a new dimension of growth

First Bankers Trustshares, Inc.

# 2009 Annual Report

First Bankers
Trustshares, Inc.

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# 2009 Annual Report

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# CORPORATE INFORMATION

## 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, Sangamon, 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, Philadelphia, PA, and Springfield, IL.

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 as of December 31, 2009: 2,048,574

Stockholders of record: 255 *
*As of December 31, 2009

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

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

**Phyllis J. Hofmeister**
Secretary, Robert Hofmeister Farm

**Steven E. Siebers**
Secretary of the Board, First Bankers Trustshares, Inc.
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 | 12/31/09 | 09/30/09 | 06/30/09 | 03/31/09 | 12/31/08 |
|---|---|---|---|---|---|
| High | $ 17.10 | $ 17.00 | $ 16.50 | $ 18.25 | $ 21.75 |
| Low | $ 15.41 | $ 15.70 | $ 14.00 | $ 12.00 | $ 15.60 |
| Period End Close | $ 16.10 | $ 17.00 | $ 15.70 | $ 16.49 | $ 18.00 |

**The following companies make a market in FBTI common stock:**

Howe Barnes Hoefer & Arnett, Inc.
225 S. Riverside Plaza, 7th Floor
Chicago, IL 60603
Phone (800) 800-4693

Wells Fargo Advisors
510 Maine, 9th Floor
Quincy, IL 62301
Phone (800) 223-1037

Stifel Nicolas & Co. Inc
227 W. Monroe, Suite 1850
Chicago, IL 60606-6300
Phone: (800) 745-7110

Monroe Securities, Inc.
100 North Riverside Plaza
Suite 1620
Chicago, IL 60606
(312) 327-2530

**Donald K. Gnuse, Chairman**

**Arthur E. Greenbank, President/CEO**

Dear Shareholders,

The year 2009 was a very good year for First Bankers Trustshares, Inc. Records were achieved in many statistical categories including profitability and growth. Asset quality remains strong, especially in light of the surrounding economic environment in which we operate. We are optimistic and hopeful for a solid 2010.

During the year, we were presented with the opportunity to expand our business to Springfield, Illinois. Both the Trust Company and Bank are taking care of our present customers, and prospecting for new opportunities and customers in this dynamic marketplace. We also have an option on ground in Macomb, Illinois and are evaluating a new branch on the busy east end of Macomb. This would allow us two locations in this community, and give the Bank its eleventh branch. We continue to very carefully evaluate the additional opportunities that are presented to us. We will not undertake anything we feel we cannot handle, or that presents an inordinate risk. Today is the time to carefully grow our franchise in lower risk, higher return ways.

The Bank recently added a financial planning group to our organization. We feel this elevates our service and expertise to a new level. It should provide synergies to both our banking and personal trust business in all of our markets.

We continue to look for ways to expand the important fee income element of our income statement. Fee income has become an increasing element of our success.

Lastly, we would like to thank you, our stockholders, for your continued faith and trust in us. Without your investment and interest, none of these opportunities would be realized. Sometimes, the greatest opportunities are realized during periods of economic dislocation.

We look forward to talking to you at our annual meeting on May 11, 2010 at the Holiday Inn located at 4821 Oak Street in Quincy, Illinois, at 9:00 a.m.

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)

| | YEAR ENDED DECEMBER 31, | | | | | |
|---|---|---|---|---|---|---|
| **PERFORMANCE** | **2009** | 2008 | 2007 | 2006 | 2005 | 2004 |
| Net income | **$ 5,885** | $ 4,729 | $ 4,243 | $ 3,763 | $ 3,635 | $ 3,264 |
| Common stock cash dividends paid | **$ 942** | $ 942 | $ 860 | $ 778 | 698 | $ 615 |
| Common stock cash dividend payout ratio[1] | **17.90 %** | 19.93 % | 20.28 % | 20.69 % | 19.20 % | 18.84 % |
| Return on average assets[1] | **.89 %** | 1.01 % | .97 % | .91 % | .89 % | .94 % |
| Return on average common stockholders' equity[2] | **13.79 %** | 13.77 % | 13.90 % | 13.68 % | 14.86 % | 15.03 % |
| **PER COMMON SHARE** | | | | | | |
| Earnings, basic and diluted | **$ 2.57** | $ 2.31 | $ 2.07 | $ 1.84 | $ 1.77 | $ 1.59 |
| Dividends (Paid) on Common Stock | **$ .46** | $ .46 | $ .42 | $ .38 | $ .34 | $ .30 |
| Book value[3] | **$ 19.62** | $ 17.51 | $ 15.66 | $ 14.02 | $ 12.57 | $ 11.15 |
| Stock price | | | | | | |
| High | **$ 18.25** | $ 21.75 | $ 20.00 | $ 23.25 | $ 24.00 | $ 24.10 |
| Low | **$ 12.00** | $ 15.60 | $ 18.00 | $ 18.05 | $ 18.00 | $ 15.40 |
| Close | **$ 16.10** | $ 18.00 | $ 19.70 | $ 19.00 | $ 22.00 | $ 24.00 |
| Price/Earnings per share (at period end) | **6.3** | 7.8 | 9.5 | 10.3 | 12.4 | 15.1 |
| Market price/Book value (at period end) | **0.82** | 1.03 | 1.26 | 1.36 | 1.75 | 2.15 |
| Weighted average number of shares outstanding | **2,048,574** | 2,048,574 | 2,048,574 | 2,048,574 | 2,048,574 | 2,048,574 |
| **AT DECEMBER 31,** | | | | | | |
| Assets | **$ 623,896** | $ 498,028 | $ 438,878 | $ 423,674 | $ 418,248 | $ 407,367 |
| Investment securities | **282,135** | 146,908 | 114,616 | 95,773 | 96,981 | 83,942 |
| Loans held for sale | **183** | 187 | 835 | 599 | 1,110 | 663 |
| Loans | **292,344** | 288,412 | 279,915 | 275,974 | 260,682 | 268,192 |
| Deposits | **511,769** | 400,844 | 359,345 | 355,955 | 357,876 | 340,555 |
| Short-term borrowings and Federal Home Loan Bank advances | **38,717** | 40,545 | 27,088 | 19,537 | 13,626 | 20,762 |
| Note payable | **-** | - | - | - | 2,667 | 4,000 |
| Junior subordinated debentures | **15,465** | 15,465 | 15,465 | 15,465 | 15,465 | 15,465 |
| Preferred stock | **10,100** | - | - | - | - | - |
| Stockholders' equity[4] | **$ 50,287** | $ 35,866 | $ 32,079 | $ 28,717 | $ 25,752 | $ 22,835 |
| Total equity to total assets[4] | **8.06 %** | 7.20 % | 7.31 % | 6.78 % | 6.16 % | 5.61 % |
| Tier 1 capital ratio (risk based) | **15.44 %** | 12.44 % | 11.78 % | 10.39 % | 9.58 % | 8.54 % |
| Total capital ratio (risk based) | **16.60 %** | 14.36 % | 14.05 % | 12.93 % | 12.53 % | 11.82 % |
| Leverage ratio | **9.88 %** | 8.96 % | 8.89 % | 8.21 % | 7.32 % | 6.52 % |

[1] Excludes preferred stock dividends/accretion.

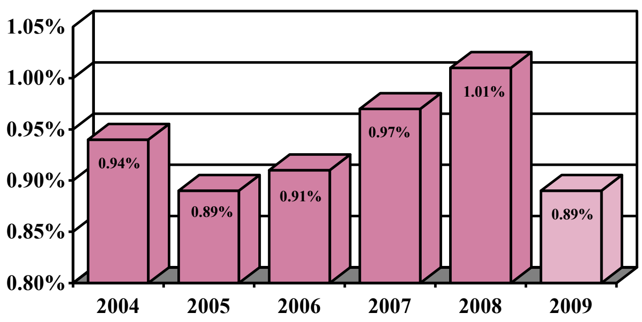
[2] Return on average common stockholders' equity is calculated by dividing net income, excluding preferred stock dividends/accretion, by average common stockholders'equity. Common stockholders' equity is defined as equity less preferred stock but including accumulated other comprehensive income or loss.

[3] Book value per share is calculated by dividing stockholders' equity, excluding preferred stock and accumulated other comprehensive income or loss, by outstanding common shares.

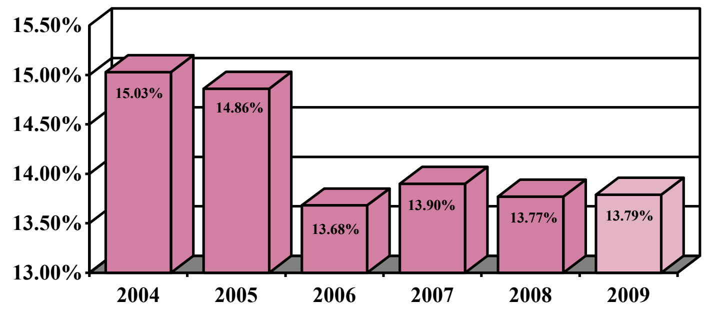
[4] Stockhloders' equity includes preferred stock and excludes accumulated other comprehensive income or loss.

# SELECTED FINANCIAL DATA

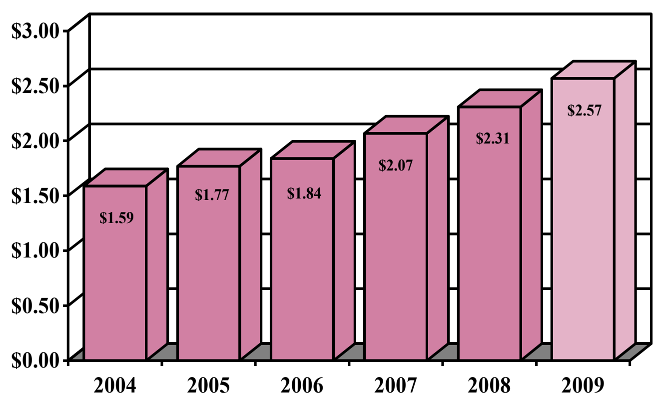
Return On Average Assets



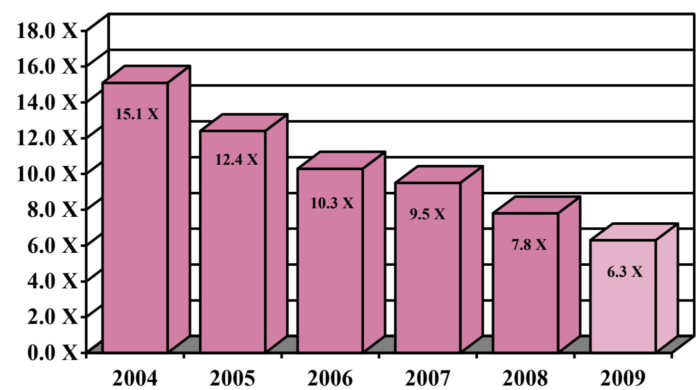

Return On Average Common Equity



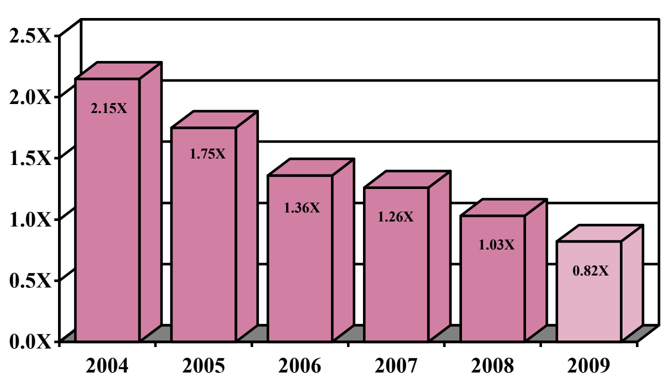

Earnings Per Share



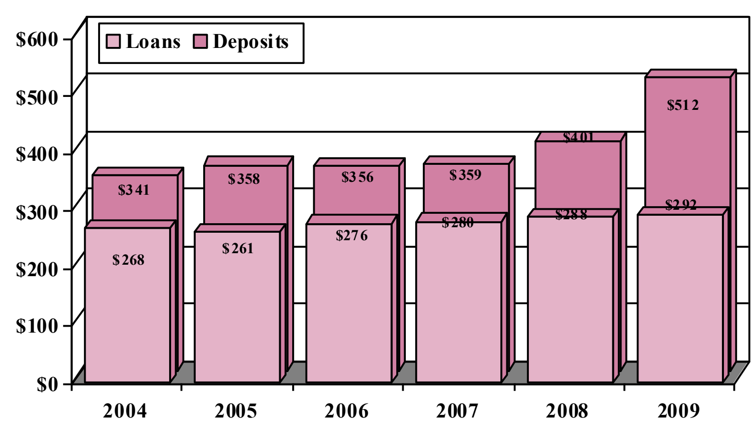

Price/Earnings Multiples




Market Price To Book Value




Loan/Deposit Growth



# MANAGEMENT'S REPORT OF INTERNAL CONTROLS OVER FINANCIAL REPORTING



| | |
|---|---|
|  |  |
| ***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, account review, and external audit. 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 action 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

***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 2009 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** (Amounts in thousands of dollars) **Assets** | **2009** | Change | 2008 | Change | 2007 | 2006 | 2005 | 2004 | 5 Year Growth Rate |
|---|---|---|---|---|---|---|---|---|---|
| Cash and due from banks: | | | | | | | | | |
| Non-interest bearing | **$ 9,119** | (8.10) % | $ 9,923 | (27.40) % | $ 13,668 | $ 10,738 | $ 11,464 | $ 8,661 | 5.29 % |
| Interest bearing | **8,497** | (54.18) | 18,544 | 1,018.46 | 1,658 | 1,443 | 12,388 | 15,915 | (46.61) |
| Securities | **282,135** | 92.05 | 146,908 | 28.17 | 114,616 | 95,773 | 96,981 | 83,942 | 236.11 |
| Federal funds sold | **293** | (95.48) | 6,483 | 28.76 | 5,035 | 14,485 | 13,620 | 9,700 | (96.98) |
| Loans held for sale | **183** | (2.14) | 187 | (77.60) | 835 | 599 | 1,110 | 663 | (72.40) |
| Net loans | **287,700** | 1.17 | 284,375 | 2.81 | 276,605 | 272,835 | 257,522 | 265,428 | 8.39 |
| Other assets | **35,969** | 13.80 | 31,608 | 19.45 | 26,461 | 27,801 | 25,163 | 23,058 | 55.99 |
| **Total Assets** | **$ 623,896** | 25.27 % | $ 498,028 | 13.48 % | $ 438,878 | $ 423,674 | $ 418,248 | $ 407,367 | 53.15 % |
| **Liabilities & Stockholders' Equity** | | | | | | | | | |
| Deposits | **$ 511,769** | 27.67 % | $ 400,844 | 11.55 % | $ 359,345 | $ 355,955 | $ 357,876 | $ 340,555 | 50.27 % |
| Short-term borrowings | **30,217** | 37.07 | 22,045 | 46.11 | 15,088 | 14,037 | 2,626 | 1,762 | 1,614.93 |
| Federal Home Loan Bank advances | **8,500** | (54.05) | 18,500 | 54.17 | 12,000 | 5,500 | 11,000 | 19,000 | (55.26) |
| Note payable | **-** | - | - | - | - | - | 2,667 | 4,000 | (100.00) |
| Junior Subordinated Debentures | **15,465** | - | 15,465 | - | 15,465 | 15,465 | 15,465 | 15,465 | - |
| Other liabilities | **5,269** | 7.53 | 4,900 | 7.13 | 4,574 | 4,535 | 3,500 | 3,279 | 60.69 |
| Stockholders' equity | **52,676** | 45.22 | 36,274 | 11.94 | 32,406 | 28,182 | 25,114 | 23,306 | 126.02 |
| **Total Liabilities & Stockholders' Equity** | **$ 623,896** | 25.27 % | $ 498,028 | 13.48 % | $ 438,878 | $ 423,674 | $ 418,248 | $ 407,367 | 53.15 % |

At December 31, 2009, the Company had assets of $623,896,000 compared to $498,028,000 at December 31, 2008. The growth in assets is primarily made up of a 92.05% growth in securities which was partially offset by a 38.12% decrease in cash and cash equivalents. The remaining growth in securities was funded primarily from a 27.67% growth in deposits.

In January 2009, the Company sold $10,000,000 in preferred stock to the United States Treasury as part of the Capital Purchase Program to fund future growth opportunities.

The net loan portfolio grew by 1.17% and was primarily made up of growth in commercial loans of $5,078,000 and agricultural loans of $3,006,000. Consumer loans also increased $306,000. Approximately $73,392,000 of fixed rate long-term residential real estate loans were sold in the secondary market during 2009 while $13,518,000 were sold in 2008. Agricultural real estate loans totaling $1,616,000 were sold in the secondary market during 2009, while $691,000 were sold in 2008. 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, borrowings and funds provided from operations.

For the year ended December 31, 2009, the Company reported consolidated net income of $5,885,000, a $1,156,000 (24.44%) increase from 2008. Net interest income after provision for loan losses for the periods being compared increased $2,038,000 or 15.24%. Other operating income increased $1,258,000 (16.06%) and other expenses increased $1,697,000 (11.77%) from 2008.

**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 $553,127,000 for the year ended December 31, 2009. 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

| **Consolidated Income Summary** (Amounts in thousands of dollars) | **2009** | Change | 2008 | Change | 2007 | 2006 | 2005 | 2004 | 5 Year Growth Rate |
|---|---|---|---|---|---|---|---|---|---|
| Interest income | **$ 26,153** | 1.72 % | $ 25,711 | (4.46) % | $ 26,912 | $ 24,618 | $ 21,768 | $ 17,525 | 49.23 % |
| Interest expense | **(9,663)** | (12.23) | (11,009) | (21.52) | (14,027) | (11,944) | (8,843) | (6,500) | 48.66 |
| Net interest income | **$ 16,490** | 12.16 % | $ 14,702 | 14.10 % | $ 12,885 | $ 12,674 | $ 12,925 | $ 11,025 | 49.57 % |
| Provision for loan losses | **(1,080)** | (18.80) | (1,330) | 23.15 | (1,080) | (1,080) | (2,250) | (1,165) | (7.30) |
| Net interest income after provision for loan losses | **15,410** | 15.24 % | $ 13,372 | 13.27 % | $ 11,805 | $ 11,594 | $ 10,675 | $ 9,860 | 52.29 % |
| Other income | **9,093** | 16.06 | 7,835 | 5.66 | 7,415 | 6,977 | 7,058 | 5,325 | 70.76 |
| Other expenses | **(16,116)** | 11.77 | (14,419) | 7.79 | (13,377) | (13,503) | (13,036) | (10.331) | 56.00 |
| Income before taxes | **$ 8,387** | 23.56 % | $ 6,788 | 16.17 % | $ 5,843 | $ 5,068 | $ 4,697 | $ 4,854 | 72.79 % |
| Income tax expense | **(2,502)** | 21.52 | (2,059) | 28.69 | (1,600) | (1,305) | (1,062) | (1,590) | 57.36 |
| Net income | **$ 5,885** | 24.44 % | $ 4,729 | 11.45 % | $ 4,243 | $ 3,763 | $ 3,635 | $ 3,264 | 80.30 % |

| | For the Years Ended December 31, (Amounts in thousands of dollars) | | |
|---|---|---|---|
| | **2009** | 2008 | 2007 |
| Interest Income | **$ 25,607** | $ 25,111 | $ 26,482 |
| Loan Fees | **546** | 600 | 430 |
| Interest Expense | **(9,663)** | (11,009) | (14,027) |
| Net Interest Income | **$ 16,490** | $ 14,702 | $ 12,885 |
| Average Earning Assets | **$ 553,127** | $ 437,682 | $ 406,112 |
| Net Interest Margin | **2.98 %** | 3.36 % | 3.17 % |

The yield on average earning assets for the year ended 2009 was 4.73% while the average cost of funds for the same period was 1.86% on average interest bearing liabilities of $518,707,000. The yield on average earning assets for the year ended 2008 was 5.87%, while the average cost of funds for the same period was 2.95% on average interest bearing liabilities of $372,932,000. The increase in the net interest income of $1,788,000 can be attributed to the 26.38% increase in average earning assets and the 1.09% decrease in average cost of funds, which was partially offset by the 1.14% decrease in yield on earning assets.

**Provision for Loan Losses**

The allowance for loan losses as a percentage of net loans outstanding is 1.59% at December 31, 2009, compared to 1.40% at December 31, 2008. Net loan charge-offs totaled $473,000 for the year ended December 31, 2009 compared to $603,000 in 2008.

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, 2009.

**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, 2009 was $9,093,000, an increase of $1,258,000 (16.06%) from 2008. An increase in other income from sales of mortgage loans of $613,000 primarily accounted for the increase.

**Other Expense**

Other expenses for the period ended December 31, 2009 totaled $16,116,000, an increase of $1,697,000 (11.77%) from 2008 year end totals. Salaries and employee benefits expense aggregated 53.73% and 55.36% of total other expense for the years ended December 31, 2009 and 2008, respectively.

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

| At December 31, | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 |
|---|---|---|---|---|---|---|
| Non-accrual loans and leases | $ 3,449 | $ 3,023 | $ 2,152 | $ 236 | $ 267 | $ 405 |
| Other real estate owned | 230 | 1,370 | 90 | 1,327 | 1,363 | 204 |
| Total non-performing assets | $ 3,679 | $ 4,393 | $ 2,242 | $ 1,563 | $ 1,630 | $ 609 |
| Loans and leases past due 90 days or more and still accruing interest | 199 | 717 | 301 | 578 | 1,119 | 980 |
| Total non-performing assets and 90-day past due loans and leases | $ 3,878 | $ 5,110 | $ 2,543 | 2,141 | $ 2,749 | $ 1,589 |
| Interest income as originally contracted on non-accrual and restructured loans and leases | $ 205 | $ 228 | $ 93 | $ 39 | $ 30 | $ 14 |
| Interest income recognized on non-accrual and restructured loans and leases | - | - | - | - | - | - |
| Reduction of interest income due to non-accrual and restructured loans and leases | $ 205 | $ 228 | $ 93 | $ 39 | $ 30 | $ 14 |
| Reduction in basic and diluted earnings per share due to non-accrual and restructured loans and leases | $ .07 | $ .07 | $ .04 | $ .01 | $ .01 | $ .00 |

## Income Taxes

The Company files its Federal income tax return on a consolidated basis with the Bank. See Note 15 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, 2009, these categories totaled $21,727,000 or 3.48% of assets, compared to $37,240,000 or 7.48% the previous year.

As of December 31, 2009, securities held to maturity included $30,000 of gross unrealized gains and no 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 2010, 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, 2009 Repricing Period | | |
|---|---|---|---|
| | Through One year | After one Year through Five years | After Five years |
| Interest-earning assets | $ 123,650 | $ 220,034 | $ 239,768 |
| Interest-bearing liabilities | 399,000 | 85,368 | 16,782 |
| Repricing gap (repricing assets minus repricing liabilities) | $ (275,350) | $ 134,666 | $ 222,986 |

| | As of December 31, 2008 Repricing Period | | |
|---|---|---|---|
| | Through One year | After one Year through Five years | After Five years |
| Interest-earning assets | $ 135,646 | $ 163,530 | $ 161,368 |
| Interest-bearing liabilities | 344,946 | 28,227 | 15,467 |
| Repricing gap (repricing assets minus repricing liabilities) | $ (209,300) | $ 135,303 | $ 145,901 |

**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.

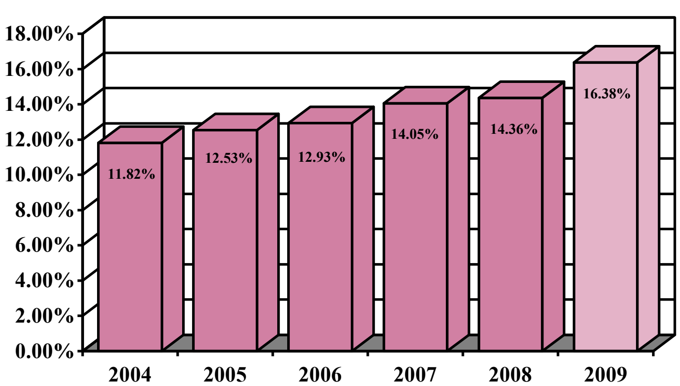
**Capital**

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 16.60 percent of risk-weighted assets at December 31, 2009. In addition, a leverage ratio of at least 4.00 percent is to be maintained. At December 31, 2009, the Company's leverage ratio was 9.88 percent.

**Risked Based Capital Ratios**




**Asset Liability Management**

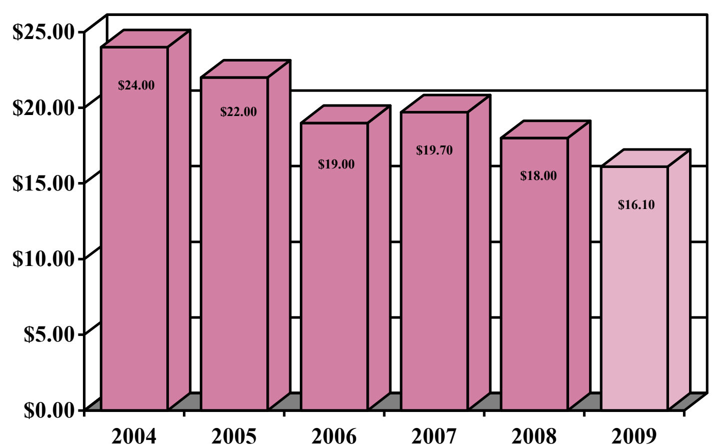
Since changes in interest rates may have a significant impact on operations the Company has implemented, and currently maintains, an asset liability management committee at the Bank to monitor and react to the changes in interest rates and other economic conditions. Research concerning interest rate 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 255 shareholders as of December 31, 2009, and is traded in a limited over-the-counter market.

On December 31, 2009 the market price of the Company's common stock was $16.10. Market price is based on stock transactions in the market. Cash dividends on common stock of $942,000 were declared by the Board of Directors of the Company for the year ended December 31, 2009.

**Closing Share Price Data**



**Financial Report**

Upon written request of any shareholder of record on December 31, 2009, the Company will provide, without charge, a copy of its 2009 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 11, 2010 at 9:00 A.M. at the Holiday Inn, 4821 Oak Street, Quincy, Illinois.

# INDEPENDENT AUDITOR'S REPORT

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, 2009 and 2008, and the related consolidated statements of income, changes in stockholders' equity and cash flows for the years ended December 31, 2009, 2008 and 2007. 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, 2009 and 2008, and the results of their operations and their cash flows for the years ended December 31, 2009, 2008 and 2007, in conformity with accounting principles generally accepted in the United States of America.

McGladrey & Pullen, LLP

Davenport, Iowa
March 12, 2010

# FINANCIAL SUMMARY



**FIRST BANKERS TRUSTSHARES, INC.**
**CONSOLIDATED BALANCE SHEETS**
(Amounts in thousands of dollars, except share and per share data)

| | December 31, 2009 | December 31, 2008 |
|---|---|---|
| **Assets** | | |
| Cash and due from banks (Note 3) | | |
| Non-interest bearing | $ 9,119 | $ 9,923 |
| Interest bearing | 8,497 | 18,544 |
| | $ 17,616 | $ 28,467 |
| Securities held to maturity (Note 4) | $ 2,066 | $ 3,455 |
| Securities available for sale (Note 4) | 280,069 | 143,453 |
| Federal funds sold | 293 | 6,483 |
| Loans held for sale | 183 | 187 |
| Loans (Note 5 and 9) | 292,344 | 288,412 |
| Less allowance for loan losses | (4,644) | (4,037) |
| Net loans | $ 287,700 | $ 284,375 |
| Premises, furniture and equipment, net (Note 6) | $ 12,380 | $ 10,366 |
| Accrued interest receivable | 3,399 | 2,659 |
| Life insurance contracts | 8,779 | 8,460 |
| Intangibles (Note 7) | 3,607 | 3,668 |
| Prepaid FDIC insurance assessment | 2,506 | - |
| Other assets | 5,298 | 6,455 |
| **TOTAL ASSETS** | $ 623,896 | $ 498,028 |
| **Liabilities and Stockholders' Equity** | | |
| **Liabilities:** | | |
| Deposits: | | |
| Non-interest bearing demand | $ 64,801 | $ 68,214 |
| Interest bearing demand | 136,315 | 100,031 |
| Savings | 33,333 | 43,724 |
| Time (Note 8) | 277,320 | 188,875 |
| Total Deposits | $ 511,769 | $ 400,844 |
| Securities sold under agreements to repurchase | 30,217 | 22,045 |
| Federal Home Loan Bank advances (Note 9) | 8,500 | 18,500 |
| Junior subordinated debentures (Note 10) | 15,465 | 15,465 |
| Accrued interest payable | 1,313 | 1,446 |
| Other liabilities | 3,956 | 3,454 |
| **TOTAL LIABILITIES** | $ 571,220 | $ 461,754 |
| Commitments and Contingencies (Note 12) | | |
| **Stockholders' Equity (Note 14)** | | |
| Series A Preferred Stock, no par value; shares authorized 10,000; shares issued and outstanding 2009 10,000; 2008 none (Note 11) | 9,526 | - |
| Series B Preferred Stock; no par value; shares authorized 500; shares issued and outstanding 2009 500; 2008 none (Note 11) | 574 | - |
| 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 | 42,785 | 38,464 |
| Accumulated other comprehensive income | 2,389 | 408 |
| Treasury stock, at cost - 530,656 shares | (7,429) | (7,429) |
| **TOTAL STOCKHOLDERS' EQUITY** | $ 52,676 | $ 36,274 |
| **TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY** | $ 623,896 | $ 498,028 |

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, | | |
|---|---|---|---|
| **Interest income:** | **2009** | 2008 | 2007 |
| Loans, including fee income: | | | |
| Taxable | **$ 16,510** | $ 18,307 | $ 20,542 |
| Non-taxable | **236** | 264 | 296 |
| Securities: | | | |
| Taxable | **7,780** | 5,608 | 4,021 |
| Non-taxable | **1,523** | 1,180 | 1,068 |
| Federal funds sold | **7** | 159 | 774 |
| Interest bearing deposits in banks | **61** | 161 | 152 |
| Other | **36** | 32 | 59 |
| Total interest income | **$ 26,153** | $ 25,711 | $ 26,912 |
| **Interest expense:** | | | |
| Deposits: | | | |
| Interest bearing demand and savings | **$ 1,434** | $ 2,204 | $ 4,039 |
| Time | **6,554** | 6,637 | 7,726 |
| Total interest on deposits | **$ 7,988** | $ 8,841 | $ 11,765 |
| Securities sold under agreements to repurchase | **95** | 187 | 523 |
| Federal Home Loan Bank advances | **565** | 804 | 333 |
| Junior subordinated debentures | **1,015** | 1,177 | 1,406 |
| Total interest expense | **$ 9,663** | $ 11,009 | $ 14,027 |
| Net interest income | **$ 16,490** | $ 14,702 | $ 12,885 |
| **Provision for loan losses (Note 5)** | **$ 1,080** | $ 1,330 | $ 1,080 |
| Net interest income after provision for loan losses | **$ 15,410** | $ 13,372 | $ 11,805 |
| **Other income:** | | | |
| Trust services | **$ 4,055** | $ 4,046 | $ 3,875 |
| Service charges on deposit accounts | **1,243** | 1,288 | 1,256 |
| Gain on sale of loans | **771** | 158 | 339 |
| Investment securities gains (losses), net: | | | |
| Total other-than-temporary impairment losses | **(1,930)** | - | - |
| Portion of loss recognized in other comprehensive income (loss) before taxes | **1,277** | - | - |
| Net impairment losses recognized in earnings | **(653)** | - | - |
| Realized securities gains (losses), net | **847** | 201 | (19) |
| Investment securities gains (losses), net | **194** | 201 | (19) |
| Other | **2,830** | 2,142 | 1,964 |
| Total other income | **$ 9,093** | $ 7,835 | $ 7,415 |
| **Other expenses:** | | | |
| Salaries and employee benefits | **$ 8,659** | $ 7,983 | $ 7,509 |
| Occupancy expense, net | **1,017** | 1,125 | 902 |
| Equipment expense | **811** | 727 | 827 |
| Computer processing | **1,184** | 940 | 950 |
| Professional services | **403** | 415 | 365 |
| Other | **4,042** | 3,229 | 2,824 |
| Total other expenses | **$ 16,116** | $ 14,419 | $ 13,377 |
| Income before income taxes | **$ 8,387** | $ 6,788 | $ 5,843 |
| Income taxes (Note 15) | **2,502** | 2,059 | 1,600 |
| Net income | **5,885** | 4,729 | 4,243 |
| Earnings per share of common stock, basic and diluted | **$ 2.57** | $ 2.31 | $ 2.07 |

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, 2009, 2008 and 2007

| | Series A Preferred Stock | Series B Preferred Stock | Common Stock | Additional Paid In Capital | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Treasury Stock | Comprehensive Income | Total |
|---|---|---|---|---|---|---|---|---|---|
| Balance, December 31, 2006 | $ - | $ - | $ 2,580 | $ 2,251 | $ 31,315 | $ (535) | $ (7,429) | | $ 28,182 |
| Comprehensive income: | | | | | | | | | |
| Net income | - | - | - | - | 4,243 | - | - | 4,243 | 4,243 |
| Other comprehensive income, net of tax, (Note 2) | - | - | - | - | - | 862 | - | 862 | 862 |
| Comprehensive income | | | | | | | | $ 5,105 | |
| Dividends declared (amount per share $.43) | - | - | - | - | (881) | - | - | | (881) |
| Balance, December 31, 2007 | $ - | - | $ 2,580 | $ 2,251 | $ 34,677 | $ 327 | $ (7,429) | | $ 32,406 |
| Comprehensive income: | | | | | | | | | |
| Net income | - | - | - | - | 4,729 | - | - | 4,729 | 4,729 |
| Other comprehensive income, net of tax, (Note 2) | - | - | - | - | - | 81 | - | 81 | 81 |
| Comprehensive income | | | | | | | | $ 4,810 | |
| Dividends declared (amount per share $.46) | - | - | - | - | (942) | - | - | | (942) |
| Balance, December 31, 2008 | $ - | - | $ 2,580 | $ 2,251 | $ 38,464 | $ 408 | $ (7,429) | | $ 36,274 |
| **Issuance of 10,000 shares of Series A preferred stock** | **9,408** | **-** | **-** | **-** | **-** | **-** | **-** | | **9,408** |
| **Issuance of 500 shares of Series B preferred stock** | **-** | **592** | **-** | **-** | **-** | **-** | **-** | | **592** |
| **Comprehensive income:** | | | | | | | | | |
| **Net income** | **-** | **-** | **-** | **-** | **5,885** | **-** | **-** | **5,885** | **5,885** |
| **Other comprehensive income, net of tax, (Note 2)** | **-** | **-** | **-** | **-** | **-** | **1,981** | **-** | **1,981** | **1,981** |
| **Comprehensive income** | | | | | | | | **$ 7,866** | |
| **Preferred stock dividends declared** | **-** | **-** | **-** | **-** | **(522)** | **-** | **-** | | **(522)** |
| **Discount accretion on preferred stock, net** | **118** | **(18)** | **-** | **-** | **(100)** | **-** | **-** | | **-** |
| **Common stock dividends declared (amount per share $.46)** | **-** | **-** | **-** | **-** | **(942)** | **-** | **-** | | **(942)** |
| **Balance, December 31, 2009** | **$ 9,526** | **$ 574** | **$ 2,580** | **$ 2,251** | **$ 42,785** | **$ 2,389** | **$ (7,429)** | | **$ 52,676** |

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, | | |
|---|---|---|---|
| **Cash Flows From Operating Activities** | **2009** | 2008 | 2007 |
| Net income | **$ 5,885** | $ 4,729 | $ 4,243 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Provision for loan losses | **1,080** | 1,330 | 1,080 |
| Depreciation | **1,004** | 998 | 920 |
| Amortization of intangibles | **218** | 222 | 223 |
| Amortization/accretion of premiums/discounts on securities, net | **1,344** | (330) | (91) |
| Investment securities (gains) losses, net: | **(194)** | (186) | 19 |
| Loans originated for sale | **(75,004)** | (13,586) | (21,855) |
| Proceeds from loans sold | **75,779** | 14,392 | 21,958 |
| Gain on sale of loans | **(771)** | (158) | (339) |
| Deferred income taxes | **(253)** | 165 | (24) |
| (Increase) decrease in accrued interest receivable and other assets | **92** | (1,029) | 3,224 |
| (Increase) in prepaid FDIC insurance assessment | **(2,506)** | - | - |
| Increase (decrease) in accrued interest payable and other liabilities | **(209)** | 326 | 18 |
| Net cash provided by operating activities | **$ 6,465** | $ 6,873 | $ 9,376 |
| **Cash Flows From Investing Activities** | | | |
| Activity in securities portfolio: | | | |
| Purchases | **$ (209,853)** | $ (66,616) | $ (41,669) |
| Sales of securities available for sale | **20,520** | 11,303 | 10,685 |
| Calls, maturities and paydowns | **56,126** | 23,669 | 13,603 |
| (Increase) in loans, net | **(3,664)** | (10,380) | (6,645) |
| (Increase) decrease in federal funds sold | **6,190** | (1,448) | 9,450 |
| Purchases of premises, furniture and equipment | **(1,184)** | (3,899) | (1,429) |
| (Increase) in cash surrender value life insurance contracts | **(319)** | (375) | (307) |
| Cash effect of acquisition | **17,786** | - | - |
| Gain on acquisition | **(491)** | - | - |
| Net cash (used in) investing activities | **$ (114,889)** | $ (47,746) | $ (16,312) |
| **Cash Flows From Financing Activities** | | | |
| Net increase in deposits | **$ 90,796** | $ 41,499 | $ 3,390 |
| Cash dividends paid to preferred shareholders | **(453)** | - | - |
| Cash dividends paid to common shareholders | **(942)** | (942) | (860) |
| Increase in securities sold under agreement to repurchase | **8,172** | 6,957 | 1,051 |
| Proceeds from Federal Home Loan Bank advances | **-** | 16,000 | 8,000 |
| Repayments of Federal Home Loan Bank advances | **(10,000)** | (9,500) | (1,500) |
| Issuance of preferred stock | **10,000** | - | - |
| Net cash provided by financing activities | **$ 97,573** | $ 54,014 | $ 10,081 |
| Net increase (decrease) in cash and due from banks | **$ (10,851)** | $ 13,141 | $ 3,145 |
| **Cash and Due From Banks:** | | | |
| Beginning | **$ 28,467** | $ 15,326 | $ 12,181 |
| Ending | **$ 17,616** | $ 28,467 | $ 15,326 |

(continued)

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

| | Years Ended December 31, | | |
|---|---|---|---|
| **Supplemental disclosure of cash flow information,** | | | |
| **Cash payments for:** | **2009** | 2008 | 2007 |
| Interest | **$ 9,796** | $ 11,169 | $ 14,279 |
| Income taxes | **$ 2,268** | $ 2,165 | $ 1,623 |
| | | | |
| **Supplemental schedule of noncash investing and financing activities:** | | | |
| Net change in accumulated other comprehensive income | **$ 1,981** | $ 81 | $ 862 |
| Transfer of loans to other real estate owned | **$ 140** | $ 1,280 | $ 1,795 |
| | | | |
| **The fair value of assets acquired and liabilities assumed in acquisition (Note 18)** | | | |
| Loans | **$ 881** | $ - | $ - |
| Accrued interest receivable | **4** | - | - |
| Premises, furniture, and equipment, net | **1,834** | - | - |
| Core deposit intangible | **157** | - | - |
| Deposits | **(20,129)** | - | - |
| Accrued interest payable | **(17)** | - | - |
| Other liabilties | **(25)** | - | - |
| | **$ (17,295)** | $ - | $ - |
| **Less cash received** | **17,786** | - | - |
| **Gain recognized from purchase** | **$ 491** | $ - | $ - |

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. (Trust Services), 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, Sangamon, and adjacent Illinois counties, and Marion, Lewis and Shelby counties in Missouri. Trust Services provides asset and custodial management for clients throughout the country. All administration is conducted in Quincy, IL with sales offices in Chicago and Springfield, IL, Philadelphia, PA and Phoenix, AZ. 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 Services Fiduciary Activities and Assets**
Trust Services provides fiduciary related services, including asset management and custodial services to individual and corporate clients. Assets held by Trust Services are not assets of the Company, except for cash deposits held by the Bank, and accordingly are not included in the consolidated financial statements. During the course of discharging its respective responsibilities for each client, Trust Services is subject to a number of Federal and State regulatory bodies and associated rules governing each type of account. Trust Services is regulated by the Federal Reserve Bank of St. Louis and the Illinois Department of Financial and Professional Regulation.

**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.

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, 2009 or 2008.

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

The Financial Accounting Standards Board (FASB) recently issued accounting guidance related to the recognition and presentation of other-than-temporary impairment. This guidance amends the recognition guidance for other-than-temporary impairments of debt securities and expands the financial statement disclosures for other-than-temporary impairment losses on debt and equity securities. The recent guidance replaced the “intent and ability” indication in current guidance by specifying that (a) if a company does not have the intent to sell a debt security prior to recovery, the security would not be considered other-than-temporarily impaired unless there is a credit loss. When an entity does not intend to sell the security, and it is unlikely the entity will have to sell the security before recovery of its cost basis, it will recognize the credit componant of an other-than-temporary impairment of a debt security in earnings and the remaining portion in other comprehensive income. For held-to-maturity debt securities, the amount of an other-than-temporary impairment recorded in other comprehensive income for the noncredit portion of a previous other-than-temporary impairment should be amortized prospectively over the remaining life of the security on the basis of the timing of future estimated cash flows of the security.

**Loans**

Loans held for sale: Residential real estate and agricultural 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 on the accrual basis 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, 2009 and 2008, the Bank had loan concentrations in agribusiness of 13.90% and 13.04%, 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, 2009 and 2008.

**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 collectability 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 collectability 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.

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

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 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. 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, 2009 and 2008.

### Prepaid FDIC Insurance Assessment

In November 2009, the Federal Deposit Insurance Corporation (FDIC) adopted a final rule amending the assessment regulations to require insured depository institutions to prepay their quarterly risk-based assessment for all of 2010, 2011, and 2012. The payment, which was made in December 2009, was recorded as a prepaid asset and is being amortized over the assessment period.

### Earnings per Share of Common Stock

Basic earnings per share of common stock is computed by dividing net income, after deducting preferred stock dividends and accretion, 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 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, 2009, 2008, and 2007.

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

**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 carry forwards 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.

On January 1, 2009, the Company adopted the accounting standard on accounting for uncertainty in income taxes, which addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under this guidance, the Company may recognize the tax benefit from an uncertain tax-position only if it is more-likely-than-not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The guidance on accounting for uncertainty in income taxes also addresses de-recognition, classification, interest and penalties on income taxes, and accounting in interim periods. Management evaluated the Company's tax positions and concluded that the Company had taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance.

The Company recognizes interest and penalties on income taxes as a component of income tax expense.

With few exceptions, the Company is no longer subject to U.S. federal or state and local income tax examinations by tax authorities for years before 2006.

**Accounting for Derivatives and Hedging Activities**
Interest rate swaps are derivatives that are recognized on the balance sheet at their fair value. Changes in the fair value of a derivative that is highly effective and that is designed and qualifies as a cash flow hedge, are recorded in other comprehensive income, until earnings are affected by the variability of cash flows (e.g., when periodic settlements on a variable rate liability are recorded in earnings).

The Company formally documents all relationships between hedging instruments and hedged items as well as its risk-management objective and strategy for undertaking various hedged transactions. The Company also formally assesses both at the hedge's inception and, on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. When it is determined that a derivative is not highly effective as a hedge or that it has ceased to be a highly effective hedge, the Company discontinues hedge accounting prospectively, as discussed below.

The Company discontinues hedge accounting prospectively when: (1) it is determined that the derivative is no longer effective in offsetting changes in the cash flows of the hedged item; (2) the derivative expires or is sold, terminated and exercised; or (3) management determines that designation of the derivative as a hedge instrument is no longer appropriate. If hedge accounting is discontinued, the derivative is carried at fair value on the balance sheet, with changes in its fair value recognized in current-period earnings.

**Subsequent Events**
The Company has evaluated all subsequent events through March 12, 2010, the date that the financial statements were available to be issued.

**Reclassifications**
Certain amounts in the prior years' financial statements have been reclassified, with no effect on net income or stockholders' equity, to conform to current year presentations.

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

**Current Accounting Developments**

In April 2009, the FASB issued accounting standards that require entities to separate an other-than-temporary impairment (OTTI) of a debt security into two components when there are credit-related losses associated with the impaired debt security for which management asserts that it does not have the intent to sell the security, and it is unlikely that it will be required to sell the security before recovery of its cost basis. The amount of OTTI related to credit loss is recognized in earnings, and the amount of the OTTI related to other factors is recorded in other comprehensive income (loss). The Company adopted these standards for the year ended December 31, 2009. There was no previous OTTI recorded by the Company for the year ended December 31, 2008, therefore, the adoption of these standards did not have a material impact on the Company's consolidated financial statements.

In June 2009, the FASB issued an accounting standard which provides guidance related to the accounting for transfers and servicing of financial assets and extinguishments of liabilities, including the removal of the concept of a qualifying special-purpose entity. This new accounting standard also clarifies that a transferor must evaluate whether it has maintained effective control of a financial asset by considering its continuing direct or indirect involvement with the transferred financial asset. This standard is effective as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009. The company does not expect that the adoption of this standard will have a material impact on the consolidated financial statements.

## 2. COMPREHENSIVE INCOME

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 and the interest rate swap.

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

| | Before tax | Tax expense (benefit) | Net of tax |
|---|---|---|---|
| **Year ended December 31, 2009** | | | |
| Unrealized gains on securities available for sale: | | | |
| Unrealized holding gains arising during the year | **$ 3,364** | **$ 1,278** | **$ 2,086** |
| Less reclassification adjustment for gains included in net income | **194** | **74** | **120** |
| Interest rate swap | **24** | **9** | **15** |
| Other comprehensive income | **$ 3,194** | **$ 1,213** | **$ 1,981** |
| Year ended December 31, 2008 | | | |
| Unrealized gains on securities available for sale: | | | |
| Unrealized holding gains arising during the year | $ 333 | $ 127 | $ 206 |
| Less reclassification adjustment for gains included in net income | 201 | 76 | 125 |
| Other comprehensive income | $ 132 | $ 51 | $ 81 |
| Year ended December 31, 2007 | | | |
| Unrealized gains on securities available for sale: | | | |
| Unrealized holding gains arising during the year | $ 1,371 | $ 521 | $ 850 |
| Less reclassification adjustment for (losses) included in net income | (19) | (7) | (12) |
| Other comprehensive income | $ 1,390 | $ 528 | $ 862 |

## 3. 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 $175,000 at December 31, 2009 and 2008.

## 4. SECURITIES

The amortized cost and fair values of securities as of December 31, 2009 and 2008 are as follows. Included in gross unrealized losses as of December 31, 2009 is an OTTI loss of $1,277,000 relating to two corporate securities, which represent the non-credit related portion of the overall impairment. (Amounts in thousands of dollars):

| | 2009 | | | |
|---|---|---|---|---|
| **Securities Held to Maturity:** | **Amortized Cost** | **Gross Unrealized Gains** | **Gross Unrealized (Losses)** | **Fair Value** |
| U.S. Government agencies and corporations | $ 269 | $ 5 | $ - | $ 274 |
| State and political subdivisions | 1,797 | 25 | - | 1,822 |
| | $ 2,066 | $ 30 | $ - | $ 2,096 |

| | 2009 | | | |
|---|---|---|---|---|
| **Securities Available for Sale:** | **Amortized Cost** | **Gross Unrealized Gains** | **Gross Unrealized (Losses)** | **Fair Value** |
| U.S. Government agencies and corporations | $ 225,989 | $ 5,121 | $ (178) | $ 230,932 |
| State and political subdivisions | 44,464 | 702 | (675) | 44,491 |
| Corporate securities | 2,098 | - | (1,334) | 764 |
| Collaterized mortgage obligations | 3,686 | 194 | - | 3,880 |
| Other | 2 | - | - | 2 |
| | $ 276,239 | $ 6,017 | $ (2,187) | $ 280,069 |

| | 2008 | | | |
|---|---|---|---|---|
| **Securities Held to Maturity:** | **Amortized Cost** | **Gross Unrealized Gains** | **Gross Unrealized (Losses)** | **Fair Value** |
| State and political subdivisions | $ 3,455 | $ 32 | $ (3) | $ 3,484 |

| | 2008 | | | |
|---|---|---|---|---|
| **Securities Available for Sale:** | Amortized Cost | Gross Unrealized Gains | Gross Unrealized (Losses) | Fair Value |
| U.S. Government agencies and corporations | $ 103,929 | $ 3,500 | $ (8) | $ 107,421 |
| State and political subdivisions | 28,511 | 155 | (1,326) | 27,340 |
| Corporate securities | 4,731 | - | (1,782) | 2,949 |
| Collateralized mortgage obligations | 5,534 | 123 | (2) | 5,655 |
| Other | 88 | - | - | 88 |
| | $ 142,793 | $ 3,778 | $ (3,118) | $ 143,453 |

## 4. 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, 2009 and 2008 are summarized as follows (Amounts in thousands of dollars):

| | 2009 | | | | | |
|---|---|---|---|---|---|---|
| | Less than 12 months | | 12 months or more | | Total | |
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| **Securities available for sale:** | | | | | | |
| U.S. Government agencies and corporations | **$ 15,272** | **$ (178)** | **$ -** | **$ -** | **$ 15,272** | **$ (178)** |
| State and political subdivisions | **13,209** | **(368)** | **1,584** | **(307)** | **14,793** | **(675)** |
| Corporate securities | **-** | **-** | **764** | **( 1,334)** | **764** | **(1,334)** |
| | **$ 28,481** | **$ (546)** | **$ 2,348** | **$ (1,641)** | **$ 30,829** | **$ (2,187)** |

| | 2008 | | | | | |
|---|---|---|---|---|---|---|
| | 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 | $ 170 | $ (3) | $ - | $ - | $ 825 | $ (1) |
| **Securities available for sale:** | | | | | | |
| U.S. Government agencies and Corporations | $ 507 | $ (8) | $ - | $ - | $ 507 | $ (8) |
| State and political subdivision | 16,212 | (927) | 2,270 | (399) | 18,482 | (1,326) |
| Corporate securities | 1,575 | (170) | 374 | (1,612) | 1,949 | (1,782) |
| Collateralized mortgage obligations | - | - | 477 | (2) | 477 | (2) |
| | $ 18,294 | $ (1,105) | $ 3,121 | $ (2,013) | $ 21,415 | $ (3,118) |

At December 31, 2009, the investment portfolio included 379 securities. Of this number, 64 securities have current unrealized losses and 11 of them have current unrealized losses which have existed for longer than one year. All of the debt securities with unrealized losses 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 debt securities are temporary. In addition, the Company does not have the intent to sell these debt securities and it is not more-likely-than-not that the Company will be required to sell these debt securities prior to their anticipated recovery.

For the year ended December 31, 2009, the Company recognized other-than-temporary impairment of $1,930,000 on two securities of which $653,000 was associated with credit loss and was, therefore, recognized in income with the remaining noncredit-related portion of $1,277,000 being recognized in other comprehensive income. There was no other-than-temporary impairment recognized for the year ended December 31, 2008.

## 4. SECURITIES (Continued)

The amortized cost and fair value of securities as of December 31, 2009 by contractual maturity are shown below. Expected maturities may differ from contractual maturities because the mortgages underlying the collateralized mortgage obligations and the debt underlying the corporate securities 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):

| Securities held to maturity: | Amortized Cost | Fair Value |
|---|---|---|
| Due in one year or less | $ 1,190 | $ 1,193 |
| Due after one year through five years | 663 | 677 |
| Due after five years through ten years | 39 | 43 |
| Due after ten years | 174 | 183 |
| | $ 2,066 | $ 2,096 |

| Securities available for sale: | Amortized Cost | Fair Value |
|---|---|---|
| Due in one year or less | $ 2,542 | $ 2,628 |
| Due after one year through five years | 60,105 | 60,612 |
| Due after five years through ten years | 78,958 | 80,077 |
| Due after ten years | 128,850 | 132,108 |
| | $ 270,455 | $ 275,425 |
| Corporate securities | 2,098 | 764 |
| Collateralized mortgage obligations | 3,686 | 3,880 |
| | $ 276,239 | $ 280,069 |

Information on sales of securities available for sale during the years ended December 31, 2009, 2008 and 2007 follows (Amounts in thousands of dollars):

| | 2009 | 2008 | 2007 |
|---|---|---|---|
| Proceeds from sales | $ 20,520 | $ 11,303 | $ 10,685 |
| Gross gains | 740 | 116 | 29 |
| Gross losses | - | - | (48) |

As of December 31, 2009 and 2008 securities with a carrying value of approximately $161,110,000 and $112,083,000 respectively, were pledged to collateralize deposits and securities sold under agreements to repurchase and for other purposes as required or permitted by law.

## 5. LOANS

The composition of net loans outstanding as of December 31, 2009 and 2008 are as follows (Amounts in thousands of dollars):

| | 2009 | 2008 |
|---|---|---|
| Commercial | $ 163,602 | $ 158,524 |
| Agricultural | 40,624 | 37,618 |
| Tax exempt | 4,548 | 5,544 |
| Real estate, mortgage | 45,202 | 48,664 |
| Consumer | 38,368 | 38,062 |
| | $ 292,344 | $ 288,412 |
| Less: Allowance for loan losses | (4,644) | (4,037) |
| **Net loans** | $ 287,700 | $ 284,375 |

### 5. LOANS (Continued)

As of December 31, 2009 and 2008, impaired loans were $2,878,000 and $2,998,000, respectively, with a specific allowance provided for them included in the allowance for loan losses of $687,000 and $200,000, respectively. The average recorded investment in impaired loans was $2,938,000 and $2,571,000 for the years ended December 31, 2009 and 2008, respectively. Impaired loans for which a specific allowance has not been provided are $1,966,000 and $2,348,000 as of December 31, 2009 and 2008, respectively. Interest income and cash basis interest income recognized on impaired loans during the years ended December 31, 2009, 2008 and 2007 were not significant.

Nonaccrual loans totaled $3,449,000 and $3,023,000 as of December 31, 2009 and 2008, respectively. Loans past due 90 days or more and still accruing interest were $199,000 and $717,000 at December 31, 2009 and 2008, respectively.

Activity in the allowance for loan losses during the years ended December 31, 2009, 2008 and 2007 is summarized below (Amounts in thousands of dollars):

| | **2009** | 2008 | 2007 |
|---|---|---|---|
| **Balance, beginning of year** | **$ 4,037** | $ 3,310 | $ 3,139 |
| Provision for loan losses | **1,080** | 1,330 | 1,080 |
| Loan charge-offs | **(622)** | (686) | (1,068) |
| Recoveries of loans charged off | **149** | 83 | 159 |
| **Balance, end of year** | **$ 4,644** | $ 4,037 | $ 3,310 |

Mortgage loans serviced for others are not included in the accompanying consolidated balance sheets. The unpaid principal balances of these loans totaled $109,771,000 and $74,746,000 at December 31, 2009 and 2008, 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 collectability or present other unfavorable features. The balances of these loans were $6,369,000 and $9,615,000 at December 31, 2009 and 2008 respectively.

### 6. PREMISES, FURNITURE AND EQUIPMENT

The cost, accumulated depreciation and net book value of premises, furniture and equipment as of December 31, 2009 and 2008 is summarized as follows (Amounts in thousands of dollars):

| | **2009** | 2008 |
|---|---|---|
| Land | **$ 2,673** | $ 2,313 |
| Building and improvements | **10,738** | 8,783 |
| Furniture and equipment | **7,247** | 7,638 |
| | **$ 20,658** | $ 18,734 |
| Less accumulated depreciation | **(8,278)** | (8,368) |
| | **$ 12,380** | $ 10,366 |

## 7. INTANGIBLES

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

| | As of December 31, 2009 | As of December 31, 2008 |
|---|---|---|
| **Intangible assets:** | | |
| Goodwill | **$ 3,050** | $ 3,050 |
| Core deposit intangible | **1,380** | 1,223 |
| Other intangible assets | **481** | 481 |
| Less accumulated amortization on certain intangible assets | **(1,304)** | (1,086) |
| **Total intangible assets** | **$ 3,607** | $ 3,668 |
| **Estimated future amortization expense:** | | |
| For the year ended December 31: | | |
| 2009 | | $ 213 |
| 2010 | **$ 223** | 197 |
| 2011 | **68** | 42 |
| 2012 | **68** | 42 |
| 2013 | **68** | 42 |
| 2014 | **68** | 42 |
| Thereafter | **62** | 40 |

## 8. TIME DEPOSITS

The aggregate amount of time deposits, each with a minimum denomination of $100,000, was approximately $107,698,000 and $66,469,000 at December 31, 2009 and 2008, respectively. This includes brokered deposits of $9,663,000 and none at December 31, 2009 and 2008, respectively.

At December 31, 2009, the scheduled maturities of time deposits are as follows (Amounts in thousands of dollars):

| | |
|---|---|
| 2010 | **$ 196,405** |
| 2011 | **49,906** |
| 2012 | **14,974** |
| 2013 | **7,186** |
| 2014 | **7,532** |
| Thereafter | **1,317** |
| | **$ 277,320** |

## 9. FEDERAL HOME LOAN BANK ADVANCES

Federal Home Loan Bank (FHLB) advances are summarized as follows at December 31, 2009 and 2008 (Amounts in thousands of dollars):

| | **2009** | | 2008 | |
|---|---|---|---|---|
| Maturity in year ending December 31: | **Weighted Average Interest Rate** | **Balance Due** | Weighted Average Interest Rate | Balance Due |
| 2009 | **-** | **-** | 3.25% | $ 10,000 |
| 2010 | **4.81%** | **$ 3,000** | 4.81 | 3,000 |
| 2011 | **4.95** | **5,500** | 4.95 | 5,500 |
| | | **$ 8,500** | | $ 18,500 |

### 9. FEDERAL HOME LOAN BANK ADVANCES (Continued)

First mortgage loans of approximately $11,333,000 and $24,667,000 as of December 31, 2009 and 2008, respectively, are pledged as collateral on FHLB advances.

### 10. 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, 2009 and 2008, the Company is allowed, for regulatory purposes, to include $15,000,000 and $11,955,000 respectively of the capital securities issued by the Trusts in Tier I capital, with the remainder included in Tier II capital.

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 (2.90% and 4.08% as of December 31, 2009 and 2008). 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 at par plus any accrued and unpaid distributions to the date of the redemption; however, the Trust has the option to shorten the maturity date. The redemption may be in whole or in part, but in all cases in a principal amount with integral multiples of $1,000.

Effective January 2009, the Company entered into an interest rate swap agreement related to the Company Obligated Mandatorily Redeemable Preferred Securities issued in 2004 by FBIL Statutory Trust III. The swap agreement is utilized to manage variable interest rate exposure and is designated as a highly effective cash flow hedge. The swap agreement expires in 2013 and essentially fixes the rate to be paid at 5.02%. As of December 31, 2009, the notional amount of the swap is $5,000,000 with a fair value of $24,000 recorded as an asset and as an addition to accumulated other comprehensive income in the consolidated balance sheet.

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 (3.20% and 4.38% as of December 31, 2009 and 2008, 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 at par plus any accrued and unpaid distributions to the date of the redemption; however, the Company has the option to shorten the maturity date.

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. 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.

## 11. PREFERRED STOCK, SERIES A AND B

In October 2008, Congress passed the Emergency Economic Stabilization Act of 2008 (EESA). One of the provisions resulting from the Act is the Treasury Capital Purchase Program (CPP) which provides direct equity investment of perpetual preferred stock by the U.S. Treasury in qualified financial institutions. In January 2009, the Company, pursuant to the CPP implemented under the EESA, issued and sold to the Treasury 10,000 shares of the Company's Cumulative Perpetual Preferred Stock, Series A, together with a warrant to purchase 500 shares of the Company's Cumulative Perpetual Perferred Stock, Series B, for an aggregate purchase price of $10 million in cash. The warrant has a ten-year term and was immediately exercised upon its issuance at the exercise price of $0.01 per share.

The Series A Preferred Stock qualifies as Tier 1 capital and pays cumulative dividends at a rate of 5% per annum for the first five years, and 9% per annum thereafter. The Series B Preferred Stock also qualifies as Tier 1 capital and pays cumulative dividends at a rate of 9% per annum. The Series A and B Preferred Stock may be redeemed by the Company at any time, subject to approval of the Federal Reserve. Any redemption of the Series A and B Preferred Stock will be at the per share liquidation amount of $1,000 per share, plus any accrued and unpaid dividends.

Prior to the third anniversary of the Treasury's purchase of the Series A Preferred Stock, unless the Series A Preferred Stock has been redeemed or the Treasury has transferred all of the Series A Preferred Stock to one or more third parties, the consent of the Treasury will be required for the Company to increase the dividend paid on its common stock above its most recent quarterly dividend of $0.115 per share or repurchase shares of its common stock. The Series A and B Preferred Stock are non-voting except for class voting rights on matters that would adversely affect the rights of the holders of the Series A and B Preferred Stock.

For accounting purposes, the proceeds of the $10,000,000 were allocated between the preferred stock and the warrant based on their relative fair values. The entire discount on the preferred stock, created from the initial value assigned to the warrant, will be accreted over a five year period in a manner that produces a level preferred stock dividend yield. At the end of the fifth year, the carrying amount of the preferred stock will equal its liquidation value.

## 12. 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, 2009 and 2008 is as follows (Amounts in thousands of dollars):

| | **2009** | 2008 |
|---|---|---|
| Commitments to extend credit and unused lines of credit | **$ 59,574** | $ 59,316 |
| Standby letters of credit | **1,262** | 1,517 |

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.

## 12. COMMITMENTS AND CONTINGENCIES (Continued)

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, 2009 and 2008, 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 $1,801,000 and $7,013,000 at December 31, 2009 and 2008, respectively. These amounts include loans held for sale of $183,000 and $187,000 as of December 31, 2009 and 2008, respectively and loan commitments, included in the summary in this Note, of $1,618,000 and $6,826,000 as of December 31, 2009 and 2008, respectively.

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, 2009, 2008, and 2007. 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 Company's cash is maintained at various correspondent banks. The total amount of cash on deposit and federal funds sold exceeded federal insurance limits at three institutions by a total of approximately $2,370,000 as of December 31, 2009. In the opinion of management, no material risk of loss exists due to the financial condition of the institutions.

## 13. BENEFITS

The Company has a 401(k) plan, which is a tax qualified savings plan, to encourage its employees to save for retirement purposes or other contingencies. All employees, working over 1,000 hours per year, of the Company and its subsidiaries are eligible to participate in the Plan after completion of one year of service and attaining the age of 21. The employee may elect to contribute a percentage of their compensation before taxes in a traditional 401(k) and/or a percentage of their compensation after taxes using the subsidiary's Roth 401(k) option. 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, death or hardship withdrawal.

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, 2009, 2008, and 2007 totaled $370,000, $325,000 and $295,000, respectively. Contributions made to the incentive compensation plan for the years ended December 31, 2009, 2008, and 2007 were $317,000, $259,000 and $247,000 respectively.

## 14. 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 financial regulatory 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. In addition, as described in Note 11, under provisions of the Treasury Capital Purchase Program, the consent of the Treasury will be required for the Company to increase the dividend paid on its common stock above the most recent quarterly dividend of $.115 per share.

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 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, 2009, 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.

## 14. DIVIDENDS AND REGULATORY CAPITAL (Continued)

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

| | Actual | | For Capital Adequacy Purposes | | To Be Well Capitalized Under Prompt Corrective Action Provisions | |
|---|---|---|---|---|---|---|
| **As of December 31, 2009** | **Amount** | **Ratio** | **Amount** | **Ratio** | **Amount** | **Ratio** |
| Total Capital | | | | | | |
| (to Risk Weighted Assets) | | | | | | |
| Company | **$66,508** | **16.60%** | **≥$32,050** | **≥8.00%** | **N/A** | **N/A** |
| Bank | **$54,350** | **13.67%** | **≥$31,803** | **≥8.00%** | **≥$39,753** | **≥10.00%** |
| Tier I Capital | | | | | | |
| (to Risk Weighted Assets) | | | | | | |
| Company | **$61,864** | **15.44%** | **≥$16,025** | **≥4.00%** | **N/A** | **N/A** |
| Bank | **$49,706** | **12.50%** | **≥$15,901** | **≥4.00%** | **≥$23,852** | **≥6.00%** |
| Tier I Capital | | | | | | |
| (to Average Assets) | | | | | | |
| Company | **$61,864** | **9.88%** | **≥$25,038** | **≥4.00%** | **N/A** | **N/A** |
| Bank | **$49,706** | **8.03%** | **≥$24,767** | **≥4.00%** | **≥$30,959** | **≥5.00%** |
| As of December 31, 2008 | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| Total Capital | | | | | | |
| (to Risk Weighted Assets) | | | | | | |
| Company | $51,212 | 14.36% | ≥$28,526 | ≥8.00% | N/A | N/A |
| Bank | $40,164 | 11.37% | ≥$28,256 | ≥8.00% | ≥$35,319 | ≥10.00% |
| Tier I Capital | | | | | | |
| (to Risk Weighted Assets) | | | | | | |
| Company | $44,363 | 12.44% | ≥$14,263 | ≥4.00% | N/A | N/A |
| Bank | $36,360 | 10.29% | ≥$14,128 | ≥4.00% | ≥$21,192 | ≥6.00% |
| Tier I Capital | | | | | | |
| (to Average Assets) | | | | | | |
| Company | $44,363 | 8.96% | ≥$19,799 | ≥4.00% | N/A | N/A |
| Bank | $36,360 | 7.45% | ≥$19,531 | ≥4.00% | ≥$24,414 | ≥5.00% |

## 15. INCOME TAX MATTERS

The components of income tax expense are as follows for the years ended December 31, 2009, 2008, and 2007 (Amounts in thousands of dollars):

| | Years Ended December 31 | | |
|---|---|---|---|
| | **2009** | 2008 | 2007 |
| Current | **$ 2,755** | $ 1,894 | $ 1,624 |
| Deferred | **(253)** | 165 | (24) |
| | **$ 2,502** | $ 2,059 | $ 1,600 |

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):

| | **2009 Amount** | **% of Pretax Income** | 2008 Amount | % of Pretax Income | 2007 Amount | % of Pretax Income |
|---|---|---|---|---|---|---|
| Federal income tax at statutory rate | **$ 2,852** | **34.0 %** | $ 2,308 | 34.0 % | $ 1,987 | 34.0 % |
| Changes from statutory rate resulting from: | | | | | | |
| State tax, net of federal benefit | **354** | **4.2** | 291 | 4.3 | 164 | 2.8 |
| Tax exempt interest income, net | **(548)** | **(6.5)** | (438) | (6.5) | (405) | (6.9) |
| Increase in cash surrender value | **(107)** | **(1.3)** | (110) | (1.6) | (104) | (1.8) |
| Over (under) accrual of provision and other, net | **(49)** | **(0.6)** | 8 | .1 | (42) | (.7) |
| Income tax expense | **$ 2,502** | **29.8 %** | $ 2,059 | 30.3 % | $ 1,600 | 27.4 % |

Net deferred tax assets consist of the following components as of December 31, 2009 and 2008 (Amounts in thousands of dollars):

| **Deferred tax assets:** | **2009** | 2008 |
|---|---|---|
| Allowance for loan losses | **$ 1,708** | $ 1,399 |
| Other-than-temporary impairment | **248** | - |
| Accrued expenses | **174** | 175 |
| | **$ 2,130** | $ 1,574 |
| **Deferred tax liabilities**: | | |
| Premises, furniture and equipment | **$ (440)** | $ (357) |
| Stock dividends | **(140)** | (140) |
| Prepaid expenses | **(72)** | (73) |
| Unrealized gains on securities available for sale, net | **(1,456)** | (252) |
| Intangibles | **(319)** | (98) |
| Interest rate swap | **(9)** | - |
| Other | **(161)** | (161) |
| | **$ (2,597)** | $ (1,081) |
| **Net deferred tax assets (liabilities)** | **$ (467)** | $ 493 |

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

## 15. 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, | | |
|---|---|---|---|
| | **2009** | 2008 | 2007 |
| Provision for income taxes | **$ (253)** | $ 165 | $ (24) |
| Statement of changes in stockholders' equity, accumulated other comprehensive income, unrealized gains on securities available for sale, net | **1,204** | 51 | 528 |
| Interest rate swap | **9** | - | - |
| | **$ 960** | $ 216 | $ 504 |

## 16. FAIR VALUE MEASUREMENTS

The Fair Value Measurements and Disclosures Topic of the FASB Accounting Standards Codification defines fair value, establishes a framework for measuring fair value and requires disclosure of fair value measurements. Effective January 1, 2009, the Company adopted the portion of the Topic which requires disclosure of nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value on a nonrecurring basis. The fair value hierarchy set forth in the Topic is as follows:

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

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

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

A description of the valuation methodologies used for assets measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below.

Investment securities available for sale: Where quoted prices are available in an active market, securities are classified within level 1 of the valuation hierarchy. Level 1 securities would include highly liquid government bonds and exchange traded equities. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, or discounted cash flow. Level 2 securities would include U.S. agency securities, mortgage−backed agency securities, obligations of states and political subdivisions and certain corporate, asset backed and other securities. In certain cases where there is limited activity or less transparency around inputs to the valuation, securities are classified within level 3 of the valuation hierarchy.

Impaired loans: The Company does not record loans at fair value on a recurring basis. However, from time to time, a loan is considered impaired and an allowance for loan losses is established. The specific reserves for collateral dependent impaired loans are based on the fair value of the collateral less estimated costs to sell. The fair value of collateral is determined based on appraisals. In some cases, adjustments are made to the appraised values due to various factors including age of the appraisal, age of comparables included in the appraisal, and known changes in the market and in the collateral. When significant adjustments are based on unobservable inputs, the resulting fair value measurement has been categorized as a Level 3 measurement.

## 16. FAIR VALUE MEASUREMENTS (Continued)

Other real estate owned: Other real estate owned is carried at the lower of the principal amount of the loan outstanding at the time of acquisition, plus any acquisition costs, or the estimated fair value of the property, less disposal costs. The fair value of the property is determined based upon appraisals. As with impaired loans, if significant adjustments are made to the appraised value, based upon unobservable inputs, the resulting fair value measurement is categorized as a level 3 measurement.

Interest rate swap: The fair value is estimated by a third party using input that are observable or that can be corroborated by observable market data, and therefore, are classified within level 2 of the valuation hierarchy.

**Assets and liabilities recorded at fair value on a recurring basis:**

The following table summarizes assets measured at fair value on a recurring basis as of December 31, 2009 and 2008, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

| | Fair Value Measurements as of December 31, 2009 using | | | |
|---|---|---|---|---|
| | Fair Value | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| **Investment securities available for sale:** | | | | |
| **U.S. Government agencies and corporations** | **$ 230,932** | **$ -** | **$ 230,932** | **$ -** |
| **State and political subdivisions** | **44,491** | **-** | **44,491** | **-** |
| **Corporate securities** | **764** | **-** | **764** | **-** |
| **Collateralized mortgage obligations** | **3,880** | **-** | **3,880** | **-** |
| **Other** | **2** | **-** | **2** | **-** |
| | **$ 280,069** | **$ -** | **$ 280,069** | **$ -** |
| **Interest rate swap** | **$ 24** | **$ -** | **$ 24** | **$ -** |

| | Fair Value Measurements as of December 31, 2008 using | | | |
|---|---|---|---|---|
| | Fair Value | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Investment securities available for sale: | | | | |
| U.S. Government agencies and corporations | $ 107,421 | $ - | $ 107,421 | $ - |
| State and political subdivisions | 27,340 | - | 27,340 | - |
| Corporate securities | 2,949 | - | 2,949 | - |
| Collateralized mortgage obligations | 5,655 | - | 5,655 | - |
| Other | 88 | - | 88 | - |
| | $ 143,453 | $ - | $ 143,453 | $ - |

## 16. FAIR VALUE MEASUREMENTS (Continued)

**Assets and liabilities recorded at fair value on a nonrecurring basis:**

The Company may be required, from time to time, to measure certain assets and liabilities at fair value on a nonrecurring basis such as when there is evidence of impairment. Assets measured at fair value on a nonrecurring basis are included in the table below:

| | Fair Value Measurements as of December 31, 2009 using | | | |
|---|---|---|---|---|
| | **Fair Value** | **Quoted Prices in Active Markets for Identical Assets (Level 1)** | **Significant Other Observable Inputs (Level 2)** | **Significant Unobservable Inputs (Level 3)** |
| **Impaired loans** | $ 259 | $ - | $ - | $ 259 |
| **Other real estate owned** | $ 242 | $ - | $ - | $ 242 |

| | Fair Value Measurements as of December 31, 2008 using | | | |
|---|---|---|---|---|
| | Fair Value | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Impaired loans | $ 460 | $ - | $ - | $ 460 |

## 17. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Financial Instruments Topic of the FASB Accounting Standards Codification, 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. Fair value is determined under the framework discussed in the preceding note. The Topic excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented do not 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.

**17. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)**

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 junior subordinated debentures is estimated using discounted cash flow analyses, using interest rates currently being offered for similar borrowings.

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, 2009 and 2008 are as follows (Amounts in thousands of dollars):

| | 2009 | | 2008 | |
|---|---|---|---|---|
| | **Carrying Value** | **Fair Value** | Carrying Value | Fair Value |
| Financial assets: | | | | |
| Cash and due from banks | **$ 17,616** | **$ 17,616** | $ 28,467 | $ 28,467 |
| Securities held to maturity | **2,066** | **2,096** | 3,455 | 3,484 |
| Securities available for sale | **280,069** | **280,069** | 143,453 | 143,453 |
| Federal funds sold | **293** | **293** | 6,483 | 6,483 |
| Loans, net | **287,883** | **289,068** | 284,562 | 288,254 |
| Accrued interest receivable | **3,399** | **3,399** | 2,659 | 2,659 |
| Financial liabilities: | | | | |
| Non-interest-bearing demand deposits | **$ 64,801** | **$ 64,801** | $ 68,214 | $ 68,214 |
| Interest-bearing demand deposits | **136,315** | **136,315** | 100,031 | 100,031 |
| Savings deposits | **33,333** | **33,333** | 43,724 | 43,724 |
| Time deposits | **277,320** | **278,504** | 188,875 | 189,294 |
| Securities sold under agreements to repurchase | **30,217** | **30,217** | 22,045 | 22,045 |
| Federal Home Loan Bank advances | **8,500** | **8,967** | 18,500 | 19,332 |
| Junior Subordinated Debentures | **15,465** | **14,181** | 15,465 | 13,157 |
| Accrued interest payable | **1,313** | **1,313** | 1,446 | 1,446 |

**18. ACQUSITION**

In November 2009, the Company entered into a purchase and assumption agreement with First Bank to acquire a branch banking office in Springfield, Illinois in order to expand the market area. Assets with a fair value of $2,876,000 were purchased, liabilities with a fair value of $20,171,000 were assumed, and net cash received was $17,786,000. The transaction resulted in a bargain purchase with a gain of $491,000 recognized in other income for the year ended December 31, 2009 in the consolidated statement of income. The gain was the result of the fair value of certain assets acquired exceeding agreed to values in the purchase agreement. The acquisition was accounted for in accordance with the Business Combinations Topic of the Accounting Standards Codification.

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