Foresight Financial Group

2014 Annual Report

FORESIGHT

financial group, inc.

www.foresightfg.com

German American State Bank

State Bank

Freeport, IL

LENA STATE BANK

northwestbank

STATE BANK of DAVIS

Dear Stockholders,

I am pleased to report that your company earned $8.26 million for 2014 up over 20% from 2013, representing two consecutive record earnings years. We were able to deliver these results through a driven sales force that increased loan out standings by 7.5% while maintaining our high credit quality standards. Our deposit team also contributed to our growth with innovative new products. These products and our continued commitment to quality service helped our deposit base to grow by almost 5%. Improved interest rate margins, decreased credit costs and a marked decline in non-performing assets further contributed to our success. The company's basic earnings per share increased $0.40 to $2.27 and book value per share increased $2.10 per share to $24.96. We believe our company is still undervalued in the marketplace and is the main reason the Board of Directors approved continuation of our stock repurchase program. During 2014 we repurchased 63,962 shares through the repurchase program.

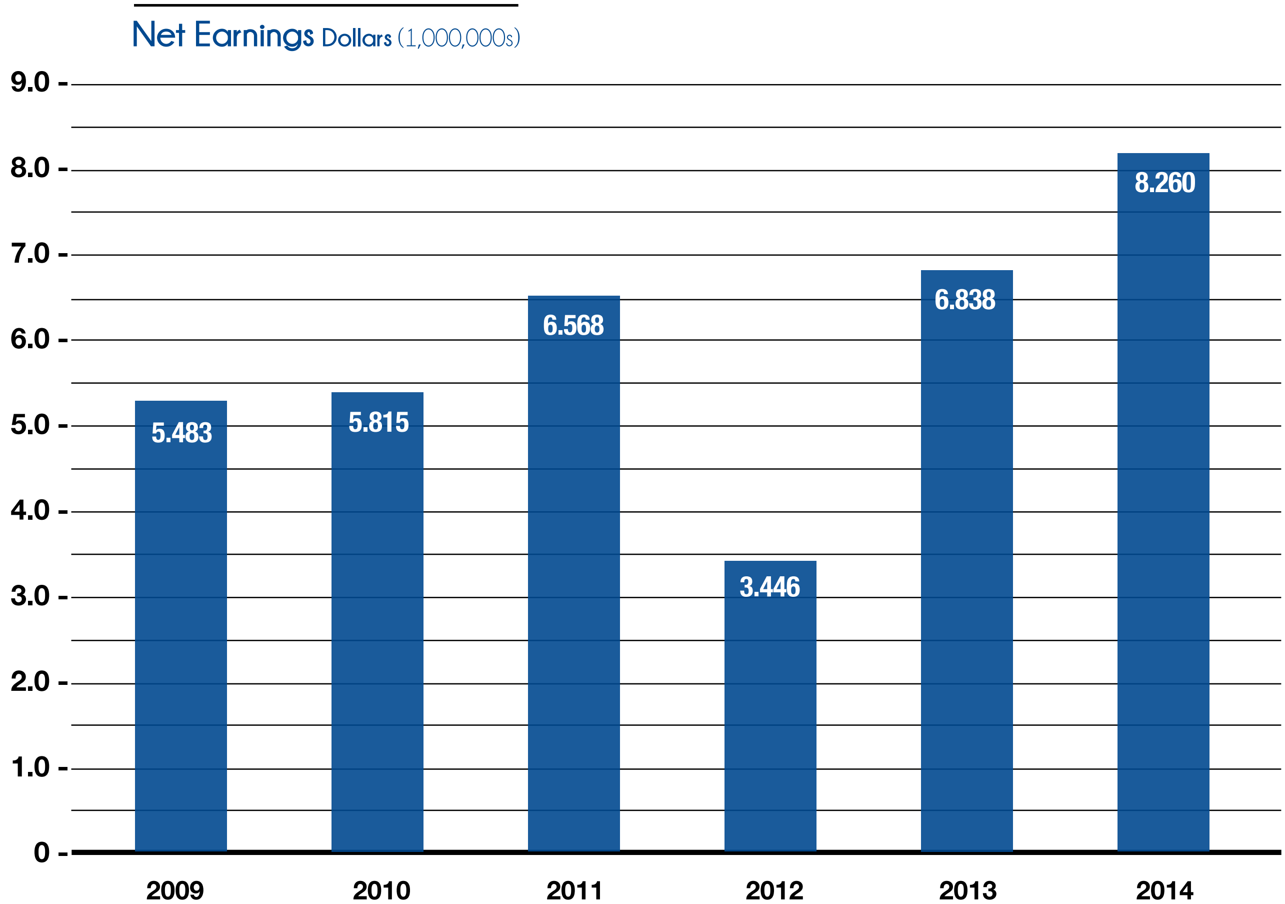
Performance throughout 2014 and prior has positioned the company to look toward expansion into other markets. Our strong capital affords us the ability to proactively seek and identify possible acquisition of banks that fit our community bank model. This past year we began to add staff at the corporate level to strengthen our management team. These additional company officers will position us to smoothly integrate banks that could join our group.

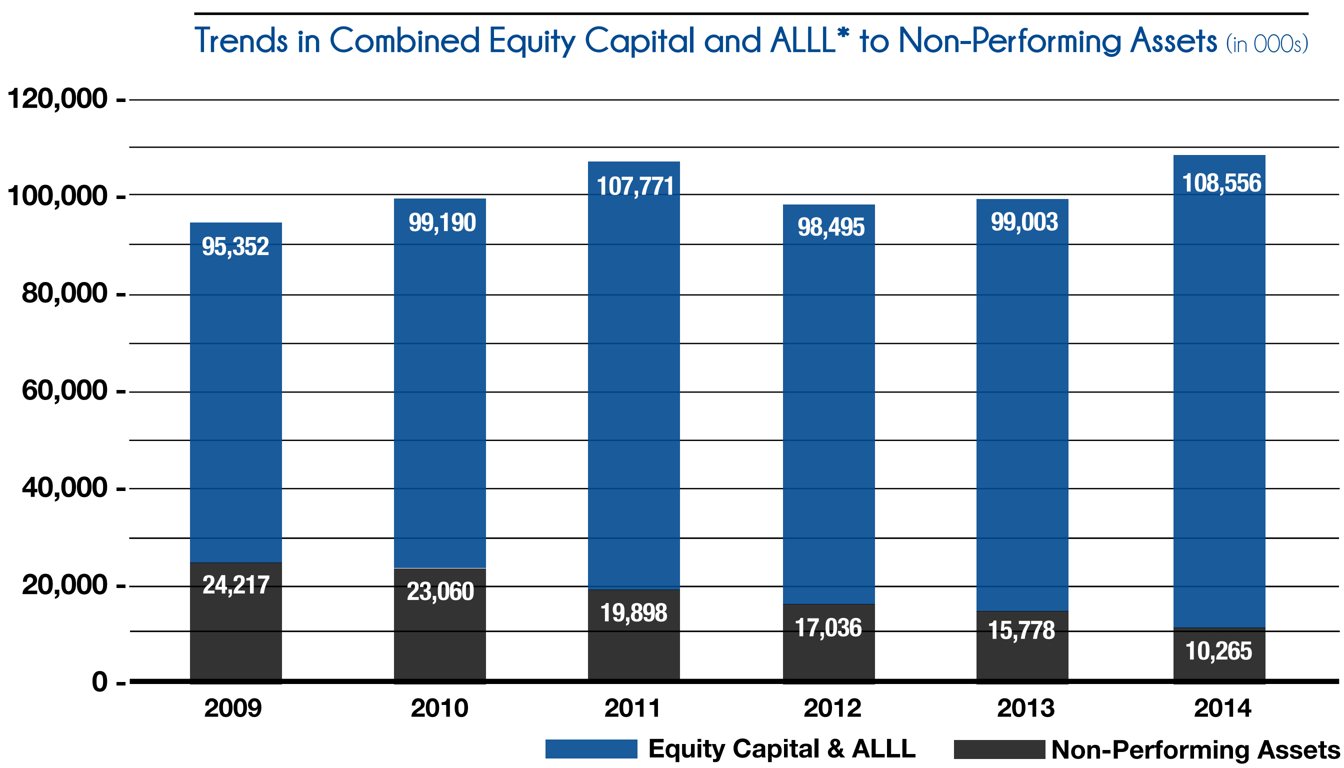
We are encouraged as we look toward the future. Our past performance has placed us on solid footing to remain on course to provide strong earnings and growth. Our team of professional bankers continues to innovate and find new ways to serve our customers and fulfill their financial service needs. I look forward to sharing exciting news in 2015 and beyond as we move forward staying true to our mission statement of ***"Community Building through Community Banking".***

Respectfully,

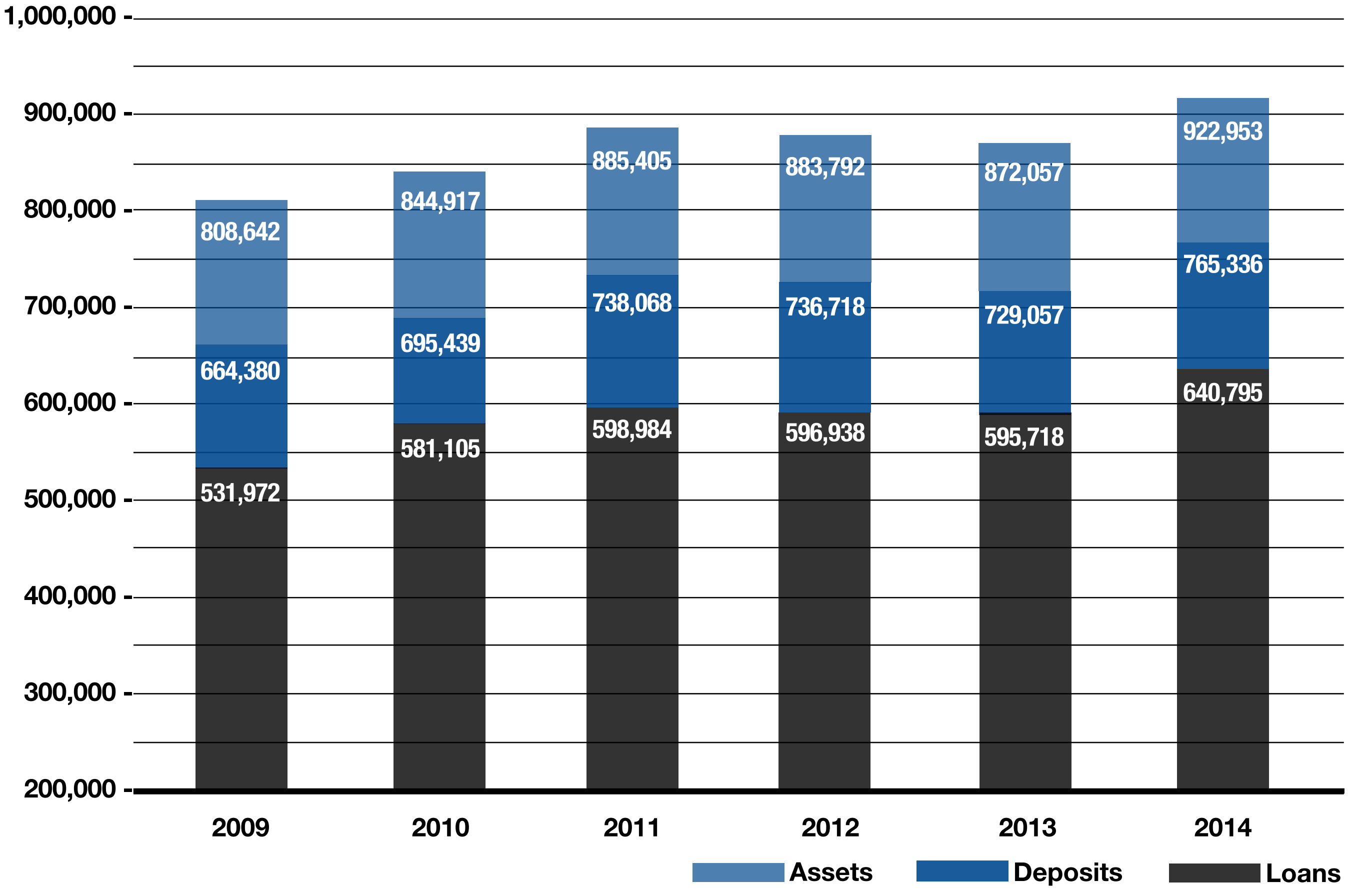
Brent Myers

Brent Myers, President and CEO

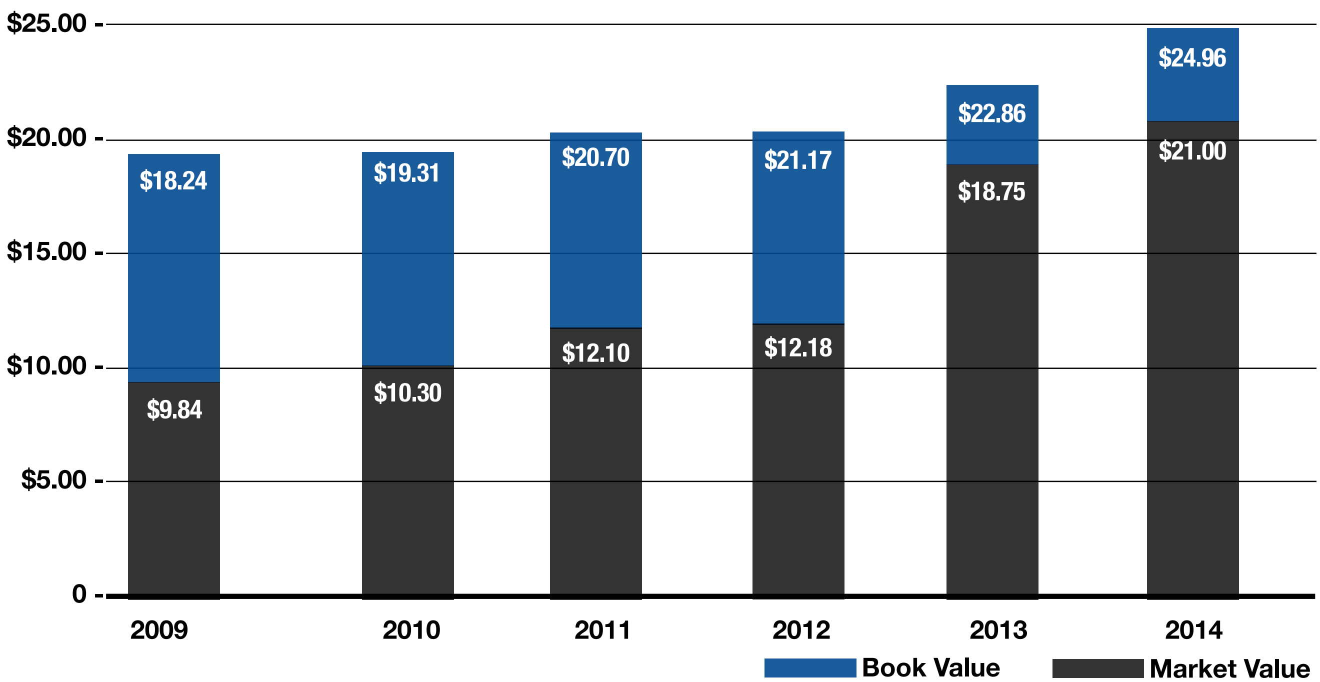

Net Earnings Dollars (1,000,000s)
9.0
8.0
7.0
6.0
5.0
4.0
3.0
2.0
1.0
0
5.483
5.815
6.568
3.446
6.838
8.260
2009
2010
2011
2012
2013
2014


Trends in Combined Equity Capital and ALLL* to Non-Performing Assets (in 000s)
120,000
100,000
80,000
60,000
40,000
20,000
0
95,352
99,190
107,771
98,495
99,003
108,556
24,217
23,060
19,898
17,036
15,778
10,265
2009
2010
2011
2012
2013
2014
Equity Capital & ALLL
Non-Performing Assets

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



Common Stock Per Share Book & Market Value - December 31



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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, 2014 and 2013, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2014, 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 2014, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2014, 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 27, 2015

CONSOLIDATED BALANCE SHEETS
(000s omitted except share data)

	December 31,	
ASSETS	**2014**	2013
Cash and due from banks	**$20,717**	$16,787
Interest-bearing deposits in banks	**8,336**	911
Federal funds sold	**939**	0
Total cash and cash equivalents	**29,992**	17,698
Interest-bearing deposits in banks - term deposits	**5,197**	4,963
Securities:		
Securities held-to-maturity (HTM)	**1,396**	1,584
Securities available-for-sale (AFS)	**214,393**	216,065
Non-marketable equity securities, at cost	**2,243**	2,220
Loans held for sale	**1,439**	1,521
Loans, net of allowance for loan losses of $14,571 and $14,777, respectively	**640,795**	595,718
Foreclosed assets, net	**1,622**	3,265
Premises and equipment, net	**9,500**	9,746
Other assets	**16,376**	19,277
Total assets	**$922,953**	$872,057
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits:		
Noninterest-bearing	**$97,745**	$93,806
Interest-bearing	**667,591**	635,251
Total deposits	**765,336**	729,057
Federal funds purchased	**3,036**	6,310
Securities sold under agreements to repurchase	**23,506**	23,365
Federal Home Loan Bank (FHLB) advances and other borrowings	**23,100**	15,350
Subordinated debentures	**10,000**	10,000
Accrued interest payable and other liabilities	**3,990**	3,749
Total liabilities	**828,968**	787,831
Stockholders' equity:		
Preferred stock (no par value; authorized 500,000 shares)	**0**	0
Common stock ($.25 par value; authorized 5,000,000 shares; 3,898,449 and 3,879,357 shares issued, respectively)	**975**	969
Additional paid-in capital	**8,260**	7,979
Retained earnings	**86,570**	79,036
Treasury stock, at cost (273,619 and 209,657 shares, respectively)	**(5,312)**	(4,098)
Accumulated other comprehensive income	**3,492**	340
Total stockholders' equity	**93,985**	84,226
Total liabilities and stockholders' equity	$922,953	$872,057

See Notes to Consolidated Financial Statements.

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

For the years ended December 31,	**2014**	2013	2012
Interest and dividend income:			
Loans, including fees	**$29,495**	$29,245	$31,487
Debt securities:			
Taxable	**3,076**	2,945	3,472
Tax-exempt	**3,512**	3,736	3,900
Interest-bearing deposits in banks and other	**104**	83	57
Federal funds sold	**6**	13	11
Total interest and dividend income	**36,193**	36,022	38,927
Interest expense:			
Deposits	**5,136**	5,751	7,231
Federal funds purchased	**14**	9	3
Securities sold under agreements to repurchase	**70**	81	128
FHLB and other borrowings	**188**	203	245
Subordinated debentures	**600**	600	189
Total interest expense	**6,008**	6,644	7,796
Net interest and dividend income	**30,185**	29,378	31,131
Provision for loan losses	**2,621**	4,777	13,444
Net interest and dividend income, after provision for loan losses	**27,564**	24,601	17,687
Noninterest income:			
Customer service fees	**1,150**	1,166	1,275
Gain on sales and calls of AFS securities, net	**125**	156	191
Gain on sales of loans, net	**1,118**	1,535	1,500
Loan servicing fees, net	**655**	751	832
Other	**2,364**	2,379	2,360
Total noninterest income	**5,412**	5,987	6,158
Noninterest expenses:			
Salaries and employee benefits	**12,651**	12,508	11,963
Occupancy expense of premises, net	**2,463**	2,391	2,152
Outside services	**261**	212	235
Data processing	**417**	414	297
Foreclosed assets, net	**487**	622	954
Other	**4,992**	5,243	4,818
Total noninterest expenses	**21,271**	21,390	20,419
Income before income taxes	**11,705**	9,198	3,426
Income tax expense	**3,445**	2,360	(20)
Net income	**$8,260**	$6,838	$3,446
Earnings per common share:			
Basic	**$2.27**	$1.87	$0.60
Diluted	**$2.24**	$1.84	$0.60

See Notes to Consolidated Financial Statements.

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

For the years ended December 31,

	2014	2013	2012
Net income	**$8,260**	$6,838	$3,446
Other comprehensive income:			
Unrealized holding (loss) gains on securities available for sale, net of tax of $(2,052), $3,949 & $(494), respectively	**3,228**	(5,625)	734
Reclassification adjustments for net securities gains recognized in income, net of tax of $50, $62 & $76, respectively	**(75)**	(94)	(115)
Total other comprehensive income (loss)	**3,153**	(5,719)	619
Total comprehensive income	**$11,413**	$1,119	$4,065

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, 2012	$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 ($.17 per share)				(621)			(621)
Purchase of treasury stock (2,000 shares)					(38)		(38)
Stock options exercised		3	121				124
Stock-based compensation expense			95				95
Balance, December 31, 2013	0	969	7,979	79,037	(4,098)	339	84,226
Net income				8,260			8,260
Other comprehensive income						3,153	3,153
Cash dividends ($.20 per share)				(727)			(727)
Purchase of treasury stock (63,962 shares)					(1,214)		(1,214)
Stock options exercised		6	190				196
Stock-based compensation expense			91				91
Balance, December 31, 2014	$0	$975	$8,260	$86,570	($5,312)	$3,492	$93,985

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(000s omitted except share data)

	For the years ended December 31,		
	2014	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	**$8,260**	$6,838	$3,446
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Provision for loan losses	**2,621**	4,777	13,444
Provision for foreclosed asset losses	**490**	1,158	744
Depreciation	**847**	935	862
Net amortization of securities	**784**	1,303	1,242
Deferred income tax benefit	**101**	699	(1,642)
Net gain on the sales and calls of AFS securities	**(125)**	(156)	(191)
Net (gain) loss on the sales of foreclosed assets	**(205)**	(2,853)	(207)
Stock-based compensation (income) expense	**91**	95	97
Net change in:			
Servicing rights	**164**	33	(128)
Loans held for sale	**82**	4,077	(3,400)
Other assets	**510**	1,286	812
Accrued expenses and other liabilities	**241**	232	(1,226)
Net cash provided by operating activities	**13,861**	18,424	13,853
CASH FLOWS FROM INVESTING ACTIVITIES:			
Net change in interest-bearing deposits in banks - term deposits	**(234)**	(250)	(3,863)
Proceeds from sales of AFS securities	**14,601**	15,917	6,685
Proceeds from maturities, calls, and paydowns of HTM securities	**235**	190	359
Proceeds from maturities, calls, and paydowns of AFS securities	**33,021**	40,642	65,079
Purchases of AFS securities	**(41,378)**	(69,702)	(64,034)
Purchases of non-marketable equity securities	**(23)**	(36)	(7)
Loan originations and principal collections, net	**(48,871)**	(5,046)	(14,765)
Proceeds from sales of foreclosed assets	**2,553**	6,688	2,057
Purchases of premises and equipment, net	**(622)**	(451)	(977)
Net cash used in investing activities	**(40,718)**	(12,048)	**(9,466)**
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net change in deposits	**36,279**	(7,662)	(1,350)
Net change is securities sold under agreements to repurchase	**141**	(1,681)	(2,652)
Cash dividends paid	**(727)**	(621)	(1,463)
Net change in federal funds purchased	**(3,274)**	1,196	1,215
Proceeds from issuance of subordinated debentures	**0**	0	10,000
Redemption of preferred stock	**0**	0	(15,750)
Stock options excercised	**196**	124	0
Purchase of treasury stock	**(1,214)**	(38)	0
Proceeds from lines of credit and FHLB advances and other borrowings	**54,250**	32,600	17,000
Payments on lines of credit and FHLB advances and other borrowings	**(46,500)**	(37,100)	(11,550)
Net cash (used in) provided by financing activities	**39,151**	(13,182)	(4,550)
Net increase (decrease) in cash and cash equivalents	**12,294**	(6,806)	(163)
Cash and cash equivalents at beginning of year	**17,698**	24,504	24,667
Cash and cash equivalents at end of year	**$29,992**	$17,698	$24,504

See Notes to Consolidated Financial Statements.

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

For the years ended December 31,

	2014	2013	2012
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Cash paid during the year for:			
Interest	**$6,042**	$6,826	$8,093
Income taxes	**$2,302**	$1,935	$2,009
SUPPLEMENTAL SCHEDULE OF NONCASH AND FINANCING ACTIVITIES:			
Foreclosed assets acquired in settlement of loans	**$1,173**	$1,489	$3,367

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 27, 2015, 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, and 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 balances in time deposits in banks with the remaining maturity being the determining factor for inclusion in cash and cash equivalents with the non-maturing interest bearing deposits. 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.

(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 2012 and 2013 consolidated financial statements have been reclassified to conform to the 2014 presentation.

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

(1) Summary of Significant Accounting Policies (continued)

(aa) Adoption of New Accounting Standard

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 required additional disclosures regarding amounts reclassified out of accumulated other comprehensive income.

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 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.

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers*. The objective of this new standard is to provide a common revenue standard for all entities that enter into contracts with customers to transfer goods or services or contracts to transfer nonfinancial assets. This new accounting standard is effective for financial statements issued for annual reporting periods beginning after December 15, 2016. The Company is evaluating what impact this new standard will have on its financial statements.

(1) Summary of Significant Accounting Policies (continued)

(aa) Newly Issued Not Yet Effective Accounting Standards (continued)

In June 2014, the FASB issued ASU No. 2014-11, *Transfers and Servicing (Topic 860):"Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures."* This Update aligns the accounting for repurchase-to-maturity transactions and repurchase agreements executed as repurchase financings with the accounting for other typical repurchase agreements. Going forward, these transactions would all be accounted for as secured borrowings. The guidance eliminates sale accounting for repurchase-to-maturity transactions and supersedes the guidance under which a transfer of a financial asset and a contemporaneous repurchase financing could be accounted for on a combined basis as a forward agreement, which has resulted in outcomes referred to as off-balance-sheet accounting. The Update requires a new disclosure for transactions economically similar to repurchase agreements in which the transferor retains substantially all of the exposure to the economic return on the transferred financial assets throughout the term of the transaction. The Update also requires expanded disclosures about the nature of collateral pledged in repurchase agreements and similar transactions accounted for as secured borrowings. The Update is effective for interim or annual period beginning after December 15, 2014. All of the Company's repurchase agreements are typical in nature (i.e., not repurchase-to-maturity transactions or repurchase agreements executed as a repurchase financing) and are accounted for as secured borrowings. As such, the adoption of ASU No. 2014-11 is not expected to have a material impact on the Company's consolidated 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, 2014 and 2013 was approximately $481 and $899, 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(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 2014	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
State and municipal	**$1,396**	**$60**	**($0)**	**$1,456**

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

Available-for-Sale 2014	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government sponsored entities and agencies	**$40,279**	**$369**	**($526)**	**$40,122**
State and municipal	**94,488**	**4,834**	**(189)**	**99,133**
Mortgage-backed – residential	**73,777**	**1,582**	**(221)**	**75,138**
	$208,544	**$6,785**	**($936)**	**$214,393**

Available-for-Sale 2013	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government sponsored entities and agencies	**$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**

For the years ended December 31, 2014, 2013 and 2012, proceeds from sales of available-for-sale securities amounted to $14,601, $15,917 and $6,685, 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:

	2014	2013	2012
Realized gains	**$140**	$361	$191
Realized losses	**($15)**	($205)	$0

Securities with carrying amounts of approximately $112,371 and $91,924 at December 31, 2014 and 2013, 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, 2014 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	$257	$260
Due after one year through five years	89	98
Due after five years through ten years	407	433
Due after ten years	643	665
	$1,396	$1,456

Available-for-Sale	Amortized Cost	Fair Value
Due in one year or less	$6,242	$6,339
Due after one year through five years	17,546	17,915
Due after five years through ten years	48,770	50,162
Due after ten years	62,209	64,839
	134,767	139,255
Mortgage-backed - residential	73,777	75,138
	$208,544	$214,393

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, 2014 and 2013:

	2014 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 and agencies	$5,454	$48	13	$18,777	$478	55
State and municipal	5,358	52	19	4,214	137	13
Mortgage-backed - residential	5,547	29	8	14,396	192	26
Total temporarily impaired	$16,359	$129	40	$37,387	$807	94

There were no held-to-maturity securities in an unrealized loss position as of December 31, 2014.

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

(3) Securities (continued)

	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 and agencies	$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

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:

	2014	2013
Real estate:		
Commercial real estate	**$216,722**	$182,993
Residential real estate	**105,426**	109,209
Agricultural real estate	**85,839**	79,076
Commercial:		
Commercial and industrial	**160,600**	158,945
Agricultural production	**73,703**	68,124
Consumer and other	**13,076**	12,148
	655,366	610,495
Allowance for loan losses	**(14,571)**	(14,777)
Totals	**$640,795**	$595,718

(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:

2014	Real Estate	Commercial	Consumer	Total
Balance at beginning of year	$10,818	$3,858	$101	$14,777
Provision charged to operations, net	1,702	893	26	2,621
Recoveries on loans previously charged-off	145	105	18	268
	12,665	4,856	145	17,666
Less loans charged-off	(2,434)	(619)	(42)	(3,095)
Balance at end of year	$10,231	$4,237	$103	$14,571
Allowance for loan losses:				
Individually evaluated for impairment	$4,089	$993	$23	$5,105
Collectively evaluated for impairment	6,142	3,244	80	9,466
Totals	$10,231	$4,237	$103	$14,571

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(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:

	2014			
	Real Estate	**Commercial**	**Consumer**	**Total**
Loans:				
Individually evaluated for impairment	$25,593	$5,009	$107	$30,709
Collectively evaluated for impairment	382,394	229,294	12,969	624,657
Totals	$407,987	$234,303	$13,076	$655,366

	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

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

	2014				
	Recorded Investment	**Principal Balance**	**Related Allowance**	**Average Investment**	**Interest Recognized**
Loans with no related allowance for loan losses:					
Real estate:					
Commercial real estate	$4,518	$4,699	N/A	$5,035	$192
Residential real estate	3,335	3,495	N/A	3,432	91
Agricultural real estate	602	602	N/A	605	11
Commercial					
Commercial & industrial	3,060	3,076	N/A	3,102	115
Agricultural production	356	356	N/A	390	21
Consumer and other	50	50	N/A	56	3
Totals	11,921	12,278		12,620	433
Loans with an allowance for loan losses:					
Real estate:					
Commercial real estate	13,141	13,142	2,713	13,255	539
Residential real estate	3,997	4,195	1,376	4,078	114
Agricultural real estate	0	0	0	0	0
Commercial					
Commercial & industrial	1,552	1,581	975	1,733	70
Agricultural production	41	41	18	44	0
Consumer and other	57	58	23	64	4
Totals	18,788	19,017	5,105	19,174	727
Grand Totals	$30,709	$31,295	$5,105	$31,793	$1,161

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

(4) Loans (continued)

	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
Total	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
Total	13,871	14,090	6,083	14,099	591
Grand Total	$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

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.

(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:

	2014				
	Pass	Special Mention	Substandard	Doubtful	Totals
Real estate:					
Commercial real estate	$201,266	$877	$14,579		$216,722
Residential real estate	95,875	3,638	5,913		105,426
Agricultural real estate	84,601	636	602		85,839
Commercial:					
Commercial & industrial	151,092	5,723	3,785		160,600
Agricultural production	72,749	557	356	$41	73,703
Consumer and other	12,971	0	105		13,076
Total	$618,554	$11,431	$25,340	$41	$655,366

	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

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

As of December 31, 2014	Loans Past Due 30-89 Days	Loans Past Due 90+ Days	Total Past Due
Real estate:			
Commercial real estate		$1,859	$1,859
Residential real estate	$1,538	1,866	3,404
Agricultural real estate		437	437
Commercial			
Commercial & industrial	320	777	1,097
Agricultural production	50		50
Consumer and other	89	7	96
Total	$1,997	$4,946	$6,943

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

(4) Loans (continued)

As of December 31, 2014	Total Past Due	Total Current	Total Loans	90+ Days Due and Accruing Interest	Total Non-accrual Loans
Real Estate:					
Commercial real estate	$1,859	$209,193	$211,052		$2,703
Residential real estate	3,404	107,692	111,096	$121	3,775
Agricultural real estate	437	85,402	85,839		437
Commercial:					
Commercial & industrial	1,097	159,503	160,600	1	1,536
Agricultural production	50	73,653	73,703		41
Consumer and other	96	13,157	13,076	7	22
Total	$6,943	$648,600	$655,366	$129	$8,514

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

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

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.

(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:

	2014		
	Number of Loans	Pre-Modification Investment	Post-Modification Investment
Real Estate:			
Commercial real estate	3	$2,551	$1,833
Commercial			
Commercial & industrial	2	232	232
Total	5	$2,783	$2,065

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

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

	As of December 31, 2014	
	Number of Loans	Recorded Investment
Real Estate:		
Commercial real estate	3	$7,576
Total	3	$7,576

	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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(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, 2014 and 2013, were approximately $316,755 and $311,845, respectively. Custodial escrow balances maintained in conjunction with serviced loans were approximately $3,055 and $2,861 at December 31, 2014 and 2013, respectively.

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

	2014	2013	2012
Balance at beginning of year	**$1,615**	$1,648	$1,521
Mortgage servicing rights capitalized	**404**	643	940
Mortgage servicing rights amortized	**(568)**	(676)	(813)
Balance at end of year	**$1,451**	$1,615	$1,648

The approximate fair values of the mortgage servicing rights were $2,627 and $2,449 as of December 31, 2014 and 2013.

(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, 2014 and 2013, the Company had approximately $1,221 and $538 in interest rate lock commitments outstanding. As of December 31, 2014 and 2013, the Company had approximately $2,442 and $2,293 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, 2014 and 2013.

(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:

	2014	2013	2012
Balance at beginning of year	**$1,892**	$3,711	$3,320
Provision for losses	**490**	807	744
Write-downs	**0**	0	0
Reductions from sales	**(435)**	(2,626)	(353)
Recoveries	**0**	0	0
Balance at end of year	**$1,947**	$1,892	$3,711

(000s omitted except share data)

(8) Premises and Equipment

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

	2014	2013
Land	**$2,074**	$2,065
Buildings and leasehold improvements	**11,289**	11,146
Furniture, fixtures, and equipment	**10,395**	9,967
	23,758	23,178
Less accumulated depreciation	**14,258**	13,432
	$9,500	$9,746

Depreciation expense for the years ended December 31, 2014, 2013 and 2012 amounted to $847, $935 and $862, respectively.

(9) Other Assets

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

	2014	2013
Cash surrender value of bank-owned life insurance	**$5,455**	$5,282
Accrued interest receivable	**5,369**	4,793
Mortgage servicing rights, net of accumulated amortization	**1,451**	1,615
Net deferred tax assets	**3,253**	5,480
Other	**848**	2,107
	$16,376	$19,277

(10) Time Deposits

The aggregate amount of time deposits with minimum a denomination of $250 was approximately $37,745 and $22,735 at December 31, 2014 and 2013, respectively.

At December 31, 2014, the scheduled maturities of time deposits are as follows:

2015	$133,481
2016	122,992
2017	58,117
2018	29,870
2019 and thereafter	24,355
	$368,815

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(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.

(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 $241, $249, and $215, for 2014, 2013, and 2012, 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 $9,234 and $9,148 as of December 31, 2014 and 2013, 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 $825, $854, and $875 at December 31, 2014, 2013, and 2012, respectively. Salary-continuation expenses were $46, $42, and $41 in 2014, 2013, and 2012, respectively.

(13) Income Taxes

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

	2014	2013	2012
Current – federal	**$2,302**	$1,035	$992
– state	**1,042**	626	630
	3,344	1,661	1,622
Deferred – federal	**(131)**	524	(1,270)
– state	**232**	175	(372)
	101	699	(1,642)
Total income tax expense	**$3,445**	$2,360	($20)

(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:

	2014		2013		2012	
	Amount	**% of Pretax Earnings**	Amount	% of Pretax Earnings	Amount	% of Pretax Earnings
Statutory federal tax	**$3,980**	**34.0%**	$3,127	34.0%	$1,165	34.0%
Increase (decrease) in taxes resulting from:						
Tax-exempt interest	**(1,257)**	**(10.7%)**	(1,339)	(14.6%)	(1,413)	(41.2%)
Bank-owned life insurance	**(73)**	**(0.6%)**	(59)	(0.6%)	(65)	(1.9%)
State taxes, net of federal benefit	**841**	**7.2%**	529	5.8%	170	4.9%
Other	**(46)**	**(0.4%)**	102	1.1%	123	3.6%
Effective tax rates	**$3,445**	**29.5%**	$2,360	25.7%	($20)	(.6%)

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, 2014 and 2013 are summarized as follows:

	2014	2013
Deferred tax assets:		
Allowance for loan losses	**$5,700**	$5,763
Allowance for losses on foreclosed assets	**831**	660
Alternative minimum tax	**202**	202
Deferred compensation and other	**397**	656
Total deferred tax assets	**7,130**	7,281
Deferred tax liabilities:		
FHLB stock dividend	**129**	129
Available-for-sale securities	**2,356**	227
Depreciation	**794**	800
Mortgage servicing rights and other	**598**	645
Total deferred tax liabilities	**3,877**	1,801
Net deferred tax assets	**$3,253**	$5,480

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 2012.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(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 $21,560 and $20,625 at December 31, 2014 and 2013, respectively. Activity for related party loans for the year ended December 31, 2014 is as follows:

	2014
Balance at beginning of year	$20,625
New credits	10,025
Participated outside the Company	(1,475)
Repayments	(7,615)
Balance at end of year	$21,560

Deposit accounts from related parties totaled approximately $10,954 and $10,074 at December 31, 2014 and 2013, 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:

	2014	2013
Unused lines of credit and other loan commitments	**$162,142**	$142,503
Commercial letters of credits	**503**	377
Performance and standby letters of credit	**219**	394
	$162,864	$143,274

(000s omitted except share data)

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

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

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.

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 $23,506 and $23,365 at December 31, 2014 and 2013, respectively, and are collateralized by investment securities with fair values of approximately $38,997 and $38,934. The weighted-average interest rates on these agreements were 0.27% and 0.29% at December 31, 2014 and 2013, respectively. Securities sold under agreements to repurchase mature on a daily basis.

(17) Federal Home Loan Bank (FHLB) and Federal Reserve Advances

	2014	2013
Fixed-rate advances with rates ranging from .15% to 2.64% and .15% to 3.16% and weighted average rates of .86% and 1.05% as of December 31, 2014 and 2013, respectively. Interest is payable monthly with principal due at maturity.	**$23,100**	$15,350

Advances are collateralized by 1-4 family mortgage loans, other qualifying loans and securities. The total amounts of collateral securing FHLB advances were approximately $83,973 and $77,634 as of December 31, 2014 and 2013, respectively. FHLB advances are subject to a prepayment penalty if they are repaid prior to maturity.

(000s omitted except share data)

(17) Federal Home Loan Bank (FHLB) and Federal Reserve Advances (continued)

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, 2014 was 75-basis points. Outstanding advances were $0 at December 31, 2014 and 2013. Advances are collateralized by investment securities pledged totaling approximately $10,622 and $10,791 at December 31, 2014 and 2013, respectively, to the Federal Reserve Bank.

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

	2014	2013
2014	**$0**	$9,250
2015	**12,100**	3,600
2016	**6,300**	1,800
2017	**3,200**	700
2018	**1,000**	0
2019	**500**	0
	$23,100	$15,350

(18) Subordinated Debentures

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. 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.

(19) 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.

(19) 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.

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(19) 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, 2014		**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	**$214,393**		**$214,393**	
Assets measured at fair value on a non-recurring basis:				
Assets:				
Collateral-dependent impaired loans	**$13,683**			**$13,683**
Foreclosed assets	**$1,622**			**$1,622**

Collateral-dependent impaired loans, which are measured for impairment using the fair value of collateral, had a carrying value of $18,788 with specific reserves of $5,105 as of December 31, 2014.

Foreclosed assets, which are measured at the lower of carrying or fair value less costs to sell, were carried at their fair value of $1,622, which is comprised of the outstanding balance of $3,569, net of an allowance for losses of $1,947 as of December 31, 2014.

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.

(19) Fair Value Measurements (continued)

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, 2014:

	Valuation Technique	Unobservable Input	Range
Collateral dependent impaired loans, net of specific reserves	Sales comparison approach	Appraised values	10% - 20%
Foreclosed assets	Sales comparison approach	Appraised values	10% - 20%

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 (Level 1).

Interest-bearing deposits in other banks: The carrying amounts are reasonable estimates of fair value (Level 1).

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 (Level 2).

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 (Level 3).

Loans held for sale: The fair values of loans held for sale are based on commitments on hand from investors or prevailing market prices (Level 2).

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(000s omitted except share data)

(19) 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 (Level 3).

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 (Level 3).

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 (Level 2).

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 (Level 3).

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 (Level 3).

Accrued interest: The carrying amounts of accrued interest approximate their fair value (Level 3).

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 (Level 3).

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

	December 31, 2014		December 31, 2013	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	**$20,717**	**$20,717**	$17,698	$17,698
Interest-bearing deposits in other banks	**8,336**	**8,336**	4,963	4,963
Securities	**215,789**	**215,848**	217,649	217,668
Non-marketable equity securities	**2,243**	**2,243**	2,220	2,220
Loans held for sale	**1,439**	**1,439**	1,521	1,521
Loans, net of allowance	**640,795**	**642,671**	595,718	597,900
Accrued interest receivable	**5,369**	**5,369**	4,793	4,793
Financial liabilities:				
Deposits	**$765,336**	**$769,590**	$729,057	$732,476
Federal funds purchased	**3,036**	**3,036**	6,310	6,310
Securities sold under agreements to repurchase	**23,506**	**23,511**	23,365	23,369
FHLB advances and other borrowings	**23,100**	**23,140**	15,350	15,447
Subordinated Debentures	**10,000**	**10,000**	10,000	10,000
Accrued interest payable	**670**	**670**	704	704

(000s omitted except share data)

(20) Stock-Compensation Plans

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 and 2012.

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

	2014	2013	2012
Risk-free interest rate	**1.64%**	N/A	N/A
Expected option life	**10**	N/A	N/A
Expected stock-price volatility	**29.71%**	N/A	N/A
Dividend yield	**1.05%**	N/A	N/A

For the years ended December 31, 2014, 2013 and 2012, the Company recognized $109, $95 and $97 in compensation expense for stock options, respectively. No tax benefits were recognized for the three year period ended December 31, 2014. As of December 31, 2014, stock-based compensation expense not yet recognized totaled $155, and is expected to be recognized over a weighted-average remaining period of approximately five years. The intrinsic value of options exercised during the years ended December 31, 2014, 2013 and 2012 was $168, $99 and $0, respectively.

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(20) 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, 2014:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Shares under option, beginning of year	142,057	$10.29	5.7	$1,202
Granted during the year	25,000	19.00	9.2	50
Forfeited and expired during the year	0			
Exercised during the year	(19,914)	10.49		(168)
Shares under option, end of year	147,143	$11.74	6.0	$1,363
Options exercisable, end of year	96,627	$10.25	5.3	$1,039
Shares available for grant, end of year	116,738			

	Number of Options	Weighted Average Fair Value at Grant
Non-vested options, December 31, 2013	51,031	$2.79
Granted during the year	25,000	4.88
Vested during the year, net	(25,515)	3.48
Forfeited or expired during the year	0	0
Non-vested options, December 31, 2014	50,516	$4.17

The following table summarizes information about fixed stock options outstanding at December 31, 2014:

Exercise Price	Number Outstanding	Remaining Contractual Life (Years)	Number Exercisable
$10.00	19,143	3.0	15,771
$10.25	83,000	5.8	64,856
$10.50	20,000	5.6	16,000
$19.00	25,000	9.2	0
	147,143		96,627

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.

(000s omitted except share data)

(20) Stock-Compensation Plans (continued)

The following table summarizes information regarding unvested restricted stock and shares outstanding at December 31, 2014:

	Unvested Shares	Weighted Average Grant Value
Restricted stock, December 31, 2013	0	$0
Granted during the year	8,516	19.00
Forfeited during the year	(254)	19.00
Vested during the year	0	0
Restricted stock, December 31, 2014	8,262	$19.00

During 2014, total compensation expense of $59 (before tax benefits of $24) was recorded from amortization of restricted shares expected to vest. Future projected compensation expense (before tax benefits) assuming all restricted shares eventually vest to employees would be $78 and $20 for years 2015 and 2016, respectively.

(21) Stock Repurchase Program

In October 2013 and October 2014, the Company's Board of Directors authorized a stock repurchase program authorizing an aggregate repurchase of up to 100,000 of common stock at market price, each year. For the years ended December 31, 2014 and 2013, the Company had repurchased 63,962 and 2,000 shares under this program, respectively.

The purchase price for the shares of the Company's stock repurchased is reflected as a reduction to shareholders' equity. In accordance with accounting guidance, 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.

(22) Earnings Per Common Share

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

	2014	2013	2012
Net income	**$8,260**	$6,838	$3,446
Less - preferred stock dividends	**0**	0	(877)
Less - accretion of preferred stock warrants	**0**	0	(356)
Net income available to common stockholders	**$8,260**	$6,838	$2,213
Average number of common shares outstanding	**3,638,004**	3,661,934	3,659,504
Effect of dilutive options	**57,420**	54,982	28,345
Average number of common shares outstanding used to calculate diluted earnings per common share	**3,695,424**	3,716,916	3,687,849

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

(23) Regulatory Matters

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

Quantitative measures established by regulation to ensure capital adequacy require the Company and its subsidiaries to maintain minimum amounts and ratios (set forth in the following table) of total and Tier-I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier-I capital (as defined) to average assets (as defined). Management believes that as of December 31, 2014, that the Company and the Banks meet all capital-adequacy requirements to which they are subject.

As of December 31, 2014, 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, 2014:						
Total Capital to Risk Weighted Assets:						
Company	$107,104	15.42%	$55,556	8.00%	N/A	N/A
Northwest	25,135	13.72%	14,656	8.00%	$18,320	10.00%
German	22,164	13.45%	13,182	8.00%	16,477	10.00%
Davis	15,478	14.17%	8,738	8.00%	10,923	10.00%
Freeport	24,899	14.29%	13,941	8.00%	17,427	10.00%
Lena	9,642	15.69%	4,916	8.00%	6,145	10.00%
Tier-I Capital to Risk Weighted Assets:						
Company	$90,351	13.01%	$27,778	4.00%	N/A	N/A
Northwest	22,830	12.46%	7,328	4.00%	$10,992	6.00%
German	20,093	12.19%	6,591	4.00%	9,886	6.00%
Davis	14,107	12.92%	4,369	4.00%	6,554	6.00%
Freeport	22,688	13.02%	6,971	4.00%	10,456	6.00%
Lena	8,865	14.43%	2,458	4.00%	3,687	6.00%
Tier-I Capital to Average Assets:						
Company	$90,351	9.99%	$36,182	4.00%	N/A	N/A
Northwest	22,830	9.25%	9,873	4.00%	$12,342	5.00%
German	20,093	9.75%	8,242	4.00%	10,302	5.00%
Davis	14,107	9.82%	5,749	4.00%	7,186	5.00%
Freeport	22,688	10.30%	8,810	4.00%	11,013	5.00%
Lena	8,865	10.31%	3,441	4.00%	4,301	5.00%

(000s omitted except share data)

(23) Regulatory Matters (continued)

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%

(24) Lease Commitments

One of the banks has operating lease commitments on office space in Loves Park, Illinois. The terms of the Perryville lease location requires base lease amounts of approximately $77 per year. The lease expires September 2015 and is renewable up to four additional one year terms. The terms of North Second lease location require base lease amounts of approximately $34 per year. The lease expires September 2020 and is renewable up to two additional five year terms. Rent expense of $92 and $111 was recognized in 2014 and 2013, respectively.

In addition, there is an operating lease agreement for bank premises in Winnebago, and Kankakee, Illinois. The Winnebago lease requires payment of approximately $51 per year, expiring November 2015. There is no formal lease for the Kankakee location. The Bank is verbally agreeing to pay $7 for 2015. The minimum lease commitments is $146 for 2015.

(25) Subsequent Event

In February, 2015, the Company entered into a definitive agreement to acquire 100% of the common shares of State Bank of Herscher. The consummation of the transaction is still contingent upon regulatory approval and is expected to occur in 2015. As part of the terms of the proposed transaction, the acquired bank will become a wholly owned subsidiary of the Company and certain intangible assets and the assets and liabilities of the acquired bank will be adjusted to estimated fair value. The amount of these adjustments has not been determined at this time.

General Information

Foresight Financial Group, Inc.
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815.847.7500 ph
815.967.6107 fx
Email: dcooke@ffgbank.net

Registrar, transfer agent and
change of address:

Computershare Shareholder Services
PO Box 30170
College Station, TX 77842-3170
800.368.5948 ph
www.computershare.com/investor

Foresight common stock is listed
on the OTCQB Marketplace
under the symbol FGFH

For more information, contact
Foresight Financial Group, Inc. at
the corporate address or visit our
website at www.foresightfg.com

Directors

Foresight Financial Group, Inc.
Rockford, IL

John Collman
Stephen G. Gaddis
John Jeschke
Fred Kundert
Brent Myers
Carolyn Sluiter, D.V.M.
Robert W. Stenstrom
Judd Thruman, J.D.
Doug Wagner

Northwest Bank of Rockford
Rockford, IL

Stephen G. Gaddis
Charles B. Kullberg
Stephen P. McKeever
John J. Morrissey, C.P.A.
Brent Myers
Robert W. Stenstrom
Tom Walsh

Lena State Bank
Lena, IL

Todd Bussian, O.D.
Gordon Dammann, D.D.S.
John Jeschke
James Moest, D.V.M.
Brent Myers
Steven Rothschadl
Judd Thruman, J.D.

German-American State Bank
German Valley, IL

Robert Borneman
John Collman
Robert Ebbesmeyer, D.V.M.
Jack Janssen
Angela K. Larson
James G. Sacia
Michael Schirger, J.D.
Jeffrey M. Sterling

State Bank of Davis
Davis, IL

Dan Dietmeier
John Jeschke
Brent Myers
Thomas Olsen
Carolyn Sluiter, D.V.M.
Richard Stenzinger, C.P.A.
Judd Thruman, J.D.

State Bank
Freeport, IL

Douglas Cross
Mary Hartman
Bruce Johnson
Dr. Joe Kanosky
Fred Kundert
Marilyn Smit
Brian Stewart
Ken Thompson
Doug Wagner

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

December 31, 2014

ASSETS	German-American State Bank	State Bank of Davis
Cash and due from banks	$4,052	$1,569
Interest-bearing deposits in banks	23	293
Federal funds sold		113
Interest-bearing deposits in banks - term deposits	992	1,215
Securities:		
Securities held-to-maturity		1,371
Securities available-for-sale	45,558	38,543
Non-marketable equity securities, at cost	534	313
Loans held for sale		
Loans, net	155,395	100,196
Foreclosed assets, net	20	23
Premises and equipment	983	1,024
Other assets	3,906	1,403
Investment in subsidiary banks		
Total assets	$211,463	$146,063
LIABILITIES AND STOCKHOLDLERS' EQUITY		
Liabilities:		
Deposits:		
Noninterest bearing	$20,560	$14,299
Interest-bearing	162,282	104,892
Total deposits	182,842	119,191
Federal funds purchased	2,322	0
Securities sold under agreements to repurchase		7,197
Federal Home Loan Bank borrowings and other	4,500	4,500
Subordinated debentures		
Accrued interest payable and other liabilities	1,035	335
Total liabilities	190,699	131,223
Stockholders’ equity:		
Preferred stock		
Common stock	400	100
Additional paid-in capital	2,794	1,582
Retained earnings	16,899	12,424
Treasury stock		
Accumulated other comprehensive income	671	734
Total stockholders’ equity	20,764	14,840
Total liabilities and stockholders’ equity	$211,463	$146,063

Northwest Bank	State Bank	Lena State Bank	Foresight Financial Group, Inc.	Eliminations	Consolidated Total
$8,995	$4,901	$1,202	$10,557	($10,559)	$20,717
6,398	15	9		1,598	$8,336
0	826	0			939
1,744	1,744	1,100		(1,598)	5,197
25					1,396
48,214	51,534	30,544			214,393
695	448	253			2,243
1,439					1,439
170,792	161,390	52,900	122		640,795
1,364	0	5	210		1,622
4,360	1,794	484	855		9,500
5,082	2,615	2,895	475		16,376
			92,075	(92,075)	
$249,108	$225,267	$89,392	$104,294	($102,634)	$922,953

$35,377	$22,183	$5,507		($181)	$97,745
180,647	159,064	71,084		(10,378)	667,591
216,024	181,247	76,591		(10,559)	765,336
0	0	714			3,036
2,373	13,676	260			23,506
6,000	6,100	2,000			23,100
			$10,000		10,000
1,183	627	501	309		3,990
225,580	201,650	80,066	10,309	(10,559)	828,968
			0		0
1,450	1,000	500	975	(3,450)	975
7,199	4,594	3,693	8,259	(19,861)	8,260
14,181	17,094	4,672	86,570	(65,270)	86,570
			(5,312)		(5,312)
698	929	461	3,493	(3,494)	3,492
23,528	23,617	9,326	93,985	(92,075)	93,985
$249,108	$225,267	$89,392	$104,294	($102,634)	$922,953

For the year ended December 31, 2014

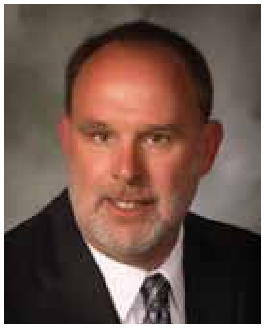
	German-American State Bank	State Bank of Davis
Interest and dividend income:		
Loans, including fees	$7,303	$4,308
Securities:		
Taxable	628	759
Tax-exempt	668	678
Dividends	3	2
Interest-bearing deposits in banks	13	24
Federal funds sold	2	1
Total interest and dividend income	8,617	5,772
Interest expense:		
Deposits	1,441	859
Federal funds purchased	2	5
Securities sold under agreements to repurchase		43
Federal Home Loan Bank advances and other borrowings	56	3
Subordinated debentures		
Total interest expense	1,499	910
Net interest and dividend income	7,118	4,862
Provision for loan losses	385	573
Net interest and dividend income, after provision for loan losses	6,733	4,289
Noninterest income:		
Customer service fees	319	106
Equity in earnings of subsidiaries		
Gain on sales and calls of AFS securuties, net	68	1
Gain on sales of loans, net		
Loan-servicing fees		
Other	698	215
Total noninterest income	1,085	322
Noninterest expenses:		
Salaries and employee benefits	2,390	963
Occupancy expense of premises, net	396	195
Outside services	197	137
Data processing	359	148
Foreclosed assets, net	(73)	6
Other	1,137	715
Total noninterest expenses	4,406	2,164
Income before income taxes	3,412	2,447
Income tax expense (benefit)	1,135	747
Net income	$2,277	$1,700

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
$8,478	$7,276	$2,126	4		$29,495
673	610	406			3,076
700	886	580			3,512
					5
25	20	17	19	($19)	99
1	1	1			6
9,877	8,793	3,130	23	(19)	36,193
1,254	1,136	465		($19)	5,136
3	3	1			14
10	17		0		70
39	84	6			188
			600		600
1,306	1,240	472	600	(19)	6,008
8,571	7,553	2,658	(577)	0	30,185
1,000	550	113	0		2,621
7,571	7,003	2,545	(577)	0	27,564
410	208	107			1,150
			$9,129	($9,129)	0
8	45	3			125
1,118					1,118
655					655
576	688	181	1,480	(1,474)	2,364
2,767	941	291	10,609	(10,603)	5,412
4,756	2,140	704	1,698		12,651
1,102	315	188	267		2,463
98	264	157	38	(630)	261
375	304	75		(844)	417
293	16	106	139		487
1,823	721	395	201		4,992
8,447	3,760	1,625	2,343	(1,474)	21,271
1,891	4,184	1,211	7,689	(9,129)	11,705
464	1,400	272	(573)		3,445
$1,427	$2,784	$939	$8,262	($9,129)	$8,260

Notes

Board of Directors


John Collman


Stephen G. Gaddis


John Jeschke,
Chairman

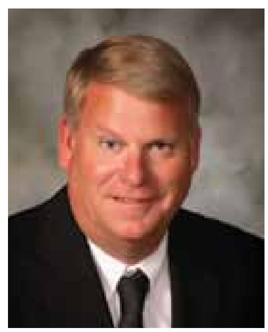

Fred Kundert


Brent Meyers


Carolyn Sluiter


Robert W. Stenstrom


Judd Thruman

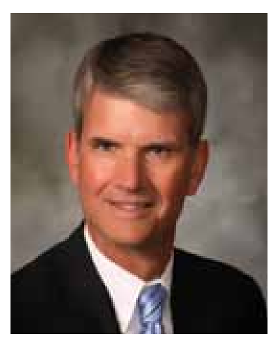

Doug Wagner

Bank Presidents


Mary Hartman
State Bank, Freeport


Brent Meyers
Lena State Bank &
State Bank of Davis


Jeffrey Sterling
German American
State Bank


Tom Walsh
Northwest Bank

An "Enterprising" Look to the Future

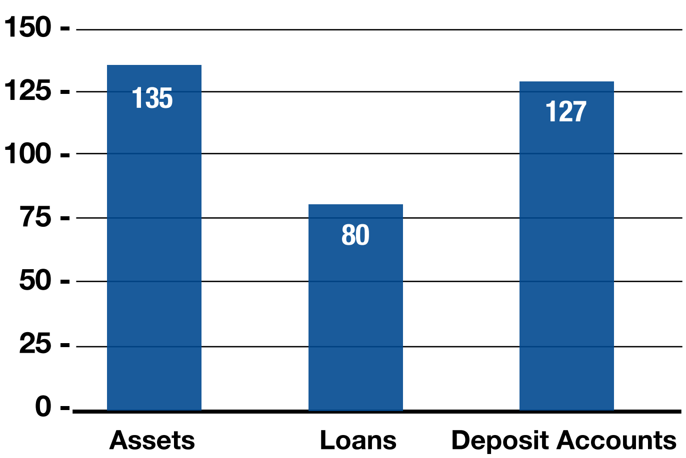
STATE BANK OF HERSCHER

Last year's annual report cover featured the word, "Enterprising." With the Great Recession behind us, this word was chosen to illustrate Foresight's desire to embark on new ventures. We particularly liked the word "Enterprising," because it is a verb, an action word indicating we are willing to undertake important new projects marked by imagination and initiative and will do so in an energetic fashion.

We believe that capitalizing on this expansion opportunity is an investment in our future while staying true to our mission of providing excellent community banking services.

This initiative triggered an evaluation by the Board of Directors and Management of Foresight Financial Group of where our company has been successful and where we strive to further succeed with a focus on enriching shareholder value, enhancing product services, and improving efficiency. It became evident that expanding our market footprint would accomplish such ambitions. This objective led us to research the marketplace for growth and expansion opportunities and ultimately to acquire the State Bank of Herscher*.

State Bank of Hersher 12-31-14 (Unaudited - in millions)



State Bank of Hersher, Hersher, IL

State Bank of Hersher, Branch

The State Bank of Herscher was chartered in 1902 by a group of community citizens with a vision to provide services to the local community in a culture where bank employees take the time to know their customers, a principle deeply ingrained with Foresight and its' affiliate banks.

State Bank of Herscher's board of directors is excited about becoming a member of Foresight Financial Group because of our mission of Community Building through Community Banking. Our acquisition of the State Bank of Herscher will allow for continuous service to the local people, families and businesses, as it has been for over a century.

We believe that capitalizing on this expansion opportunity is an investment in our future while staying true to our mission of providing excellent community banking services.

**Pending regulatory approval*

The Banks of Foresight

LENA STATE BANK

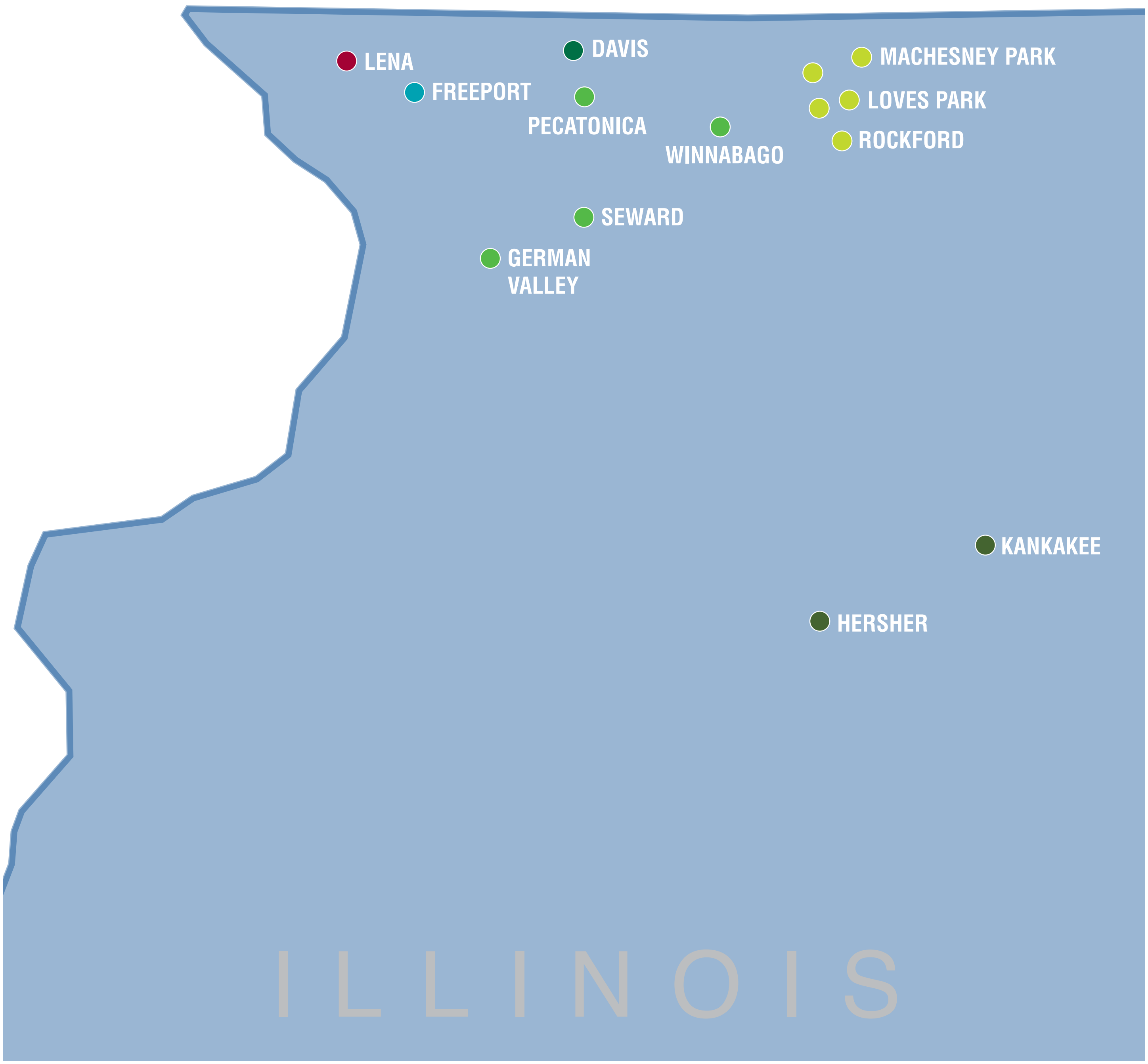
State Bank
Freeport, IL

STATE BANK of DAVIS

German American State Bank

northwestbank

SBH
STATE BANK OF HERSCHER



We

are a market driven,
people oriented
community banking organization
dedicated to enhancing
shareholder value by
providing our customers with
diversified financial services
that help them achieve
economic success
and financial security.

We will pursue these goals
while balancing shareholder
and customer interests
with the ongoing welfare
of our employees
and local communities.
The member banks
of our group maintain
a high degree
of independence
and sensitivity to the concerns
of the local communities
and markets that we
choose to serve.

We will seek to
expand sensibly into
new markets when we believe
that our business model and
community banking philosophy
can be successfully extended.

In summary:

*"Community Building through
Community Banking"*

FORESIGHT
financial group, inc.

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