities sold under agreements to repurchase		43
Federal Home Loan Bank advances and other borrowings	53	0
Subordinated debentures		
Total interest expense	1,552	1,034
Net interest and dividend income	6,966	4,655
Provision for loan losses	510	800
Net interest and dividend income, after provision for loan losses	6,456	3,855
Noninterest income:		
Customer service fees	338	117
Equity in earnings of subsidiaries		
Gain on sales and calls of AFS securuties, net	18	23
Gain on sales of loans, net		
Loan-servicing fees		
Other	695	222
Total noninterest income	1,051	362
Noninterest expenses:		
Salaries and employee benefits	2,181	946
Occupancy expense of premises, net	416	184
Outside services	188	127
Data processing	331	134
Foreclosed assets, net	4	39
Other	1,116	601
Total noninterest expenses	4,236	2,031
Income before income taxes	3,271	2,186
Income tax expense (benefit)	1,082	624
Net income	$2,189	$1,562

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
$8,334	$7,241	$2,093			$29,245
733	605	411			2,945
804	946	581			3,736
					3
24	19	18	12	($12)	80
3	2	1			13
9,898	8,813	3,104	12	(12)	36,022
1,420	1,306	551		($12)	5,751
2	2	1			9
13	25		0		81
34	111	5			203
			600		600
1,469	1,444	557	600	(12)	6,644
8,429	7,369	2,547	(588)	0	29,378
1,950	1,200	321	(4)		4,777
6,479	6,169	2,226	(584)	0	24,601
377	213	121			1,166
			$7,966	($7,966)	0
109	6	0			156
1,535					1,535
751					751
615	641	190	16		2,379
3,387	860	311	7,982	(7,966)	5,987
5,064	2,030	703	346	1,238	12,508
1,059	316	198	16	202	2,391
93	190	139	59	(584)	212
411	312	82		(856)	414
(21)			600		622
2,030	652	555	289		5,243
8,636	3,500	1,677	1,310	0	21,390
1,230	3,529	860	6,088	(7,966)	9,198
154	1,118	132	(750)		2,360
$1,076	$2,411	$728	$6,838	($7,966)	$6,838

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

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