





#### **VISION**

Magnify the collective
strengths of our banks to
satisfy customers, empower
employees, and enhance value for our
communities and shareholders.

# **FORESIGHT** SUBSIDIARIES











northwestbank

# Dear Stockholders,

The year 2021 was an unusual year filled with unusual challenges to the banking industry and our company. The impact of the pandemic had a dramatic impact on our interest rate margin. Work from home or a remote



site, now normal and part of our community-banking model was another dramatic change. We have adjusted our approach to customer service and excelled at providing superior customer service from any location. Our employees grew closer together as a unified team and addressed those changes.

It is with pride I report to you record earnings for our company of approximately \$11.4 million for 2021. The record earnings are a direct result of our team's exceptional work effort. Basic earnings per common share were \$3.11, an increase of 12.7% greater than \$2.76 reported in 2020, producing a return on equity of 7.42% for 2021. The market performance of Foresight Stock in the past year increased 10.11% to \$32.90 compared to the market price at year end 2020. A significant increase in credit quality during the year also contributed to the 2021 earnings and should aid in producing greater earnings in the future.

The net interest rate margin declined 4.6% in 2021 to 3.14% compared to 3.29% in 2020. We see signs that our margin will improve with anticipated higher interest rates and the addition of more loans in the future. We aggressively participated in the PPP government program that impacted our margin and profits for both 2020 and 2021 adding a margin benefit of approximately \$4.6 million pre-tax in 2021. Our non-interest expenses were up significantly in 2021 as we continued to invest in becoming a more profitable streamlined company. The "Future Forward" initiative will bring expense efficiencies and greater non-interest income to our bottom line once fully implemented. Presently, the goal is to have the needed changes in place so that the full effect of the changes will be included in the financial results for 2023.

Mid-year 2021, we welcomed Peter Morrison as President at the State Bank, Freeport replacing Mary Hartman, a valuable President for Freeport, at her retirement. Troy Coffman was promoted to President of the State Bank of Herscher in October, as another valuable President, Randall Chaplinski retired on December 31, 2021

Our already strong capital position bolstered by record earnings in 2021, allows us to continue the current dividend pay out to shareholders of \$11 cents per quarter. Our strong capital position has also funded our stock buyback program that ended at December 31, 2021 and supports the creation of a subsequent stock buyback program that is scheduled to end June 1, 2022. The Board continues to believe our stock is undervalued and a stock buyback program is in the best interests of shareholders.

Your support in our efforts to continue building Communities through Community Banking increases value for shareholders. We appreciate the past support and look forward to building greater value for all shareholders.

Respectfully,

Rex K. Entsminger

President/Chief Executive Officer

# 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.

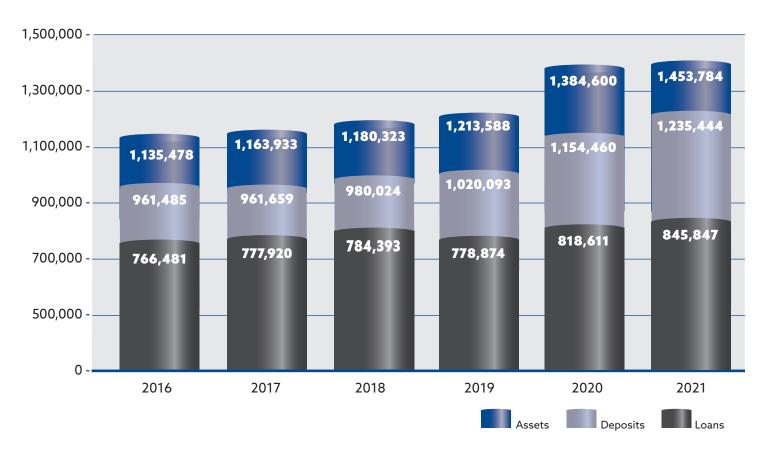
# we will

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

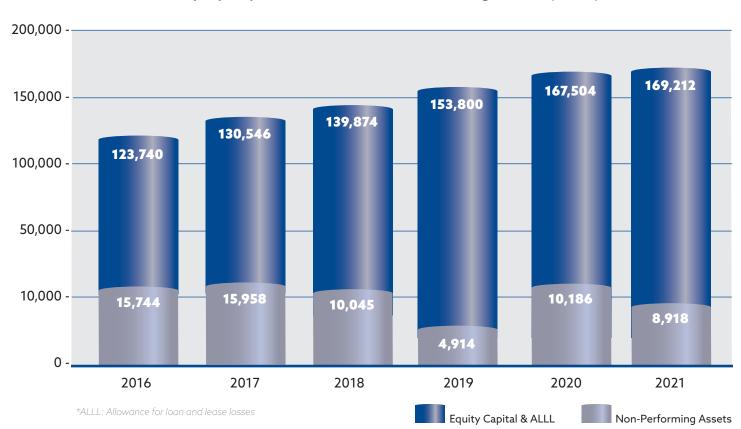
In summary:

"Community Building through Community Banking"

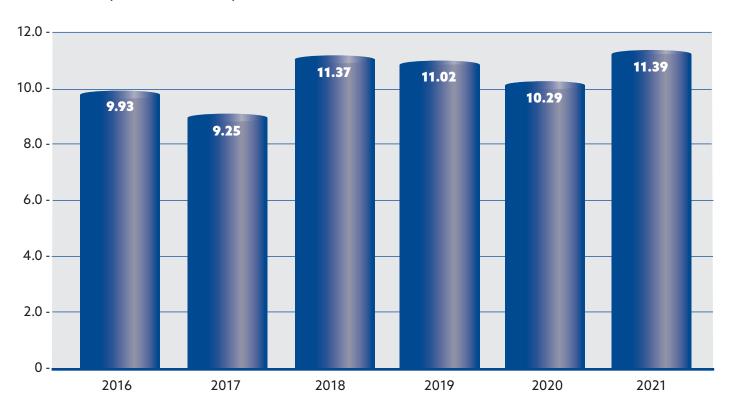
### Trends in Assets, Deposits & Loans (000's)



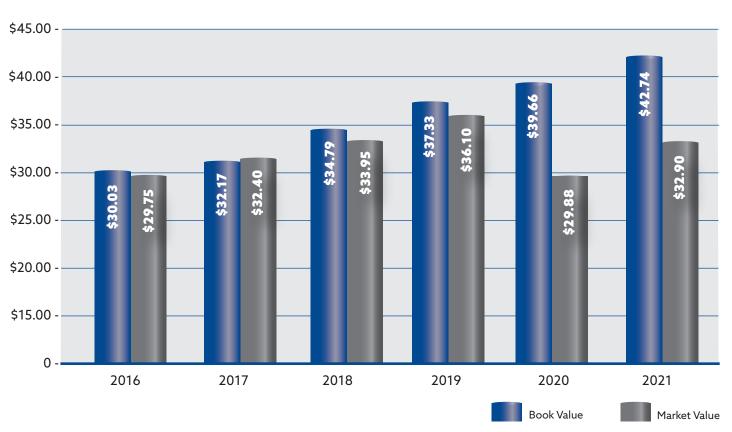
# Trends in Combined Equity Capital & ALLL\* to Non Performing Assets (000's)



# Net Income (1,000,000,000's)



# Common Stock Per Share Book & Market Value - 12/31







#### INDEPENDENT AUDITOR'S REPORT

Audit Committee Foresight Financial Group, Inc. and Subsidiaries

#### Opinion

We have audited the consolidated financial statements (the financial statements") of Foresight Financial Group, Inc. and Subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2021 and 2020, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2021, and the related notes to the financial statements.

In our opinion, the accompanying 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, 2021 and 2020, and the results of its operations and their cash flows for each of the years in the three-year period ended December 31, 2021, in accordance with accounting principles generally accepted in the United States of America ("GAAP").

#### Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America ("GAAS"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Foresight Financial Group, Inc. and Subsidiaries and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Foresight Financial Group, Inc. and Subsidiaries' ability to continue as a going concern for one year after the date the financial statements are available to be issued.



#### Auditor's Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

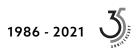
- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Foresight Financial Group, Inc. and Subsidiaries' internal control. Accordingly, no such
  opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Foresight Financial Group, Inc. and Subsidiaries' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control—related matters that we identified during the audit.

#### Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The consolidating information included in Schedules 1 and 2, is presented for purposes of additional analysis and is not a required part of the 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 audits 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.

Wippei LLP



### CONSOLIDATED BALANCE SHEETS

(000s omitted except share data)

December 31,

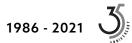
ASSETS	2021	2020
Cash and due from banks	\$42,942	\$30,781
Interest-bearing deposits in banks	45,353	89,468
Federal funds sold	3,349	4,496
Total cash and cash equivalents	91,644	124,745
Interest-bearing deposits in banks - term deposits	12,198	15,284
Debt securities:	·	ŕ
Debt securities available-for-sale (AFS)	439,878	362,298
Debt securities held-to-maturity (HTM)	4,389	4,703
Marketable equity securities and other investments	2,265	1,285
Loans held for sale	2,254	2,846
Loans, net of allowance for loan losses of \$13,985 and \$13,682,	_,	_,
respectively	845,847	818,611
Foreclosed assets and other real estate owned, net	39	312
Premises and equipment, net	17,131	17,729
Bank owned life insurance	23,210	23,594
Other assets	14,929	13,193
Total assets	\$1,453,784	\$1,384,600
Liabilities:		
Liabilities:		
Liabilities: Deposits:	\$266.526	\$233.033
Liabilities: Deposits: Noninterest-bearing	\$266,526 968.918	
Liabilities: Deposits: Noninterest-bearing Interest-bearing	968,918	921,427
Liabilities: Deposits: Noninterest-bearing Interest-bearing Total deposits	968,918 1,235,444	921,427 1,154,460
Liabilities: Deposits: Noninterest-bearing Interest-bearing Total deposits Federal funds purchased	968,918 1,235,444 533	921,427 1,154,460 2,124
Liabilities: Deposits: Noninterest-bearing Interest-bearing Total deposits Federal funds purchased Securities sold under agreements to repurchase	968,918 1,235,444	\$233,033 921,427 1,154,460 2,124 31,149
Liabilities: Deposits: Noninterest-bearing Interest-bearing Total deposits Federal funds purchased Securities sold under agreements to repurchase Federal Home Loan Bank (FHLB) and Federal Reserve advances	968,918 1,235,444 533 35,109	921,427 1,154,460 2,124 31,149
Liabilities: Deposits: Noninterest-bearing Interest-bearing Total deposits Federal funds purchased Securities sold under agreements to repurchase Federal Home Loan Bank (FHLB) and Federal Reserve advances and other borrowings	968,918 1,235,444 533 35,109 17,076	921,427 1,154,460 2,124 31,149 34,788
Liabilities: Deposits: Noninterest-bearing Interest-bearing Total deposits Federal funds purchased Securities sold under agreements to repurchase Federal Home Loan Bank (FHLB) and Federal Reserve advances	968,918 1,235,444 533 35,109	921,427 1,154,460 2,124 31,149
Liabilities: Deposits: Noninterest-bearing Interest-bearing Total deposits Federal funds purchased Securities sold under agreements to repurchase Federal Home Loan Bank (FHLB) and Federal Reserve advances and other borrowings Accrued interest payable and other liabilities Total liabilities	968,918 1,235,444 533 35,109 17,076 10,395	921,42° 1,154,460 2,12 <sup>4</sup> 31,149 34,788 8,25°
Liabilities: Deposits: Noninterest-bearing Interest-bearing Total deposits Federal funds purchased Securities sold under agreements to repurchase Federal Home Loan Bank (FHLB) and Federal Reserve advances and other borrowings Accrued interest payable and other liabilities Total liabilities  Stockholders' equity:	968,918 1,235,444 533 35,109 17,076 10,395 1,298,557	921,42° 1,154,460 2,124 31,149 34,788 8,25° 1,230,778
Liabilities: Deposits: Noninterest-bearing Interest-bearing Total deposits Federal funds purchased Securities sold under agreements to repurchase Federal Home Loan Bank (FHLB) and Federal Reserve advances and other borrowings Accrued interest payable and other liabilities Total liabilities  Stockholders' equity: Preferred stock (no par value; authorized 500,000 shares)	968,918 1,235,444 533 35,109 17,076 10,395	921,42° 1,154,460 2,124 31,149 34,788 8,25° 1,230,778
Liabilities: Deposits: Noninterest-bearing Interest-bearing Total deposits Federal funds purchased Securities sold under agreements to repurchase Federal Home Loan Bank (FHLB) and Federal Reserve advances and other borrowings Accrued interest payable and other liabilities  Total liabilities  Stockholders' equity: Preferred stock (no par value; authorized 500,000 shares) Common stock (\$.25 par value; authorized 10,000,000 shares;	968,918 1,235,444 533 35,109 17,076 10,395 1,298,557	921,42' 1,154,460 2,12- 31,149 34,786 8,25' 1,230,778
Liabilities: Deposits: Noninterest-bearing Interest-bearing Total deposits Federal funds purchased Securities sold under agreements to repurchase Federal Home Loan Bank (FHLB) and Federal Reserve advances and other borrowings Accrued interest payable and other liabilities Total liabilities  Stockholders' equity: Preferred stock (no par value; authorized 500,000 shares) Common stock (\$.25 par value; authorized 10,000,000 shares; 4,060,088 and 4,052,234 shares issued, respectively)	968,918 1,235,444 533 35,109 17,076 10,395 1,298,557 0 1,015	921,42° 1,154,460 2,124 31,149 34,788 8,25° 1,230,778
Liabilities: Deposits: Noninterest-bearing Interest-bearing Total deposits Federal funds purchased Securities sold under agreements to repurchase Federal Home Loan Bank (FHLB) and Federal Reserve advances and other borrowings Accrued interest payable and other liabilities Total liabilities  Stockholders' equity: Preferred stock (no par value; authorized 500,000 shares) Common stock (\$.25 par value; authorized 10,000,000 shares; 4,060,088 and 4,052,234 shares issued, respectively) Additional paid-in capital	968,918  1,235,444 533 35,109  17,076 10,395 1,298,557  0  1,015 10,768	921,42° 1,154,460 2,124 31,149 34,788 8,25° 1,230,778
Liabilities: Deposits: Noninterest-bearing Interest-bearing Total deposits Federal funds purchased Securities sold under agreements to repurchase Federal Home Loan Bank (FHLB) and Federal Reserve advances and other borrowings Accrued interest payable and other liabilities Total liabilities  Stockholders' equity: Preferred stock (no par value; authorized 500,000 shares) Common stock (\$.25 par value; authorized 10,000,000 shares; 4,060,088 and 4,052,234 shares issued, respectively) Additional paid-in capital Retained earnings	968,918  1,235,444 533 35,109  17,076 10,395 1,298,557  0  1,015 10,768 152,903	921,42' 1,154,460 2,124 31,149 34,780 8,25' 1,230,778
Liabilities: Deposits: Noninterest-bearing Interest-bearing Total deposits Federal funds purchased Securities sold under agreements to repurchase Federal Home Loan Bank (FHLB) and Federal Reserve advances and other borrowings Accrued interest payable and other liabilities  Total liabilities  Stockholders' equity: Preferred stock (no par value; authorized 500,000 shares) Common stock (\$.25 par value; authorized 10,000,000 shares; 4,060,088 and 4,052,234 shares issued, respectively) Additional paid-in capital Retained earnings Treasury stock, at cost (464,319 and 332,819 shares, respectively)	968,918  1,235,444 533 35,109  17,076 10,395 1,298,557  0  1,015 10,768 152,903 (11,002)	921,42° 1,154,460 2,124 31,149 34,788 8,25° 1,230,778  ( 1,013 10,513 142,80° (6,830
Liabilities: Deposits: Noninterest-bearing Interest-bearing Total deposits Federal funds purchased Securities sold under agreements to repurchase Federal Home Loan Bank (FHLB) and Federal Reserve advances and other borrowings Accrued interest payable and other liabilities  Total liabilities  Stockholders' equity: Preferred stock (no par value; authorized 500,000 shares) Common stock (\$.25 par value; authorized 10,000,000 shares; 4,060,088 and 4,052,234 shares issued, respectively) Additional paid-in capital Retained earnings Treasury stock, at cost (464,319 and 332,819 shares, respectively) Accumulated other comprehensive income	968,918  1,235,444 533 35,109  17,076 10,395 1,298,557  0  1,015 10,768 152,903 (11,002) 1,543	921,427 1,154,460 2,124 31,149 34,788 8,257 1,230,778 (0 1,013 10,513 142,807 (6,830 6,319
Liabilities: Deposits: Noninterest-bearing Interest-bearing Total deposits Federal funds purchased Securities sold under agreements to repurchase Federal Home Loan Bank (FHLB) and Federal Reserve advances and other borrowings Accrued interest payable and other liabilities  Total liabilities  Stockholders' equity: Preferred stock (no par value; authorized 500,000 shares) Common stock (\$.25 par value; authorized 10,000,000 shares; 4,060,088 and 4,052,234 shares issued, respectively) Additional paid-in capital Retained earnings Treasury stock, at cost (464,319 and 332,819 shares, respectively)	968,918  1,235,444 533 35,109  17,076 10,395 1,298,557  0  1,015 10,768 152,903 (11,002)	921,427 1,154,460 2,124 31,145 34,788 8,257 1,230,778 (6,830 (6,830



# CONSOLIDATED STATEMENTS OF INCOME

(000s omitted except share data)

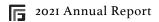
For the years ended December 31,			
Tot the years chiefed December 51,	2021	2020	2019
Interest and dividend income:			
Loans, including fees	\$39,995	\$41,545	\$41,654
Debt securities:			
Taxable	4,276	4,506	5,039
Tax-exempt	2,599	2,437	2,606
Interest-bearing deposits in banks and other	508	648	854
Federal funds sold	1	38	169
Total interest and dividend income	47,379	49,174	50,322
Interest expense:			
Deposits	5,902	8,941	10,226
Federal funds purchased	0	0	55
Securities sold under agreements to repurchase	36	155	563
FHLB and other borrowings	211	240	592
Total interest expense	6,149	9,336	11,436
Net interest and dividend income	41,230	39,838	38,886
Provision for loan losses	756	3,785	1,125
Net interest and dividend income,			
after provision for loan losses	40,474	36,053	37,761
-			
Noninterest income:			
Customer service fees	870	837	1,095
Gain on sales and calls of AFS securities, net	126	382	260
Gain on sales of loans, net	2,663	3,386	1,395
Loan servicing fees, net	1,334	967	700
Other	4,501	3,615	3,653
Total noninterest income	9,494	9,187	7,103
Noninterest expenses:			
Salaries and employee benefits	21,433	20,016	18,664
Occupancy expense of premises, net	2,292	2,536	2,754
Outside services	3,031	953	833
Data processing	2,737	2,903	2,686
Foreclosed assets and other real estate owned, net	(112)	97	63
Other	5,964	5,679	5,658
Total noninterest expenses	35,345	32,184	30,658
Income before income taxes	14,623	13,056	14,206
Income tax expense	3,237	2,766	3,184
Net income	\$11,386	\$10,290	\$11,022
Earnings per common share:			
Basic	\$3.11	\$2.76	\$2.98
Diluted	\$3.09	\$2.75	\$2.96



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

For the years ended December 31,

	2021	2020	2019
Net income	\$11,386	\$10,290	\$11,022
Other comprehensive (loss) income:			
Unrealized holding (gains) losses on securities available for sale,	(4,686)	4,511	5,384
net of tax of \$1,868, \$1,798 & \$2,146, respectively			
Reclassification adjustments for net securities (gains)			
recognized in income, net of tax of \$36, \$109 & \$74, respectively	(90)	(273)	(186)
Total other comprehensive (loss) income	(4,776)	4,238	5,198
Total comprehensive income	\$6,610	\$14,528	\$16,220





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

For the years ended December 31,

		Additional			Accumulated Other	
	Common Stock	Paid-In Capital	Retained Earnings	Treasury Stock	Comprehensive Income (Loss)	Total
Balance, January 1, 2019	\$1,002	\$9,810	\$124,068	(\$6,320)	(\$3,117)	\$125,443
Net income			11,022			11,022
Other comprehensive income					5,198	5,198
Cash dividends (\$.33 per share)			(1,229)			(1,229)
Stock options exercised (15,344 shares)	4	155				159
Stock-based compensation expense		18				18
Restricted stock vested (4,727 shares)	1	149				150
Balance, December 31, 2019	1,007	10,132	133,861	(6,320)	2,081	140,761
Net income			10,290			10,290
Other comprehensive income					4,238	4,238
Cash dividends (\$.36 per share)			(1,344)			(1,344)
Purchase of treasury stock (17,900 shares)				(510)		(510)
Stock options exercised (16,844 shares)	5	169				174
Stock-based compensation expense		19				19
Restricted stock vested (5,509 shares)	1	193				194
Balance, December 31, 2020	1,013	10,513	142,807	(6,830)	6,319	153,822
Effect of change in accounting principle - Mortgage servicing rights (net of tax)			254			254
Net income			11,386			11,386
Other comprehensive loss					(4,776)	(4,776)
Cash dividends (\$.42 per share)			(1,544)			(1,544)
Purchase of treasury stock (131,500 shares	)			(4,172)		(4,172)
Stock-based compensation expense		16				16
Restricted stock vested (7,854 shares)	2	239				241
Balance, December 31, 2021	\$1,015	\$10,768	\$152,903	(\$11,002)	\$1,543	\$155,227



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

For the years ended December 31, 2021 2020 2019 CASH FLOWS FROM OPERATING ACTIVITIES: \$11,386 \$10,290 Net income \$11,022 Adjustments to reconcile net income to net cash provided by operating activities: Provision for loan losses 756 3,785 1,125 Foreclosed asset valuation (gains) losses in 195 (134)(533)Depreciation 1,053 1,217 1,463 Net amortization of securities premiums 4,570 2,936 1,300 Income on bank owned life insurance (598)(504)(600)Gain on death benefits (50)0 0 Deferred income tax (benefit) expense (486)443 (86)Stock-based compensation expense 16 19 18 Restricted stock expense 241 194 150 Net (gain) on the sales and calls of AFS securities (126)(382)(260)Net (gain) on the sales of foreclosed assets (121)(91)(22)Net change in: Loans held for sale 592 (839)(285)Other assets (1,401)2,773 2,624 Accrued interest payable and other liabilities 2,138 (466)850 Net cash provided by operating activities 18,659 18,218 17,295 CASH FLOWS FROM INVESTING ACTIVITIES: Net change in interest-bearing deposits in banks - term deposits 3,086 (4,561)(755)Proceeds from sales of AFS and HTM securities 16,899 1,750 981 Proceeds from maturities, calls, and paydowns of AFS securities 115,972 75,210 134,445 Purchases of AFS and HTM securities (219,357)(200,144)(78,019)Purchases of bank owned life insurance (919)0 938 0 Proceeds from death benefits of bank owned life insurance 0 (Purchases) redemption of marketable equity securities, net (975)(73)(217)Loan originations and principal collections, net (28,059)(43,650)3,850 Proceeds from sales of foreclosed assets 234 1,421 266 (455)Purchases of premises and equipment, net (445)(961)(111,685) (3,215)Net cash used in investing activities (108,638)CASH FLOWS FROM FINANCING ACTIVITIES: Net change in deposits 80,984 134,367 40,069 3,960 Net change is securities sold under agreements to repurchase 4,555 (1,160)(1,544)(1,229)Cash dividends paid (1,344)(1,591)Net change in federal funds purchased (255)(3,634)Stock options exercised 0 174 159 Purchase of treasury stock (4,172)(510)0 Proceeds from FHLB and Federal Reserve advances and other borrowings 5,000 24,576 71,000 Payments on FHLB and Federal Reserve advances and other borrowings (22,712)(4,826)(89,178)Net cash provided by financing activities 59,925 156,737 16,027 Net increase (decrease) in cash and cash equivalents (33,101)66,317 30,107 Cash and cash equivalents at beginning of year 124,745 58,428 28,321 Cash and cash equivalents at end of year \$91,644 \$124,745 \$58,428

1986 - 2021



# CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

(000s omitted except share data)

For the years end	led December 31,	

For the years ended December 31,			
	2021	2020	2019
SUPPLEMENTAL DISCLOSURES OF CASH FLOW			
INFORMATION:			
Cash paid during the year for:			
Interest	\$6,441	\$9,701	\$11,294
Income taxes	\$3,109	\$2,325	\$2,400
SUPPLEMENTAL SCHEDULE OF NONCASH			
FINANCING ACTIVITIES:			
Foreclosed assets acquired in settlement of loans	\$67	\$128	\$544

See Notes to Consolidated Financial Statements.



#### (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, Machesney Park, Belvidere, and Herscher, Illinois areas. Its primary deposit products are demand deposits and certificates of deposit and its primary lending products are agriculture, agribusiness, commercial, real estate, and installment loans.

#### (b) Basis of Consolidation

The 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), Lena State Bank (Lena), and State Bank of Herscher (Herscher) (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 March 8, 2022, which is the date the financial statements were available to be issued.

#### (d) Risks and Uncertainties

The United States and world economies continue to suffer adverse effects from the COVID-19 virus pandemic ("CV 19 pandemic"). The Company has responded throughout the CV19 pandemic as guided by governmental authorities and regulatory agencies with necessary operational and procedural modifications. The Company has not experienced an adverse impact to the financial statements. Future potential impacts to the Company may include disruptions or restrictions on employees and contracted agents ability to work, reduced demand for new loans, and increased repurchase risk or loan defaults. The future impact of the CV19 pandemic on the Company cannot be reasonably estimated at this time.

#### (e) 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, deferred tax assets, fair values of securities, foreclosed assets and financial instruments are particularly susceptible to change in the near-term.

#### (f) Cash and Cash Equivalents

For purposes of the 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.



#### (1) Summary of Significant Accounting Policies (continued)

#### (g) Interest-bearing Deposits in Banks

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

#### (h) Debt 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 or loss. Amortization of premiums and accretion of discounts are recognized in interest income using the interest method. Premiums that exceed the amount repayable by the issuer at the next call date are amortized to the next call date. Other premiums and discounts are amortized (accreted) over the estimated lives of the securities. Gains and losses on the sale of securities are recorded on the trade date and determined using the specific-identification method.

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.

#### (i) Marketable Equity Securities and Other Investments

Marketable equity securities have a readily determinable fair value and are measured at fair value with changes in fair value reported in net income. Gains and losses on the sale of marketable equity securities are recorded on the trade date and determined using the specific-identification method.

Other investments include equity securities without a readily determinable fair value which consists primarily of Federal Home Loan Bank (FHLB) stock. The Company has elected to account for equity securities without readily determinable fair values using the alternative measurement method. Under this method, these securities are carried at cost, minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment. The Company is required to hold FHLB stock as a member of the FHLB and transfer of the stock is substantially restricted. The FHLB stock is pledged as collateral for outstanding FHLB advances. FHLB stock is evaluated for impairment on an annual basis.

#### (j) 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. Net unrealized losses, if any, are recognized through a valuation allowance by charges to income.

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. Realized 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.



#### (1) Summary of Significant Accounting Policies (continued)

#### (k) Loans and Allowance for Loan Losses

Loans that management has the intent and ability to hold for the foreseeable future, or until maturity or payoff; generally, are reported at their outstanding unpaid principal balances adjusted for purchase premiums or discounts, charge-offs, and an allowance for loan losses. Interest on loans is accrued daily based on the unpaid principal balance.

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 a loan is generally discontinued when the loan becomes 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 at an earlier date if collection of principal or interest is considered doubtful. Generally, interest accrued but not collected for loans that are placed on nonaccrual status or charged off is reversed against interest income. The interest on these loans is accounted for on the cash basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Loan-origination fees with the exception of the Paycheck Protection Program (PPP) fees received in 2020 and 2021 and direct origination costs are generally recognized as income or expense when received or incurred since capitalization of these fees and costs would not have a significant impact on the financial statements. Fees received as part of PPP were capitalized and amortized to income over the contractual life of the PPP loans.

The allowance for loan losses is a valuation allowance for probable incurred credit losses. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. Management estimates the allowance balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged off.

The allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired. A loan is impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. Loans for which the terms have been modified resulting in a concession, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings (TDRs) 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. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

All problem loans meeting Company criteria are individually evaluated for impairment. If a loan is impaired, a portion of the allowance is allocated so that the loan is reported, net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected from the collateral.



#### (1) Summary of Significant Accounting Policies (continued)

#### (k) Loans and Allowance for Loan Losses (continued)

TDRs are individually evaluated for impairment and included in the separately identified impairment disclosures. TDRs are measured at the present value of estimated future cash flows using the loan's effective rate at inception. If a TDR is considered to be a collateral dependent loan, the loan is reported, net, at the fair value of the collateral. For TDRs that subsequently default, the Company determines the amount of the allowance on that loan in accordance with the accounting policy for the allowance for loan losses on loans individually identified as impaired.

The general component covers loans that are collectively evaluated for impairment. Large groups of smaller balance homogeneous loans, such as consumer and residential real estate loans, are collectively evaluated for impairment, and accordingly, they are not included in the impairment disclosures. The general allowance component also includes loans that are not individually identified for impairment evaluation, such as commercial loans below the individual evaluation threshold, as well as those loans that are individually evaluated but are not considered impaired.

The general component is based on historical loss experience adjusted for current qualitative factors. The historical loss experience is determined by portfolio segment or loan class 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 or loan class. These economic factors include: 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 employees; national and economic trends and conditions; industry conditions; and effects of changes in credit concentrations.

Management considers the following when assessing the risk in the loan portfolio:

- Residential real estate loans are affected by the local residential real estate market, the local
  economy, and, for variable rate mortgages, movement in indices tied to these loans. At the time
  of origination, the Company evaluates the borrower's repayment ability through a review of debtto-income and credit scores. Appraisals are generally obtained to support the loan amount.
  Financial information is obtained from the borrowers and/or the individual project to evaluate
  cash flows sufficiency to service debt at the time of origination.
- Agricultural and commercial real estate loans are dependent on the industries tied to these loans.
   Agricultural real estate loans are primarily for land acquisition. Commercial real estate loans are
   primarily secured by office and industrial buildings, warehouses, retail shopping facilities and
   various special purpose properties, including hotels and restaurants. Financial information is
   obtained from the borrowers and/or the individual project to evaluate cash flows sufficiency to
   service debt; and is periodically updated during the life of the loan. Loan performance may be
   adversely affected by factors impacting the general economy or conditions specific to the real
   estate market, such as geographic location and/or property type.
- Commercial and agricultural loans are primarily for working capital, physical asset expansion, asset acquisition loans and other. These loans are made based primarily on historical and projected cash flow of the borrower and secondarily on the underlying collateral provided by the borrower. The cash flows of borrowers, however, may not behave as forecasted and collateral securing loans may fluctuate in value due to economic or individual performance factors. Financial information is obtained from the borrowers to evaluate cash flows sufficiency to service debt and is periodically updated during the life of the loan.



#### (1) Summary of Significant Accounting Policies (continued)

#### (k) Loans and Allowance for Loan Losses (continued)

Consumer and other loans may take the form of installment loans, demand loans, or single
payment loans and are extended to individuals for household, family, and other personal
expenditures. At the time of origination, the Company evaluates the borrower's repayment ability
through a review of debt-to-income and credit scores.

#### (1) Loan Commitments

The Company enters 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.

#### (m) Loan Servicing and Change in Accounting Principle

The Company services mortgage loans it sells to third-party institutions. Servicing loans includes collecting monthly principal and interest payments from borrowers, passing such payments through to the third-party investors, and maintaining escrow accounts for taxes and insurance. When necessary, the Company also performs collection functions for delinquent loan payments, handles loan foreclosure proceedings, and disposes of foreclosed property. The Company generally earns a servicing fee of 25 basis points on the outstanding loan balance for performing these services as well as fees and interest income from ancillary sources, such as late fees and float.

Mortgage servicing rights are recognized as separate assets when rights are acquired through a sale of loans and are reported in other assets. Effective January 1, 2021, the Company elected fair value accounting for all of its mortgage servicing rights previously accounted for using the amortization method. This irrevocable election applies to all subsequently acquired or originated servicing assets and liabilities that have characteristics consistent with this class. A cumulative-effect adjustment of \$254 (net of tax) was recorded to retained earnings as of January 1, 2021, to reflect the excess of the fair value of mortgage servicing rights over their carrying amount.

Prior to January 1, 2021, when the originating mortgage loans were sold into the secondary market, the Company allocated 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 was amortized in proportion to, and over the period of, estimated net servicing revenues. Impairment of mortgage-servicing rights was assessed based on the fair value of those rights. The amount of impairment was the amount by which the capitalized mortgage servicing rights exceeded their fair value. Fair value was determined using prices for similar assets with similar characteristics, when available, or based upon discounted cash flows using market-based assumptions. Effective January 2021, mortgage servicing rights recognized when mortgage loans are sold are included as a component of loan servicing fees and are measured at fair value at acquisition and at each subsequent reporting date. The fair value of mortgage servicing rights is estimated using market prices for comparable contracts, when available, or a valuation model that calculates the present value of estimated future net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as costs to service, a discount rate, custodial earnings rate, ancillary income, default rates and losses, and prepayment speeds. The fair value of mortgage servicing rights may change due to changes in discount rates, prepayment expectations, default rates, and other factors. Changes in fair value are recognized each period and reported in the Statements of Income as a component of loan servicing fees.



#### 1) Summary of Significant Accounting Policies (continued)

#### (m) Loan Servicing and Change in Accounting Principle (continued)

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 prior to the change in accounting principle was offset against loan servicing fee income.

#### (n) Rate Lock Commitments

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 financial statements and, accordingly, has elected not to record fair values associated with these derivatives.

#### (o) Foreclosed Assets and Other Real Estate Owned

Assets acquired through or instead of loan foreclosure are initially recorded at fair value less estimated cost of disposal when acquired. Included in this category is Bank owned real estate originally purchased for potential future expansion or no longer in active use in which the Company has elected to sell. Subsequent to foreclosure and transfer to other real estate owned, 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 and other real estate owned.

#### (p) 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.

#### (q) Bank-Owned Life Insurance

The Company has purchased life insurance policies on certain key employees and directors. Bank-owned life insurance is recorded at its cash surrender value, or the amount that can be realized.

#### (t) 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.



#### Summary of Significant Accounting Policies (continued)

#### (s) Revenue from Contracts with Customers

The core revenue recognition principle requires the Company to recognize revenue to depict the transfer of services or products to customers in an amount that reflects the consideration to which the Company expects to be entitled to receive in exchange for those services or products recognized as performance obligations are satisfied. The guidance includes a five-step model to apply to revenue recognition, consisting of the following: (1) identify the contract with a customer; (2) identify the performance obligations within the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations within the contract; and (5) recognize revenue when the performance obligations are satisfied.

The Company generally fully satisfies its performance obligations on its contracts with customers as services are rendered and the transaction prices are typically fixed; charged either on a periodic basis or based on activity. Since performance obligations are satisfied as services are rendered and the transaction prices are fixed, there is little judgment involved in applying revenue recognition that significantly affects the determination of the amount and timing of revenue from contracts with customers.

The following significant revenue-generating transactions are within the scope of revenue recognition, which are presented in the statements of income as components of noninterest income:

Customer service fees – The Company earns fees from its deposit customers for transaction-based, account maintenance, and overdraft services. Transaction-based fees, such as statement rendering and ACH fees, are recognized at the time the transaction is executed as that is the point in time the Company fulfills the customer's request. Account maintenance fees, which relate primarily to monthly service charges and maintenance fees, are earned over the course of a month, representing the period over which the Company satisfies the performance obligation. Overdraft fees are recognized at the point in time that the overdraft occurs as this corresponds with the Company's performance obligation.

Interchange fees - Customers use a bank-issued debit card to purchase goods and services, and the Company earns interchange fees on those transactions, typically a percentage of the sale amount of the transaction. The Company is considered an agent with respect to these transactions. Interchange fee payments received included in other noninterest income, net of related expense, are recognized as income daily, concurrently with the transaction processing services provided to the cardholder through the payment networks. There are no contingent debit card interchange fees recorded by the Company that could be subject to a claw-back in future periods.

Trust fees – The Company earns trust fees, included in other noninterest income, from its contracts with trust customers for providing investment management and/or transaction-based services on their accounts. These fees are primarily earned over time as the Company provides the contracted monthly or quarterly services and are assessed based on the total investable assets of the customer's trust account. A signed contract between the Company and the customer is maintained for all customer trust accounts with payment terms identified. There are no contingent incentive fees recorded by the Company that could be subject to a claw-back in future periods.

Insurance commissions - Insurance agency commissions, included in other noninterest income, are received from insurance carriers for the agency's share of commissions from customer premium payments. These commissions are recorded into income when checks are received from the insurance carriers, and there is no contingent portion associated with these commission checks that may be clawed back by the carrier in the future. There may be a short time-lag in recording revenue when cash is received instead of recording the revenue when the policy is signed by the customer, but the time lag is insignificant and does not impact the revenue recognition process. The Company has evaluated the potential amount of premium refunds due to customers when policies are cancelled and has determined such amounts are insignificant.



# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(000s omitted except share data)

#### (1) Summary of Significant Accounting Policies (continued)

#### (s) Revenue from Contracts with Customers (continued)

Wealth management fees – Wealth management income, included in other noninterest income, is primarily comprised of fees from the management and administration of trusts and other customer assets. These fees are primarily earned over time as the Company provides the services and are recognized quarterly, based upon the quarter-end market value of the assets under management and the applicable fee rate. Payment of these fees is generally received in the month following quarter-ends through a direct charge to customers' accounts. Other related services provided include financial planning and the fees the Company earns, which are based on a fixed fee schedule, are recognized when the services are rendered.

Net gain (loss) on sales of foreclosed assets and other real estate owned – The Company records a gain or loss from the sale of foreclosed assets and other real estate owned when control of the property transfers to the buyer, which generally occurs at the time of an executed deed and transfer of control is completed. When the Company finances the sale to the buyer, the Company assesses whether the buyer is committed to perform their obligations under the contract and whether the Company expects to collect substantially all of the transaction price. Once these criteria are met, the asset is derecognized and the gain or loss on the sale is recognized. In determining the gain or loss on the sale, the Company adjusts the transaction price and related gain (loss) on sale if the financing does not include market terms.

#### (t) 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.

#### (u) 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 consolidated balance sheet, net of taxes. Such items, along with net income, are components of comprehensive income.

#### (v) 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.



#### (1) Summary of Significant Accounting Policies (continued)

#### (w) 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 financial statements.

#### (x) 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 transferred 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.

#### (y) Trust Assets

Assets of the trust departments of State Bank and State Bank of Herscher, other than trust cash on deposit at the Banks, are not included in these financial statements because they are not assets of the Company.

#### (z) Goodwill and Intangible Assets

Intangible assets attributable to the value of core deposits are stated at cost less accumulated amortization. Intangible assets are amortized on a straight-line basis over the estimated lives of the assets. The excess of purchase price over fair value of net assets acquired (goodwill) is not amortized.

The Company evaluates whether goodwill and other intangible assets may be impaired at least annually; and whenever events or changes in circumstances indicate it is more likely than not the fair value of the reporting unit or asset is less than its carrying amount.

#### (aa) 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.

#### (bb) 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.

#### (cc) Advertising

Advertising costs are expensed as incurred.



# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(000s omitted except share data)

### (1) Summary of Significant Accounting Policies (continued)

#### (dd) Reclassifications

Certain amounts in the 2019 and 2020 financial statements have been reclassified to conform to the 2021 presentation.

#### (ee) Newly Issued Not Yet Effective Accounting Standards

The following ASUs have been issued by FASB and may impact the Company's financial statements in future reporting periods.

In June 2016, the FASB issued ASU No. 2016-13, Measurement of Credit Losses on Financial Instruments. This standard will significantly change how financial assets measured at amortized cost are presented. Such assets, which include most loans and securities held to maturity, will be presented at the net amount expected to be collected over their remaining contractual lives. Estimated credit losses will be based on relevant information about historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amounts. The standard will also change the accounting for credit losses related to securities available-for-sale and purchased financial assets with a more-than-insignificant amount of credit deterioration since origination. This new accounting standard is effective for financial statements issued for annual periods beginning after December 15, 2022. The Company is evaluating what impact this new standard will have on its financial statements.

#### (2) Cash Equivalents and Interest-Bearing Deposits

Effective March 12, 2021, the Federal Reserve's board of directors approved the final rule reducing the required reserve requirement ratios to zero percent, effectively eliminating the requirement to maintain reserve balances in cash or on deposit with the Federal Reserve Bank. This reduction in the required reserves does not have a defined timeframe and may be revised by the Federal Reserve's board in the future.

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 Deposit Insurance Corporation's (FDIC) insured limit of \$250. Management believes these financial institutions have strong credit ratings and that credit risk related to these deposits is not material.

Interest-bearing deposits consist of certificates of deposit at other financial institutions. Certificates of deposit are in denominations of \$250 or less and are fully insured by the FDIC.

Maturities of certificates of deposits at other financial institutions as of December 31, 2021 are as follows:

2022	\$4,501
2023	3,241
2024	2,725
2025	735
2026 and thereafter	996

\$12,198



#### (3) Debt Securities

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

Held-to-Maturity 2021	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
State and municipal	\$4,389	\$172	(\$0)	\$4,561
Held-to-Maturity 2020	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
State and municipal	\$4,703	\$322	(\$0)	\$5,025
Available-for-Sale 2021  U.S. Government sponsored entities and U.S.	Amortized Cost \$86,211	Gross Unrealized Gains	Gross Unrealized Losses (\$1,240)	Fair Value \$85,106
agencies State and municipal Agency mortgage-backed	147,392 204,118	4,587 1,764	(493) (2,596)	151,486 203,286
	\$437,721	\$6,486	(\$4,329)	\$439,878
Available-for-Sale 2020	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government sponsored entities and U.S. agencies	\$36,797	\$354	(\$30)	\$37,121
State and municipal Agency mortgage-backed	124,392 192,271	4,963 4,029	(97) (381)	129,258 195,919
	\$353,460	\$9,346	(\$508)	\$362,298



# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(000s omitted except share data)

#### (3) Debt Securities (continued)

For the years ended December 31, 2021, 2020 and 2019, proceeds from sales of available-for-sale securities amounted to \$16,899, \$1,750 and \$981, 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:

	2021	2020	2019
Realized gains	\$211	\$386	\$260
Realized losses	(\$85)	(\$4)	(\$0)

Securities with carrying amounts of approximately \$198,944 and \$169,022 at December 31, 2021 and 2020, 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, 2021 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.

	Amortized	Fair
Held-to-Maturity	Cost	Value
Due in one year or less	\$345	\$348
Due after one year through five years	2,036	2,080
Due after five years through ten years	2,008	2,133
	\$4,389	\$4,561
	Amortized	Fair
Available-for-Sale	Cost	Value
Due in one year or less	\$12,637	\$12,792
Due after one year through five years	37,641	38,213
Due after five years through ten years	107,082	107,556
Due after ten years	76,243	78,031
*	233,603	236,592
Agency mortgage-backed	204,118	203,286
	\$437,721	\$439,878



#### (3) Debt Securities (continued)

The following tables show the fair values and unrealized losses aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2021 and 2020:

2021 Available-for-Sale

	Less than 12 Months			12 Months or More		
		Gross	No.		Gross	No.
		Unrealized	of		Unrealized	of
	Fair Value	Loss	Securities	Fair Value	Loss	Securities
U.S. Government sponsored entities and U.S. agencies	\$71,316	\$1,119	92	\$4,379	\$121	7
State and municipal	25,908	329	66	6,312	164	17
Agency mortgage-backed	100,636	2,025	152	20,683	571	33
Total	\$197,860	\$3,473	310	\$31,374	\$856	57

2020 Available-for-Sale

		Available-101-3ale							
	Les	s than 12 Mon	ths	12	Months or Mo	re			
		Gross			Gross	No.			
		Unrealized	of		Unrealized	of			
	Fair Value	Loss	Securities	Fair Value	Loss	Securities			
U.S. Government sponsored									
entities and U.S. agencies	\$11,049	\$30	16	\$0	<b>\$0</b>	0			
State and municipal	10,971	95	28	632	2	2			
Agency mortgage-backed	42,459	374	65	168	7	2			
Total	\$64,479	\$499	109	\$800	\$9	4			

There were no held-to-maturity securities in an unrealized loss position as of December 31, 2021 and 2020.

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.



# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(000s omitted except share data)

#### (4) Loans

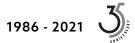
The following table presents total loans at December 31 by portfolio segment and class of loan:

	2021	2020
Real estate:		
Commercial real estate	\$273,077	\$272,111
Residential real estate	102,935	86,566
Agricultural real estate	140,165	133,015
Commercial:	·	ŕ
Commercial and industrial	208,967	225,023
Agricultural production	79,476	71,991
Consumer and other	55,212	43,587
	859,832	832,293
Allowance for loan losses	(13,985)	(13,682)
Totals	\$845,847	\$818,611

The Coronavirus Aid, Relief, and Economic Security Act, also known as the CARES Act, is an economic stimulus bill signed into law on March 27, 2020, in response to the economic fallout of the CV-19 pandemic in the United States. The creation of the Paycheck Protection Program (PPP) enacted under the CARES Act provides forgivable loans to small businesses for payroll obligations, emergency grants to cover immediate operating costs, and a mechanism for loan forgiveness by the Small Business Administration should all criteria be met. Included in commercial loans are approximately \$8,805 and \$57,211 of loans granted under the Paycheck Protection Program as of December 31, 2021 and 2020, respectively. These loans are fully guaranteed by the Small Business Administration.

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

	2021				
	Real Estate	Commercial	Consumer	Total	
Balance at beginning of year	\$8,282	\$5,102	\$298	\$13,682	
Provision charged to operations	738	0	18	756	
Recoveries on loans previously charged-off	390	41	20	451	
	9,410	5,143	336	14,889	
Less loans charged-off	(496)	(311)	(97)	(904)	
Balance at end of year	\$8,914	\$4,832	\$239	\$13,985	
Allowance for loan losses:					
Individually evaluated for impairment	\$911	\$370	\$23	\$1,304	
Collectively evaluated for impairment	8,003	4,462	216	12,681	
Totals	\$8,914	\$4,832	\$239	\$13,985	



### (4) Loans (continued)

	2020				
	Real Estate	Commercial	Consumer	Total	
Balance at beginning of year	\$8,313	\$4,521	\$205	\$13,039	
Provision charged to operations, net	956	2,684	145	3,785	
Recoveries on loans previously charged-off	136	73	14	223	
, ,	9,405	7,278	364	17,047	
Less loans charged-off	(1,123)	(2,176)	(66)	(3,365)	
Balance at end of year	\$8,282	\$5,102	\$298	\$13,682	
Allowance for loan losses:					
Individually evaluated for impairment	\$946	\$869	\$25	\$1,840	
Collectively evaluated for impairment	7,336	4,233	273	11,842	
Totals	\$8,282	\$5,102	\$298	\$13,682	

	2019				
	Real Estate	Commercial	Consumer	Total	
Balance at beginning of year	\$8,614	\$5,714	\$103	\$14,431	
Provision charged to operations, net	(84)	1,076	133	1,125	
Recoveries on loans previously charged-off	148	13	19	180	
	8,678	6,803	255	15,736	
Less loans charged-off	(365)	(2,282)	(50)	(2,697)	
Balance at end of year	\$8,313	\$4,521	\$205	\$13,039	
Allowance for loan losses:					
Individually evaluated for impairment	\$307	\$459	\$0	\$766	
Collectively evaluated for impairment	8,006	4,062	205	12,273	
Totals	\$8,313	\$4,521	\$205	\$13,039	



#### (4) Loans (continued)

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

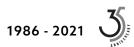
	2021				
	Real Estate	Commercial	Consumer	Total	
Loans:					
Individually evaluated for impairment	\$16,877	\$5,367	\$79	\$22,323	
Collectively evaluated for impairment	499,300	283,076	55,133	837,509	
Totals	\$516,177	\$288,443	\$55,212	\$859,832	
		202			
		202	0		
	Real Estate	Commercial	Consumer	Total	
Loans:					
Individually evaluated for impairment	\$24,046	\$4,286	\$48	\$28,380	
Collectively evaluated for impairment	467,646	292,728	43,539	803,913	
Totals	\$491,692	\$297,014	\$43,587	\$832,293	



#### (4) Loans (continued)

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

			2021		
	Recorded Investment	Principal Balance	Related Allowance	Average Investment	Interest Recognized
Loans with no related					
allowance for loan losses:					
Real estate:					
Commercial real estate	\$11,026	\$11,724	N/A	\$12,512	\$375
Residential real estate	1,286	2,174	N/A	1,711	98
Agricultural real estate	476	805	N/A	841	244
Commercial			•		
Commercial & industrial	4,947	5,405	N/A	9,986	511
Agricultural production	0	2	N/A	1	0
Consumer and other	9	10	N/A	12	1
Totals	17,744	20,120		25,063	1,229
Totals	17,777	20,120		23,003	1,22)
Loans with an allowance					
for loan losses:					
Real estate:					
Commercial real estate	3,662	3,777	748	3,822	220
Residential real estate	427	464	163	463	30
Agricultural real estate	0	0	0	0	0
Commercial					
Commercial & industrial	198	229	194	274	18
Agricultural production	222	257	176	275	28
Consumer and other	70	70	23	79	3
Totals	4,579	4,797	1,304	4,913	299
	.,,*	-,,,,,		·	
Grand Totals	\$22,323	\$24,917	\$1,304	\$29,976	\$1,528



# (4) Loans (continued)

	2020							
	Recorded Principal Related Average In							
	Investment	Balance	Allowance	Investment	Recognized			
Loans with no related								
allowance for loan losses:								
Real estate:								
Commercial real estate	\$9,941	\$10,656	N/A	\$10,158	\$108			
Residential real estate	2,410	3,369	N/A	2,761	52			
Agricultural real estate	4,811	5,034	N/A	4,710	52			
Commercial								
Commercial & industrial	1,530	1,629	N/A	1,462	18			
Agricultural production	1,814	1,814	N/A	2,698	0			
Consumer and other	23	46	N/A	26	0			
Totals	20,529	22,548		21,815	230			
Loans with an allowance								
for loan losses:								
Real estate:								
Commercial real estate	5,585	5,585	637	5,650	67			
Residential real estate	1,299	1,374	309	1,327	16			
Agricultural real estate	0	0	0	0	0			
Commercial								
Commercial & industrial	649	678	576	726	0			
Agricultural production	293	300	293	348	0			
Consumer and other	25	25	25	25	0			
Totals	7,851	7,962	1,840	8,076	83			
Grand Totals	\$28,380	\$30,510	<b>\$1,84</b> 0	\$29,891	\$313			



#### (4) Loans (continued)

	2019						
	Recorded Principal Related Average In						
	Investment	Balance	Allowance	Investment	Recognized		
Loans with no related							
allowance for loan losses:							
Real estate:							
Commercial real estate	\$7,976	\$8,825	N/A	\$8,149	\$528		
Residential real estate	3,469	4,476	N/A	3,882	159		
Agricultural real estate	5,167	5,246	N/A	6,541	396		
Commercial	ŕ	ŕ		•			
Commercial & industrial	4,939	5,767	N/A	5,162	307		
Agricultural production	2,858	2,858	N/A	2,059	92		
Consumer and other	42	43	N/A	55	2		
Total	24,451	27,215		25,848	1,484		
Loans with an allowance							
for loan losses:							
Real estate:							
Commercial real estate	4,059	4,059	66	4,403	157		
Residential real estate	1,304	1,412	241	1,382	46		
Agricultural real estate	0	0	0	0	0		
Commercial							
Commercial & industrial	942	956	382	985	39		
Agricultural production	77	78	77	80	5		
Consumer and other	0	0	0	0	0		
Total	6,382	6,505	766	6,850	247		
Grand Total	\$30,833	\$33,720	\$766	\$32,698	\$1,731		

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.



#### (4) Loans (continued)

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

	2021					
		Special				
	Pass	Mention	Substandard	Doubtful	Totals	
Real estate:						
Commercial real estate	\$239,071	\$20,439	\$13,567	\$0	\$273,077	
Residential real estate	100,486	928	1,521	0	102,935	
Agricultural real estate	130,170	9,519	476	0	140,165	
Commercial:						
Commercial & industrial	199,960	504	8,503	0	208,967	
Agricultural production	77,751	1,503	222	0	79,476	
Consumer and other	55,093	40	79	0	55,212	
Total	\$802,531	\$32,932	\$24,368	\$0	\$859,832	

	2020					
		Special				
	Pass	Mention	Substandard	Doubtful	Totals	
Real estate:						
Commercial real estate	\$233,507	\$25,089	\$13,515	\$0	\$272,111	
Residential real estate	81,799	2,061	2,706	0	86,566	
Agricultural real estate	118,001	11,292	3,722	0	133,015	
Commercial:						
Commercial & industrial	213,511	9,665	1,847	0	225,023	
Agricultural production	58,272	11,612	2,107	0	71,991	
Consumer and other	43,491	48	48	0	43,587	
Total	\$748,581	\$59,767	\$23,945	\$0	\$832,293	

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

As of December 31, 2021	Loans Past Due 30-89 Days	Loans Past Due 90+ Days	Total Past Due
Real estate:			
Commercial real estate	\$700	\$2,117	\$2,817
Residential real estate	980	201	1,181
Agricultural real estate	73	205	278
Commercial			
Commercial & industrial	181	443	624
Agricultural production	12	0	12
Consumer and other	263	39	302
Total	\$2,209	\$3,005	\$5,214



#### (4) Loans (continued)

As of December 31, 2021	Total Past Due	Total Current	Total Loans	90+ Days Due and Accruing Interest	Total Non-accrual Loans
Real Estate:					
Commercial real estate	\$2,817	\$270,260	\$273,077	\$1,117	\$5,886
Residential real estate	1,181	101,754	102,935	11	870
Agricultural real estate	278	139,887	140,165	205	0
Commercial:					
Commercial & industrial	624	208,343	208,967	0	489
Agricultural production	12	79,464	79,476	0	222
Consumer and other	302	54,910	55,212	0	79
Total	\$5,214	\$854,618	\$859,832	\$1,333	\$7,546

As of December 31, 2020	Loans Past Due 30-89 Days	Loans Past Due 90+ Days	Total Past Due
Real estate:			
Commercial real estate	\$1,922	<b>\$4,1</b> 09	\$6,031
Residential real estate	1,242	665	1,907
Agricultural real estate	338	1,092	1,430
Commercial			
Commercial & industrial	259	799	1,058
Agricultural production	54	239	293
Consumer and other	53	33	86
Total	\$3,868	\$6,937	\$10,805

As of December 31, 2020	Total Past Due	Total Current	Total Loans	90+ Days Due and Accruing Interest	Total Non-accrual Loans
Real Estate:					
Commercial real estate	\$6,031	\$266,080	\$272,111	\$170	\$5,798
Residential real estate	1,907	84,659	86,566	68	1,394
Agricultural real estate	1,430	131,585	133,015	105	1,124
Commercial:	ŕ	•	•		,
Commercial & industrial	1,058	223,965	225,023	0	848
Agricultural production	293	71,698	71,991	0	293
Consumer and other	86	43,855	43,587	27	47
Total	\$10,805	\$821,842	\$832,293	\$370	\$9,504

When, for economic or legal reasons related to 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.

There were no modifications of loans that are classified as troubled debt restructurings that occurred during the year ended of December 31, 2021.



(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, 2020:

	Number of Loans	Pre-Modification Investment	Post-Modification Investment
Real Estate:			
Residential real estate	1	\$3,828	\$3,828
Commercial:	1	191	191
Commercial & industrial			
Agricultural production	1	23	23
-			
Total	3	\$4,042	\$4,042

There were no troubled debt restructurings that defaulted during the year, within 12 months of their modification as of December 31, 2021.

The following table summarizes troubled debt restructurings that defaulted within 12 months of their modification date during the year ending December 31, 2020:

	Number of Loans	Recorded Investment
Real Estate:		
Commercial real estate	1	\$3,841
Гotal	1	\$3,841

The CARES Act provided temporary relief from accounting for certain pandemic-related loan modifications as troubled debt restructuring (TDR) that occurred during 2020. As of December 31, 2021, the Company had approximately \$13,771 of outstanding modifications that were excluded from the TDR classification based on this act.

#### (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, 2021 and 2020, were approximately \$303,768 and \$311,909, respectively. Custodial escrow balances maintained in conjunction with serviced loans were approximately \$3,859 and \$3,799 at December 31, 2021 and 2020, respectively.

Effective in January 1, 2021, due to the election of a change in accounting principle by the Company, the following is a summary of changes in the balance of mortgage servicing rights, included in other assets, for the year ended December 31, 2021:

Balance at December 31, 2020	\$1,150
Effect of change in accounting principle	355
Balance at January 1, 2021	1,505
Change in fair value	466
Additions	57
Balance at end of year	\$2,028



#### (5) Loan Servicing (continued)

Prior to the election in 2021, the following summarizes the activity pertaining to mortgage servicing rights, included in other assets, for the years ended December 31:

	2020	2019
Balance at beginning of year	\$993	\$1,167
Mortgage servicing rights capitalized	813	342
Mortgage servicing rights amortized	(656)	(516)
Balance at end of year	\$1,150	\$993

No impairment of mortgage servicing rights existed and no valuation allowance was recognized for 2020 and 2019.

The estimated fair value of mortgage servicing rights is determined using a valuation model that calculates the present value of expected future servicing and ancillary income, net of expected servicing costs. The model incorporates various assumptions, such as discount rates and prepayment speeds based on market data from independent organizations. Information about the estimated fair value of mortgage servicing rights at December 31:

	2021	2020	2019
Range of discount rates	9.00% - 11.00%	9.00% - 11.00%	9.50% - 11.50%
Range of prepayment speeds	6.79% - 33.96%	6.59% - 34.37%	6.98% - 27.90%
Weighted average default rate	9.01%	9.01%	9.51%

### (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 best efforts and mandatory delivery forward commitments for the future delivery of residential mortgage loans to third-party investors when an interest rate lock commitment is granted. Best efforts forward commitments bind the Company to deliver a mortgage loan to a third-party investor only if the underlying loan is funded. 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, 2021 and 2020, the Company had approximately \$6,559 and \$9,830 in interest rate lock commitments outstanding. As of December 31, 2021 and 2020, the Company had approximately \$110,261 and \$0 in mandatory delivery forward commitments outstanding and approximately \$2,857 and \$19,660 in best effort 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, 2021 and 2020.



### (7) Foreclosed Assets and Other Real Estate Owned

Foreclosed assets and other real estate owned net of valuation allowance consist of the following at December 31:

	2021	2020
Residential real estate	\$0	\$0
Commercial real estate	39	107
Non-farm non-residential properties	0	0
Construction, land development and other land	0	205
Balance at end of year	\$39	\$312

Residential real estate loans that are in process of foreclosure totaled \$99 at December 31, 2021 and \$482 at December 31, 2020.

#### (8) Premises and Equipment

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

	2021	2020
Land	<b>\$2,</b> 644	\$2.644
Buildings and leasehold improvements	21,757	\$2,644 21,467
Furniture, fixtures, and equipment	13,426	13,262
, , , , , , , , , , , , , , , , , , , ,	37,827	37,373
Less accumulated depreciation	20,696	19,644
	\$17,131	\$17,729

Depreciation expense for the years ended December 31, 2021, 2020 and 2019 amounted to \$1,053, \$1,217 and \$1,463, respectively.

#### (9) Intangible Assets

The core deposit premium intangible asset in other assets had a gross carrying amount of \$1,952 and accumulated amortization of \$1,952 and \$1,666 at December 31, 2021 and 2020, respectively.

Amortization expense for the year ended December 31, 2021 was \$286. Amortization expense for the years ended December 31, 2020 and 2019 was approximately \$312.



#### (10) Other Assets

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

	2021	2020
Accrued interest receivable	\$5,535	\$6,107
Mortgage servicing rights	2,028	1,150
Net deferred tax assets	2,980	990
Qualified affordable housing project investments	439	794
Other	3,947	4,152
	\$14,929	\$13,193

#### (11) Time Deposits

The aggregate amount of time deposits with a minimum denomination of \$250 was approximately \$68,880 and \$69,067 at December 31, 2021 and 2020, respectively. Time deposits are included in the interest-bearing deposits on the consolidated balance sheet.

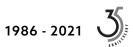
At December 31, 2021, the scheduled maturities of time deposits are as follows:

2022	\$195,417
2023	85,974
2024	40,569
2025	13,392
2026 and thereafter	17,793
	\$353,145

#### (12) Employee and Director Benefit Plans

The Company and the Banks maintain a 401(k) plan with profit sharing features covering substantially all employees under which the Company has historically provided a discretionary match of eligible employee contributions. Total 401(k) expense was approximately \$561, \$549, and \$457, for 2021, 2020, and 2019, respectively. Each plan participant elects how the employer contributions are invested; whereby the participants choose between purchasing the Company's common stock or investing in the plan's investment funds.

In addition, the Company and the Banks maintain non-qualified deferred compensation plans whereby certain directors and officers are provided with guaranteed annual payments for periods ranging after reaching a variation of retirement ages pending participant plan. The compensation plans are funded by bank-owned life insurance policies which had an aggregate death benefit of approximately \$53,114 and \$53,983 as of December 31, 2021 and 2020, respectively. The Banks accrue amounts to be paid over the participant's active service life. The accrued benefits were \$2,888, \$2,547, and \$2,143 at December 31, 2021, 2020 and 2019, respectively. Non-qualified deferred compensation expenses were \$413, \$476, and \$190 in 2021, 2020 and 2019, respectively.



### (13) Income Taxes

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

	2021	2020	2019
Current – federal	\$2,148	\$2,074	\$1,757
Current – state	1,175	1,178	984
	3,323	3,252	2,741
Deferred – federal	(61)	(330)	357
Deferred – state	(25)	(156)	86
	(86)	(486)	443
Total income tax expense	\$3,237	\$2,766	\$3,184

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:

2019	
%	% of
Pre	Pretax
nt Ear	arning
186 21	21.0%
32) (4	(4.4%)
03) (0	(0.7%)
, ,	` ′
46 6	6.0%
87 0	0.6%
94 22	22.4%
8	846 87



### (000s omitted except share data)

#### (13) Income Taxes (continued)

The tax effects of existing temporary differences that give rise to significant portions of the deferred tax liabilities and deferred tax assets at December 31, 2021 and 2020 are summarized as follows:

	2021	2020
Deferred tax assets:		
Allowance for loan losses	\$3,986	\$3,900
Allowance for losses on foreclosed assets and other real estate owned	74	191
Deferred compensation and other	2,022	1,907
Total deferred tax assets	6,082	5,998
Deferred tax liabilities:		
FHLB stock dividend	55	55
Depreciation	1,549	1,776
Mortgage servicing rights and other	746	453
Available-for-sale securities	615	2,519
Purchase accounting adjustments	137	205
Total deferred tax liabilities	3,102	5,008
Net deferred tax assets	\$2,980	\$990

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 2017.

### (14) Transactions with Related Parties

The Company 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.

Activity for related party loans for the years ending December 31, is as follows:

	2021	2020
Balance at beginning of year	\$8,671	\$14,319
New credits	2,231	4,711
No longer related party loans	0	(1,631)
Repayments	(4,774)	(8,728)
Balance at end of year	\$6,128	\$8,671

Deposit accounts from related parties totaled approximately \$19,075 and \$15,717 at December 31, 2021 and 2020, respectively.



(000s omitted except share data)

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

Financial instruments with off-balance-sheet risk:

The Company is party 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 Company's exposure 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' exposures to off-balance-sheet risk as of December 31 is as follows:

	2021	2020
Unused lines of credit and other loan commitments	\$211,776	\$220,332
Commercial letters of credits	887	1,017
Performance and standby letters of credit	4,554	102

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.

The Company participates in the FHLB Mortgage Partnership Finance Program (the "Program"). In addition to entering into forward commitments to sell mortgage loans to a secondary market agency, the Company enters into firm commitments to deliver loans to the FHLB through the Program. Under the Program, loans are funded by the FHLB, and the Company receives an agency fee reported as a component of gain on sale of loans. The Company had no firm commitments outstanding to deliver loans through the Program at December 31, 2021. Once delivered to the Program, the Company provides a contractually agreed-upon credit enhancement and performs servicing of the loans. Under the credit enhancement, the Company is liable for losses on loans delivered to the Program after application of any mortgage insurance and a contractually agreed-upon credit enhancement provided by the Program subject to an agreed-upon maximum. The agreed-upon accumulated credit enhancement provided by the Program totaled \$2,547, subject to an agreed-upon maximum. The fee the Company received for this credit enhancement was not material in each of the years ended December 31, 2021, 2020 and 2019.



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

Concentration of credit risk:

The Company provides 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 \$35,109 and \$31,149 at December 31, 2021 and 2020, respectively, and are collateralized by U.S. agencies, state and municipal and mortgage-backed investment securities with fair values of approximately \$61,560 and \$43,047. The weighted-average interest rates on these agreements were 0.10% and 0.12% at December 31, 2021 and 2020, respectively. Securities sold under agreements to repurchase mature on a daily basis.

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

FHLB Advances at December 31:	2021	2020
Fixed-rate advances with rates ranging from 0% to 3.03% and weighted		
average rates of 1.06% and 0.62% as of December 31, 2021 and 2020,		
respectively. Interest is payable monthly with principal due at maturity.	\$16,000	\$32,750

Advances are collateralized by 1-4 family mortgage loans, other qualifying loans and securities. The total amounts of collateral securing FHLB advances were approximately \$93,767 and \$85,350 as of December 31, 2021 and 2020, respectively. FHLB advances are subject to a prepayment penalty if they are repaid prior to maturity. FHLB advances are also secured by \$1,360 and \$1,285 of FHLB stock owned by the Company at December 31, 2021 and 2020, respectively.

The Company participates in the Federal Reserve Bank of Chicago's Discount Window Lending Program. Primary advances generally mature daily and bear interest at a generally approved rate in relation to the federal funds rate. The primary advance interest rate at December 31, 2021 was 25-basis points. Outstanding advances were \$0 at December 31, 2021 and 2020. Advances are collateralized by investment securities pledged totaling approximately \$9,578 and \$9,253 at December 31, 2021 and 2020, respectively, to the Federal Reserve Bank.

Additional other borrowings totaled \$1,076 and \$2,038 at December 31, 2021 and 2020, respectively, and mature from 2022 to 2024, at interest rates ranging from 1.60% to 2.38%.



(000s omitted except share data)

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

At December 31, the scheduled maturities of FHLB advances and other borrowings are as follows:

	2021	2020
2021	\$0	20,250
2022	5,163	210
2023	500	2,373
2024	5,818	6,335
2025	0	0
2026 and thereafter	5,595	5,620
	\$17,076	\$34,788

The Company had federal funds purchased with its main correspondent institutions totaling \$533 and \$2,124 as of December 31, 2021 and 2020, respectively. Federal funds purchased generally mature within one day from transaction date. The weighted average interest rate was 0.25% and 0.10% as of December 31, 2021 and 2020, respectively.

#### (18) Fair Value Measurements

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The standard describes three levels of inputs that may be used to measure fair value:

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

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

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

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.



### (18) Fair Value Measurements (continued)

Marketable equity securities — Marketable equity securities with a readily determinable fair value are measured at fair value on a recurring basis. The fair value measurement of equity securities with a readily determinable fair value are based on the quoted price of the security and is considered a Level 1 fair value measurement. Equity securities without a readily determinable fair value are measured at fair value on a nonrecurring basis when transaction prices for identical or similar securities are identified. Fair value measurements on equity securities without a readily determinable fair value are generally considered a Level 2 fair value measurement.

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 and other real estate owned: Real estate acquired through or in lieu of loan foreclosure is 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 on management's comparisons to sales of comparable assets, but include significant unobservable data and are therefore considered Level 3 measurements.

Mortgage servicing rights - Mortgage servicing rights are measured at fair value on a recurring basis. Serviced loan pools are stratified by year of origination, and a fair value measurement is obtained for each stratum from an independent firm. The measurement is based on recent sales of mortgage servicing rights with similar characteristics. Since the fair value measurement is based on observable market data, it is considered a Level 2 measurement.



### (18) Fair Value Measurements (continued)

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

As of December 31, 2021		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					
U.S. Government sponsored entities					
and U.S. agencies	\$85,106		\$85,106		
State and municipal	\$151,486		\$151,486		
Agency mortgage-backed	\$203,286		\$203,286		
Marketable equity securities	\$900		\$900		
Mortgage servicing rights	\$2,028		\$2,028		
Assets measured at fair value					
on a non-recurring basis:					
Assets:					
Collateral-dependent impaired loans	\$3,275			\$3,275	
Foreclosed assets and other real estate					
owned	\$39			\$39	

Collateral-dependent impaired loans, which are measured for impairment using the fair value of collateral, had a carrying value of \$4,579 with specific reserves of \$1,304 as of December 31, 2021.

Foreclosed assets and other real estate owned, which are measured at the lower of carrying or fair value less costs to sell, were carried at their fair value of \$39, which is comprised of the outstanding balance of \$297, net of an allowance for losses of \$258 as of December 31, 2021.

As of December 31, 2020	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					
U.S. Government sponsored entities					
and U.S. agencies	\$37,121		\$37,121		
State and municipal	\$129,258		\$129,258		
Agency mortgage-backed	\$195,919		\$195,919		
Assets measured at fair value					
on a non-recurring basis:					
Assets:					
Collateral-dependent impaired loans	\$6,011			\$6,011	
Foreclosed assets and other real estate owned	\$312			\$312	
Owned	φ312			φ312	



#### (18) Fair Value Measurements (continued)

Collateral-dependent impaired loans, which are measured for impairment using the fair value of collateral, had a carrying value of \$7,851 with specific reserves of \$1,840 as of December 31, 2020.

Foreclosed assets and other real estate owned, which are measured at the lower of carrying or fair value less costs to sell, were carried at their fair value of \$312, which is comprised of the outstanding balance of \$776, net of an allowance for losses of \$464 as of December 31, 2020.

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, 2021 and 2020:

	Valuation Technique	Unobservable Input	Range
Collateral-dependent impaired loans,	•		
net of specific reserves	Sales comparison approach	Appraised values	10% - 20%
Foreclosed assets and other real estate owned	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 estimated fair values of the Company's financial instruments as of December 31, 2021 are as follows:

	Carrying	Fair	Fair	Value Hierare	chy
	Amount	Value	Level 1	Level 2	Level 3
Financial assets:					
Cash and cash equivalents	\$91,644	\$91,644	\$91,644		
Interest-bearing deposits in other banks-					
term deposits	12,198	12,198	12,198		
Securities	444,267	444,439		\$444,439	
Marketable equity securities	900	900		900	
Loans held for sale	2,254	2,254		2,254	
Loans, net of allowance	845,847	844,952			\$844,952
Accrued interest receivable	5,535	5,535	5,535		
Cash surrender value of bank-owned					
life insurance	23,210	23,210			23,210
Mortgage servicing rights	2,028	2,028		2,028	
Financial liabilities:					
Demand and saving deposits	\$882,299	\$882,299	\$882,299		
Time deposits	353,145	353,939			\$353,939
Federal funds purchased	533	533	533		
Securities sold under					
agreements to repurchase	35,109	35,111		35,111	
FHLB advances and other borrowings	17,076	17,355			17,355
Accrued interest payable	694	694	694		



(000s omitted except share data)

#### (18) Fair Value Measurements (continued)

The estimated fair values of the Company's financial instruments as of December 31, 2020 are as follows:

	Carrying	Fair	Fair	r Value Hierar	chy
	Amount	Value	Level 1	Level 2	Level 3
Financial assets:					
Cash and cash equivalents	\$124,745	\$124,745	\$124,745		
Interest-bearing deposits in other banks-	" ,	" ,	" /		
term deposits	15,284	15,284	15,284		
Securities	367,001	367,323	,	\$367,323	
Loans held for sale	2,846	2,846		2,846	
Loans, net of allowance	818,611	827,267		,	\$827,267
Accrued interest receivable	6,107	6,107	6,107		
Cash surrender value of bank-owned					
life insurance	23,594	23,594			23,594
Mortgage servicing rights	1,150	1,404		1,404	
Financial liabilities:					
Demand and saving deposits	\$763,772	\$763,772	\$763,772		
Time deposits	390,688	397,320			\$397,320
Federal funds purchased	2,124	2,124	2,124		
Securities sold under					
agreements to repurchase	31,149	31,147		31,147	
FHLB advances and other borrowings	34,788	35,054			35,054
Accrued interest payable	985	985	985		ŕ

#### (19) Stock-Compensation Plans

During 2012, the Company approved an 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.

#### Stock Options

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. The Company's accounting policy is to recognize forfeitures as they occur.

No options were granted for the year ended December 31, 2021 and 2020. For the year ended December 31, 2019 5,000 shares of non-qualified stock options were granted.



#### (19) Stock-Compensation Plans

Stock Options (continued)

The following assumptions were used in estimating the fair value of options granted during the year ended December 31, 2019:

	2019
Expected volatility	0.0163
Expected dividend yield	0.88%
Expected term (in years)	5.00
Risk free rate	2.39%

Based on these assumptions the estimated weighted average grant date fair value of options granted was \$2.42 during 2019.

For the years ended December 31, 2021, 2020 and 2019, the Company recognized \$16, \$19, and \$18 in compensation expense for stock options, respectively. No tax benefits were recognized for the three-year period ended December 31, 2021. The intrinsic value of options exercised during the years ended December 31, 2021, 2020 and 2019 was \$0, \$276 and \$393, respectively.

The following table summarizes the activity of options for the year ended:

	December 31, 2021		December	31, 2020
		Weighted		Weighted
		Average		Average
		Exercise		Exercise
	Options	Price	Options	Price
Shares under option, beginning of year	25,000	\$35.55	46,844	\$26.44
Granted during the year	0	0	0	0.00
Forfeited and expired during the year	0	0	(5,000)	35.27
Exercised during the year	0	0	(16,844)	10.30
Shares under option, end of year	25,000	\$35.55	25,000	\$35.55
Options exercisable, end of year	12,500	\$35.55	8,333	\$35.55

The following table summarizes information about stock options outstanding at December 31, 2021:

	Remaining				
	Contractual Life				
Exercise Price Number Outstanding (Years)			Number Exercisable		
\$35.55	25,000	6.5	12,500		

Total shares available for grant under this plan were 64,603, 78,727 and 82,636 at December 31, 2021, 2020 and 2019, respectively.



(000s omitted except share data)

### (19) Stock-Compensation Plans

Stock Awards

Stock awards are granted in the form of restricted stock awards (RSA's) and restricted stock units (RSU's) which typically vest equally over a two-year period; however, there were RSAs and RSUs issued in 2021 that vest over a five-year period. RSA's share in dividends and have voting rights throughout the vesting period. RSU's are paid a dividend equivalent during the vesting period but have no voting rights.

The following table summarizes information regarding unvested restricted stock and shares outstanding during the year ended:

	December 31, 2021		December	31, 2020	
	Weighted			Weighted	
	Unvested	Average	Unvested	Average	
	Shares	Grant Value	Shares	Grant Value	
Restricted stock, beginning of year	13,301	\$29.41	9,901	\$34.50	
Granted during the year	16,403	31.79	10,434	27.50	
Forfeited during the year	(863)	29.93	(372)	28.88	
Restricted shares (net for taxes)	(1,233)	30.51	(1,153)	34.02	
Vested during the year	(7,854)	30.51	(5,509)	34.02	
Restricted stock, end of year	19,754	\$30.86	13,301	\$29.41	

During 2021, 2020 and 2019, total compensation expense of \$332, \$246 and \$212 (before tax benefits of \$95, \$70 and \$61) was recorded from amortization of restricted shares expected to vest, respectively. Future projected compensation expense (before tax benefits); assuming all restricted shares eventually vest to employees; would be \$272, \$62, \$6, \$6 and \$2 for years 2022, 2023, 2024, 2025 and 2026 respectively.

#### (20) Stock Repurchase Program

In October 2016, the Company's Board of Directors authorized a stock repurchase program authorizing an aggregate repurchase of up to 100,000 shares of common stock at market price, each year. In October 2017, the Company's Board of Directors authorized a stock repurchase program authorizing an aggregate repurchase of up to 100,000 of common stock at up to 110% of book value, which expired in October 2018. In July 2019, the Company's Board of Directors approved reinstatement of the Company's stock repurchase program. This program authorized the repurchase of blocks of common stock with a purchase price within a range of 90-100% of book value.

In November 2020, the Company's Board of Directors adopted a stock repurchase plan. The plan provided a maximum dollar threshold of aggregate cost of repurchases under the plan, set a limit on the daily number of shares that could be repurchased and provided a maximum per share price. This plan, scheduled to expire on November 30, 2021, was subsequently extended to November 30, 2022 with modification of maximum per share price and daily purchase limits. A revised repurchase plan was approved by the Board of Directors as of December 30, 2021 and effective January 1, 2022, replacing the prior active plan. The revised stock repurchase plan provides additional funding, updated maximum per share price and adjusted daily limits and expires June 1, 2022. For the years ending December 31, 2021 and December 31, 2020, the Company repurchased 131,500 and 17,900 shares under the repurchase program. There were no shares repurchased in 2019.



(000s omitted except share data)

### (20) Stock Repurchase Program (continued)

The purchase price for the shares of the Company's stock repurchased is reflected as a reduction to shareholders' equity as treasury stock.

#### (21) Earnings Per Common Share

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

	2021	2020	2019
Net income	\$11,386	\$10,290	\$11,022
Net income available to common stockholders	\$11,386	\$10,290	\$11,022
Average number of common shares outstanding	3,665,228	3,726,475	3,701,671
Effect of dilutive options	15,844	10,799	22,444
Average number of common shares outstanding used			
to calculate diluted earnings per common share	3,681,072	3,737,274	3,724,093

#### (22) Equity and Regulatory Matters

The Company and Banks are subject to various regulatory capital requirements administered by the federal and state 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.

In September 2019, the FDIC finalized a rule that introduced an optional simplified measure of capital adequacy known as the community bank leverage ratio (CBLR) framework. In order to qualify for the CBLR framework, the Company and Banks must have a Tier 1 leverage ratio of greater than 9%, less than \$10 billion in total consolidated assets, and limited amounts of off-balance-sheet exposures and trading assets and liabilities. The Coronavirus Aid, Relief, and Economic Security Act lowered the CBLR to 8% through December 31, 2020. Beginning in 2021, the CBLR will increase to 8.5% for the calendar year, before increasing back to 9% beginning January 1, 2022. As of December 31, 2021 and 2020, the Company and Banks qualified for and elected to use the CBLR framework. An institution opting into the CBLR framework and meeting all requirements under the framework will be considered to have met the well-capitalized ratio requirements under the Prompt Corrective Action regulations and will not be required to report or calculate risk-based capital.

As of December 31, 2021, the most recent notification from the regulatory agencies categorized all six Banks as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Banks must maintain minimum regulatory capital ratios as set forth in the table. There are no conditions or events since December 31, 2021, which management believes have changed the capital categories of the Banks.



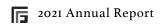
#### (22) Equity and Regulatory Matters (continued)

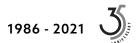
The Company and the Banks actual capital amounts and ratios as of December 31 are presented in the following tables:

	Actu	a1	To Be Well C Under Prompt Action Pro	t Corrective
	Amount		Amount	71010110
	In \$000s	Ratio	In \$000s	Ratio
As of December 31, 2021:				
Community Bank Leverage Ratio:				
Company	\$153,543	10.50%	\$116,938	8.00%
Northwest	33,922	8.83%	30,748	8.00%
German	28,252	9.30%	24,308	8.00%
Davis	19,575	11.43%	13,969	8.00%
Freeport	33,006	10.07%	26,211	8.00%
Lena	11,324	11.99%	7,554	8.00%
Herscher	20,130	11.75%	13,705	8.00%
			To Be Well Capitalized Under Prompt Corrective	
	Actua	al	Action Pro	visions
	Amount		Amount	
	In \$000s	Ratio	In \$000s	Ratio
As of December 31, 2020:				
Community Bank Leverage Ratio:				
Company	\$147,077	10.74%	\$109,576	8.00%
Northwest	29,455	8.53%	27,615	8.00%
German	26,201	9.41%	22,275	8.00%
Davis	18,632	11.00%	13,547	8.00%
Freeport	30,662	9.86%	24,882	8.00%
Lena	10,962	11.50%	7,627	8.00%
Herscher	19,200	11.67%	13,165	8.00%

### (23) Dividends

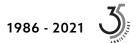
State banking regulations restrict the amount of dividends that a bank may pay to its stockholders. The regulations provide that dividends are limited to the balance of undivided profits, subject to capital-adequacy requirements, plus an additional amount equal to the Bank's current-year earnings through the date of any declaration of dividends. The payment of dividends would also be restricted if a Bank does not meet the minimum capital conservation buffer as defined by Basel III regulatory capital guidelines.



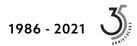


### CONSOLIDATING SCHEDULE 1 - BALANCE SHEET (000s omitted except share data)

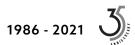
	German-American	State Bank
ASSETS	State Bank	of Davis
Cash and due from banks	\$4,715	\$6,812
Interest-bearing deposits in banks	7,294	3,599
Federal funds sold	531	174
Interest-bearing deposits in banks - term deposits	1,499	2,655
Debt securities:		
Debt securities available-for-sale	68,997	78,273
Debt securities held-to-maturity	0	597
Marketable equity securities and other investments	474	251
Loans held for sale	0	0
Loans, net	212,534	73,654
Foreclosed assets and other real estate owned, net	34	0
Premises and equipment, net	1,370	737
Bank owned life insurance	3,524	2,009
Other assets	2,855	2,103
Investment in subsidiary banks	0	0
Total assets	\$303,827	\$170,864
Liabilities: Liabilities:		
Deposits:	\$54,766	\$21,972
Deposits: Noninterest bearing	\$54,766 212,350	\$21,972 127,173
Deposits: Noninterest bearing Interest-bearing	212,350	127,173
Deposits: Noninterest bearing Interest-bearing Total deposits		127,173 149,145
Deposits: Noninterest bearing Interest-bearing Total deposits Federal funds purchased	212,350 267,116	127,173 149,145 0
Deposits: Noninterest bearing Interest-bearing Total deposits Federal funds purchased Securities sold under agreements to repurchase	212,350 267,116	127,173 149,145
Deposits: Noninterest bearing Interest-bearing Total deposits Federal funds purchased Securities sold under agreements to repurchase Federal Home Loan Bank (FHLB) and Federal Reserve advances	212,350 267,116	127,173 149,145 0
Deposits: Noninterest bearing Interest-bearing Total deposits Federal funds purchased Securities sold under agreements to repurchase Federal Home Loan Bank (FHLB) and Federal Reserve advances and other borrowings	212,350 267,116 0	127,173 149,145 0 1,158
Deposits: Noninterest bearing Interest-bearing Total deposits Federal funds purchased Securities sold under agreements to repurchase Federal Home Loan Bank (FHLB) and Federal Reserve advances	212,350 267,116 0	127,173 149,145 0 1,158 0 439
Deposits: Noninterest bearing Interest-bearing Total deposits Federal funds purchased Securities sold under agreements to repurchase Federal Home Loan Bank (FHLB) and Federal Reserve advances and other borrowings Accrued interest payable and other liabilities	212,350 267,116 0 6,000 1,639	127,173 149,145 0 1,158 0 439
Deposits: Noninterest bearing Interest-bearing Total deposits Federal funds purchased Securities sold under agreements to repurchase Federal Home Loan Bank (FHLB) and Federal Reserve advances and other borrowings Accrued interest payable and other liabilities  Total liabilities	212,350 267,116 0 6,000 1,639	127,173 149,145 0 1,158 0 439
Deposits: Noninterest bearing Interest-bearing Total deposits Federal funds purchased Securities sold under agreements to repurchase Federal Home Loan Bank (FHLB) and Federal Reserve advances and other borrowings Accrued interest payable and other liabilities  Total liabilities  Stockholders' equity:	212,350 267,116 0 6,000 1,639 274,755	127,173 149,145 0 1,158 0 439 150,742
Deposits:     Noninterest bearing     Interest-bearing     Total deposits Federal funds purchased Securities sold under agreements to repurchase Federal Home Loan Bank (FHLB) and Federal Reserve advances     and other borrowings Accrued interest payable and other liabilities  Total liabilities  Stockholders' equity: Preferred stock	212,350 267,116 0 6,000 1,639 274,755	127,173 149,145 0 1,158 0 439 150,742
Deposits:     Noninterest bearing     Interest-bearing     Total deposits Federal funds purchased Securities sold under agreements to repurchase Federal Home Loan Bank (FHLB) and Federal Reserve advances     and other borrowings Accrued interest payable and other liabilities  Total liabilities  Stockholders' equity: Preferred stock Common stock	212,350 267,116 0 6,000 1,639 274,755	127,173 149,145 0 1,158 0 439 150,742 0 100 1,667
Deposits:     Noninterest bearing     Interest-bearing     Total deposits Federal funds purchased Securities sold under agreements to repurchase Federal Home Loan Bank (FHLB) and Federal Reserve advances     and other borrowings Accrued interest payable and other liabilities  Total liabilities  Stockholders' equity: Preferred stock Common stock Additional paid-in capital	212,350 267,116 0 6,000 1,639 274,755 0 400 3,017	127,173 149,145 0 1,158 0 439 150,742 0 1,667 17,808
Deposits: Noninterest bearing Interest-bearing Total deposits Federal funds purchased Securities sold under agreements to repurchase Federal Home Loan Bank (FHLB) and Federal Reserve advances and other borrowings Accrued interest payable and other liabilities  Total liabilities  Stockholders' equity: Preferred stock Common stock Additional paid-in capital Retained earnings	212,350 267,116 0 6,000 1,639 274,755 0 400 3,017 24,835	127,173 149,145 0 1,158
Deposits: Noninterest bearing Interest-bearing Total deposits Federal funds purchased Securities sold under agreements to repurchase Federal Home Loan Bank (FHLB) and Federal Reserve advances and other borrowings Accrued interest payable and other liabilities  Total liabilities  Stockholders' equity: Preferred stock Common stock Additional paid-in capital Retained earnings Treasury stock	212,350 267,116 0 6,000 1,639 274,755 0 400 3,017 24,835 0	127,173 149,145 0 1,158 0 439 150,742 0 1,667 17,808



\$93,981 \$54,315 \$5,825 \$35,977 \$0 (\$310) \$236,649 205,413 76,201 112,595 0 (1,463) 330,630 259,728 82,026 148,572 \$0 (1,773) 1 0 0 533 0 0 0 3,949 30,002 0 0 0 0 0 0 10,758 318 0 0 0 0 10,758 318 0 0 0 0 1,816 1,479 447 980 3,595	olidated otal		Eliminations	Foresight Financial Group, Inc.	State Bank of Herscher	Lena State Bank	State Bank	Northwest Bank
29,441         452         94         4,473         1,463         (1,463)           2,543         32         0         69         0         0           1,494         2,479         2,333         1,738         0         0           83,392         93,709         39,356         76,151         0         0           0         3,792         0         0         0         0           865         275         133         267         0         0           2,254         0         0         0         0         0           0         0         0         0         5         6,974         1,484         306         1,382         4,428           6,174         1,563         1,102         4,808         4,030         3,862         2,893         963         1,420         833         0         0         0         147,752         (147,752)         147,752         (147,752)         \$33,862         2,893         963         1,420         833         0         0         (1,463)         330,630         259,728         82,026         148,572         80         (1,473)         1           23,6649         205,413	\$42,94	(\$310)	(\$3	\$310	\$8 198	\$886	\$6 593	<b>\$</b> 15 738
2,543         32         0         69         0           1,494         2,479         2,333         1,738         0         0           83,392         93,709         39,356         76,151         0         0         0           865         275         133         267         0         0         0         0         0           2,254         0         0         0         0         0         0         0         0         0         0         0         0         0         0         0         0         0         0         0         5         6,074         1,484         306         1,832         4,428         6,174         1,563         1,102         4,808         4,030         3,362         2,893         963         1,420         833         0         0         0         147,752         (147,752)         (147,752)         \$1         \$30,630         259,728         82,026         148,572         \$0         (1,463)         330,630         259,728         82,026         148,572         \$0         (1,773)         1         1         1         1         1         1         1         1         1         1         1	\$45,3	` ,	`					
1,494         2,479         2,333         1,738         0         0           83,392         93,709         39,356         76,151         0         0           0         3,792         0         0         0         0           865         275         133         267         0         0         0           2,254         0         0         0         0         0         0         0           0         0         0         0         0         5         6,074         1,484         306         1,832         4,428         4,6174         1,563         1,102         4,808         4,030         3,862         2,893         963         1,420         833         0         0         0         0         147,752         (147,752)         \$381,139         \$324,736         \$94,404         \$169,518         \$158,821         (\$149,525)         \$1           \$93,981         \$54,315         \$5,825         \$35,977         \$0         (\$310)         \$3         \$30,630         259,728         82,026         148,572         \$0         (1,463)         330,630         259,728         82,026         148,572         \$0         (1,773)         1	3,34	(1,100)	(1,1					
0         3,792         0         0         0           865         275         133         267         0           2,254         0         0         0         0           0         0         0         0         0           0         0         0         0         5           6,974         1,484         306         1,832         4,428           6,174         1,563         1,102         4,808         4,030           3,862         2,893         963         1,420         833           0         0         0         0         147,752         (147,752)           \$381,139         \$324,736         \$94,404         \$169,518         \$158,821         (\$149,525)         \$1           \$93,981         \$54,315         \$5,825         \$35,977         \$0         (\$310)         \$3           236,649         205,413         76,201         112,595         0         (1,463)           3,949         30,002         0         0         0         0           10,758         318         0         0         0         0           1,816         1,479         447         980 </td <td>12,19</td> <td>0</td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td>	12,19	0						
0         3,792         0         0         0           865         275         133         267         0           2,254         0         0         0         0           0         0         0         0         0           0         0         0         0         5           6,974         1,484         306         1,832         4,428           6,174         1,563         1,102         4,808         4,050           3,862         2,893         963         1,420         833           0         0         0         0         147,752         (147,752)           \$381,139         \$324,736         \$94,404         \$169,518         \$158,821         (\$149,525)         \$1           \$93,981         \$54,315         \$5,825         \$35,977         \$0         (\$310)         \$3           236,649         205,413         76,201         112,595         0         (1,463)           3,949         30,002         0         0         0         0           10,758         318         0         0         0         0           1,816         1,479         447         980 </td <td>439,8</td> <td></td> <td></td> <td>0</td> <td>76,151</td> <td>39,356</td> <td>93,709</td> <td>83,392</td>	439,8			0	76,151	39,356	93,709	83,392
865         275         133         267         0           2,254         0         0         0         0           28,402         211,464         49,231         70,562         0           0         0         0         0         5           6,974         1,484         306         1,832         4,428           6,174         1,563         1,102         4,808         4,030           3,862         2,893         963         1,420         833           0         0         0         0         147,752         (147,752)           \$381,139         \$324,736         \$94,404         \$169,518         \$158,821         (\$149,525)         \$1           \$93,981         \$54,315         \$5,825         \$35,977         \$0         (\$310)         \$3           236,649         205,413         76,201         112,595         0         (1,463)           3,949         30,002         0         0         0         0           3,949         30,002         0         0         0         0           10,758         318         0         0         0         0           1,816         1,47	4,38			0				
2,254         0         0         0         0         0         228,402         211,464         49,231         70,562         0         0         0         0         5         6,974         1,484         306         1,832         4,428         4,428         6,174         1,563         1,102         4,808         4,030         3,862         2,893         963         1,420         833         0         0         0         147,752         (147,752)         (147,752)           \$381,139         \$324,736         \$94,404         \$169,518         \$158,821         (\$149,525)         \$1           \$93,981         \$54,315         \$5,825         \$35,977         \$0         (\$310)         \$3           236,649         205,413         76,201         112,595         0         (1,463)         \$1           30         0         0         0         0         0         0         1,773         1           40         0         0         0         0         0         0         1,773         1           10,758         318         0         0         0         0         0         1,773         1           0         0         0	2,20			0	267	133		865
228,402         211,464         49,231         70,562         0           0         0         0         0         5           6,974         1,484         306         1,832         4,428           6,174         1,563         1,102         4,808         4,030           3,862         2,893         963         1,420         833           0         0         0         0         147,752         (147,752)           \$381,139         \$324,736         \$94,404         \$169,518         \$158,821         (\$149,525)         \$1           \$93,981         \$54,315         \$5,825         \$35,977         \$0         (\$310)         3           236,649         205,413         76,201         112,595         0         (1,463)           330,630         259,728         82,026         148,572         \$0         (1,773)         1           0         0         0         0         0         0         0         1           10,758         318         0         0         0         0         0         1         1           1,816         1,479         447         980         3,595         (1,773)         1 <td>2,2</td> <td></td> <td></td> <td>0</td> <td></td> <td></td> <td></td> <td></td>	2,2			0				
0 0 0 0 0 4,463 6,974 1,484 306 1,832 4,428 6,174 1,563 1,102 4,808 4,030 3,862 2,893 963 1,420 833 0 0 0 0 0 147,752 (147,752)  \$381,139 \$324,736 \$94,404 \$169,518 \$158,821 (\$149,525) \$1  \$93,981 \$54,315 \$5,825 \$35,977 \$0 (\$310) \$2  236,649 205,413 76,201 112,595 0 (1,463) 330,630 259,728 82,026 148,572 \$0 (1,773) 1  0 0 0 533 0 0 0  10,758 318 0 0 0  10,758 318 0 0 0  10,758 318 0 0 0  10,758 318 0 0 0  11,460 1,479 447 980 3,595  347,153 291,527 83,006 149,552 3,595 (1,773) 1  0 0 0 0 0 0 0 0 0  1,450 1,000 500 400 1,015 (3,850) 7,879 4,802 3,766 17,949 10,765 (39,077) 24,594 27,204 7,058 1,781 152,006 (103,283) 0 0 0 0 0 (11,002) 63 203 74 (164) 1,542 (1,542)	845,84							
6,974         1,484         306         1,832         4,428         4,030         3,862         2,893         963         1,420         833         3         1,420         833         0         0         0         0         147,752         (147,752)         (147,752)         (147,752)         \$381,139         \$324,736         \$94,404         \$169,518         \$158,821         (\$149,525)         \$1           \$93,981         \$54,315         \$5,825         \$35,977         \$0         (\$310)         \$323,639         \$330,630         259,728         82,026         148,572         \$0         (1,463)         \$1         \$330,630         259,728         82,026         148,572         \$0         (1,773)         \$1         \$0								
6,174         1,563         1,102         4,808         4,030         3,862         2,893         963         1,420         833         (147,752)         (147,752)         (147,752)         (147,752)         (147,752)         (147,752)         (147,752)         (147,752)         \$1         \$381,139         \$324,736         \$94,404         \$169,518         \$158,821         (\$149,525)         \$1 </td <td>17,13</td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td>	17,13							
3,862       2,893       963       1,420       833         0       0       0       0       147,752       (147,752)         \$381,139       \$324,736       \$94,404       \$169,518       \$158,821       (\$149,525)       \$1         \$93,981       \$54,315       \$5,825       \$35,977       \$0       (\$310)       25         236,649       205,413       76,201       112,595       0       (1,463)         330,630       259,728       82,026       148,572       \$0       (1,773)       1         0       0       0       533       0       1       0       0       0       0       1       0       0       0       0       0       1       0       0       0       0       1       0       0       0       0       0       0       0       1       0       0       0       0       0       0       0       0       0<	23,2							
\$381,139 \$324,736 \$94,404 \$169,518 \$158,821 (\$149,525) \$1  \$93,981 \$54,315 \$5,825 \$35,977 \$0 (\$310) \$236,649 205,413 76,201 112,595 0 (1,463) \$330,630 259,728 82,026 148,572 \$0 (1,773) 1 0 0 0 533 0 0 0 \$0 \$3,949 30,002 0 0 0 0 0 \$0 \$1,816 1,479 447 980 3,595 \$35,95 \$35,95 \$35,977 \$0 (1,773) 1 \$10,758 318 0 0 0 0 \$3,595 \$37,153 291,527 83,006 149,552 3,595 (1,773) 1 \$10,758 34,816 1,479 447 980 3,595 \$1,773 1 \$10,758 34,816 1,479 447 980 3,595 \$1,773 1 \$1,816 1,479 447 980 3,595 \$1,773 1 \$1,816 1,479 447 980 3,595 \$1,773 1 \$1,816 1,479 447 980 3,595 \$1,773 1 \$1,816 1,479 447 980 3,595 \$1,773 1 \$1,816 1,479 447 980 3,595 \$1,773 1 \$1,816 1,479 447 980 3,595 \$1,773 1 \$1,816 1,479 447 9,758 1,758 1,758 1,759	14,92							
\$93,981 \$54,315 \$5,825 \$35,977 \$0 (\$310) \$236,649 205,413 76,201 112,595 0 (1,463) 330,630 259,728 82,026 148,572 \$0 (1,773) 1 0 0 0 533 0 0 0 0 3,949 30,002 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0	14,7	(147,752)	(147,7.					
236,649         205,413         76,201         112,595         0         (1,463)           330,630         259,728         82,026         148,572         \$0         (1,773)         1           0         0         533         0         0         0         3,949         30,002         0         1,816         1,479         447         980         3,595         3,595         (1,773)         1         1         0         0         0         0         0         1,450         1,450         1,000         500         400         1,015         (3,850)         3,859         1,814         1,015         (3,850)         3,859         1,787         4,802         3,766         17,949         10,765         (39,077)         24,594         27,204         7,058         1,781         152,906         (103,283)         0         0         0         (11,002)         0         1,542         (1,542)         1,542         (1,542)         1,542         1,542         1,542         1,542	\$1,453,78	\$149,525)	(\$149,5	\$158,821	\$169,518	\$94,404	\$324,736	\$381,139
330,630       259,728       82,026       148,572       \$0       (1,773)       1         0       0       533       0       0       0         3,949       30,002       0       0       0       0         10,758       318       0       0       0       0         1,816       1,479       447       980       3,595       (1,773)       1         0       0       0       0       0       (1,773)       1         0       0       0       0       0       (1,773)       1         0       0       0       0       0       0       (1,773)       1         0       0       0       0       0       0       (1,773)       1       1         0       0       0       0       0       0       0       0       (1,773)       1       1         0       0       0       0       0       0       0       (1,773)       1       1       1       1       1       1       1       0       0       0       0       0       0       0       0       0       0       0       0       0<	\$266,52	, ,	*					
0       0       533       0       0         3,949       30,002       0       0       0         10,758       318       0       0       0         1,816       1,479       447       980       3,595             347,153       291,527       83,006       149,552       3,595       (1,773)       1         0       0       0       0       0       0       0       1,773)       1         0       0       0       0       0       0       0       0       0       0       1,773)       1         0 <td>968,9</td> <td></td> <td></td> <td></td> <td></td> <td>·</td> <td></td> <td>•</td>	968,9					·		•
3,949     30,002     0     0     0       10,758     318     0     0     0       1,816     1,479     447     980     3,595       347,153     291,527     83,006     149,552     3,595     (1,773)     1       0     0     0     0     0     0       1,450     1,000     500     400     1,015     (3,850)       7,879     4,802     3,766     17,949     10,765     (39,077)       24,594     27,204     7,058     1,781     152,906     (103,283)       0     0     0     0     (11,002)       63     203     74     (164)     1,542     (1,542)	1,235,4	(1,773)	(1,7)	\$0	148,572			330,630
10,758       318       0       0       0         1,816       1,479       447       980       3,595         347,153       291,527       83,006       149,552       3,595       (1,773)       1         0       0       0       0       0       0       0       0       1,015       (3,850)       1,215       1,2	53			0	0	533	0	0
1,816     1,479     447     980     3,595       347,153     291,527     83,006     149,552     3,595     (1,773)     1       0     0     0     0     0     0       1,450     1,000     500     400     1,015     (3,850)       7,879     4,802     3,766     17,949     10,765     (39,077)       24,594     27,204     7,058     1,781     152,906     (103,283)       0     0     0     0     (11,002)       63     203     74     (164)     1,542     (1,542)	35,10			0	0	0	30,002	3,949
347,153     291,527     83,006     149,552     3,595     (1,773)     1       0     0     0     0     0       1,450     1,000     500     400     1,015     (3,850)       7,879     4,802     3,766     17,949     10,765     (39,077)       24,594     27,204     7,058     1,781     152,906     (103,283)       0     0     0     (11,002)       63     203     74     (164)     1,542     (1,542)	17,0							
0       0       0       0       0         1,450       1,000       500       400       1,015       (3,850)         7,879       4,802       3,766       17,949       10,765       (39,077)         24,594       27,204       7,058       1,781       152,906       (103,283)         0       0       0       (11,002)         63       203       74       (164)       1,542       (1,542)	10,39			3,595	980	447	1,479	1,816
1,450       1,000       500       400       1,015       (3,850)         7,879       4,802       3,766       17,949       10,765       (39,077)         24,594       27,204       7,058       1,781       152,906       (103,283)         0       0       0       (11,002)         63       203       74       (164)       1,542       (1,542)	1,298,5	(1,773)	(1,7)	3,595	149,552	83,006	291,527	347,153
1,450     1,000     500     400     1,015     (3,850)       7,879     4,802     3,766     17,949     10,765     (39,077)       24,594     27,204     7,058     1,781     152,906     (103,283)       0     0     0     (11,002)       63     203     74     (164)     1,542     (1,542)				Ω	0	Λ	0	0
7,879       4,802       3,766       17,949       10,765       (39,077)         24,594       27,204       7,058       1,781       152,906       (103,283)         0       0       0       0       (11,002)         63       203       74       (164)       1,542       (1,542)	1.0	(2.950)	(2.0					
24,594     27,204     7,058     1,781     152,906     (103,283)       0     0     0     (11,002)       63     203     74     (164)     1,542     (1,542)	1,01	, ,						
0 0 0 0 (11,002) 63 203 74 (164) 1,542 (1,542)	10,70		,					
63 203 74 (164) 1,542 (1,542)	152,90	(103,283)	(103,2)					
	(11,00 1,54	(1,542)	(1.5	, ,				
33,200 33,207 11,370 17,700 133,220 (147,732)	155,22		·		· ·			
\$381,139 \$324,736 \$94,404 \$169,518 \$158,821 (\$149,525) \$1	\$1,453,78							



For the year ended December 31, 2021	German-American	State Bank	Northwest
	State Bank	of Davis	Bank
Interest and dividend income:			
Loans, including fees	\$10,056	\$3,817	\$11,431
Debt securities:	т - 0,000	πο,σ	# <b>,</b>
Taxable	656	779	748
Tax-exempt	576	531	390
Interest-bearing deposits in banks and other	88	86	99
Federal funds sold	0	0	1
Total interest and dividend income	11,376	5,213	12,669
Interest expense:			
Deposits	1,475	886	1,374
Federal funds purchased	0	0	0
Securities sold under agreements to repurchase	0	2	6
FHLB and other borrowings	27	0	161
Subordinated debentures	0	0	0
Total interest expense	1,502	888	1,541
Net interest and dividend income	9,874	4,325	11,128
Provision for loan losses	600	0	138
Net interest and dividend income,			
after provision for loan losses	9,274	4,325	10,990
Noninterest income:			
Customer service fees	174	49	432
Equity in earnings of subsidiaries			
Gain on sales and calls of AFS securuties, net	(5)	49	34
Gain on sales of loans, net	0	0	2,654
Loan-servicing fees, net	0	0	1,314
Other	1,060	493	1,075
Total noninterest income	1,229	591	5,509
Noninterest expenses:			
Salaries and employee benefits	3,675	1,323	6,404
Occupancy expense of premises, net	376	131	925
Outside services	735	292	667
Data processing	750	396	1,127
Foreclosed assets and other real estate owned, net	(112)	0	0
Other	1,302	514	1,799
Total noninterest expenses	6,726	2,656	10,922
Income before income taxes	3,777	2,260	5,577
Income tax expense (benefit)	906	416	1,404
Net income	\$2,871	\$1,844	\$4,173



### CONSOLIDATING SCHEDULE 2 - STATEMENT OF INCOME (000s omitted except share data)

State Bank	Lena State Bank	State Bank of Herscher	Foresight Financial Group, Inc.	Eliminations	Consolidated Total
\$8,603	\$2,151	\$3,937	0		\$39,995
1,037	344	712	0		4,276
541	262	299	0		2,599
102	62	71	4	(\$4)	508
0	0	0	0	` ,	1
10,283	2,819	5,019	4	(4)	47,379
4.004	5.0	202		(0.4)	5.000
1,326	563	282	0	(\$4)	5,902
0	0	0	0		0
28	0	0	0		36
23 0	0	0	0		211 0
1,377	563	282	0	(4)	6,149
1,577	303	202	<u> </u>	(+)	0,147
8,906	2,256	4,737	4	0	41,230
18	0	0	0		756
8,888	2,256	4,737	4	0	40,474
82	62	71	<b>#4.4.020</b>	(04.4.020)	870
27	0	2	\$14,832	(\$14,832)	0
37	8	3		\$0	126
0	0	9 20		\$0	2,663
1,191	280	564	3,008	(3,170)	1,334 4,501
1,310	350	667	17,840	(18,002)	9,494
1,510	350	007	17,040	(10,002)	7,77
3,000	607	1,972	4,452		21,433
225	91	287	319	(62)	2,292
298	258	374	2,175	(1,768)	3,031
682	267	506	349	(1,340)	2,737
0	0	0	0		(112)
795	272	708	574		5,964
5,000	1,495	3,847	7,869	(3,170)	35,345
5,198	1,111	1,557	9,975	(14,832)	14,623
1,345	242	335	(1,411)	·	3,237
\$3,853	\$869	\$1,222	\$11,386	(\$14,832)	\$11,386



## 1986

German American State Bank and State Bank of Davis merge to form Foresight Financial Group; 14 employees - Market Value \$.98 per share relative to today's price; total assets \$45 million; net income \$277,000.

## 989

Vale Nortridge named President; corporate office established in Freeport at 223 W. Stephenson Street; company debt of \$4.5 million incurred to buy Northwest Bank of Rockford.

> Stock split 2 for 1 1990, 1996, 2000, 2006

## 1991

Residential Mortgage Division started by Northwest Bank; Woodruff Burt named Board Chairman; total assets \$123 million; net income \$744,000; Market Value \$1.20 per share.

Vale Nortridge retires; Stephen Gaddis is hired as President/CEO. State Bank of Davis opens new building on Highway 75 in Davis enabling a TIF district to be formed which fueled growth for many years thereafter for the Davis Community. Kemper securities takes over as market maker. Market value \$3.44 per share; net income \$1,367,000; total assets \$142 million.

## 1995

Formalized corporate mission statement as "Community Building through Community Banking".

First step taken in consolidating operations with a common central computer and check processing; moved corporate office to 3106 N. Rockton Ave, Rockford; Completed tenth year in business; 75 employees; total assets \$172 million; net income \$1,815,000; corporate debt reduced to \$1 million; stock split 2 for I – Market Value \$5.15 per share.

FFG Start a new community bank for the Freeport market.

A sale of new FFG common stock raises \$5 million to capitalize the State Bank, Freeport, which opened in May in the former branch office of State Bank of Davis and commenced in Freeport. German American State Bank opens a branch in Pecatonica. Initial internet banking product introduced to FFG bank customers. Net income \$2,493,000; total assets \$287 million corporate debt -o-; FFG stock listed on the NASDAQ bulletin board under the symbol FGFH Market Value \$10.13 per share.

Completion of 15 years; Lena State Bank acquired in a stock transaction, giving FFG the largest deposit market share in Stephenson County; fully transactional internet banking product made available to all customers. Net income \$2,946,000; total assets \$449 million. Market Value \$12.13 per share.

FFG market value jumps 37.5% to \$16.50 per share. Total assets exceed \$506 million, led by State Bank, Freeport's growth to over \$90 million in total assets after four years in operation.

# 2004

State Bank of Davis is named to the top 20 national elite list for return on equity among the nation's community banks under \$100 million in total assets. Net income exceeds \$6 million; Market Value up 16% to \$19.12 per share; initial stock buyback program announced.

Cash dividends doubled; Northwest Bank opens new banking office in Machesney Park. German American opens a new banking office in Winnebago; FFG operations center implements digital and image technology, replacing paper check statement delivery. FFG informational website launched at www.foresightfg.com.

Completion of 20 years; 200 employees; stock split 2 for 1. Total assets \$659 million, net income \$6,153,000; FFG stock trades at all-time high of \$23.25 per share. Market capital value exceeds \$85 million; FFG takes the number five position in our four-county market area deposit market share, while strengthening the number one position in Stephenson County.

Although Foresight's financial performance was negatively impacted by adverse economic conditions, profitability and capital strength continued above industry peers. Foresight common stock declined in market value to \$7.75 per share.

Passage of the Dodd-Frank Wall Street Reform and Consumer Protection Act. Foresight recognized in US Banker magazine as one of the top 200 community banks for the third time in the past five years.



Foresight celebrates 25 years!

## 2011

Foresight celebrates 25 years with over \$885 million in assets. Stock value climbs to \$12.10 per share with a 25-year growth in common stock book value per share of over 2000%.

## 2012

Foresight successfully places \$10 million in subordinated debentures to shareholders and friends of the company which combined with cash reserves, retires over \$15 million in TARP capital. This strategy lessens the annual draw to company equity by over \$600,000 through eliminating TARP dividends. Northwest Bank of Rockford establishes full-service Mortgage Division branch office in Loves Park, IL.

Bank of Davis opens a Loan Production Office in Kankakee, IL.

## 2014

Brent Myers is appointed Foresight's CEO, a position held by Steve Gaddis since 1993.

Foresight expands its geographical footprint through the acquisition of State Bank of Herscher, a \$130 million, two branch community bank located in Herscher and Limestone, IL. Record income of \$10.5 million is reported with total consolidated assets exceeding \$1 billion.

> Market Value \$29.75/share

## 2016

Foresight acquires a retail center in Winnebago, IL with plans to renovate a portion of the facility to house company headquarters. Market value of Foresight stock increases over 20% closing the year at a market value of \$29.75 per share. With 250 employees and 15 locations including a loan production office. Foresight celebrates 30 years of Community Building through Community Banking!

Robert Stenstrom becomes Chairman of Foresight Financial Group's Board of Directors. In October, Curtis Derrer is promoted to President of Lena State Bank. FFG ended the year at 1.164 billion in assets and a stock price of \$32.40 per share.

FFG ends with \$ 1.180 billion in assets and record earnings of \$11.365 million

## 2018

Rex Entsminger joins FFG as its new President and CEO. Investments in infrastructure are executed with the vision of enhancing shareholder value. In April Linda Heckert is named as President of State Bank of Davis. FFG ends with \$1.180 billion in assets, a stock price of \$33.95 per share with record earnings of \$11.365 million.

German American State Bank opens Loan Production Office in Belvidere, Illinois concentrating on the agriculture market. Reported the second highest earnings in company history of \$11.022 million.

Successfully navigated COVID-19 environment producing earnings of 10.3 million

## 2020

Successfully navigated the COVID-19 environment producing earnings of 10.3 million. Participated in the Paycheck Protection Loan Program originating more than \$100 million in PPP Loans. Ended 2020 with total assets of 1.385 billion. Warren Laube is named President of German American State Bank.

FFG reports record earnings of \$11.387 million aided by PPP and secondary market income. Troy Coffman is promoted to President of State Bank of Herscher, and Peter Morrison is named as President of State Bank Freeport.





## **Board of Directors**



Robert W. Stenstrom Chairman, Board of Directors Chairman & CEO, Stenstrom Companies



Rex K. Entsminger President/ Chief Executive Officer



Judd D. Thruman Partner, Fishburn, Whiton, Thruman, LTD.



Carolyn S. Sluiter, D.V.M. Retired Veterinarian



Douglas A. Wagner Owner, Floor to Ceiling



Jeffrey M. Sterling Retired President/CEO of German American State Bank



Doug P. Fitzgerald Retired Partner, Wipfli LLP



Frederick J. Kundert Retired, Harder Corporation



John J. Morrissey President, Staff Management & Market Dimensions Principal, Morrissey Family Business



John W. Collman Ag Production

## **Executive Officers**



Rex K. Entsminger President/ Chief Executive Officer



Dean E. Cooke Chief Financial Officer



K. Denise Osadjan Chief Risk Officer



David S. Norton Chief Credit Officer



Andrew LaPour SVP Director of Information Technology



Lori Morgan SVP Director of **Corporate Operations** 



Nora Koehler SVP Director of **Human Resources** 

# 1986 - 2021

## **General Information**

Foresight Financial Group, Inc.

P.O. Box 339 809 Cannell-Puri Court, Suite 5 Winnebago, IL 61088

815.847.7500 investor.relations@ffgbank.net Registrar, transfer agent and change of address:

Computershare Investor Services, LLC PO Box 505000 Louisville, KY 40233-5000 800.368.5948 computershare.com/investor

Market: OTC Pink Marketplace Trading symbol: **FGFH** 

## Banks' Board of Directors

### **Northwest Bank** of Rockford

Rockford, IL

Stephen P. McKeever John J. Morrissey Amy M. Ott Jon Reidy Robert W. Stenstrom Thomas R. Walsh

#### Lena State Bank

Lena, IL

**Todd Bussian Curtis Derrer James Moest** Steven Rothschadl Judd Thruman

### German-American State Bank

German Valley, IL

John Collman Guy Cunningham Robert Ebbesmeyer Kerry L. Hoops Angela K. Larson Michael Schirger Warren Laube

#### State Bank of Davis

Davis, IL

Dan Dietmeier Linda Heckert Thomas Olsen Carolyn Sluiter Richard Stenzinger Judd Thruman Jed Kempel Andrew Garnhart

#### State Bank

Freeport, IL

Mary Hartman Jay Kempel Joe Kanosky Fred Kundert Peter Morrison Marilyn Smit **Brian Stewart** Ken Thompson Douglas Wagner

#### State Bank of Herscher

Herscher, IL

Randall Chaplinski Troy Coffman Wayne Koelling Fred Kundert Dana Maschnig **Brian Scott** 



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COMMUNITY
BANKING

