



**FIRST BANKERS TRUSTSHARES, INC.
2006 ANNUAL REPORT**

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Corporate Description

First Bankers Trustshares, Inc. (FBTI) is a bank holding company for First Bankers Trust Company, N.A., First Bankers Trust Services, Inc., FBIL Statutory Trust I, FBIL Statutory Trust II, and FBIL Statutory Trust III. The Company was incorporated on August 25, 1988 and is headquartered in Quincy, Illinois.

First Bankers Trustshares' mission, through its subsidiaries, is to provide comprehensive financial products and services to its retail, institutional, and corporate customers.

First Bankers Trust Company, N.A. is a community oriented financial institution, which traces its beginnings to 1946, operates 10 banking facilities in Adams, Hancock, McDonough, and Schuyler counties in west-central Illinois.

First Bankers Trust Services, Inc. is a national provider of fiduciary services to individual retirement accounts, personal trusts, and employee benefit trusts. The Trust Company is headquartered in Quincy, IL and operates facilities in Chicago, IL, Phoenix, AZ, and Philadelphia, PA.

FBIL Statutory Trust I, FBIL Statutory Trust II, and FBIL Statutory Trust III were capitalized in September 2000 and 2003 and August 2004, respectively, for the purpose of issuing Company Obligated Mandatorily Redeemable Preferred Securities.

For additional financial information contact:

Brian A. Ippensen, Treasurer
First Bankers Trustshares, Inc.
Telephone (217) 228-8000

Stockholder Information

Common shares authorized: 6,000,000

Common shares outstanding: 2,048,574

Stockholders of record: 229 *

*As of December 31, 2006

Inquiries regarding transfer requirements, lost certificates, changes of address and account status should be directed to the corporation's transfer agent:

Illinois Stock Transfer, Inc.
209 West Jackson Blvd.
Suite 903
Chicago, IL 60606-6905

Corporate Address

First Bankers Trustshares, Inc.
1201 Broadway
P.O. Box 3566
Quincy, IL 62305-3566

Independent Auditors

McGladrey & Pullen, LLP
201 N. Harrison St., Suite 300
Davenport, IA 52801

General Counsel

Jenkins & Gilchrist, P.C.
1445 Ross Avenue, Suite 3700
Dallas, TX 75202-2799

Board of Directors

First Bankers Trustshares, Inc.

David E. Connor

Chairman Emeritus, First Bankers Trustshares, Inc.

Carl Adams, Jr.

President, Illinois Ayers Oil Company

William D. Daniels.

Member, Harborstone Group, LLC.

Mark E. Freiburg

Owner, Freiburg Insurance Agency and Freiburg Development Company, President, Freiburg, Inc.

Donald K. Gnuse

Chairman of the Board, First Bankers Trustshares, Inc.
Chairman of the Board, First Bankers Trust Company, N.A.
Chairman of the Board, First Bankers Trust Services, Inc.

Arthur E. Greenbank

President & Chief Executive Officer, First Bankers Trustshares, Inc.
President & Chief Executive Officer, First Bankers Trust Company, N.A.

Phyllis J. Hofmeister

Secretary, Robert Hofmeister Farm

Steven E. Siebers

Secretary of the Board, First Bankers Trustshares, Inc.
Secretary of the Board, First Bankers Trust Company, N.A.
Attorney, Scholz, Loos, Palmer, Siebers & Duesterhaus

Dennis R. Williams

Chairman of the Board, Quincy Newspapers, Inc.

EXECUTIVE OFFICERS

Arthur E. Greenbank

President and CEO

Brian A. Ippensen

Treasurer

Steven E. Siebers

Secretary

FIRST BANKERS TRUSTSHARES, INC. Stock Prices (For the Three Months Period Ended)

Market Value	12/31/06	09/30/06	06/30/06	03/31/06	12/31/05
High	\$ 19.75	\$ 22.00	\$ 23.25	\$ 22.85	\$ 22.75
Low	\$ 18.05	\$ 18.35	\$ 20.00	\$ 20.00	\$ 21.00
Period End Close	\$ 19.00	\$ 18.35	\$ 22.85	\$ 20.00	\$ 22.00

The following companies make a market in FBTI common stock:

Howe Barnes Investments, Inc.
135 South LaSalle Street
Chicago, IL 60603
Phone (800) 800-4693

Wachovia Securities
510 Maine, 9th Floor
Quincy, IL 62301
Phone (800) 223-1037

Stifel Nicolas & Co. Inc
Sears Tower
233 Wacker Drive, Suite 850
Chicago, IL 60606-6300
Phone (800) 745-7110

Monroe Securities, Inc.
47 State Street
Rochester, NY 14614
Phone (585) 546-5560

Baird Patrick Co.
20 Exchange Place
New York, NY 10005
Phone (800) 421-0123



Donald K. Gnuse, Chairman



Arthur E. Greenbank, President/CEO

Dear Shareholders,

2006 was a year of celebration and achievement for your company, First Bankers Trustshares, Inc. The Bank celebrated its 60th anniversary while our Trust Company celebrated 50 years of trust powers through its affiliations with its sister company, First Bankers Trust Company, N. A.

In celebrating these milestones, it brought to light why we have remained a strong and viable Company -your employees. These employees have maintained valuable client relationships already in place, and built significant new relationships that will most definitely be profitable for your company in the years to come. Both our Trust Company, First Bankers Trust Services, Inc. and our Bank, First Bankers Trust Company, N. A. posted record results in revenues, income and assets for 2006.

The economy remained strong during 2006. Our customers prospered due to this strong economy, which allowed for your Bank to prosper as well. With ten (10) branches well positioned in the West Central Illinois region, we are able to offer the financial services and products needed by the citizens who reside in these communities.

Our Trust Company competes on a national level with trust customers throughout the country. Our personnel located in Chicago, Philadelphia, Phoenix, and Quincy have made a name for themselves in providing sophisticated trust services. They too are

well positioned for significant future growth. Our Trust Company has provided a large and steadily increasing stream of fee income helping to offset decreasing interest margins; a problem which has affected our industry.

2007 will be a challenging year. Lending institutions are finding it more difficult every day to maintain their margins which in turn affects profitability. This is due primarily to there being little difference between short term and long term interest rates. A reduction in short term interest rates to a more "normal" curve will positively impact our profit margin.

Your management will closely monitor interest rates and react in ways to positively impact margins and profits. We will remain flexible in our strategies in order to deliver the financial results, you, our stockholders, deserve, while running a business in which you can be proud.

Sincerely,

Donald K. Gnuse
Chairman of the Board

Arthur E. Greenbank
President/CEO

SELECTED FINANCIAL DATA

(Amount in thousands of dollars, except per share data statistics)

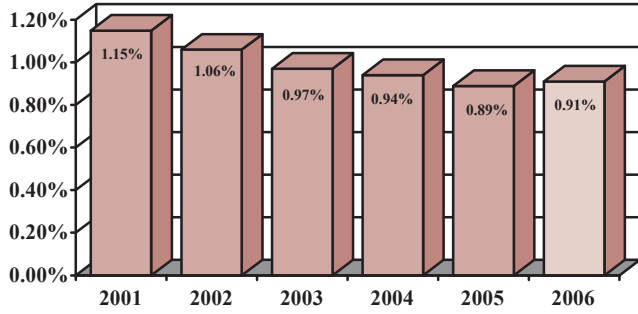
PERFORMANCE	YEAR ENDED DECEMBER 31,					
	2006	2005	2004	2003	2002	2001
Net income	\$ 3,763	\$ 3,635	\$ 3,264	\$ 3,123	\$ 3,242	\$ 3,457
Common stock cash dividends paid	\$ 778	\$ 698	\$ 615	\$ 533	510	\$ 464
Common stock cash dividend payout ratio	20.69%	19.20%	18.84%	17.07%	15.73%	13.42%
Return on average assets	.91%	.89%	.94%	.97%	1.06%	1.15%
Return on common stockholders' equity ¹	13.68%	14.86%	15.03%	16.31%	17.81%	16.40%
PER COMMON SHARE						
Earnings, basic and diluted	\$ 1.84	\$ 1.77	\$ 1.59	\$ 1.52	\$ 1.49	\$ 1.34
Dividends (Paid)	\$.38	\$.34	\$.30	\$.26	\$.22	\$.18
Book value ²	\$ 14.02	\$ 12.57	\$ 11.15	\$ 9.86	\$ 8.61	\$ 8.66
Stock price						
High	\$ 23.25	\$ 24.00	\$ 24.10	\$ 17.00	\$ 16.50	\$ 20.00
Low	\$ 18.05	\$ 18.00	\$ 15.40	\$ 14.00	\$ 14.00	\$ 14.00
Close	\$ 19.00	\$ 22.00	\$ 24.00	\$ 15.40	\$ 14.75	\$ 14.25
Price/Earnings per share (at period end)	10.3	12.4	15.1	10.1	9.9	10.6
Market price/Book value (at period end)	1.36	1.75	2.15	1.56	1.71	1.65
Weighted average number of shares outstanding	2,048,574	2,048,574	2,048,574	2,048,574	2,175,059	2,579,230
AT DECEMBER 31,						
Assets	\$ 423,674	\$ 418,248	\$ 407,367	\$ 315,670	\$ 311,920	\$ 310,068
Investment securities	95,773	96,981	83,942	53,582	54,567	76,062
Loans held for sale	599	1,110	663	453	1,175	2,178
Loans	275,974	260,682	268,192	221,808	201,931	189,531
Deposits	355,955	357,876	340,555	258,413	258,170	256,609
Short-term borrowings and Federal Home Loan Bank advances	19,537	13,626	20,762	24,114	23,200	23,473
Note payable	-	2,667	4,000	-	4,500	-
Junior subordinated debentures	15,465	15,465	15,465	-	-	-
Company obligated mandatorily redeemable preferred securities	-	-	-	10,000	5,000	5,000
Stockholders' equity ³	\$ 28,717	\$ 25,752	\$ 22,835	\$ 20,206	\$ 17,636	\$ 22,324
Total equity to total assets ³	6.78%	6.16%	5.61%	6.40%	5.65%	7.19%
Tier 1 capital ratio (risk based)	10.39%	9.58%	8.54%	10.90%	10.05%	13.06%
Total capital ratio (risk based)	12.93%	12.53%	11.82%	13.14%	10.98%	14.03%
Leverage ratio	8.21%	7.32%	6.52%	8.12%	7.18%	8.68%

¹ Return on common stockholders' equity is calculated by dividing net income by average common stockholders' equity. Common stockholders' equity is defined as equity plus or minus accumulated other comprehensive income or loss.

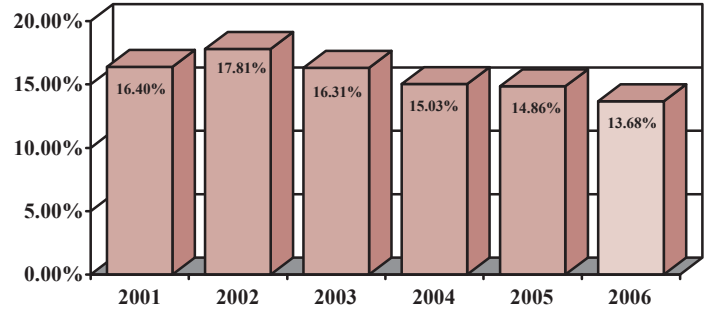
² Book value per share is calculated by dividing stockholders' equity, excluding accumulated other comprehensive income or loss, by outstanding shares.

³ Stockholders' equity does not include accumulated other comprehensive income or loss.

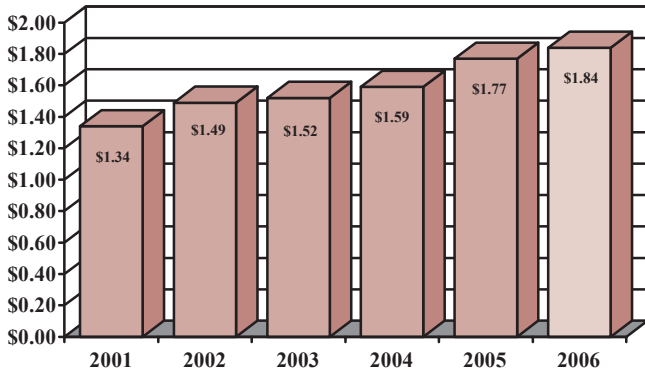
Return On Average Assets



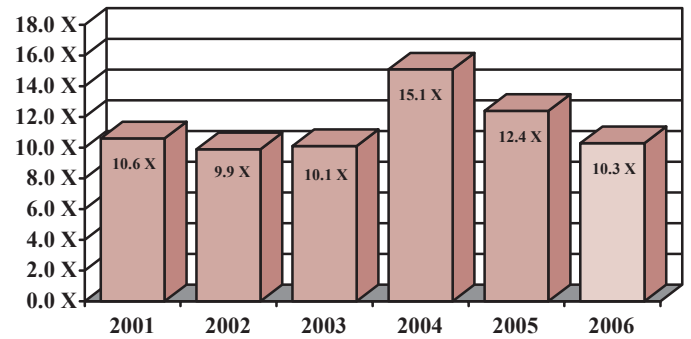
Return On Average Common Equity



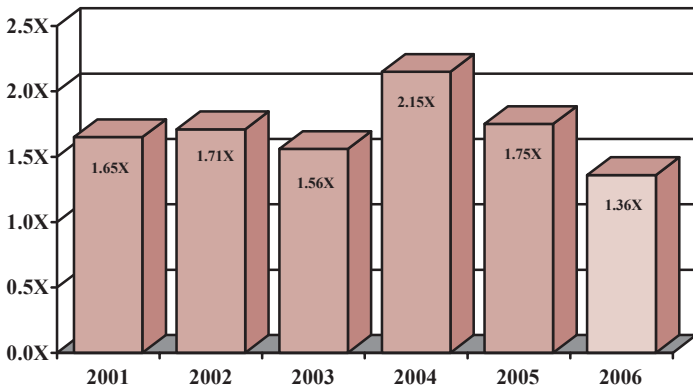
Earnings Per Share



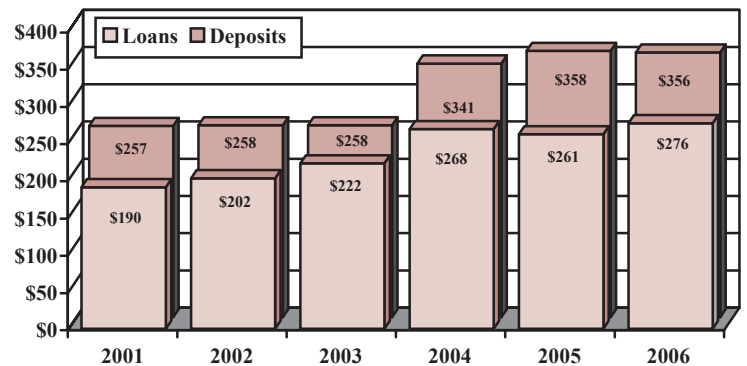
Price/Earnings Multiples



Market Price To Book Value



Loan/Deposit Growth





Arthur E. Greenbank, President/CEO



Brian Ippensen, Treasurer

To The Stockholders:

Management of First Bankers Trustshares, Inc. has prepared and is responsible for the integrity and consistency of the financial statements and other related information contained in this Annual Report. In the opinion of Management, the financial statements, which necessarily include amounts based on management estimates and judgments, have been prepared in conformity with accounting principles generally accepted in the United States of America and appropriate to the circumstances.

In meeting its responsibilities, First Bankers Trustshares, Inc. maintains a system of internal controls and procedures designed to provide reasonable assurance that assets are safeguarded, that transactions are executed in accordance with established policies and practices, and that transactions are properly recorded so as to permit preparation of financial statements that fairly present financial position and results of operations in conformity with accounting principles generally accepted in the United States of America. Internal controls and procedures are augmented by written policies covering standards of personal and business conduct and an organizational structure providing for division of accountability and authority.

The effectiveness of, and compliance with, established control systems are monitored through a continuous program of internal audit, credit examinations, and outside audits. In recognition of the cost-benefit relationships and inherent control limitations, some features of the control systems are designated to detect rather than prevent errors, irregularities and departures from approved policies and practices. Management believes the system of controls has prevented or detected

on a timely basis, any occurrences that could be material to the financial statements and that timely corrective actions have been initiated when appropriate.

First Bankers Trustshares, Inc. engaged the accounting firm of McGladrey & Pullen, LLP as Independent Auditors to render an opinion on the consolidated financial statements. To the best of our knowledge, the Independent Auditors were provided with access to all information and records necessary to render their opinion.

The Board of Directors exercises its responsibility for the financial statements and related information through the Audit Committee, which is composed entirely of outside directors. The Audit Committee meets regularly with Management, the internal auditing manager and staff, and the Independent Auditors to assess the scope of the annual audit plan and to discuss audit, internal control and financial reporting issues. Among the many items discussed are major changes in accounting policies and reporting practices. The Independent Auditors also meet with the Audit Committee, without Management present, to afford them the opportunity to discuss adequacy of compliance with established policies and procedures and the quality of financial reporting.

Arthur E. Greenbank
President and Chief Executive Officer

Brian A. Ippensen
Treasurer

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

8

Management's Discussion and Analysis of Financial Condition and Results of Operations

Introduction

The following discussion of the financial condition and results of operations of First Bankers Trustshares, Inc. provides an analysis of the consolidated financial statements included in this annual report and focuses upon those factors which had a significant influence on the overall 2006 performance.

The discussion should be read in conjunction with the Company's consolidated financial statements and notes thereto appearing elsewhere in this Annual Report.

The Company was incorporated on August 25, 1988, and acquired First Midwest Bank/ M.C.N.A. (the Bank) on June 30, 1989. The Bank acquisition was accounted for using purchase accounting. Prior to the acquisition of the Bank, the Company did not engage in any significant business activities.

Financial Management

The business of the Company is that of a community-oriented financial institution offering a variety of

financial services to meet the needs of the communities it serves. The Company attracts deposits from the general public and uses such deposits, together with borrowings and other funds, to originate one-to-four family residential mortgage loans, consumer loans, small business loans and agricultural loans in its primary market area. The Company also invests in mortgage-backed securities, investment securities consisting primarily of U.S. government or agency obligations, financial institution certificates of deposit, and other liquid assets. In addition, the Company conducts Trust Operations Nationwide through its sales representatives.

The Company's goal is to achieve consistently high levels of earning assets and loan/deposit ratios while maintaining effective expense control and high customer service levels. The term "high level" means the ability to profitably increase earning assets. As deposits have become fully deregulated, sustained earnings enhancement has focused on "earning asset" generation. The Company will focus on lending money profitably, controlling credit quality, net interest margin, operating expenses and on generating fee income from trust and banking operations.

Consolidated Assets									5 Year
(Amounts in thousands of dollars)									Growth
Assets	2006	Change	2005	Change	2004	2003	2002	2001	Rate
Cash and due from banks:									
Non-interest bearing	\$ 10,738	(6.33) %	\$ 11,464	32.36 %	\$ 8,661	\$ 9,586	\$ 11,250	\$ 8,631	24.41 %
Interest bearing	1,443	(88.35)	12,388	(22.16)	15,915	5,424	22,674	17,228	(91.62)
Securities	95,773	(1.25)	96,981	15.53	83,942	53,582	54,567	71,062	34.77
Federal funds sold	14,485	6.35	13,620	40.41	9,700	13,500	13,500	9,500	52.47
Loans held for sale	599	(46.04)	1,110	67.42	663	453	1,175	2,178	(72.50)
Net loans	272,835	5.95	257,522	(2.98)	265,428	219,545	199,626	187,219	45.73
Other assets	27,801	10.48	25,163	9.13	23,058	13,580	9,128	9,850	182.24
Total Assets	\$ 423,674	1.30 %	\$ 418,248	2.67 %	\$ 407,367	\$ 315,670	\$ 311,920	\$ 310,668	36.38 %
Liabilities & Stockholders' Equity									
Deposits	\$ 355,955	(0.54) %	\$ 357,876	5.09 %	\$ 340,555	\$ 258,413	\$ 258,170	\$ 256,609	38.71 %
Short-term borrowings	14,037	434.54	2,626	49.04	1,762	5,114	4,200	10,473	34.03
Federal Home Loan Bank advances	5,500	(50.00)	11,000	(42.11)	19,000	19,000	19,000	13,000	(57.69)
Note payable	-	(100.00)	2,667	(33.33)	4,000	-	4,500	-	-
Junior Subordinated Debentures	15,465	-	15,465	-	15,465	-	-	-	100.00
Company obligated mandatorily redeemable preferred securities	-	-	-	-	-	10,000	5,000	5,000	(100.00)
Other liabilities	4,535	(29.57)	3,500	6.74	3,279	2,139	2,462	2,851	59.07
Stockholders' equity	28,182	12.22	25,114	7.76	23,306	21,004	18,588	22,735	23.96
Total Liabilities & Stockholders' Equity	\$ 423,674	1.30 %	\$ 418,248	2.67 %	\$ 407,367	\$ 315,670	\$ 311,920	\$ 310,668	36.38 %

At December 31, 2006, the Company had assets of \$423,624,000 compared to \$418,248,000 at December 31, 2005. The growth in assets is primarily made up of a 5.95% growth in net loans. This offsets a decrease in interest bearing cash deposits of 88.35%.

The increase in loan portfolio was primarily made up of growth in commercial loans of \$7,699,000 and agricultural loans of \$3,688,000. Real estate loans also increased \$2,471,000. Approximately \$25,037,000 of fixed rate long-term residential real estate loans were sold in the secondary market during 2006 while \$21,673,000 were sold in 2005. Agricultural real estate loans totaling \$1,452,000 were sold in the secondary market during 2006, while \$1,840,000 were sold in 2005. Management continues to place emphasis on the quality versus the quantity of the credits placed in the portfolio.

In addition to lending, the Company has focused on maintaining and enhancing high levels of fee income for its existing services and new services. Generation of fee income will be a goal of the Company and should be a source of continued revenues in the future.

Results of Operations Summary

The Company's earnings are primarily dependent on net interest income, the difference between interest income and interest expense. Interest income is a function of the balances of loans, securities and other interest earning assets outstanding during the period and the yield earned on such assets. Interest expense is a function of the balances of deposits and borrowings outstanding during the same period and the rates paid on such deposits and borrowings. The Company's earnings are also affected by provisions for loan losses, service charges, trust income, other non-interest income and expense and income taxes.

Non-interest expense consists primarily of employee compensation and benefits, occupancy and equipment expenses, amortization and general and administrative expenses.

Prevailing economic conditions as well as federal regulations concerning monetary and fiscal policies as they pertain to financial institutions significantly affect the Company. Deposit balances are influenced by a number of factors including interest rates paid on competing personal investments and the level of personal income and savings within the institution's market. In addition, growth of deposit balances is influenced by the perceptions of customers regarding the stability of the financial services industry. Lending activities are influenced by the demand for housing, competition from other lending institutions, as well as lower interest rate levels, which may stimulate loan refinancing. The primary sources of funds for lending activities include deposits, loan payments, borrowing and funds provided from operations.

For the year ended December 31, 2006, the Company reported consolidated net income of \$3,763,000, a \$128,000 (3.52%) increase from 2005. Net interest income after provision for loan losses for the periods being compared increased \$919,000 or 8.61%. Other expenses increased \$467,000 (3.58%) over 2005 totals.

Analysis of Net Income

The Company's assets are primarily comprised of interest earning assets including commercial, agricultural, consumer and real estate loans, as well as federal funds sold, interest bearing deposits in banks and securities. Average earning assets equaled \$381,472,000 for the year ended December 31, 2006. A combination of interest bearing and non-interest bearing deposits, long term debt, federal funds purchased, securities sold under agreement to repurchase, other borrowings and capital funds are employed to finance these assets.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

10

Consolidated Income Summary									
(Amounts in thousands of dollars)									
	2006	Change	2005	Change	2004	2003	2002	2001	5 Year Growth Rate
Interest income	\$ 24,618	13.09 %	\$ 21,768	24.21 %	\$ 17,525	\$ 16,187	\$ 17,792	\$ 20,255	21.54 %
Interest expense	(11,944)	35.07	(8,843)	36.05	(6,500)	(6,530)	(7,750)	(10,967)	8.91
Net interest income	\$ 12,674	(1.94) %	\$ 12,925	17.23 %	\$ 11,025	\$ 9,657	\$ 10,042	\$ 9,288	36.46 %
Provision for loan losses	(1,080)	(52.00)	(2,250)	93.13	(1,165)	(1,285)	(990)	(660)	63.64
Net interest income after provision for loan losses	\$ 11,594	8.61 %	\$ 10,675	8.27 %	\$ 9,860	\$ 8,372	\$ 9,052	\$ 8,628	34.38 %
Other income	6,977	(1.15)	7,058	32.54	5,325	4,094	3,449	3,897	79.04
Other expenses	(13,503)	3.58	(13,036)	26.18	(10,331)	(8,218)	(8,130)	(7,562)	78.56
Income before taxes	\$ 5,068	7.90%	\$ 4,697	(3.23) %	\$ 4,854	\$ 4,248	\$ 4,371	\$ 4,963	2.12 %
Income tax expense	(1,305)	22.88	(1,062)	(32.21)	(1,590)	(1,125)	(1,129)	(1,506)	(13.35)
Net income	\$ 3,763	3.52 %	\$ 3,635	11.37 %	\$ 3,264	\$ 3,123	\$ 3,242	\$ 3,457	8.85 %

For the Years Ended December 31,			
(Amounts in thousands of dollars)			
	2006	2005	2004
Interest Income	\$ 24,084	\$ 21,184	\$ 16,962
Loan Fees	534	584	563
Interest Expense	(11,944)	(8,843)	(6,500)
Net Interest Income	\$ 12,674	\$ 12,925	\$ 11,025
Average Earning Assets	\$ 381,472	\$ 379,546	\$ 325,334
Net Interest Margin	3.32%	3.41 %	3.39 %

The yield on average earning assets for the year ended 2006 was 6.45% while the average cost of funds for the same period was 3.68% on average interest bearing liabilities of \$324,722,000. The yield on average earning assets for the year ended 2005 was 5.74%, while the average cost of funds for the same period was 2.77% on average interest bearing liabilities of \$319,808,000. The decrease in the net interest of \$251,000 can be attributed to the 0.91% increase in average cost of funds, which was partially offset by an increase in yield on earning assets of 0.71%.

Provision for Loan Losses

The allowance for loan losses as a percentage of net loans outstanding is 1.14% at December 31, 2006, compared to 1.21% at December 31, 2005. Net loan charge-offs totaled \$1,101,000 for the year ended December 31, 2006 compared to \$1,854,000 in 2005.

The amounts recorded in the provision for loan losses are determined from management's quarterly evaluation of the quality of the loan portfolio. In this review, such factors as the volume and character of the loan portfolio, general economic conditions and past loan loss experience are considered. Management believes that the allowance for loan losses is adequate to provide for possible losses in the portfolio at December 31, 2006.

Other Income

Other income may be divided into two broad categories - recurring and non-recurring. Trust fees and service charges on deposit accounts are the major sources of recurring other income. Investment securities gains and other income vary annually. Other income for the period ended December 31, 2006 was \$6,977,000, a decrease of \$81,000 (1.15%) from 2005. An increase in Trust Services income of \$437,000 (13.76%) was offset by a decrease in other income of \$533,000 (24.12%). Other income was positively impacted by a one time transaction in 2005 associated with an investment held at the Bank subsidiary.

Other Expense

Other expenses for the period ended December 31, 2006 totaled \$13,503,000, an increase of \$467,000 (3.58%) from 2005 year end totals. Salaries and employee benefits expense aggregated 55.07% and 54.85% of total other expense for the years ended December 31, 2006 and 2005 respectively.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Non-accrual, Restructured and Past Due Loans and Leases and Other Real Estate Owned (Amounts in thousands of dollars)

At December 31,	2006	2005	2004	2003	2002	2001
Non-accrual loans and leases	\$ 236	\$ 267	\$ 405	\$ 189	\$ 104	\$ 148
Other real estate owned	1,327	1,363	204	206	41	169
Total non-performing assets	\$ 1,563	\$ 1,630	\$ 609	\$ 394	\$ 145	\$ 317
Loans and leases past due 90 days or more and still accruing interest	578	1,119	980	201	58	429
Total non-performing assets and 90-day past due loans and leases	\$ 2,141	\$ 2,749	\$ 1,589	\$ 596	\$ 203	\$ 746
Interest income as originally contracted on non-accrual and restructured loans and leases	\$ 39	\$ 30	\$ 14	\$ 9	\$ 7	\$ 16
Interest income recognized on non-accrual and restructured loans and leases	-	-	-	-	-	-
Reduction of interest income due to non-accrual and restructured loans and leases	\$ 39	\$ 30	\$ 14	\$ 9	\$ 7	\$ 16
Reduction in basic and diluted earnings per share due to non-accrual and restructured loans and leases	\$.01	\$.01	\$.00	\$.00	\$.00	\$.00

Income Taxes

The Company files its Federal income tax return on a consolidated basis with the Bank. See Note 16 to the consolidated financial statements for detail of income taxes.

Liquidity

The concept of liquidity comprises the ability of an enterprise to maintain sufficient cash flow to meet its needs and obligations on a timely basis. Bank liquidity must thus be considered in terms of the nature and mix of the institution's sources and uses of funds.

Bank liquidity is provided from both assets and liabilities. The asset side provides liquidity through regular maturities of investment securities and loans. Investment securities with maturities of one year or less, deposits with banks and federal funds sold are a primary source of asset liquidity. On December 31, 2006, these categories totaled \$38,014,000 or 8.97% of assets, compared to \$41,943,000 or 10.03% the previous year.

As of December 31, 2005, securities held to maturity included \$214,000 of gross unrealized gains and \$4,000 of gross unrealized losses on securities which management intends to hold until maturity. Such amounts are not expected to have a material effect on future earnings beyond the usual amortization of premium and accretion of discount.

Closely related to the management of liquidity is the management of rate sensitivity (management of variable rate assets and liabilities), which focuses on maintaining a stable net interest margin, an important factor in earnings growth and stability. Emphasis is placed on maintaining an evenly balanced rate sensitivity position to avoid wide swings in margins and minimize risk due to changes in interest rates.

The Company's Asset/Liability Committee is charged with the responsibility of prudently managing the volumes and mixes of assets and liabilities of the subsidiary Bank.

Management believes that it has structured its pricing mechanisms such that the net interest margin should maintain acceptable levels in 2006, regardless of the changes in interest rates that may occur. The following table shows the repricing period for interest-earning assets and interest-bearing liabilities and the related repricing gap (Amounts in thousands of dollars):

As of December 31, 2006			
Repricing Period			
	Through One year	After one Year through Five years	After Five years
Interest-earning assets	\$ 135,787	\$ 209,867	\$ 42,620
Interest-bearing liabilities	282,595	35,076	15,465
Repricing gap (repricing assets minus repricing liabilities)	\$ (146,808)	\$ 174,791	\$ 27,155

As of December 31, 2005			
Repricing Period			
	Through One year	After one Year through Five years	After Five years
Interest-earning assets	\$ 142,098	\$ 209,036	\$ 33,647
Interest-bearing liabilities	249,880	54,602	15,465
Repricing gap (repricing assets minus repricing liabilities)	\$ (107,782)	\$ 154,434	\$ 18,182

Effects of Inflation

Until recent years, the economic environment in which the Company operates has been one of significant increases in the prices of most goods and services and a corresponding decline in the purchasing power of the dollar.

Banks are affected differently than other commercial enterprises by the effects of inflation. Some reasons for these disparate effects are a) premises and equipment for banks represent a relatively small proportion of total assets; b) a bank's asset and liability structure is substantially monetary in nature, which can be converted into a fixed number of dollars regardless of changes in prices, such as loans and deposits; and c) the majority of a bank's income is generated through net interest income and not from goods or services rendered.

Although inflation may impact both interest rates and volume of loans and deposits, the major factor that affects net interest income is how well a bank is positioned to cope with changing interest rates.

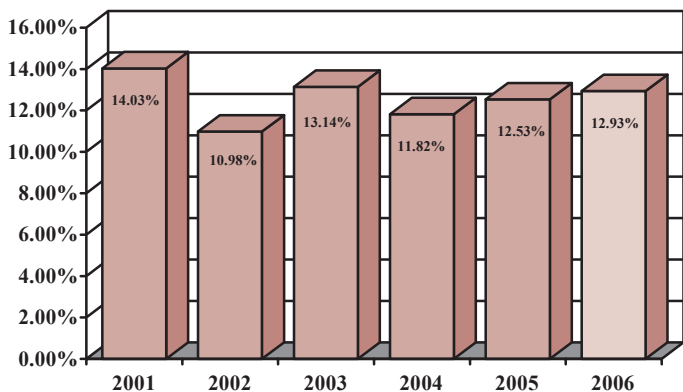
Capital

The ability to generate and maintain capital at adequate levels is critical to the Company's long term success. A common measure of capitalization for financial institutions is primary capital as a percent of total assets.

Regulations also require the Company to maintain certain minimum capital levels in relation to consolidated Company assets. Regulations require a ratio of capital to risk-weighted assets of 8.00 percent.

The Company's capital, as defined by the regulations, was 12.93 percent of risk-weighted assets at December 31, 2006. In addition, a leverage ratio of at least 4.00 percent is to be maintained. At December 31, 2006, the Company's leverage ratio was 8.21 percent.

Risk Based Capital Ratios



Asset Liability Management

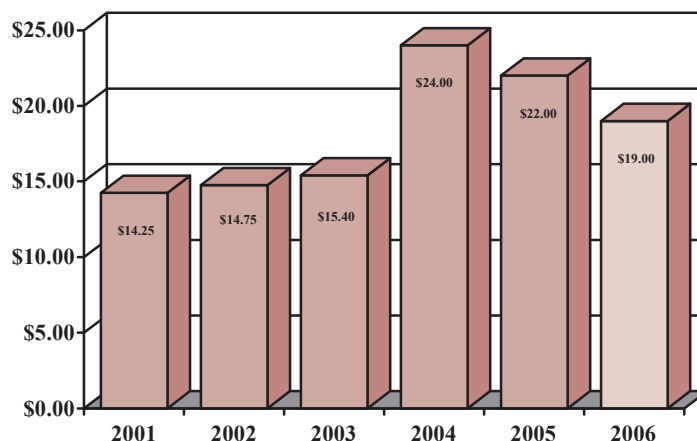
Since changes in interest rates may have a significant impact on operations the Company has implemented, and currently maintains, an asset liability management committee at the Bank to monitor and react to the changes in interest rates and other economic conditions. Research concerning interest rate risk is supplied by the Company from information received from a third party source. The committee acts upon this information by adjusting pricing, fee income parameters, and/or marketing emphasis.

Common Stock Information and Dividends

The Company's common stock is held by 229 shareholders as of December 31, 2006, and is traded in a limited over-the-counter market.

On December 31, 2006 the market price of the Company's common stock was \$19.00. Market price is based on stock transactions in the market. Cash dividends on common stock of \$798,000 were declared by the Board of Directors of the Company for the year ended December 31, 2006.

Closing Share Price Data



Financial Report

Upon written request of any shareholder of record on December 31, 2006, the Company will provide, without charge, a copy of its 2006 Annual Report including financial statements and schedules.

The Company filed a Form 15 with the Securities and Exchange Commission to discontinue the filing of quarterly (10-Q) and annual (10-K) reports based on the Company's number of stockholders.

Notice of Annual Meeting of Stockholders

The annual meeting of stockholders will be May 8, 2007 at 9:00 A.M. at the Stoney Creek Inn, 3809 Broadway, Quincy, Illinois.

McGladrey & Pullen

Certified Public Accountants

To the Board of Directors
First Bankers Trustshares, Inc.
Quincy, Illinois

We have audited the accompanying consolidated balance sheets of First Bankers Trustshares, Inc. and subsidiaries as of December 31, 2006 and 2005, and the related consolidated statements of income, changes in stockholders' equity and cash flows for the years ended December 31, 2006, 2005 and 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of First Bankers Trustshares, Inc. and subsidiaries as of December 31, 2006 and 2005, and the results of their operations and their cash flows for the years ended December 31, 2006, 2005 and 2004, in conformity with accounting principles generally accepted in the United States of America.

McGladrey & Pullen, LLP

Davenport, Iowa
March 9, 2007

FINANCIAL SUMMARY

FIRST BANKERS TRUSTSHARES, INC. CONSOLIDATED BALANCE SHEETS

(Amounts in thousands of dollars, except share and per share data)

Assets	December 31,	
	2006	2005
Cash and due from banks (Note 4)		
Non-interest bearing	\$ 10,738	\$ 11,464
Interest bearing	1,443	12,388
	\$ 12,181	\$ 23,852
Securities held to maturity (Note 5)	\$ 5,280	\$ 6,890
Securities available for sale (Note 5)	90,493	90,091
Federal funds sold	14,485	13,620
Loans held for sale	599	1,110
Loans (Note 6 and 10)	275,974	260,682
Less allowance for loan losses	(3,139)	(3,160)
Net loans	\$ 272,835	\$ 257,522
Premises, furniture and equipment, net (Note 7)	\$ 6,956	\$ 7,555
Accrued interest receivable	2,618	2,085
Life insurance contracts	7,778	4,539
Intangibles (Note 8)	4,113	4,368
Other assets	6,336	6,616
TOTAL ASSETS	\$ 423,674	\$ 418,248
Liabilities and Stockholders' Equity		
Liabilities:		
Deposits:		
Non-interest bearing demand	\$ 57,821	\$ 69,687
Interest bearing demand	70,684	109,750
Savings	54,886	43,603
Time (Note 9)	172,564	134,836
Total Deposits	\$ 355,955	\$ 357,876
Securities sold under agreements to repurchase	14,037	2,626
Federal Home Loan Bank advances (Note 10)	5,500	11,000
Note payable (Note 11)	-	2,667
Junior subordinated debentures (Note 12)	15,465	15,465
Accrued interest payable	1,858	1,223
Other liabilities	2,677	2,277
TOTAL LIABILITIES	\$ 395,492	\$ 393,134
Commitments and Contingencies (Note 13)		
Stockholders' Equity (Note 15)		
Preferred stock, Series A, nonvoting, variable rate, cumulative, no par value, \$50 stated value; authorized 50,000 shares; issued and outstanding none	-	-
Common stock, \$1 par value; shares authorized 6,000,000; Shares issued 2,579,230 and outstanding 2,048,574	2,580	2,580
Additional paid in capital	2,251	2,251
Retained earnings	31,315	28,350
Accumulated other comprehensive income (loss)	(535)	(638)
Treasury stock, at cost - 530,656 shares	(7,429)	(7,429)
TOTAL STOCKHOLDERS' EQUITY	\$ 28,182	\$ 25,114
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 423,674	\$ 418,248

See notes to consolidated financial statements

FINANCIAL SUMMARY

FIRST BANKERS TRUSTSHARES, INC.
CONSOLIDATED STATEMENTS OF INCOME
(Amounts in thousands of dollars, except per share data)

	Years Ended December 31,		
	2006	2005	2004
Interest income:			
Loans, including fee income:			
Taxable	\$ 19,650	\$ 16,944	\$ 14,655
Non-taxable	297	241	196
Securities:			
Taxable	3,192	2,876	1,624
Non-taxable	801	750	695
Federal funds sold	486	490	180
Interest bearing deposits in banks	118	371	76
Other	74	96	99
Total interest income	\$ 24,618	\$ 21,768	\$ 17,525
Interest expense:			
Deposits:			
Interest bearing demand and savings	\$ 3,466	\$ 2,534	\$ 933
Time	6,310	4,372	3,737
Total interest on deposits	\$ 9,776	\$ 6,906	\$ 4,670
Securities sold under agreements to repurchase	303	65	98
Federal Home Loan Bank advances	451	521	811
Note payable	44	168	62
Junior subordinated debentures	1,370	1,183	859
Total interest expense	\$ 11,944	\$ 8,843	\$ 6,500
Net interest income	\$ 12,674	\$ 12,925	\$ 11,025
Provision for loan losses (Note 6)	\$ 1,080	\$ 2,250	\$ 1,165
Net interest income after provision for loan losses	\$ 11,594	\$ 10,675	\$ 9,860
Other income:			
Trust services	\$ 3,614	\$ 3,177	\$ 2,459
Service charges on deposit accounts	1,279	1,344	1,259
Gain on sale of loans	334	306	151
Investment securities gains, net	73	21	92
Other	1,677	2,210	1,364
Total other income	\$ 6,977	\$ 7,058	\$ 5,325
Other expenses:			
Salaries and employee benefits	\$ 7,436	\$ 7,150	\$ 5,849
Occupancy expense, net	810	826	621
Equipment expense	1,084	1,078	723
Computer processing	892	885	504
Professional services	368	304	360
Other	2,913	2,793	2,274
Total other expenses	\$ 13,503	\$ 13,036	\$ 10,331
Income before income taxes	\$ 5,068	\$ 4,697	\$ 4,854
Income taxes (Note 16)	1,305	1,062	1,590
Net income	3,763	3,635	3,264
Earnings per share of common stock, basic and diluted	\$ 1.84	\$ 1.77	\$ 1.59

See notes to consolidated financial statements

FIRST BANKERS TRUSTSHARES, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(Amounts in thousands of dollars, except share and per share data)

Years Ended December 31, 2006, 2005 and 2004

	Preferred Stock	Common Stock	Additional Paid In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Comprehensive Income	Total
Balance, December 31, 2003	\$ -	\$ 2,580	\$ 2,251	\$ 22,804	\$ 798	\$ (7,429)		\$ 21,004
Comprehensive income:								
Net income	-	-	-	3,264	-	-	3,264	3,264
Other comprehensive (loss), net of tax, (Note 3)	-	-	-	-	(327)	-	(327)	(327)
Comprehensive income							\$ 2,937	
Dividends declared (amount per share \$.31)	-	-	-	(635)	-	-		(635)
Balance, December 31, 2004	\$ -	\$ 2,580	\$ 2,251	\$ 25,433	\$ 471	\$ (7,429)		\$ 23,306
Comprehensive income:								
Net income	-	-	-	3,635	-	-	3,635	3,635
Other comprehensive (loss), net of tax, (Note 3)	-	-	-	-	(1,109)	-	(1,109)	(1,109)
Comprehensive income							\$ 2,526	
Dividends declared (amount per share \$.35)	-	-	-	(718)	-	-		(718)
Balance, December 31, 2005	\$ -	\$ 2,580	\$ 2,251	\$ 28,350	\$ (638)	\$ (7,429)		\$ 25,114
Comprehensive income:								
Net income	-	-	-	3,763	-	-	3,763	3,763
Other comprehensive income, net of tax, (Note 3)	-	-	-	-	103	-	103	103
Comprehensive income							\$ 3,866	
Dividends declared (amount per share \$.39)	-	-	-	(798)	-	-		(798)
Balance, December 31, 2006	\$ -	\$ 2,580	\$ 2,251	\$ 31,315	\$ (535)	\$ (7,429)		\$ 28,182

See notes to consolidated financial statements

FINANCIAL SUMMARY

FIRST BANKERS TRUSTSHARES, INC. CONSOLIDATED STATEMENTS OF CASH FLOWS (Amounts in thousands of dollars)

	Years Ended December 31,		
	2006	2005	2004
Cash Flows From Operating Activities			
Net income	\$ 3,763	\$ 3,635	\$ 3,264
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	1,080	2,250	1,165
Depreciation	1,122	1,074	710
Amortization of intangibles	255	272	97
Amortization/accretion of premiums/discounts on securities, net	216	445	445
Investment securities gains, net	(73)	(21)	(92)
Loans originated for sale	(25,978)	(24,156)	(13,231)
Proceeds from loans sold	26,823	24,015	13,172
Gain on sale of loans	(334)	(306)	(151)
Deferred income taxes	(101)	(290)	53
(Increase) decrease in accrued interest receivable and other assets	348	85	(363)
Increase in accrued interest payable and other liabilities	1,015	201	820
Net cash provided by operating activities	\$ 8,136	\$ 7,204	\$ 5,889
Cash Flows From Investing Activities			
Activity in securities portfolio:			
Purchases	\$ (20,190)	\$ (34,966)	\$ (71,162)
Sales of securities available for sale	8,089	962	4,592
Calls, maturities and paydowns	13,333	18,753	35,329
(Increase) decrease in loans, net	(16,957)	4,231	(7,598)
(Increase) decrease in federal funds sold	(865)	(3,920)	3,800
Purchases of premises, furniture and equipment	(523)	(1,220)	(1,424)
Purchase of life insurance contracts	(3,000)	-	-
(Increase) decrease in cash surrender value life insurance contracts	(239)	78	(215)
Capital infusion, FBIL Statutory Trust III	-	-	(155)
Cash effect of Union acquisition	-	-	41,527
Net cash provided by (used in) investing activities	\$ (20,352)	\$ (16,082)	\$ 4,694
Cash Flows From Financing Activities			
Net increase (decrease) in deposits	\$ (1,921)	\$ 17,321	\$ (6,205)
Issuance of note payable	-	-	4,000
Principal payments on note payable	(2,667)	(1,333)	-
Cash dividends paid	(778)	(698)	(615)
Increase (decrease) in securities sold under agreement to repurchase	11,411	864	(3,352)
Proceeds from Federal Home Loan Bank advances	46,000	-	8,000
Repayments of Federal Home Loan Bank advances	(51,500)	(8,000)	(8,000)
Proceeds from junior subordinated debentures	-	-	5,155
Net cash provided by (used in) financing activities	\$ 545	\$ 8,154	\$ (1,017)
Net increase (decrease) in cash and due from banks	\$ (11,671)	\$ (724)	\$ 9,566
Cash and Due From Banks:			
Beginning	\$ 23,852	\$ 24,576	\$ 15,010
Ending	\$ 12,181	\$ 23,852	\$ 24,576

(continued)

FINANCIAL SUMMARY

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FIRST BANKERS TRUSTSHARES, INC. CONSOLIDATED STATEMENTS OF CASH FLOWS (Amounts in thousands of dollars)

Supplemental disclosure of cash flow information, Cash payments for:	Years Ended December 31,		
	2006	2005	2004
Interest	\$ 11,309	\$ 8,692	\$ 6,262
Income taxes	\$ 1,587	\$ 1,341	\$ 1,167
Supplemental schedule of noncash investing and financing activities:			
Net change in accumulated other comprehensive income, unrealized gains (losses) on securities available for sale, net	\$ 103	\$ (1,109)	\$ (327)
Transfer of loans to other real estate owned	\$ 564	\$ 1,425	\$ 245
Assets and (liabilities) received in conjunction with acquisition (Note 2):			
Cash and due from banks	\$ -	\$ -	\$ 675
Loans, net	-	-	39,695
Premises, furniture, and equipment, net	-	-	2,968
Accrued interest receivable	-	-	219
Intangibles	-	-	4,168
Other assets	-	-	70
Deposits	-	-	(88,347)
Accrued interest payable	-	-	(244)
Other liabilities	-	-	(56)
	\$ -	\$ -	\$ (40,852)
Less cash acquired	-	-	(675)
Net cash provided	\$ -	\$ -	\$ (41,527)

See notes to consolidated financial statements

1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

First Bankers Trustshares, Inc. (the "Company") is a bank holding company which owns 100% of the outstanding common stock of, First Bankers Trust Company, N.A. (Bank), First Bankers Trust Services, Inc., FBIL Statutory Trust I (Trust I), FBIL Statutory Trust II (Trust II), and FBIL Statutory Trust III (Trust III). The Bank is engaged in banking and bank related services and serves a market area consisting primarily of Adams, McDonough, Schuyler, Hancock and adjacent Illinois counties, and Marion, Lewis and Shelby counties in Missouri. Trust services are provided through trust offices located in Quincy and Chicago, Illinois, Philadelphia, Pennsylvania and Phoenix, Arizona. Trusts I, II, and III were capitalized for the purpose of issuing company obligated mandatory redeemable preferred securities.

Accounting Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount 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 is inherently subjective as it requires material estimates that are susceptible to significant change. The fair value disclosure of financial statements is an estimate that can be computed within a range.

Basis of Consolidation

The accompanying consolidated financial statements include the accounts of First Bankers Trustshares, Inc. and its wholly-owned subsidiaries, except Trusts I, II, and III, which do not meet the criteria for consolidation. All significant intercompany accounts and transactions have been eliminated in consolidation.

Presentation of Cash Flows

For purposes of reporting cash flows, cash and due from banks includes cash on hand and amounts due from banks, including cash items in process of clearing. Cash flows from federal funds sold, loans to customers, deposits, and securities sold under agreements to repurchase are reported net.

Trust Company Assets

Trust assets, other than cash deposits held by the Bank, are not assets of the Trust Company and, accordingly are not included in these consolidated financial statements.

Securities

Securities held to maturity are those for which the Company has the ability and intent to hold to maturity. Securities meeting such criteria at the date of purchase and as of the balance sheet date are carried at amortized cost, adjusted for amortization of premiums and accretion of discounts, computed by the interest method over their contracted lives.

Securities available for sale are accounted for at fair value and the unrealized holding gains or losses, net of their deferred income tax effect, are presented as increases or decreases in accumulated other comprehensive income, as a separate component of equity.

Declines in the fair value of available for sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers the length of time and extent to which the fair value has been less than cost, the financial condition and near term prospects of the issuer, and 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.

Realized gains and losses on sales of securities are based upon the adjusted book value of the specific securities sold and are included in earnings.

There were no trading securities at December 31, 2006 or 2005.

1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**Loans**

Loans held for sale: Residential real estate, agricultural, and student loans, which are originated and intended for resale in the secondary market in the foreseeable future, are classified as held for sale. These loans are carried at the lower of cost or estimated market value in the aggregate. As assets specifically acquired for resale, the origination of, disposition of, and gain/loss on these loans are classified as operating activities in the statement of cash flows.

Loans held for investment: Loans that management has the intent and ability to hold for the foreseeable future, or until pay-off or maturity occurs, are classified as held for investment. These loans are stated at the amount of unpaid principal adjusted for charge-offs, the allowance for estimated losses on loans, and any deferred fees and/or costs on originated loans. Interest is credited to earnings as earned based on the principal amount outstanding. Deferred direct loan origination fees and/or costs are amortized as an adjustment of the related loan's yield. As assets held for and used in the production of services, the origination and collection of these loans is classified as an investing activity in the statement of cash flows.

It is the Bank's policy to discontinue the accrual of interest income on any loan when, in the opinion of management, there is reasonable doubt as to the timely collection of interest or principal. Interest on these loans is credited to income only when the loan is removed from nonaccrual status. Nonaccrual loans are returned to an accrual status when, in the opinion of management, the financial position of the borrower and other relevant factors indicate there is no longer any reasonable doubt as to the timely payment of principal or interest.

The Bank grants agribusiness, commercial, residential, and consumer loans to customers throughout the Bank's market area. The Bank's policy for requiring collateral is consistent with prudent lending practices and anticipates the potential for economic fluctuations. Collateral varies but may include accounts receivable, inventory, property, equipment and income-producing commercial properties. It is the Bank's policy to file financing statements and mortgages covering collateral pledged.

As of December 31, 2006 and 2005, the Bank had loan concentrations in agribusiness of 11.31% and 10.56%, hotel and motel industry of 2.59% and 3.11% and senior housing industry of 1.91% and 2.02%, respectively of outstanding loans. The Bank had no additional industry loan concentrations, which, in management's judgment, were considered to be significant. The Bank had no foreign loans outstanding as of December 31, 2006 and 2005.

Allowance for Loan Losses

The allowance for loan losses is established through a provision for loan losses charged to expense. Loans are charged against the allowance for loan losses when management believes that the collectibility of the principal is unlikely. The allowance is an amount that management believes will be adequate to absorb losses inherent in existing loans and commitments to extend loans based on evaluations of the collectibility and prior loss experience. The evaluations take into consideration such factors as changes in the nature and volume of the portfolio, overall portfolio quality, loan concentrations, specific problem loans and commitments, and current and anticipated economic conditions that may affect the borrower's ability to pay.

Loans are considered impaired when, based on current information and events; it is probable the Bank will not be able to collect all amounts due under the loan agreement. The portion of the allowance for loan losses applicable to impaired loans is computed based on the present value of the estimated future cash flows of interest and principal discounted at the loan's effective interest rate or on the fair value of the collateral for collateral dependent loans. The entire change in present value of expected cash flows of impaired loans is reported as bad debt expense in the same manner in which impairment initially was recognized or as a reduction in the amount of bad debt expense that otherwise would be reported. The Bank recognizes interest income on impaired loans on a cash basis.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales, only when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company, (2) the transferee obtains the right to pledge or exchange the assets it received, and no condition both constrains the transferee from

1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

taking advantage of its right to pledge or exchange and provides more than a modest benefit to the transferor, and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets.

Credit Related Financial Instruments

In the ordinary course of business, the Bank has entered into commitments to extend credit, including commitments under lines of credit and standby letters of credit. Such financial instruments are recorded when they are funded.

Premises, Furniture and Equipment

Premises, furniture and equipment are stated at cost less accumulated depreciation. Depreciation is determined using the straight-line method over the estimated useful lives of the assets.

Other Real Estate Owned

Other real estate owned (OREO), which is included with other assets, represents properties acquired through foreclosure, in-substance foreclosure or other proceedings. Any write-down to fair value at the time of the transfer to OREO is charged to the allowance for loan losses. Property is evaluated regularly to ensure that the recorded amount is supported by the current fair value. Subsequent write-downs to fair value are charged to earnings.

Goodwill

Goodwill represents the excess of cost over fair value of net assets acquired in connection with business combinations described in Note 2. Goodwill is evaluated for impairment annually or whenever events or changes in circumstances indicate that it is more likely than not that an impairment loss has occurred. The Company has completed its annual goodwill impairment test and has determined that goodwill was not impaired at December 31, 2006 and 2005.

Earnings Per Share of Common Stock

Basic earnings per share of common stock is computed by dividing net income, after deducting preferred stock dividends, by the weighted average number of shares outstanding during each reporting period. Diluted earnings per share of common stock assume the conversion, exercise or issuance of all potential common stock (common stock equivalents) unless the effect is to reduce the loss or increase the income per common share from continuing operations. The Company had no common stock equivalents as of and for the years ending December 31, 2006, 2005, and 2004.

Income Taxes

Deferred taxes are provided on a liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carryforwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in the tax laws and rates on the date of enactment.

Current Accounting Developments

In June 2006, the FASB issued FASB Interpretation No. 48 ("FIN 48"), "Accounting for Uncertainty in Income Taxes." This interpretation applies to all tax positions accounted for in accordance with SFAS No. 109, "Accounting for Income Taxes." FIN 48 clarifies the application of SFAS No. 109 by defining the criteria that an individual tax position must meet in order for the position to be recognized within the financial statements and provides guidance on measurement, derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition for tax positions. This interpretation is effective for fiscal years beginning after December 15, 2006, with earlier adoption permitted. The Company does not expect that the adoption of this interpretation will have a material impact on its financial position, results of operation and cash flows.

At its September 2006 meeting, the Emerging Issues Task Force ("EITF") reached a final consensus on Issue 06-04, "Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements." The consensus stipulates that an agreement by an employer to share a portion of the proceeds of a life

1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

insurance policy with an employee during the postretirement period is a postretirement benefit arrangement required to be accounted for under SFAS No. 106 or Accounting Principles Board Opinion (“APB”) No. 12, “Omnibus Opinion – 1967.” The consensus concludes that the purchase of a split-dollar life insurance policy does not constitute a settlement under SFAS No. 106 and, therefore, a liability for the postretirement obligation must be recognized under SFAS No. 106 if the benefit is offered under an arrangement that constitutes a plan or under APB No. 12 if it is not part of a plan. Issue 06-04 is effective for annual or interim reporting periods beginning after December 15, 2007. The Company has endorsement split-dollar life insurance policies and is currently assessing the financial statement impact of implementing EITF 06-04.

In February 2007, the Financial Accounting Standards Board (FASB) issued FASB Statement No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities – Including an amendment of FASB Statement No. 115”, which provides all entities, including not for profit organizations, with an option to report selected selected financial assets and liabilities at fair value. The objective of the Statement is to improve financial reporting by providing entities with the opportunity to mitigate volatility in earnings caused by measuring related assets and liabilities differently without having to apply the complex provisions of hedge accounting. Certain specified items are eligible for the irrevocable fair value measurement option as established by Statement No. 159. Statement No. 159 is effective as of the beginning of an entity’s first fiscal year beginning after November 15, 2007. Early adoption is permitted as of the beginning of a fiscal year that begins on or before November 15, 2007 provided the entity also elects to apply the provisions of Statement No. 157, “Fair Value Measurements”. The Company is currently evaluating the impact that the adoption of this Statement will have on its financial position, results of operation, and cash flows.

2. ACQUISITION

On September 7, 2004, the Company entered into a purchase and assumption agreement with Union Bank to acquire branch banking offices located in various cities in Illinois, primarily in the Macomb area, and related deposit liabilities, loans, and other assets associated with the business of those branches. In total the Company purchased five community banking offices. The acquisition included the purchase of fully functioning business units, with the necessary management, relationship officer, support staff, and other infrastructure for the acquired loans and deposits to be fully serviced. Total consideration was approximately 5.2% of acquired deposits, less agreed upon reductions. The premium was approximately \$4.2 million and resulted in approximately \$2.7 million in goodwill, \$1.2 million in a core deposit intangible and other various insignificant intangible assets. See Note 8 for a discussion of the Company’s accounting policies with regards to goodwill and core deposit intangible assets.

3. COMPREHENSIVE INCOME (LOSS)

Comprehensive income is defined as the change in equity during a period from transactions and other events from non-owner sources. Comprehensive income is the total of net income and other comprehensive income, which for the Company is comprised entirely of unrealized gains and losses on securities available for sale.

Other comprehensive (loss) is comprised as follows (Amounts in thousands of dollars):

	Before tax	Tax expense (benefit)	Net of tax
Year ended December 31, 2006			
Unrealized gains on securities available for sale:			
Unrealized holding gains arising during the year	\$ 240	\$ 92	\$ 148
Less reclassification adjustment for gains included in net income	73	28	45
Other comprehensive income	\$ 167	\$ 64	\$ 103
Year ended December 31, 2005			
Unrealized (losses) on securities available for sale:			
Unrealized holding (losses) arising during the year	\$ (1,767)	\$ (671)	\$ (1,096)
Less reclassification adjustment for gains included in net income	21	8	13
Other comprehensive loss	\$ (1,788)	\$ (679)	\$ (1,109)
Year ended December 31, 2004			
Unrealized (losses) on securities available for sale:			
Unrealized holding (losses) arising during the year	\$ (436)	\$ (166)	\$ (270)
Less reclassification adjustment for gains included in net income	92	35	57
Other comprehensive loss	\$ (528)	\$ (201)	\$ (327)

4. RESTRICTIONS ON CASH AND DUE FROM BANKS

The Bank is required to maintain a reserve balance with the Federal Reserve Bank of St. Louis. The total of the reserve balance was approximately \$449,000 and \$279,000 at December 31, 2006 and 2005, respectively.

5. SECURITIES

The amortized cost and fair values of securities as of December 31, 2006 and 2005 are as follows (Amounts in thousands of dollars):

	2006			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
Securities Held to Maturity:				
State and political subdivisions	\$ 5,280	\$ 214	\$ (4)	\$ 5,490

	2006			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
Securities Available for Sale:				
U.S. Government agencies and corporations	\$ 66,152	\$ 88	\$ (917)	\$ 65,323
State and political subdivisions	18,385	186	(97)	18,474
Collateralized mortgage obligations	6,156	-	(107)	6,049
Other	662	-	(15)	647
	\$ 91,355	\$ 274	\$ (1,136)	\$ 90,493

	2005			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
Securities Held to Maturity:				
State and political subdivisions	\$ 6,890	\$ 247	\$ (11)	\$ 7,126

	2005			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
Securities Available for Sale:				
U.S. Government agencies and corporations	\$ 72,337	\$ 103	\$ (1,230)	\$ 71,210
State and political subdivisions	11,918	259	(38)	12,139
Collateralized mortgage obligations	6,283	-	(115)	6,168
Other	582	-	(8)	574
	\$ 91,120	\$ 362	\$ (1,391)	\$ 90,091

5. SECURITIES (Continued)

Fair value and unrealized losses, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, as of December 31, 2006 and 2005 are summarized as follows (Amounts in thousands of dollars):

	2006					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Securities held to maturity:						
State and political subdivisions	\$ -	\$ -	\$ 451	\$ (4)	\$ 451	\$ (4)
Securities available for sale:						
U.S. Government agencies and Corporations	\$ 3,037	\$ -	\$ 51,918	\$ (917)	\$ 54,955	\$ (917)
State and political subdivisions	5,261	(58)	3,187	(39)	8,448	(97)
Collateralized mortgage obligations	1,823	(8)	4,226	(99)	6,049	(107)
Other Investments	-	-	581	(15)	581	(15)
	\$ 10,121	\$ (66)	\$ 59,912	\$ (1,070)	\$ 70,033	\$ (1,136)

	2005					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Securities held to maturity:						
State and political subdivisions	\$ 1,331	\$ (9)	\$ 126	\$ (2)	\$ 1,457	\$ (11)
Securities available for sale:						
U.S. Government agencies and Corporations	\$ 37,178	\$ (541)	\$ 27,271	\$ (689)	\$ 64,449	\$ (1,230)
State and political subdivision	1,914	(9)	866	(29)	2,780	(38)
Collateralized mortgage obligations	2,509	(46)	2,667	(69)	5,176	(115)
Other Investments	562	(8)	-	-	562	(8)
	\$ 42,163	\$ (604)	\$ 30,804	\$ (787)	\$ 72,967	\$ (1,391)

At December 31, 2006, the investment portfolio included 181 securities. Of this number, 87 securities have current unrealized losses which have existed for longer than one year. All of these securities are considered to be acceptable credit risks. Based upon an evaluation of the available evidence, including recent changes in market rates, credit rating information and information obtained from regulatory filings, management believes the declines in fair value for these securities are temporary. In addition, the Company has the intent and ability to hold these investment securities for a period of time sufficient to allow for an anticipated recovery.

Should the impairment of any of these securities become other than temporary, the cost basis of the investment will be reduced and the resulting loss recognized in net earnings in the period in which the other-than-temporary impairment is identified.

5. SECURITIES (Continued)

The amortized cost and fair value of securities as of December 31, 2006 by contractual maturity are shown below. Expected maturities may differ from contractual maturities because the mortgages underlying the collateralized mortgage obligations may be called or prepaid without penalties. Therefore, these securities are not included in the maturity categories in the following summaries (Amounts in thousands of dollars):

	Amortized Cost	Fair Value
Securities held to maturity:		
Due in one year or less	\$ 1,223	\$ 1,219
Due after one year through five years	1,720	1,739
Due after five years through ten years	658	672
Due after ten years	1,679	1,860
	<u>\$ 5,280</u>	<u>\$ 5,490</u>
Securities available for sale:		
Due in one year or less	\$ 10,125	\$ 9,954
Due after one year through five years	53,137	52,493
Due after five years through ten years	10,027	10,103
Due after ten years	11,910	11,894
	<u>\$ 85,199</u>	<u>\$ 84,444</u>
Collateralized mortgage obligations	6,156	6,049
	<u>\$ 91,355</u>	<u>\$ 90,493</u>

Information on sales of securities available for sale during the years ended December 31, 2006, 2005 and 2004 follows (Amounts in thousands of dollars):

	2006	2005	2004
Proceeds from sales	\$ 8,089	\$ 962	\$ 4,592
Gross gains	103	22	92
Gross losses	(30)	(1)	-

As of December 31, 2006 and 2005 securities with a carrying value of approximately \$65,177,000 and \$53,542,000 respectively, were pledged to collateralize deposits and securities sold under agreements to repurchase and for other purposes as required or permitted by law.

6. LOANS

The composition of net loans outstanding as of December 31, 2006 and 2005 are as follows (Amounts in thousands of dollars):

	2006	2005
Commercial	\$ 151,639	\$ 143,940
Agricultural	31,220	27,532
Tax exempt	6,459	5,182
Real estate, mortgage	47,155	44,684
Consumer	39,501	39,344
	<u>\$ 275,974</u>	<u>\$ 260,682</u>
Less: Allowance for loan losses	(3,139)	(3,160)
Net loans	<u>\$ 272,835</u>	<u>\$ 257,522</u>

6. LOANS (Continued)

Nonaccrual and impaired loans were not material at December 31, 2006 and 2005. Loans past due 90 days or more and still accruing interest were \$578,000 and \$1,119,000 at December 31, 2006 and 2005, respectively.

Activity in the allowance for loan losses during the years ended December 31, 2006, 2005 and 2004 is summarized below (Amounts in thousands of dollars):

	2006	2005	2004
Balance, beginning of year	\$ 3,160	\$ 2,764	\$ 2,263
Allowance acquired in acquisition	-	-	441
Provision for loan losses	1,080	2,250	1,165
Loan charge-offs	(1,249)	(1,972)	(1,175)
Recoveries of loans charged off	148	118	70
Balance, end of year	\$ 3,139	\$ 3,160	\$ 2,764

Mortgage loans serviced for others are not included in the accompanying consolidated balance sheets. The unpaid principal balances of these loans totaled \$78,831,000 and \$82,979,000 at December 31, 2006 and 2005, respectively.

In the ordinary course of business, the Bank has loans with directors, principal officers, their immediate families and affiliated companies in which they are principal stockholders (hereafter referred to as related parties). The Bank believes that all such loans were made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable loans with other persons and that such loans do not present more than a normal risk of collectibility or present other unfavorable features. An analysis of the changes in the aggregate amount of these loans during 2006 and 2005 is as follows (Amounts in thousands of dollars):

	2006	2005
Balance, beginning of year	\$ 4,372	\$ 3,879
Advances	25,243	2,683
Repayments	(24,858)	(2,217)
Change in related parties	11	27
Balance, end of year	\$ 4,768	\$ 4,372

7. PREMISES, FURNITURE AND EQUIPMENT

The cost, accumulated depreciation and net book value of premises, furniture and equipment as of December 31, 2006 and 2005 is summarized as follows (Amounts in thousands of dollars):

	2006	2005
Land	\$ 1,867	\$ 1,839
Building and improvements	6,029	5,963
Furniture and equipment	6,570	6,308
	\$ 14,466	\$ 14,110
Less accumulated depreciation	(7,510)	(6,555)
	\$ 6,956	\$ 7,555

8. INTANGIBLES

Goodwill and intangible assets are summarized as follows (Amounts in thousands of dollars):

	As of December 31, 2006	As of December 31, 2005
Amortized intangible assets:		
Goodwill	\$ 3,050	\$ 3,050
Core deposit intangible	1,223	1,223
Other intangible assets	481	481
Less accumulated amortization on intangible assets	(641)	(386)
Total intangible assets	\$ 4,113	\$ 4,368
Estimated future amortization expense:		
For the year ended December 31:		
2006		\$ 255
2007	\$ 223	223
2008	223	223
2009	213	213
2010	197	197
2011	42	42
Thereafter	165	165

9. TIME DEPOSITS

The aggregate amount of time deposits, each with a minimum denomination of \$100,000, was approximately \$35,217,000 and \$29,950,000 at December 31, 2006 and 2005, respectively.

At December 31, 2006, the scheduled maturities of time deposits are as follows (Amounts in thousands of dollars):

2007	\$ 142,988
2008	17,089
2009	6,533
2010	2,782
2011	3,172
	\$ 172,564

10. FEDERAL HOME LOAN BANK ADVANCES

Federal Home Loan Bank (FHLB) advances are summarized as follows at December 31, 2006 and 2005 (Amounts in thousands of dollars):

Maturity in year ending December 31:	2006		2005	
	Weighted Average Interest Rate	Balance Due	Weighted Average Interest Rate	Balance Due
2006	-	-	4.55%	\$ 9,000
2007	5.55%	\$ 1,500	-	-
2008	5.42	1,000	4.89	2,000
2011	4.98	3,000	-	-
		\$ 5,500		\$ 11,000

First mortgage loans of approximately \$7,333,000 and \$14,667,000 as of December 31, 2006 and 2005, respectively, are pledged as collateral on FHLB advances.

11. NOTE PAYABLE

As of December 31, 2005, the Company had a note payable with a balance of \$2,667,000 due to a Bank with quarterly interest payments at LIBOR plus 125 basis points (5.78% at December 31, 2005). On April 13, 2006, the Company paid the note in full.

12. JUNIOR SUBORDINATED DEBENTURES AND COMPANY OBLIGATED MANDATORILY REDEEMABLE PREFERRED SECURITIES OF SUBSIDIARY TRUSTS HOLDING SOLELY SUBORDINATED DEBENTURES

Junior subordinated debentures are due to FBIL Statutory Trusts I, II, and III, which are all 100% owned non-consolidated subsidiaries of the Company. The debentures were issued in 2000, 2003, and 2004, respectively, in conjunction with each Trust's issuance of 5,000 shares of Company Obligated Mandatorily Redeemable Preferred Securities. The debentures all bear the same interest rate and terms as the preferred securities, detailed following. The debentures are included on the consolidated balance sheets as liabilities; however, in accordance with Federal Reserve Board regulations in effect at December 31, 2006 and 2005, the Company is allowed, for regulatory purposes, to include \$9,572,000 and \$8,584,000 respectively of the capital securities issued by the Trusts in Tier I capital, with the remainder included in Tier II capital. In March 2005, the Federal Reserve Board issued final regulations, which become effective March 31, 2009. If those regulations had been in effect at December 31, 2006 and 2005, the Company would have been allowed to include approximately \$8,294,000 and \$7,243,000, respectively, of the securities in Tier I capital and the remainder in Tier II capital. The Company would exceed all regulatory minimum capital ratios if the regulations that are to take effect were in place as of December 31, 2006 and 2005.

During 2004 FBIL Statutory Trust III issued 5,000 shares of Company Obligated Mandatorily Redeemable (COMR) Preferred Securities. Distributions are paid quarterly. Cumulative cash distributions are calculated at a variable annual rate that is 265 basis points above the 3 month LIBOR rate (8.01% and 7.18% as of December 31, 2006 and 2005). The Trust may, at one or more times, defer interest payments on the capital securities for up to 20 consecutive quarterly periods, but not beyond September 15, 2034. At the end of the deferral period, all accumulated and unpaid distributions will be paid. The capital securities will be redeemed on September 15, 2034; however, the Trust has the option to shorten the maturity date to a date not earlier than September 15, 2009 at par plus any accrued and unpaid distributions to the date of the redemption. The redemption may be in whole or in part, but in all cases in a principal amount with integral multiples of \$1,000. If a special event occurs prior to September 15, 2009, providing the Trust the right of redemption in whole, but not in part, the redemption price will vary depending on how close to the issue date the redemption occurs. The redemption price is a maximum of 104.3% of the principal amount of the debentures at March 15, 2005 declining by approximately 30 basis points each quarter until September 15, 2008 and thereafter at which time the redemption price will be at par. Any accrued and unpaid distributions to the date of redemption must also be paid.

During 2003 the Company issued 5,000 shares of Company Obligated Mandatorily Redeemable (COMR) Preferred Securities of FBIL Statutory Trust II Holding Solely Subordinated Debentures. Distributions are paid quarterly. Cumulative cash distributions are calculated at a variable annual rate that is 295 basis points above the 3 month LIBOR rate (8.31% and 7.48% as of December 31, 2006 and 2005, respectively). The Company may, at one or more times, defer interest payments on the capital securities for up to 20 consecutive quarterly periods, but not beyond September 17, 2033. At the end of the deferral period, all accumulated and unpaid distributions will be paid. The capital securities will be redeemed on September 17, 2033; however, the Company has the option to shorten the maturity date to a date not earlier than September 17, 2008 at par plus any accrued and unpaid distributions to the date of the redemption. If a special event occurs prior to September 17, 2008, providing the Company the right of redemption in whole, but not in part, the redemption price will vary depending on how close to the issue date the redemption occurs. The redemption price is a maximum of 104.3% of the principal amount of the debentures at March 17, 2004 declining by approximately 30 basis points each quarter until September 17, 2007 and thereafter at which time the redemption price will be at par. Any accrued and unpaid distributions to the date of redemption must also be paid.

During 2000 the Company issued 5,000 shares of Company Obligated Mandatorily Redeemable (COMR) Preferred Securities of FBIL Statutory Trust I Holding Solely Subordinated Debentures. Distributions are paid semi-annually. Cumulative cash distributions are calculated at a 10.60% annual rate. The Company may, at one or more times, defer interest payments on the capital securities for up to 10 consecutive semi-annual periods, but not beyond September 7, 2030.

12. JUNIOR SUBORDINATED DEBENTURES AND COMPANY OBLIGATED MANDATORILY REDEEMABLE PREFERRED SECURITIES OF SUBSIDIARY TRUSTS HOLDING SOLELY SUBORDINATED DEBENTURES (Continued)

At the end of the deferral period, all accumulated and unpaid distributions will be paid. The capital securities will be redeemed on September 7, 2030; however, the Company has the option to shorten the maturity date to a date not earlier than September 7, 2010. The redemption price begins at 105.300% to par and is reduced by 53 basis points each year until September 7, 2020 when the capital securities can be redeemed at par. Any accrued and unpaid distributions to the date of the redemption must also be paid.

Holders of the capital securities have no voting rights, are unsecured and rank junior in priority of payment to all of the Trust's indebtedness and senior to the Trust's capital stock.

13. COMMITMENTS AND CONTINGENCIES

Financial instruments with off-balance sheet risk:

The Bank, in the normal course of business, is a party to financial instruments with off-balance sheet risk to meet the financing needs of its customers. These financial instruments include unused lines of credit and standby letters of credit. Those instruments involve, to varying degrees, elements of credit and market risk in excess of the amount recognized in the consolidated balance sheets.

The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for unused lines of credit and standby letters of credit is represented by the contractual amounts of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

A summary of the Bank's commitments at December 31, 2006 and 2005 is as follows (Amounts in thousands of dollars):

	2006	2005
Unused lines of credit	\$ 49,789	\$ 50,069
Standby letters of credit	1,617	1,477

Unused lines of credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. The agreements generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the agreements are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained if deemed necessary by the Bank upon extension of credit is based upon management's credit evaluation of the counter-party. Collateral varies but may include accounts receivable, inventory, property, equipment, and income-producing commercial properties.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements and, generally, have terms of one year, or less. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Bank holds collateral, as detailed above, supporting those commitments if deemed necessary. In the event the customer does not perform in accordance with the terms of the agreement with the third party, the Bank would be required to fund the commitment. The maximum potential amount of future payments the Bank could be required to make is represented by the contractual amount shown in the summary above. If the commitment is funded the Bank would be entitled to seek recovery from the customer. At December 31, 2006 and 2005, no amounts have been recorded as liabilities for the Bank's potential obligations under these guarantees.

The Company has executed contracts for the sale of mortgage loans in the secondary market in the amount of \$2,804,000 and \$2,328,000 at December 31, 2006 and 2005, respectively. These amounts include loans held for sale of \$599,000 and \$1,110,000 as of December 31, 2006 and 2005, respectively and loan commitments, included in the summary in this Note, of \$2,205,000 and \$1,218,000 as of December 31, 2006 and 2005, respectively.

13. COMMITMENTS AND CONTINGENCIES (Continued)

A portion of residential mortgage loans sold to investors in the secondary market are sold with recourse. Specifically, certain loan sales agreements provide that if the borrower becomes 60 days or more delinquent during the first six months following the first payment due, and subsequently becomes 90 days or more delinquent during the first 12 months of the loan, the Bank must repurchase the loan from the subject investor. The Bank did not repurchase any loans from secondary market investors under the terms of these loan sales agreements during the years ended December 31, 2006, 2005, and 2004. In the opinion of management, the risk of recourse to the Bank is not significant and, accordingly, no liability has been established.

Concentration of credit risk:

Aside from cash on hand and in-vault, the majority of the Company's cash is maintained at US Bank, N.A., Commerce Bank, N.A., and the Federal Home Loan Bank of Chicago. The total amount of cash on deposit and federal funds sold exceeded federal insurance limits at the respective institutions by approximately \$8,967,000, \$6,976,000, and \$498,000 respectively as of December 31, 2006. In the opinion of management, no material risk of loss exists due to the financial condition of the institutions.

14. BENEFITS

The Company has a 401K plan, which is a tax qualified savings plan, to encourage its employees to save for retirement purposes or other contingencies. Substantially all full time (working over 1000 hours per year) employees of the Company and its subsidiaries are eligible to participate in the Plan on the later of January 1st or July 1st after completion of one year of service and attaining the age of 21. The employee may elect to contribute up to 15% of their compensation before taxes. Based upon profits, as determined by the subsidiary, a contribution may be made by the subsidiary. Employees are 100% vested in the subsidiaries' contribution to the plan after five years of service. Employee contributions and vested subsidiary contributions may be withdrawn only on termination of employment, retirement, or death.

Under the Employee Incentive Compensation Plan, the Bank is authorized at its discretion, pursuant to the provisions of the plan, to establish on an annual basis, a bonus fund, which will be distributed to certain employees, based on their performance. The Employee Incentive Compensation Plan does not become effective unless the Bank exceeds established income levels.

Contributions to the 401(k) plan for the years ended December 31, 2006, 2005 and 2004 totaled \$293,000, \$239,000 and \$197,000, respectively. Contributions made to the incentive compensation plan for the years ended December 31, 2006, 2005, and 2004 were \$195,000, \$40,000 and \$200,000 respectively.

15. DIVIDENDS AND REGULATORY CAPITAL

The Company's stockholders are entitled to receive such dividends as are declared by the Board of Directors. The ability of the Company to pay dividends in the future is dependent upon its receipt of dividends from its subsidiaries. The subsidiaries' ability to pay dividends is regulated by banking statutes. The timing and amount of dividends will depend on earnings, capital requirements and financial condition of the Company and its subsidiaries as well as general economic conditions and other relevant factors affecting the Company and the subsidiary.

Under the provisions of the National Bank Act the Bank may not, without prior approval of the Comptroller of the Currency, declare dividends in excess of the total of the current and past two year's earnings less any dividends already paid from those earnings.

The Company and its subsidiaries are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and

15. DIVIDENDS AND REGULATORY CAPITAL (Continued)

certain off-balance-sheet items as calculated under regulatory accounting practices. The Company's and Bank's capital amounts and classification are also subject to qualitative judgments by the regulators and components, risk weightings, and other factors. Prompt corrective action provisions are not applicable to bank holding companies.

Quantitative measures established by regulation to ensure capital adequacy require the Company and Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined) and of Tier I capital (as defined) to average assets (as defined). Management believes, as of December 31, 2006, that the Company and Bank meet all capital adequacy requirements to which they are subject.

The most recent notification from the Office of the Comptroller of the Currency categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as adequately or well capitalized the Bank must maintain minimum total risk-based, Tier I risk-based, and Tier I leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the Bank's category.

The Company's and Bank's actual capital amounts and ratios are also presented in the table. (Amounts in thousands of dollars):

As of December 31, 2006	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total Capital (to Risk Weighted Assets)						
Company	\$42,895	12.93%	≥\$26,535	≥8.00%	N/A	N/A
Bank	\$34,811	10.58%	≥\$26,334	≥8.00%	≥\$32,918	≥10.00%
Tier I Capital (to Risk Weighted Assets)						
Company	\$34,455	10.39%	≥\$13,267	≥4.00%	N/A	N/A
Bank	\$31,799	9.66%	≥\$13,167	≥4.00%	≥\$19,751	≥6.00%
Tier I Capital (to Average Assets)						
Company	\$34,455	8.21%	≥\$16,784	≥4.00%	N/A	N/A
Bank	\$31,799	7.69%	≥\$16,540	≥4.00%	≥\$20,675	≥5.00%
As of December 31, 2005	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total Capital (to Risk Weighted Assets)						
Company	\$39,657	12.53%	≥\$25,312	≥8.00%	N/A	N/A
Bank	\$35,803	11.42%	≥\$25,083	≥8.00%	≥\$31,353	≥10.00%
Tier I Capital (to Risk Weighted Assets)						
Company	\$30,314	9.58%	≥\$12,656	≥4.00%	N/A	N/A
Bank	\$32,876	10.49%	≥\$12,541	≥4.00%	≥\$18,812	≥6.00%
Tier I Capital (to Average Assets)						
Company	\$30,314	7.32%	≥\$16,564	≥4.00%	N/A	N/A
Bank	\$32,876	8.08%	≥\$16,265	≥4.00%	≥\$20,332	≥5.00%

16. INCOME TAX MATTERS

The components of income tax expense are as follows for the years ended December 31, 2006, 2005 and 2004 (Amounts in thousands of dollars):

	Years Ended December 31		
	2006	2005	2004
Current	\$ 1,406	\$ 1,352	\$ 1,537
Deferred	(101)	(290)	53
	<u>\$ 1,305</u>	<u>\$ 1,062</u>	<u>\$ 1,590</u>

A reconciliation between income tax expense in the statements of income and the amount computed by applying the statutory federal income tax rate to income before income taxes is as follows (Amounts in thousands of dollars):

	2006 Amount	% of Pretax Income	2005 Amount	% of Pretax Income	2004 Amount	% of Pretax Income
Federal income tax at statutory rate	\$ 1,723	34.0 %	\$ 1,597	34.0 %	\$ 1,650	34.0 %
Changes from statutory rate resulting from:						
State tax, net of federal benefit	139	2.7	160	3.4	154	3.2
Tax exempt interest income, net	(334)	(6.6)	(570)	(12.1)	(277)	(5.7)
Increase in cash surrender value	(82)	(1.6)	(64)	(1.4)	(73)	(1.5)
Over (under) accrual of provision and other, net	(141)	(2.8)	(61)	(1.3)	136	2.8
Income tax expense	<u>\$ 1,305</u>	<u>25.7 %</u>	<u>\$ 1,062</u>	<u>22.6 %</u>	<u>\$ 1,590</u>	<u>32.8 %</u>

Net deferred tax assets consist of the following components as of December 31, 2006 and 2005 (Amounts in thousands of dollars):

	2006	2005
Deferred tax assets:		
Allowance for loan losses	\$ 1,218	\$ 1,240
Accrued expenses	192	168
Unrealized losses on securities available for sale, net	327	391
	<u>\$ 1,737</u>	<u>\$ 1,799</u>
Deferred tax liabilities:		
Premises, furniture and equipment	\$ (80)	\$ (197)
Stock dividends	(140)	(164)
Prepaid expenses	(89)	(66)
Other	(35)	(16)
	<u>\$ (344)</u>	<u>\$ (443)</u>
Net deferred tax assets	<u>\$ 1,393</u>	<u>\$ 1,356</u>

Net deferred tax assets are included in other assets on the accompanying consolidated balance sheets.

16. INCOME TAX MATTERS (Continued)

The net change in deferred income taxes is reflected in the financial statements as follows (Amounts in thousands of dollars):

	Years Ended December 31,		
	2006	2005	2004
Provision for income taxes	\$ (101)	\$ (290)	\$ 53
Statement of changes in stockholders' equity, accumulated other comprehensive gain (loss), unrealized gains (losses) on securities available for sale, net	64	(679)	(201)
	\$ (37)	\$ (969)	\$ (148)

17. FAIR VALUE OF FINANCIAL INSTRUMENTS

FASB Statement No. 107 "Disclosures about Fair Value of Financial Instruments" 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 cannot be substantiated by comparison to independent markets, and in many cases, could not be realized in immediate settlement of the instrument. Statement No. 107 excludes certain financial instruments and all non-financial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented are not intended to represent the underlying value of the Company.

The following methods and assumptions were used by the Company in estimating the fair value of its financial instruments:

Cash and due from banks and federal funds sold: The carrying amounts reported in the balance sheets for cash and due from banks and federal funds sold equal their fair values.

Securities: Fair values for securities are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments.

Federal Home Loan Bank Stock: The fair value of Federal Home Loan Bank Stock is equal to its carrying value.

Loans and loans held for sale: For variable loans fair values are equal to carrying values. The fair values for all other types of loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers with similar credit quality. The fair value of loans held for sale is based on quoted market prices of similar loans sold in the secondary market.

Accrued interest receivable and payable: The fair value of accrued interest receivable and payable is equal to its carrying value.

Deposits: The fair values for demand and savings deposits equal their carrying amounts, which represent the amount payable on demand. Fair values for time deposits are estimated using a discounted cash flow calculation that applies interest rates currently being offered on time deposits to a schedule of aggregated expected monthly maturities on time deposits.

Securities sold under agreements to repurchase: The fair value of securities sold under agreements to repurchase is considered to equal carrying value due to the borrowings short-term nature.

Federal Home Loan Bank advances and junior subordinated debentures: The fair value of Federal Home Loan Bank advances and fixed rate junior subordinated debentures is estimated using discounted cash flow analyses, using interest rates currently being offered for similar borrowings. The fair value of variable rate junior subordinated debentures equals their carrying value.

17. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Note payable: The fair value for the variable rate note payable is equal to its carrying value.

Commitments to extend credit: The fair value of these commitments is not material.

The carrying values and estimated fair values of the Company's financial instruments as of December 31, 2006 and 2005 are as follows (Amounts in thousands of dollars)

	2006		2005	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets:				
Cash and due from banks	\$ 12,181	\$ 12,181	\$ 23,852	\$ 23,852
Securities held to maturity	5,280	5,490	6,890	7,126
Securities available for sale	90,493	90,493	90,091	90,091
Federal funds sold	14,485	14,485	13,620	13,620
Loans	276,573	276,114	261,792	262,659
Accrued interest receivable	2,618	2,618	2,085	2,085
Financial liabilities:				
Non-interest-bearing demand deposits	\$ 57,821	\$ 57,821	\$ 69,687	\$ 69,687
Interest-bearing demand deposits	70,684	70,684	109,750	109,750
Savings deposits	54,886	54,886	43,603	43,603
Time deposits	172,564	172,083	134,836	133,692
Securities sold under agreements to repurchase	14,037	14,037	2,626	2,626
Federal Home Loan Bank advances	5,500	5,532	11,000	11,030
Note payable	-	-	2,667	2,667
Junior Subordinated Debentures	15,465	16,596	15,465	16,779
Accrued interest payable	1,858	1,858	1,223	1,223

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