



**First Bankers
Trustshares, Inc.**

> > > 2011 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.
(217) 228-8000

STOCKHOLDER INFORMATION

Common shares authorized: 6,000,000

Common shares outstanding
as of December 31, 2011: 2,053,026

Stockholders of record: 245*

*As of December 31, 2011

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

CORPORATE ADDRESS

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

INDEPENDENT AUDITORS

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

GENERAL COUNSEL

Hunton & Williams, LLP
1445 Ross Ave., Suite 3700
Dallas, TX 75202

FIRST BANKERS TRUSTSHARES, INC. BOARD OF DIRECTORS

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 & Freiburg Development
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/CEO, First Bankers Trust Company, N.A.
President/CEO, First Bankers Trustshares, Inc.*

Phyllis J. Hofmeister

Secretary, Robert Hofmeister Farm

Steven E. Siebers

*Secretary of the Board, First Bankers Trustshares, Inc.
Secretary of the Board, First Bankers Trust Company, N.A.
Secretary of the Board, First Bankers Trust Services, Inc.
Attorney at Law, 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	12/31/11	09/30/11	06/30/11	03/31/11	12/31/10
High	\$ 21.50	\$ 20.45	\$ 21.05	\$ 22.10	\$ 22.01
Low	\$ 18.00	\$ 18.00	\$ 20.00	\$ 20.80	\$ 18.43
Period End Close	\$ 21.04	\$ 18.00	\$ 20.34	\$ 20.80	\$ 20.10

The following companies make a market in FBTI common stock:

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

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

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

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

LETTER TO SHAREHOLDERS

Dear Shareholders,

By many, if not most measurements, the year 2011 was a very successful year. We finished our new Corporate Headquarters at 12th & Broadway in Quincy. This solidified our very strong banking presence in the Quincy community. By the time you receive this report, our newest facility in Macomb will be open giving us two locations in our Macomb, Illinois market. This will allow us to continue our momentum in this very important university community. Our most Eastern branch in Springfield, Illinois has been a tremendous investment for us. We look for further growth and opportunities in this dynamic marketplace.

Our Trust Company continues its growth in national trust business throughout the United States. We currently do business with customers in 35 states across the nation. In 2011, the Trust Company eclipsed \$3 billion in assets under management for employee benefit trusts, personal trusts and Individual Retirement Accounts.

Our earnings were good, if not a record. Our measurement was based against our record 2010 year where we had an extraordinary \$1 million gain on securities sales. Even with that gain, 2011 was our second best year from an earnings standpoint and allowed us to boost our dividend by over 30%.

We remain continuously optimistic about the future of your Company. We hope to continue to reward you with increased earnings, dividends and the growth of your investment in the future.

We look forward to talking with you at our annual meeting on Tuesday, May 15, 2012 at our new Corporate Headquarters building, located at 12th and Broadway Streets in Quincy, Illinois. The meeting will begin at 9:00 a.m.



Donald K. Gnuse
Chairman of the Board



Arthur E. Greenbank
President/CEO



Donald K. Gnuse
Chairman of the Board



Arthur E. Greenbank
President/CEO

SELECT FINANCIAL DATA

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

Year Ended December 31,	2011	2010	2009	2008	2007	2006
PERFORMANCE						
Net income	\$ 6,057	\$ 6,440	\$ 5,885	\$ 4,729	\$ 4,243	\$ 3,763
Common stock cash dividends paid	\$ 944	\$ 943	\$ 942	\$ 942	\$ 860	\$ 778
Common stock cash dividend payout ratio ¹	17.67 %	16.28 %	17.90 %	19.93 %	20.28 %	20.69 %
Return on average assets ¹	0.75 %	0.88 %	0.89 %	1.01 %	0.97 %	0.91 %
Return on average common stockholders' equity ²	11.26 %	13.54 %	13.79 %	13.77 %	13.90 %	13.68 %
PER COMMON SHARE						
Earnings, basic and diluted	\$ 2.60	\$ 2.83	\$ 2.57	\$ 2.31	\$ 2.07	\$ 1.84
Dividends (paid) on common stock	\$ 0.46	\$ 0.46	\$ 0.46	\$ 0.46	\$ 0.42	\$ 0.38
Book value ³	\$ 24.08	\$ 21.98	\$ 19.62	\$ 17.51	\$ 15.66	\$ 14.02
Stock price						
High	\$ 22.10	\$ 22.01	\$ 18.25	\$ 21.75	\$ 20.00	\$ 23.25
Low	\$ 18.00	\$ 16.10	\$ 12.00	\$ 15.60	\$ 18.00	\$ 18.05
Close	\$ 21.04	\$ 20.10	\$ 16.10	\$ 18.00	\$ 19.70	\$ 19.00
Price/Earnings per share (at period end)	8.1	7.1	6.3	7.8	9.5	10.3
Market price/Book value (at period end)	0.87	0.91	0.82	1.03	1.26	1.36
Weighted average number of shares outstanding	2,052,703	2,050,864	2,048,574	2,048,574	2,048,574	2,048,574
AT DECEMBER 31,						
Assets	\$ 721,854	\$ 690,644	\$ 623,896	\$ 498,028	\$ 438,878	\$ 423,674
Investment securities	281,635	278,729	282,135	146,908	114,616	95,773
Loans held for sale	454	-	183	187	835	599
Loans	375,390	337,558	292,344	288,412	279,915	275,974
Deposits	584,499	570,436	511,769	400,844	359,345	355,955
Short-term borrowings and Federal Home Loan Bank advances	48,769	43,104	38,717	40,545	27,088	19,537
Junior subordinated debentures	15,465	15,465	15,465	15,465	15,465	15,465
Preferred stock	10,000	10,200	10,100	-	-	-
Stockholders' equity ⁴	\$ 59,446	\$ 55,286	\$ 50,287	\$ 35,866	\$ 32,079	\$ 28,717
Total equity to total assets ⁴	8.24 %	8.00 %	8.06 %	7.20 %	7.31 %	6.78 %
Tier 1 capital ratio (risk based)	14.68 %	14.70 %	15.44 %	12.44 %	11.78 %	10.39 %
Total capital ratio (risk based)	15.54 %	15.43 %	16.60 %	14.36 %	14.05 %	12.93 %
Leverage ratio	9.99 %	9.83 %	9.88 %	8.96 %	8.89 %	8.21 %

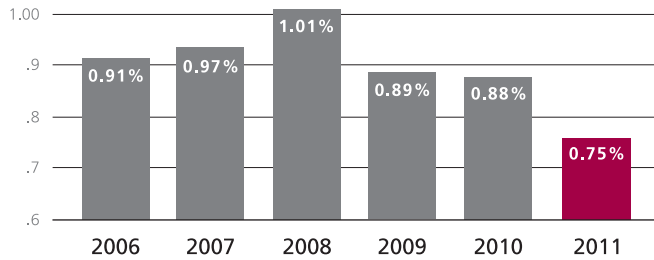
¹ Excludes preferred stock dividends/accretion.

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 and 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 Stockholders' equity includes preferred stock and excludes accumulated other comprehensive income or loss.

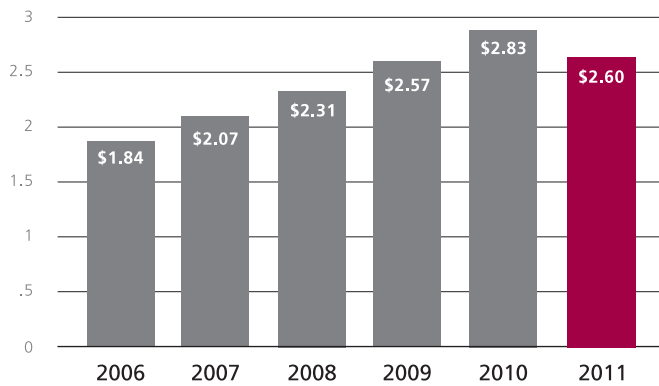
RETURN ON AVERAGE ASSETS



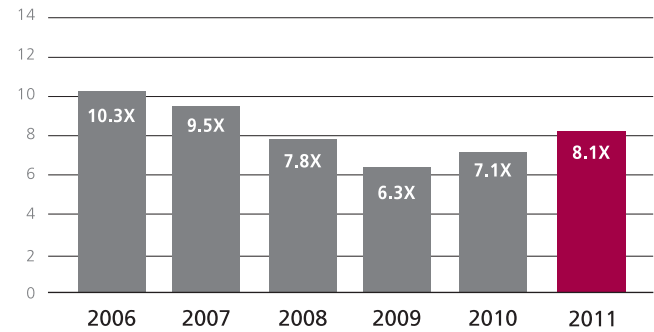
RETURN ON AVERAGE COMMON EQUITY



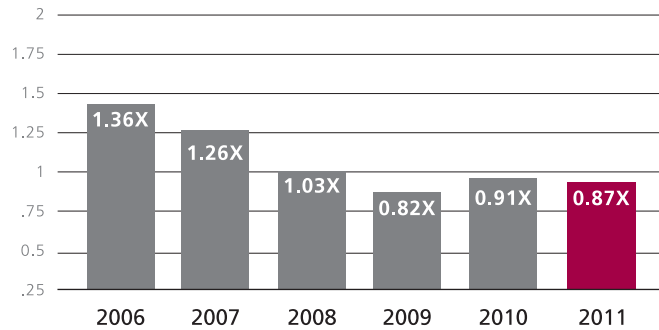
EARNINGS PER SHARE



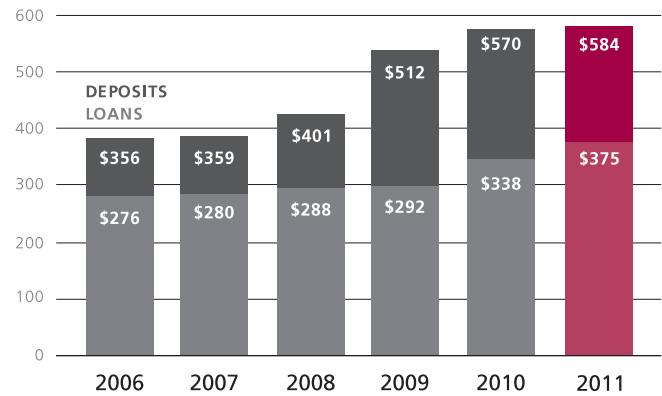
PRICE/EARNINGS MULTIPLES



MARKET PRICE TO BOOK VALUE



LOAN/DEPOSIT GROWTH



MANAGEMENT'S REPORT of Internal Controls Over Financial Reporting

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/CEO



Brian A. Ippensen
Treasurer



Arthur E. Greenbank
President/CEO



Brian A. Ippensen
Treasurer

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 2011 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)*

	2011	Change	2010	Change	2009	2008	2007	2006	5 Year Growth Rate
ASSETS									
Cash and due from banks:									
Non-interest bearing	\$ 12,104	29.27 %	\$ 9,363	2.68 %	\$ 9,119	\$ 9,923	\$ 13,668	\$ 10,738	12.72 %
Interest bearing	9,073	(64.67)	25,681	202.24	8,497	18,544	1,658	1,443	528.76
Securities	281,635	1.04	278,729	(1.21)	282,135	146,908	114,616	95,773	194.07
Federal funds sold	3,238	49.42	2,167	639.59	293	6,483	5,035	14,485	(77.65)
Loans held for sale	454	100.00	-	(100.00)	183	187	835	599	(24.21)
Net loans	370,203	11.33	332,538	15.58	287,700	284,375	276,605	272,835	35.69
Other assets	45,147	7.07	42,166	17.23	35,969	31,608	26,461	27,801	62.39
TOTAL	\$ 721,854	4.52 %	\$ 690,644	10.70 %	\$ 623,896	\$ 498,028	\$ 438,878	\$ 423,674	70.38 %

LIABILITIES & STOCKHOLDERS' EQUITY

Deposits	\$ 584,499	2.47%	\$ 570,436	11.46 %	\$ 511,769	\$ 400,844	\$ 359,345	\$ 355,955	64.21 %
Short-term borrowings	48,769	29.69	37,604	24.45	30,217	22,045	15,088	14,037	247.43
Federal Home Loan Bank advances	-	(100.00)	5,500	(35.29)	8,500	18,500	12,000	5,500	(100.00)
Junior Subordinated Debentures	15,465	-	15,465	-	15,465	15,465	15,465	15,465	-
Other liabilities	8,954	77.06	5,057	(4.02)	5,269	4,900	4,574	4,535	97.44
Stockholders' equity	64,167	13.41	56,582	7.42	52,676	36,274	32,406	28,182	127.69
TOTAL	\$ 721,854	4.52 %	\$ 690,644	10.70 %	\$ 623,896	\$ 498,028	\$ 438,878	\$ 423,674	70.38 %

At December 31, 2011, the Company had assets of \$721,854,000 compared to \$690,644,000 at December 31, 2010. The growth in assets is primarily made up of an 11.33% growth in net loans. The growth was primarily funded by a 2.47% growth in deposits and a 29.69% growth in short term borrowings.

The growth in the net loan portfolio was primarily made up of growth in commercial, operating and commercial real estate loans of \$31,649,000 and agriculture loans of \$4,550,000. Approximately \$58,051,000 of fixed rate long-term residential real estate loans were sold in the secondary market during 2011 while \$91,274,000 were sold in 2010. Agricultural real estate loans totaling \$6,020,000 were sold in the secondary market during 2011, while \$3,284,000 were sold in 2010. 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, 2011, the Company reported consolidated net income of \$6,057,000, a \$383,000 (5.95%) decrease from 2010. Net interest income after provision for loan losses for the periods being compared increased \$1,709,000 or 10.74%. Other operating income decreased \$521,000 (4.67%) and other expenses increased \$1,990,000 (11.12%) from 2010.

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 \$662,207,000 for the year ended December 31, 2011. 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.

CONSOLIDATED INCOME SUMMARY *(Amounts in thousands of dollars)*

	2011	Change	2010	Change	2009	2008	2007	2006	5 Year Growth Rate
Interest income	\$ 27,155	4.72 %	\$ 25,930	(0.85) %	\$ 26,153	\$ 25,711	\$ 26,912	\$ 24,618	10.31 %
Interest expense	(7,888)	(11.69)	(8,932)	(7.56)	(9,663)	(11,009)	(14,027)	(11,944)	(33.96)
Net interest income	\$ 19,267	13.35 %	\$ 16,998	3.08 %	\$ 16,490	\$ 14,702	\$ 12,885	\$ 12,674	52.02 %
Provision for loan losses	(1,640)	51.85	(1,080)	-	(1,080)	(1,330)	(1,080)	(1,080)	51.85
Net interest income after provision for loan losses	\$ 17,627	10.74 %	\$ 15,918	3.30 %	\$ 15,410	\$ 13,372	\$ 11,805	\$ 11,594	52.04 %
Other income	10,643	(4.67)	11,164	22.78	9,093	7,835	7,415	6,977	52.54
Other expenses	(19,889)	11.12	(17,899)	11.06	(16,116)	(14,419)	(13,377)	(13,503)	47.29
Income before taxes	\$ 8,381	(8.73) %	\$ 9,183	9.49 %	\$ 8,387	\$ 6,788	\$ 5,843	\$ 5,068	65.37 %
Income tax expense	(2,324)	(15.28)	(2,743)	9.63	(2,502)	(2,059)	(1,600)	(1,305)	78.08
NET INCOME	\$ 6,057	(5.95) %	\$ 6,440	9.43 %	\$ 5,885	\$ 4,729	\$ 4,243	\$ 3,763	60.96 %

Years Ended December 31,	2011	2010	2009
<i>(Amounts in thousands of dollars)</i>			
Interest Income	\$ 26,620	\$ 25,375	\$ 25,607
Loan Fees	535	555	546
Interest Expense	(7,888)	(8,932)	(9,663)
NET INTEREST INCOME	\$ 19,267	\$ 16,998	\$ 16,490
Average Earning Assets	\$ 662,207	\$ 611,482	\$ 553,127
Net Interest Margin	2.91 %	2.78 %	2.98 %

The yield on average earning assets for the year ended 2011 was 4.10% while the average cost of funds for the same period was 1.36% on average interest bearing liabilities of \$580,764,000. The yield on average earning assets for the year ended 2010 was 4.24%, while the average cost of funds for the same period was 1.67% on average interest bearing liabilities of \$535,405,000. The increase in the net interest income of \$2,269,000 can be attributed to the 8.30% increase in average earning assets and the 0.31% decrease in average cost of funds, which was partially offset by the 0.14% decrease in yield on earning assets.

PROVISION FOR LOAN LOSSES

The allowance for loan losses as a percentage of net loans outstanding is 1.38% at December 31, 2011, compared to 1.49% at December 31, 2010. Net loan charge-offs totaled \$1,473,000 for the year ended December 31, 2011 compared to \$704,000 in 2010.

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, 2011.

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, 2011 was \$10,643,000, a decrease of \$521,000 (4.67%) from 2010. An increase in trust services income of \$355,000 offset by a decrease in security gains of \$1,095,000 primarily accounted for the overall decrease.

OTHER EXPENSE

Other expenses for the period ended December 31, 2011 totaled \$19,889,000, an increase of \$1,990,000 (11.12%) from 2010 year end totals. Salaries and employee benefits expense aggregated 56.65% and 55.02% of total other expense for the years ended December 31, 2011 and 2010, respectively.

NON-ACCRUAL AND PAST DUE LOANS, LEASES AND OTHER REAL ESTATE OWNED

(Amounts in thousands of dollars)

At December 31,	2011	2010	2009	2008	2007	2006
Non-accrual loans and leases	\$ 5,218	\$ 5,856	\$ 3,449	\$ 3,023	\$ 2,152	\$ 236
Other real estate owned (ORE)	210	1,757	230	1,370	90	1,327
Total non-accrual loans and (ORE)	\$ 5,428	\$ 7,613	\$ 3,679	\$ 4,393	\$ 2,242	\$ 1,563
Loans and leases past due 90 days or more and still accruing interest	186	591	199	717	301	578
Total	\$ 5,614	\$ 8,204	\$ 3,878	\$ 5,110	\$ 2,543	\$ 2,141

INCOME TAXES

The Company files its Federal income tax return on a consolidated basis with the Bank. See Note 14 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, 2011, these categories totaled \$25,343,000 or 3.51% of assets, compared to \$38,987,000 or 5.65% the previous year.

As of December 31, 2011, securities held to maturity included \$29,000 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 2012, 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):

REPRICING PERIOD As of December 31, 2011

	Through One Year	After One Year Through Five Years	After Five Years
Interest-earning assets	\$ 173,181	\$ 256,016	\$ 236,595
Interest-bearing liabilities	440,650	121,686	15,465
Repricing gap (repricing assets minus repricing liabilities)	\$ (267,469)	\$ 134,330	\$ 221,130

REPRICING PERIOD As of December 31, 2010

	Through One Year	After One Year Through Five Years	After Five Years
Interest-earning assets	\$ 167,720	\$ 222,207	\$ 254,208
Interest-bearing liabilities	435,690	107,722	15,466
Repricing gap (repricing assets minus repricing liabilities)	\$ (267,970)	\$ 114,485	\$ 238,742

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.

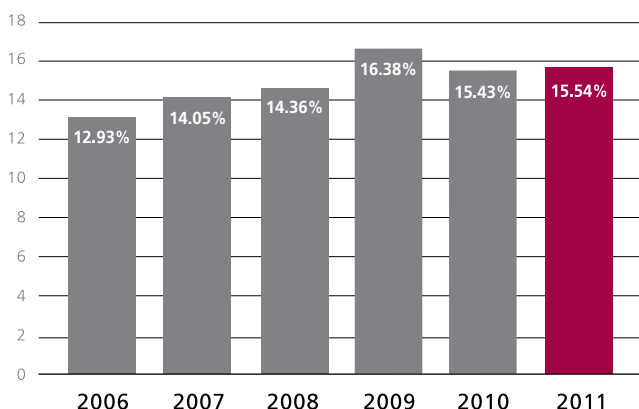
CAPITAL

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 15.54 percent of risk-weighted assets at December 31, 2011. In addition, a leverage ratio of at least 4.00 percent is to be maintained. At December 31, 2011, the Company's leverage ratio was 9.99 percent.

RISK BASED CAPITAL RATIOS



ASSET LIABILITY MANAGEMENT

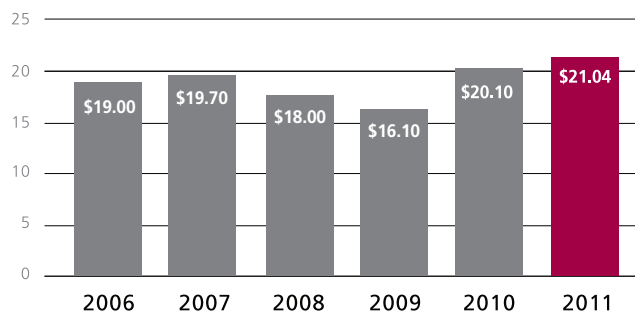
Since changes in interest rates may have a significant impact on operations the Company has implemented, and currently maintains, an asset liability management committee at the Bank to monitor and react to the changes in interest rates and other economic conditions. Research concerning interest rate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

COMMON STOCK INFORMATION AND DIVIDENDS

The Company's common stock is held by 245 shareholders as of December 31, 2011, and is traded in a limited over-the-counter market.

On December 31, 2011 the market price of the Company's common stock was \$21.04. Market price is based on stock transactions in the market. Dividends on common stock of \$1,016,000 were declared by the Board of Directors of the Company for the year ended December 31, 2011.

CLOSING SHARE PRICE DATA



FINANCIAL REPORT

Upon written request of any shareholder of record on December 31, 2011, the Company will provide, without charge, a copy of its 2011 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 15, 2012 at 9:00 A.M. at the corporate headquarters, 1201 Broadway, Quincy, Illinois.

INDEPENDENT AUDITOR'S REPORT

McGladrey & Pullen, LLP



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, 2011 and 2010, and the related consolidated statements of income, changes in stockholders' equity and cash flows for the years then ended. 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, 2011 and 2010, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

McGladrey & Pullen, LLP

Davenport, Iowa
March 20, 2012

McGladrey is the brand under which RSM McGladrey, Inc. and McGladrey & Pullen, LLP serve clients' business needs. The two firms operate as separate legal entities in an alternative practice structure.

Member of RSM International network, a network of independent accounting, tax and consulting firms.

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEETS *(Amounts in thousands of dollars, except share and per share data)*

December 31,	2011	2010
ASSETS		
Cash and due from banks		
Non-interest bearing	\$ 12,104	\$ 9,363
Interest bearing	9,073	25,681
	\$ 21,177	\$ 35,044
Securities held to maturity	\$ 532	\$ 1,481
Securities available for sale	281,103	277,248
Federal funds sold	3,238	2,167
Loans held for sale	454	-
Loans	375,390	337,558
Less allowance for loan losses	(5,187)	(5,020)
Net loans	\$ 370,203	\$ 332,538
Premises, furniture and equipment, net	\$ 19,299	\$ 16,303
Accrued interest receivable	3,271	3,289
Life insurance contracts	11,467	9,118
Intangibles	3,318	3,385
Prepaid FDIC insurance assessment	1,267	1,798
Other assets	6,525	8,273
TOTAL ASSETS	\$ 721,854	\$ 690,644
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Deposits		
Non-interest bearing demand	\$ 70,932	\$ 70,127
Interest bearing demand	203,435	184,727
Savings	36,595	33,705
Time	273,537	281,877
Total Deposits	\$ 584,499	\$ 570,436
Securities sold under agreements to repurchase	48,769	37,604
Federal Home Loan Bank advances	-	5,500
Junior subordinated debentures	15,465	15,465
Accrued interest payable	1,110	1,321
Other liabilities	7,844	3,736
Total liabilities	\$ 657,687	\$ 634,062
Commitments and Contingencies (Note 11)		
Stockholders' Equity		
Series A Preferred Stock, no par value; shares authorized issued and outstanding: 2011 – none; 2010 – 10,000	-	9,645
Series B Preferred Stock; no par value; shares authorized issued and outstanding: 2011 – none; 2010 – 500	-	555
Series C Preferred Stock; no par value; shares authorized issued and outstanding: 2011 – 10,000; 2010 – none	10,000	-
Common stock, \$1 par value; shares authorized 6,000,000; Shares issued 2,579,230 and outstanding: 2011 – 2,053,026; 2010 – 2,051,476	2,580	2,580
Additional paid in capital	2,269	2,258
Retained earnings	51,964	47,637
Accumulated other comprehensive income	4,721	1,296
Treasury stock, at cost: 2011 – 526,204 shares; 2010 – 527,754 shares	(7,367)	(7,389)
Total Stockholders' Equity	\$ 64,167	\$ 56,582
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 721,854	\$ 690,644

See notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF INCOME *(Amounts in thousands of dollars, except per share data)*

Years Ended December 31,	2011	2010
INTEREST INCOME		
Loans, including fee income:		
Taxable	\$ 18,169	\$ 16,758
Non-taxable	523	301
Securities:		
Taxable	6,328	6,858
Non-taxable	2,037	1,916
Other	98	97
Total interest income	\$ 27,155	\$ 25,930
INTEREST EXPENSE		
Deposits:		
Interest bearing demand and savings	\$ 1,420	\$ 1,564
Time	5,141	5,880
Total interest on deposits	\$ 6,561	\$ 7,444
Securities sold under agreements to repurchase	153	115
Federal Home Loan Bank advances	198	396
Junior subordinated debentures	976	977
Total interest expense	\$ 7,888	\$ 8,932
Net interest income	\$ 19,267	\$ 16,998
Provision for loan losses	\$ 1,640	\$ 1,080
Net interest income after provision for loan losses	\$ 17,627	\$ 15,918
OTHER INCOME		
Trust services	\$ 5,192	\$ 4,837
Service charges on deposit accounts	1,276	1,261
Gain on sale of loans	1,003	1,046
Investment securities gains (losses), net:		
Total other-than-temporary impairment gains (losses)	75	-
Portion of loss recognized in other comprehensive income before taxes	(105)	(81)
Net impairment losses recognized in earnings	(30)	(81)
Realized securities gains, net	17	1,163
Investment securities gains (losses), net	(13)	1,082
Other	3,185	2,938
Total other income	\$ 10,643	\$ 11,164
OTHER EXPENSES		
Salaries and employee benefits	\$ 11,267	\$ 9,848
Occupancy expense, net	1,497	1,168
Equipment expense	1,051	894
Computer processing	1,468	1,271
Professional services	511	565
Other	4,095	4,153
Total other expenses	\$ 19,889	\$ 17,899
Income before income taxes	\$ 8,381	\$ 9,183
Income taxes	2,324	2,743
NET INCOME	6,057	6,440
Earnings per share of common stock, basic and diluted	\$ 2.60	\$ 2.83

See notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(Amounts in thousands of dollars, except share and per share data) Years Ended December 31, 2011 and 2010

	Series A Preferred Stock	Series B Preferred Stock	Series C Preferred Stock	Common Stock	Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Comprehensive Income	Total
Balance, December 31, 2009	\$ 9,526	\$ 574	\$ -	\$ 2,580	\$ 2,251	\$ 42,785	\$ 2,389	\$ (7,429)		\$ 52,676
Restricted stock compensation, 2,902 shares of treasury stock	-	-	-	-	7	-	-	40		47
Comprehensive income:										
Net income	-	-	-	-	-	6,440	-	-	6,440	6,440
Other comprehensive (loss), net of tax	-	-	-	-	-	-	(1,093)	-	(1,093)	(1,093)
Comprehensive income									\$ 5,347	
Preferred stock dividends declared	-	-	-	-	-	(545)	-	-		(545)
Discount accretion on preferred stock, net	119	(19)	-	-	-	(100)	-	-		-
Common stock dividends declared (amount per share \$.46)	-	-	-	-	-	(943)	-	-		(943)
Balance, December 31, 2010	\$ 9,645	\$ 555	\$ -	\$ 2,580	\$ 2,258	\$ 47,637	\$ 1,296	\$ (7,389)		\$ 56,582
Issuance of 10,000 shares of Series C preferred stock	-	-	10,000	-	-	-	-	-		10,000
Restricted stock compensation, 1,550 shares of treasury stock	-	-	-	-	11	-	-	22		33
Comprehensive income:										
Net income	-	-	-	-	-	6,057	-	-	6,057	6,057
Other comprehensive income, net of tax	-	-	-	-	-	-	3,425	-	3,425	3,425
Comprehensive income									9,482	
Preferred stock dividends declared	-	-	-	-	-	(414)	-	-		(414)
Discount accretion on preferred stock, net	79	(12)	-	-	-	(67)	-	-		-
Redemption of 10,000 shares of Series A preferred stock	(9,724)	-	-	-	-	(276)	-	-		(10,000)
Redemption of 500 shares of Series B preferred stock	-	(543)	-	-	-	43	-	-		(500)
Common stock dividends declared (amount per share \$.495)	-	-	-	-	-	(1,016)	-	-		(1,016)
Balance, December 31, 2011	\$ -	\$ -	\$ 10,000	\$ 2,580	\$ 2,269	\$ 51,964	\$ 4,721	\$ (7,367)		\$ 64,167

See notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS *(Amounts in thousands of dollars)*

Years Ended December 31,	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 6,057	\$ 6,440
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	1,640	1,080
Depreciation	1,465	1,181
Amortization of intangibles	67	222
Amortization/accretion of premiums/discounts on securities, net	2,787	2,667
Investment securities (gains) losses, net:	13	(1,082)
Loans originated for sale	(64,071)	(94,558)
Proceeds from loans sold	64,620	95,787
Gain on sale of loans	(1,003)	(1,046)
Restricted stock compensation	33	47
Deferred income taxes	1,120	186
(Increase) decrease in accrued interest receivable and other assets	1,833	(627)
Decrease in prepaid FDIC insurance assessment	531	708
Increase in accrued interest payable and other liabilities	668	196
Net cash provided by operating activities	\$ 15,760	\$ 11,201
CASH FLOWS FROM INVESTING ACTIVITIES		
Activity in securities portfolio:		
Purchases	\$ (72,587)	\$ (121,537)
Sales of securities available for sale	-	27,903
Calls, maturities and paydowns	72,402	93,888
(Increase) in loans, net	(39,389)	(48,276)
(Increase) in federal funds sold	(1,071)	(1,874)
Purchases of premises, furniture and equipment	(4,461)	(5,104)
Purchase of life insurance contracts	(2,000)	-
(Increase) in cash surrender value life insurance contracts	(349)	(339)
Net cash (used in) investing activities	\$ (47,455)	\$ (55,339)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in deposits	\$ 14,063	\$ 58,667
Cash dividends paid to preferred shareholders	(456)	(545)
Cash dividends paid to common shareholders	(944)	(943)
Increase in securities sold under agreement to repurchase	11,165	7,387
Repayments of Federal Home Loan Bank advances	(5,500)	(3,000)
Issuance of Class C preferred stock	10,000	-
Redemption of Class A and B preferred stock	(10,500)	-
Net cash provided by financing activities	\$ 17,828	\$ 61,566
Net increase (decrease) in cash and due from banks	\$ (13,867)	\$ 17,428

(continued)

Years Ended December 31,	2011	2010
CASH AND DUE FROM BANKS:		
Beginning	\$ 35,044	\$ 17,616
Ending	\$ 21,177	\$ 35,044
Supplemental disclosure of cash flow information, Cash payments for:		
Interest	\$ 8,099	\$ 8,924
Income taxes	\$ 1,342	\$ 3,082
Supplemental schedule of non-cash investing and financing activities:		
Net change in accumulated other comprehensive income	\$ 3,425	\$ (1,093)
Transfer of loans to other real estate owned	\$ 84	\$ 2,358
Effects of common and preferred dividends payable	\$ 30	\$ -

See notes to consolidated financial statements

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 instruments 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, 2011 or 2010.

All securities are evaluated to determine whether declines in fair value below their amortized cost are other-than-temporary. In estimating other-than-temporary impairment losses on debt securities, management considers a number of factors including, but not limited to, (1) the length of time and extent to which the fair value has been less than amortized cost, (2) the financial condition and near-term prospects of the issuer, (3) the current market conditions and, (4) the intent of the Company to not sell the security prior to recovery and whether it is not more-likely-than-not that it will be required to sell the security prior to recovery. If the Company does not intend to sell the security, and it is unlikely the entity will be required to sell the security before recovery of its amortized cost basis, the Company will recognize the credit component 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 would 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.

In the current year, the Company adopted Accounting Standards Update (ASU) 2010-20, *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*, which requires significant new disclosures about the allowance for credit losses (also known as "allowance for loan losses") and the credit quality of financing receivables. The requirements are intended to enhance transparency regarding credit losses and the credit quality of loan and lease receivables. Under this statement, allowance for credit losses and fair value are to be disclosed by portfolio segment, while credit quality information, impaired financing receivables and nonaccrual status are to be presented by class of financing receivable. A portfolio segment is defined by the ASU as the level at which an entity develops and documents a systematic methodology to determine its allowance for credit losses. A class of financing receivable is defined by the ASU as a further disaggregation of a portfolio segment based on risk characteristics and the entity's method for monitoring and assessing credit risk. The disclosures are to be presented at the level of disaggregation that management uses when assessing and monitoring the portfolio's risk and performance. The Company has included the new disclosures throughout these financial statements (see Note 1 and Note 4).

The Company's portfolio segments are as follows:

- Commercial operating
- Commercial real estate
- Agricultural operating
- Agricultural real estate
- Construction and land development
- Real estate secured by 1-4 and multi-family
- Consumer

Given the risk characteristics and the Company's method for monitoring and assessing credit risk, further disaggregation of the loan portfolio is not warranted, and therefore, the Company's classes equal their segments.

Generally, for all classes of loans, loans are considered past due when contractual payments are delinquent for 31 days or greater.

For all classes of loans, loans will generally be placed on nonaccrual status when the loan has become 90 days past due (unless the loan is well secured and in the process of collection); or if any of the following conditions exist:

- It becomes evident that the borrower will not make payments, or will not or cannot meet the terms for renewal of a matured loan,
- When full repayment of principal and interest is not expected,
- When the loan is graded "substandard" and the future accrual of interest is not protected by sound collateral values,
- When the loan is graded "doubtful",
- When the borrower files bankruptcy and an approved plan of reorganization or liquidation is not anticipated in the near future, or
- When foreclosure action is initiated.

When a loan is placed on nonaccrual status, payments received will be applied to the principal balance. However, interest may be taken on a cash basis in the event the loan is fully secured and the risk of loss is minimal. Previously recorded but uncollected interest on a loan placed in nonaccrual status is accounted for as follows: if the previously accrued but uncollected interest and the principal amount of the loan is protected by sound collateral value based upon a current, independent qualified appraisal, such interest may remain on the Company's books. If such interest is not protected, it is considered a loss with the amount thereof recorded in the current year being reversed against current earnings, and the amount recorded in the prior year being charged against the allowance for possible loan losses.

For all classes of loans, nonaccrual loans may be restored to accrual status provided the following criteria are met:

- The loan is current, and all principal and interest amounts contractually due have been made,
- The loan is well secured and in the process of collection, and
- Prospects for future principal and interest payments are not in doubt.

As of December 31, 2011 and 2010, the Bank had loan concentrations in agribusiness of 13.50% and 12.22%, 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, 2011 and 2010.

1. Nature of Business and Summary of Significant Accounting Policies (Continued)

ALLOWANCE FOR LOAN LOSSES

Troubled debt restructures: Troubled debt restructuring exists when the Company, for economic or legal reasons related to the borrower's financial difficulties, grants a concession (either imposed by court order, law, or agreement between the borrower and the Company) to the borrower that it would not otherwise consider. These concessions could include forgiveness of principal, extension of maturity dates, and reduction of stated interest rates or accrued interest. The Company is attempting to maximize its recovery of the balances of the loans through these various concessionary restructurings. See Note 4 for disclosure of the Company's troubled debt restructurings.

Allowance for loan losses: For all portfolio segments, the allowance for loan losses is maintained at the level considered adequate by management to provide for losses that are probable. The allowance is increased by provisions charged to expense and reduced by net charge-offs. In determining the adequacy of the allowance balance, the Company makes continuous evaluations of the loan portfolio and related off-balance sheet commitments, considers current economic conditions, historical loan loss experience, reviews of specific problem loans and other factors.

A discussion of the risk characteristics and the allowance for loan losses by each portfolio segment follows:

For commercial operating loans, the Company focuses on small and mid-sized businesses with primary operations in transportation, warehousing and manufacturing, as well as serving as building contractors, business services companies, health care providers, financial organizations and retailers. The Company provides a wide range of commercial loans, including lines of credit for working capital and operational purposes, and term loans for the acquisition of real estate, facilities, equipment and other purposes. Approval is generally based on the following factors:

- Sufficient cash flow to support debt repayment;
- Ability and stability of current management of the borrower;
- Positive earnings and financial trends;
- Earnings projections based on reasonable assumptions;
- Financial strength of the industry and business; and
- Value and marketability of collateral.

Collateral for commercial loans generally includes accounts receivable, inventory, equipment and real estate. The lending policy specifies approved collateral types and corresponding maximum advance percentages. The value of collateral pledged on loans typically exceeds the loan amount by a margin sufficient to absorb potential erosion of its value in the event

of foreclosure and cover the loan amount plus costs incurred to convert it to cash.

The lending policy specifies maximum term limits for commercial operating loans. For term loans, the maximum term is 7 years. The lending policy references compliance with the interagency appraisal and evaluation guidelines effective December, 2010. Where the purpose of the loan is to finance depreciable equipment, the term loan generally does not exceed the estimated useful life of the asset. For lines of credit, the typical maximum term is 365 days. However, longer maturities may be approved if the loan is secured by readily marketable collateral.

In addition, the Company often takes personal guarantees to help assure repayment. Loans may be made on an unsecured basis if warranted by the overall financial condition of the borrower.

Commercial real estate loans, construction and land development loans and real estate second by multi-family loans are subject to underwriting standards and processes similar to commercial operating loans and to real estate loans including the factors regarding approval of the loan noted previously.

Collateral for these loans generally includes the underlying real estate and improvements, and may include additional assets of the borrower. The lending policy specifies maximum loan-to-value limits based on the category of commercial real estate (commercial real estate loans on improved property, raw land, land development, and commercial construction). The lending policy also references compliance with the interagency appraisal and evaluation guidelines effective December, 2010. In addition, the Company often takes personal guarantees to help assure repayment.

Agricultural operating and real estate loans are subject to underwriting standards and processes similar to commercial loans including the approval factors noted previously.

The Company provides a wide range of agriculture loans, including lines of credit for working capital and operational purposes, and term loans for the acquisition of real estate, facilities, equipment and other purposes.

Collateral for agricultural loans generally includes accounts receivable, inventory (typically grain or livestock), equipment and real estate. The lending policy specifies approved collateral types and corresponding maximum advance percentages. The value of collateral pledged on loans typically exceeds the loan amount by a margin sufficient to absorb potential erosion of its value in the event of foreclosure and cover the loan amount plus costs incurred to convert it to cash.

The lending policy specifies maximum term limits for agricultural loans. For term loans, the maximum term is 7 years. The lending policy references compliance with the interagency

appraisal and evaluation guidelines effective December, 2010. Where the purpose of the loan is to finance depreciable equipment, the term loan generally does not exceed the estimated useful life of the asset. For lines of credit, the typical maximum term is 365 days. However, longer maturities may be approved if the loan is secured by readily marketable collateral.

In addition, the Company often takes personal guarantees to help assure repayment. Loans may be made on an unsecured basis if warranted by the overall financial condition of the borrower.

In some instances for all loans, it may be appropriate to originate or purchase loans that are exceptions to the guidelines and limits established within the lending policy described above and below. In general, exceptions to the lending policy do not significantly deviate from the guidelines and limits established within the lending policy and, if there are exceptions, they are clearly noted as such and specifically identified in loan approval documents.

For loans categorized as "commercial," which would include the segments: commercial operating, commercial real estate, agricultural real estate, agricultural operating, construction and land development and real estate secured by multi-family, the allowance for estimated losses on loans consists of specific and general components.

The specific component relates to loans that are classified as impaired, as defined below. For those loans that are classified as impaired, an allowance is established when the collateral value (or discounted cash flows or observable market price) of the impaired loan is lower than the carrying value of that loan.

These loans are considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a case-by-case basis by either the present value of the expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

The general components consist of quantitative and qualitative factors and covers non-impaired loans. The quantitative factors are based on historical charge-offs experience and expected loss given default derived from the Company's internal risk rating process. See below for a detailed description of the Company's internal risk rating scale. The qualitative factors are determined based on an assessment of internal and/or external influences on credit quality that are not fully reflected in the historical loss or risk rating data.

For these commercial loans, the Company utilizes the following internal risk rating scale:

TYPE 1 (Substantially Risk Free)

General Statement: This rating should be assigned to loans with virtually no credit risk, such as loans fully secured by certificates of deposit and other deposit accounts. It may be assigned to other loans to businesses or individuals with little or no risk.

Business Loans: A loan to a business may be rate 1 if it exhibits enough of these characteristics to make it substantially risk free:

- Bank has a high regard for the character, competence, and diligence of management.
- Earnings are strong and well-assured.
- There is ample liquidity.
- Loans have paid as agreed.
- Abundant collateral which is liquid and has well-defined market value.
- Capital position well above industry averages.
- Loan structure is appropriate and documentation complete.
- No adverse trends.

Loans to individuals: Loans to individuals may be assigned a 1 rating if the following conditions are met:

- The primary source of repayment is strong and is considered likely to remain strong throughout the life of the loan,
- The loan is secured by collateral with a loan to value (LTV) of less than 50% provided that the collateral must have well-defined market-value, must have satisfactory liquidity, and should retain most of its value if the primary source of repayment falters.
- The individual has significant liquidity and is considered likely to remain liquid over the life of the loan.

TYPE 2 (Low Risk)

General Statement: This rating should be assigned to loans that have little credit risk. Borrowers in this category have strong earnings and capital and a secondary source of repayment that is sufficient to fully repay the loan. The business is considered to be highly resistant to adverse changes in economic or industry conditions.

1. Nature of Business and Summary of Significant Accounting Policies (Continued)

Business Loans: Following are some characteristics of loans that should be rated 2. A 2 loan may not exhibit all of the following characteristics, but its strengths – primarily the sufficiency/reliability of the sources of repayment – result in a loan with little credit risk. To the extent that a loan is not characterized by one or more of the factors listed below, the deficiency is not considered to adversely affect the likelihood of repayment in any material way.

- Bank has a high regard for the character, competence, and diligence of management.
- Consistent record of earnings; the earnings stream is considered resistant to changes in economic conditions.
- Liquidity at or above industry norms.
- Loans have paid as agreed.
- Collateral margin is well within policy guidelines with satisfactory liquidity and well-defined market value.
- Capital position above industry averages.
- Loan structure appropriate and documentation complete.
- No adverse trends.

Loans to individuals: Loans to individuals may be rated 2 if the individual's earnings stream is considered strong and reliable and the individual maintains a conservative financial posture. The income may be from any source, including business income, passive income, or professional income. Individuals are considered to maintain a conservative financial posture if they consistently leave themselves a wide margin of safety in terms of their ability to repay debt. This margin typically manifests itself in the form of significant liquidity, strong debt service coverage (DSC) ratios, and/or quick repayment of loans.

TYPE 3 (Normal Risk)

General Statement: Borrowers in this category have satisfactory earnings and net worth. In most cases, there is collateral or guarantor support which provides a satisfactory secondary source of repayment. The business is considered to be capable of operation profitably throughout the normal business cycle.

Business Loans: Loans to businesses should be rated 3 if financial strength is typical for the industry and there is no significant adverse trends. Following are some characteristics of 3 loans. A loan may not exhibit *all* of the following characteristics, but its strengths – primarily the sufficiency/reliability of the sources of repayment – result in a loan with normal levels of risk.

- Management is considered to be capable and diligent.
- The earnings stream is satisfactory under present conditions and is considered likely to continue.
- Satisfactory liquidity.
- Loans have paid as agreed.

- Collateral is considered sufficient to repay the loan in full within a reasonable marketing time.
- Capital position within a reasonable range above or below industry average.
- No material deficiencies in loan structure or documentation.
- Trends typically flat or positive. No material adverse trends.

Loans to individuals: Loans may be unsecured and still rated 3 if the individual's earnings stream is both strong and reliable. If earnings are not as strong, loans should be rated 3 if the bank's collateral is considered sufficient to repay the loan.

TYPE 4 (Above Average Risk)

General Statement: Borrowers in this category are not as strong financially as the typical business in the same industry. There may be discernible weakness in management, earnings, capital, or the bank's secondary sources of repayment. The business is considered to be susceptible to adverse changes in economic or industry conditions.

Business Loans: Loans to businesses should be rated 4 if financial strength is somewhat below industry averages, but the loans are expected to repay as agreed if the company's current financial condition stays the same or strengthens. Following are some examples of weaknesses which may cause a loan to have above average levels of risk. A 4 loan will not have all of these weaknesses, but will have one or more:

- There is some question as to the strength of management.
- The company is profitable in most years, but earnings are typically below industry averages.
- Liquidity may be limited as evidenced by occasional delinquencies.
- There may be a less than desirable margin in collateral; the collateral may be difficult to market; or the value of collateral may vary significantly depending on economic conditions.
- Capital position is below industry average.
- May have deficiencies in loan structure, incomplete legal documentation, or missing financial information.
- May have an adverse trend in sales or earnings; may be capital account withdrawals in excess of earnings.

Loans to Individuals: Loans to individual should be rated 4 if the bank appears to have a satisfactory source of repayment for the loan, but there is concern about the individual's earnings stream, leverage, or tolerance for risk.

TYPE 5 (Watch Loan)

General Statement: Borrowers in this category have readily apparent weaknesses in their financial condition. There may be weak earnings, thin capital, or an adverse trend that is expected to continue. The borrower currently has the capacity to repay, but is of marginal strength and is considered to have little ability to overcome economic events that would adversely

affect the business. Loans with material documentation or structural deficiencies may also be rated Watch at the discretion of bank or loan review personnel.

Business Loans: Following are examples of weaknesses which may warrant a Watch rating. Loans rated Watch will typically have several of the following weaknesses:

- There is often a question about the ability of management to operate the business successfully over time.
- The earnings stream is weak, with possible periods of loss.
- Liquidity may be a problem as evidenced by delinquencies or amortization periods longer than is typical for the type of collateral securing the loan.
- There may be reasonable doubt as to whether the loan would be repaid in full from the sale of collateral. Possible issues include: third party claims to the collateral; difficulty in obtaining possession; condition; marketing time; and value under current market conditions.
- Capital position less than half of industry average.
- Common to have deficiencies in loan structure, incomplete legal documentation, or missing financial information. Trends are flat or negative. It is common for there to be a decline in sales, earnings, and/or capital.

Loans to Individuals: See “General Statement” for Watch loans.

TYPE 6 (Substandard)

General Statement: These loans have one or more pronounced weaknesses which jeopardize their timely liquidation. Neither the earnings of the business nor its realistic net worth adequately protect the bank from possible loss. There is a distinct possibility that the bank will sustain some loss if the deficiencies are not corrected.

Business Loans: Following are examples of weaknesses which may warrant a Substandard rating. Loans rated Substandard will typically have several of the following weaknesses:

- Management often considered to have made incorrect strategic decisions, or to be weak or inattentive.
- Earnings stream is insufficient to repay loans on a timely basis. Business normally has periods of loss, sometimes large.
- Liquidity usually strained by operating losses.
- Loans usually renegotiated or past-due.
- It may be unlikely that the loan would be repaid in full from the sale of collateral. Possible issues include: third party claims to the collateral; difficulty in obtaining possession; condition; marketing time; and value under current market conditions.
- Typical reliance upon guarantors or other secondary sources of repayment that was not originally anticipated.
- Documentation deficiencies – including lack of important financial information – are common.
- In most cases that are negative trends, such as declines in sales, earnings, and/or capital.

Loans to Individuals: Loans to individual borrowers should be rated Substandard if there is a pronounced weakness in income, liquidity, or collateral that is likely to affect the ability of the bank to collect the debt in full. Debt levels may be significantly above accepted guidelines relative to income.

TYPE 7 (Doubtful)

General Statement: Loans with well-defined weaknesses that make collection or liquidation of the debt in full improbable based on current information.

Business Loans: Typical characteristics of a doubtful loan include the following:

- Large operating losses.
- Collateral insufficient to repay loan.
- Typical to have little or no capital. Continued viability of business is doubtful.
- Unreliable or no alternative sources of repayment.
- Loss anticipated; exact loss figure cannot be determined at present.

Loans to individuals: Borrower’s ability or willingness to repay makes collection of the debt in full unlikely. Loans may be unsecured or have an obvious collateral deficiency.

TYPE 8 (Loss)

General Statement: Loans with pervasive weaknesses so great that principal is considered uncollectible under current circumstances. This classification does not mean that the loan has absolutely no recovery value, but simply that it is no longer practical to defer writing it off. Recovery is dependent on favorable future events.

Normal characteristics:

- Business has failed or is near failure.
- No reliable source of repayment.

For these loans categorized as commercial or credit relationships with aggregate exposure greater than \$500,000, a loan review will be required within 15 months of the most recent credit review. The reviews shall be completed in enough detail to, at a minimum, validate the risk rating. Additionally, the reviews shall determine whether any documentation exceptions exist, appropriate written analysis is included in the loan file, and whether credit policies have been properly adhered to.

An ongoing independent review is conducted of a sampling of residential real estate as well to assess underwriting quality and adherence to policy.

Many of the residential real estate loans underwritten by the Company conform to the underwriting requirements of MPF, Fannie Mae, or other secondary market aggregators to allow the bank to resell loans in the secondary market.

1. Nature of Business and Summary of Significant Accounting Policies (Continued)

Servicing rights are retained on many, but not all, of the residential real estate loans sold in the secondary market. The lending policy references compliance with the interagency appraisal and evaluation guidelines effective December, 2010.

The Company provides many types of consumer and other loans including motor vehicle, home improvement, home equity, signature loans and small personal credit lines. The lending policy addresses specific credit guidelines by consumer loan type.

For residential real estate loans, and consumer loans, these large groups of smaller balance homogenous loans are collectively evaluated for impairment. The Company applies a quantitative factor based on historical charge-off experience in total for each of these segments. Accordingly, the Company generally does not separately identify individual residential real estate loans, and/or consumer loans for impairment disclosures, unless such loans are the subject of a restructuring agreement due to financial difficulties of the borrower or it has been identified for another specific reason.

Troubled debt restructures are considered impaired loans and are subject to the same allowance methodology as described above for impaired loans by portfolio segment.

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. Property is recorded at fair value less cost to sell when acquired. 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. In the current year, the Company adopted ASU 2011-08, *Intangibles – Goodwill and Other: Testing Goodwill for Impairment*. The Company has completed its annual goodwill impairment test and has determined that goodwill was not impaired at December 31, 2011 and 2010.

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.

REPURCHASE AGREEMENTS

Securities sold under agreements to repurchase, which are classified as secured borrowings, generally mature either daily or within one year from the transaction date. Securities sold under agreements to repurchase are reflected at the amount of cash received in connection with the transaction. The underlying securities are held by the Company's safekeeping agent. The Company may be required to provide additional collateral based on the fair value of the underlying securities.

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, 2011 and 2010.

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.

When the tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others could be subject to uncertainty about the merits of the position taken. 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. 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.

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 2007.

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 20, 2012, the date that the financial statements were available to be issued.

RECLASSIFICATIONS

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

CURRENT ACCOUNTING DEVELOPMENTS

In May 2011, the FASB issued ASU 2011-04, *Fair Value Measurement (Topic 820) – Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRS*. ASU 2011-04 amends Topic 820, *Fair Value Measurements and Disclosures*, to converge the fair value measurement guidance in U.S. generally accepted accounting principles and International Financial Reporting Standards. ASU 2011-04 clarifies the application of existing fair value measurement requirements, changes certain principles in Topic 920 and requires additional fair value disclosures. ASU 2011-04 is effective for the Company for the year ended December 31, 2012, and is not expected to have a material impact on the Company's consolidated financial statements.

In June 2011, the FASB issued ASU 2011-05, *Comprehensive Income (Topic 220) – Presentation of Comprehensive Income*. ASU 2011-05 amends Topic 220, *Comprehensive Income*, to require that all non-owner changes in stockholders' equity be presented in either a single continuous statement of comprehensive income or in two separate but consecutive statements. The amendments do not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. The option to present components of other comprehensive income as part of the statement of changes in stockholders' equity was eliminated. ASU 2011-05 is effective for the year ended December 31, 2012, and is not expected to have a material impact on the Company's 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 of unrealized gains and losses on securities available for sale and the interest rate swap.

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

	Before Tax	Tax Expense (Benefit)	Net of Tax
Year ended December 31, 2011			
Unrealized gains on securities available for sale:			
Unrealized holding gains arising during the year	\$ 5,534	\$ 2,103	\$ 3,431
Less reclassification adjustment for (losses) included in net income	(13)	(5)	(8)
Interest rate swap	3	1	2
Other comprehensive income	\$ 5,524	\$ 2,099	\$ 3,425

Year ended December 31, 2010

Unrealized (losses) on securities available for sale:

Unrealized holding (losses) arising during the year	\$ (2,649)	\$ (1,007)	\$ (1,642)
Less reclassification adjustment for gains included in net income	1,082	411	671
Interest rate swap	(196)	(74)	(122)
Other comprehensive (loss)	\$ (1,763)	\$ (670)	\$ (1,093)

As of December 31, 2011, accumulated other comprehensive income on the consolidated balance sheet includes \$4,826,000 as a result of unrealized gains on securities available for sale and (\$105,000) as a result of the interest rate swap. As of December 31, 2010, accumulated other comprehensive income on the consolidated balance sheet includes \$1,403,000 as a result of unrealized gains on securities available for sale and (\$107,000) as a result of the interest rate swap.

3. Securities

The amortized cost and fair values of securities as of December 31, 2011 and 2010 are as follows. Included in gross unrealized losses is an OTTI loss of \$1,088,000 and \$1,193,000 as of December 31, 2011 and 2010 respectively, relating to two corporate securities, which represent the non-credit related portion of the overall impairment. *(Amounts in thousands of dollars):*

2011	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
SECURITIES HELD TO MATURITY				
U.S. Government agency bonds	\$ 259	\$ 12	\$ -	\$ 271
State and political subdivisions	273	17	-	290
	\$ 532	\$ 29	\$ -	\$ 561

SECURITIES AVAILABLE FOR SALE				
U.S. Government agency bonds	\$ 83,568	\$ 1,378	\$ (5)	\$ 84,941
U.S. Government agency mortgage backed securities	63,837	4,270	(6)	68,101
State and political subdivisions	57,728	3,263	(243)	60,748
Corporate securities	1,477	-	(1,091)	386
Collateralized mortgage obligations	66,709	689	(471)	66,927
	\$ 273,319	\$ 9,600	\$ (1,816)	\$ 281,103

2010	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
SECURITIES HELD TO MATURITY				
U.S. Government agency bonds	\$ 264	\$ 12	\$ -	\$ 276
State and political subdivisions	1,217	11	(6)	1,222
	\$ 1,481	\$ 23	\$ (6)	\$ 1,498

SECURITIES AVAILABLE FOR SALE				
U.S. Government agency bonds	\$ 78,909	\$ 1,009	\$ (78)	\$ 79,840
U.S. Government agency mortgage backed securities	79,233	3,656	(74)	82,815
State and political subdivisions	55,003	447	(1,586)	53,864
Corporate securities	1,696	3	(1,193)	506
Collateralized mortgage obligations	60,144	262	(183)	60,223
	\$ 274,985	\$ 5,377	\$ (3,114)	\$ 277,248

3. 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, 2011 and 2010 are summarized as follows (Amounts in thousands of dollars):

2011	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 agency bonds	\$ 995	\$ (5)	\$ -	\$ -	\$ 995	\$ (5)
U.S. Government agency mortgage backed securities	4,082	(6)	-	-	4,082	(6)
State and political subdivisions	-	-	1,374	(243)	1,374	(243)
Corporate securities	261	(3)	125	(1,088)	386	(1,091)
Collateralized mortgage obligations	32,845	(384)	2,057	(87)	34,902	(471)
	\$ 38,183	\$ (398)	\$ 3,556	\$ (1,418)	\$ 41,739	\$ (1,816)

2010	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	\$ 167	\$ (6)	-	-	\$ 167	\$ (6)
SECURITIES AVAILABLE FOR SALE						
U.S. Government agency bonds	\$ 10,114	\$ (78)	\$ -	\$ -	\$ 10,114	\$ (78)
U.S. Government agency mortgage backed securities	2,914	(74)	-	-	2,914	(74)
State and political subdivisions	25,040	(989)	2,644	(597)	27,684	(1,586)
Corporate securities	-	-	50	(1,193)	50	(1,193)
Collateralized mortgage obligations	24,449	(183)	-	-	24,449	(183)
	\$ 62,517	\$ (1,324)	\$ 2,694	\$ (1,790)	\$ 65,211	\$ (3,114)

At December 31, 2011, the investment portfolio included 395 securities. Of this number, 36 securities have current unrealized losses and 9 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 except for the two securities discussed below. In addition, the Company does not have the intent to sell these debt securities and it is unlikely that the Company will be required to sell these debt securities prior to their anticipated recovery.

In fiscal year 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 non-credit related portion of \$1,277,000 being recognized in other comprehensive income. For the year ended December 31, 2011 and 2010 an additional \$30,000 and \$81,000, respectively, of credit loss was recognized in earnings.

The amortized cost and fair value of securities as of December 31, 2011 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*):

	Amortized Cost	Fair Value
SECURITIES HELD TO MATURITY		
Due in one year or less	\$ 99	\$ 102
Due after one year through five years	259	271
Due after five years through ten years	174	188
	<u>\$ 532</u>	<u>\$ 561</u>
SECURITIES AVAILABLE FOR SALE		
Due in one year or less	\$ 819	\$ 829
Due after one year through five years	71,456	72,696
Due after five years through ten years	61,294	64,403
Due after ten years	71,564	75,862
	<u>\$ 205,133</u>	<u>\$ 213,790</u>
Corporate securities	1,477	386
Collateralized mortgage obligations	66,709	66,927
	<u>\$ 273,319</u>	<u>\$ 281,103</u>

Information on sales of securities available for sale during the years ended December 31, 2011 and 2010 follows (*Amounts in thousands of dollars*):

	2011	2010
Proceeds from sales	\$ -	\$ 27,903
Gross gains	-	1,126
Gross losses	-	-

In addition, gains related to calls of investment securities were \$17,000 and \$37,000 for the years ended December 31, 2011 and 2010, respectively.

As of December 31, 2011 and 2010 securities with a carrying value of approximately \$182,637,000 and \$179,779,000 respectively, were pledged to collateralize deposits and securities sold under agreements to repurchase and for other purposes as required or permitted by law.

4. Loans

The composition of net loans outstanding as of December 31, 2011 and 2010 are as follows (*Amounts in thousands of dollars*):

	2011	2010
Commercial operating	\$ 48,280	\$ 40,299
Commercial real estate	130,521	106,853
Agricultural operating	23,295	25,876
Agricultural real estate	28,351	21,220
Construction and land development	25,259	23,566
Real estate secured by 1-4 and multi-family	82,000	80,316
Consumer	37,684	39,428
	\$ 375,390	\$ 337,558
Less: Allowance for loan losses	(5,187)	(5,020)
NET LOANS	\$ 370,203	\$ 332,538

The aging of the loan portfolio, by classes of loans, as of December 31, 2011 is summarized as follows (*Amounts in thousands of dollars*):

Classes of Loans:	Current	30-59 Days Past Due	60-89 Days Past Due	Accruing Past Due 90 Days or More	Nonaccrual Loans	Total
Commercial operating	\$ 48,213	\$ 60	\$ -	\$ -	\$ 7	\$ 48,280
Commercial real estate	125,938	605	-	-	3,978	130,521
Agricultural operating	23,265	21	-	-	9	23,295
Agricultural real estate	28,213	85	-	53	-	28,351
Construction and land development	24,140	631	-	68	420	25,259
Real estate secured by 1-4 and multi-family	78,423	2,392	336	45	804	82,000
Consumer	37,057	522	85	20	-	37,684
	\$ 365,249	\$ 4,316	\$ 421	\$ 186	\$ 5,218	\$ 375,390
As a percentage of total loan portfolio	97.30 %	1.15 %	0.11 %	0.05 %	1.39 %	100.00 %

As of December 31, 2010, loans past due 90 days or more and still accruing interest totaled \$591,000. Nonaccrual loans totaled \$5,856,000 as of December 31, 2010, including impaired loans of \$5,506,000. See further information on impaired loans as of December 31, 2010 following later in this note.

Nonperforming loans, by classes of loans, as of December 31, 2011 are summarized as follows *(Amounts in thousands of dollars)*:

Classes of Loans:	Accruing Past Due 90 Days or More	Nonaccrual Loans**	Troubled Debt Restructures-Accruing	Total Nonperforming Loans	Percentage of Total Nonperforming Loans
Commercial operating	\$ -	\$ 7	\$ -	\$ 7	0.12 %
Commercial real estate	-	3,978	481	4,459	75.77
Agricultural operating	-	9	-	9	0.15
Agricultural real estate	53	-	-	53	0.90
Construction and land development	68	420	-	488	8.29
Real estate secured by 1-4 and multi-family	45	804	-	849	14.43
Consumer	20	-	-	20	0.34
	\$ 186	\$ 5,218	\$ 481	\$ 5,885	100.00 %

**Nonaccrual loans as of December 31, 2011 include \$3,573,000 of troubled debt restructures which are included in commercial real estate.

Changes in the allowance for loan losses, by portfolio segment, during the year ended December 31, 2011, and in total, during the year ended December 31, 2010 are summarized as follows *(Amounts in thousands of dollars)*:

2011	Commercial Operating	Commercial Real Estate	Agricultural Operating	Agricultural Real Estate	Construction & Land Development	Real Estate Secured by 1-4 & Multi-family	Consumer	Total
Balance, beginning	\$ 1,153	\$ 2,105	\$ 141	\$ 117	\$ 293	\$ 740	\$ 471	\$ 5,020
Provision for loan losses	307	463	(1)	52	388	356	75	1,640
Recoveries of loans charged off	-	-	-	-	129	8	31	168
	1,460	2,568	140	169	810	1,104	577	6,828
Loans charged off	(867)	-	-	-	(385)	(224)	(165)	(1,641)
Balance, ending	\$ 593	\$ 2,568	\$ 140	\$ 169	\$ 425	\$ 880	\$ 412	\$ 5,187

2010	Total
Balance, beginning	\$ 4,644
Provision for Loan Loss	1,080
Recoveries of loans charged off	122
	5,846
Loans charged off	(826)
Balance, ending	\$ 5,020

4. Loans (Continued)

The allowance for loan losses, by impairment evaluation and by portfolio segment, as of December 31, 2011 are summarized as follows (Amounts in thousands of dollars):

	Commercial Operating	Commercial Real Estate	Agricultural Operating	Agricultural Real Estate	Construction & Land Development	Real Estate Secured by 1-4 & Multi-family	Consumer	Total
Allowance for loans individually evaluated for impairment	\$ -	\$ 776	\$ -	\$ -	\$ 100	\$ 133	\$ -	\$ 1,009
Allowance for loans collectively evaluated for impairment	593	1,792	140	169	325	747	412	4,178
	\$ 593	\$ 2,568	\$ 140	\$ 169	\$ 425	\$ 880	\$ 412	\$ 5,187
Loans individually evaluated for impairment	\$ 7	\$ 4,458	\$ 9	\$ -	\$ 420	\$ 805	\$ -	\$ 5,699
Loans collectively evaluated for impairment	48,273	126,063	23,286	28,351	24,839	81,195	37,684	369,691
	\$ 48,280	\$ 130,521	\$ 23,295	\$ 28,351	\$ 25,259	\$ 82,000	\$ 37,684	\$ 375,390

	Commercial Operating	Commercial Real Estate	Agricultural Operating	Agricultural Real Estate	Construction & Land Development	Real Estate Secured by 1-4 & Multi-family	Consumer	Total
Allowance as a percentage of loans individually evaluated for impairment	0.00 %	17.41 %	0.00 %	0.00 %	23.81 %	16.52 %	0.00 %	17.70 %
Allowance as a percentage of loans collectively evaluated for impairment	1.23 %	1.42 %	0.60 %	0.60 %	1.31 %	0.92 %	1.09 %	1.13 %
Allowance as a percentage of total loans	1.23 %	1.97 %	0.60 %	0.60 %	1.68 %	1.07 %	1.09 %	1.38 %

Loans, by classes of loans, considered to be impaired as of December 31, 2011, are summarized as follows (*Amounts in thousands of dollars*):

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
CLASSES OF LOANS				
Impaired loans with no specific allowance recorded:				
Commercial operating	\$ 7	\$ 10	\$ -	\$ 9
Commercial real estate	884	884	-	871
Agricultural operating	9	10	-	10
Real estate secured by 1-4 and multi-family	291	311	-	317
	\$ 1,191	\$ 1,215	\$ -	\$ 1,207
Impaired loans with specific allowance recorded:				
Commercial operating	\$ -	\$ -	\$ -	\$ -
Commercial real estate	3,574	3,828	776	3,815
Construction and land development	420	527	100	475
Real estate secured by 1-4 and multi-family	514	526	133	523
	\$ 4,508	\$ 4,881	\$ 1,009	\$ 4,813
Total impaired loans:				
Commercial operating	\$ 7	\$ 10	\$ -	\$ 9
Commercial real estate	4,458	4,712	776	4,686
Agricultural operating	9	10	-	10
Construction and land development	420	527	100	475
Real estate secured by 1-4 and multi-family	805	837	133	840
	\$ 5,699	\$ 6,096	\$ 1,009	\$ 6,020

As of December 31, 2010, impaired loans totaled \$5,506,000, which included impaired loans with no specific allowance recorded of \$2,255,000 and impaired loans with specific allowance recorded of \$3,251,000. The allowance provided on the later totaled \$1,600,000. During the year ended December 31, 2010, the average recorded investment in impaired loans totaled \$4,192,000. Interest income and cash basis interest income recognized on impaired loans during the years ended December 31, 2011 and 2010 was not significant.

Impaired loans, for which no allowance has been provided, as of December 31, 2011 and 2010, have adequate collateral, based on management's current estimates.

4. Loans (Continued)

For each class of loans, the following summarized the recorded investment by credit quality indicator as of December 31, 2011
(Amounts in thousands of dollars):

	Commercial Operating	Commercial Real Estate	Agricultural Operating	Agricultural Real Estate	Construction & Land Development	Real Estate Secured by Multi-family	Total
Internally assigned risk rating:							
Pass (ratings 1 through 4)	\$ 47,945	\$ 123,360	\$ 20,518	\$ 26,193	\$ 7,850	\$ 18,110	\$ 243,976
Special mention (rating 5)	74	1,473	2,777	2,158	671	372	7,525
Substandard (rating 6)	259	3,234	-	-	-	808	4,301
Doubtful (rating 7)	2	2,454	-	-	420	485	3,361
	\$ 48,280	\$ 130,521	\$ 23,295	\$ 28,351	\$ 8,941	\$ 19,775	\$ 259,163

	Construction & Land Development	Real Estate Secured by 1-4	Consumer	Total
Delinquency status:*				
Performing	\$ 16,318	\$ 62,180	\$ 37,664	\$ 116,162
Nonperforming	-	45	20	65
	\$ 16,318	\$ 62,225	\$ 37,684	\$ 116,227

*Performing loans are those which are accruing and less than 90 days past due. Nonperforming loans are those on nonaccrual, accruing loans that are greater than or equal to 90 days past due, and accruing TDR's.

For commercial operating, commercial real estate, agricultural operating, agricultural real estate, real estate secured by multifamily and a portion of the construction and land development loans, the Company's credit quality indicator is internally assigned risk ratings. Each of these loans is assigned a risk rating upon origination. The risk rating is reviewed every 12 months, at a minimum, and on an as needed basis depending on the specific circumstances of the loan. Some classes of loans contain loans that are risk rated and loans that are not as loans of a more homogeneous nature are not risk rated. See Note 1 for further discussion on the Company's risk ratings.

For residential real estate loans and consumer loans, the Company's credit quality indicator is performance determined by delinquency status. Delinquency status is updated daily by the Company's loan system.

As of December 31, 2011 and 2010, troubled debt restructurings (TDRs) total \$4,054,000 and \$1,901,272, respectively.

For each class of loans, the following summarizes the number and investment in troubled debt restructuring (TDRs), by type of concession, that were restructured during the year ended December 31, 2011 (*Amounts in thousands of dollars*):

Concession-Extension of maturity:	Number of TDRs	Pre-modification Recorded Investment	Post-modification Recorded Investment
Commercial real estate	5	\$ 2,254	\$ 2,254

There was no financial impact for charge-offs, principal forgiveness or foregone interest for the troubled debt restructurings. The financial impact for specific reserves was not significant for the troubled debt restructurings.

For the year ended December 31, 2011, none of the Company's TDRs have redefaulted subsequent to restructure, where a default is defined as a delinquency of 90 days or more and/or placement on nonaccrual status.

Mortgage loans serviced for others are not included in the accompanying consolidated balance sheets. The unpaid principal balances of these loans totaled \$148,959,000 and \$133,763,000 at December 31, 2011 and 2010, respectively.

In the ordinary course of business, the Bank has granted loans to directors, principal officers, their immediate families and affiliated companies in which they are principal stockholders amounting to \$6,755,000 and \$8,021,000 as of December 31, 2011 and 2010 respectively.

5. Premises, Furniture and Equipment

The cost, accumulated depreciation and net book value of premises, furniture and equipment as of December 31, 2011 and 2010 is summarized as follows (*Amounts in thousands of dollars*):

	2011	2010
Land	\$ 3,091	\$ 3,108
Building and improvements	15,448	14,208
Furniture and equipment	9,107	8,002
	\$ 27,646	\$ 25,318
Less accumulated depreciation	(8,347)	(9,015)
	\$ 19,299	\$ 16,303

6. Intangibles

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

As of December 31,	2011	2010
Intangible assets:		
Goodwill	\$ 3,050	\$ 3,050
Core deposit intangible	1,380	1,380
Other intangible assets	481	481
Less accumulated amortization on certain intangible assets	(1,593)	(1,526)
Total intangible assets	\$ 3,318	\$ 3,385

ESTIMATED FUTURE AMORTIZATION EXPENSE:

For the year ended December 31:

2011		\$ 67
2012	\$ 68	68
2013	68	68
2014	68	68
2015	64	64

7. Time Deposits

The aggregate amount of time deposits, each with a minimum denomination of \$100,000, was approximately \$104,025,000 and \$101,874,000 at December 31, 2011 and 2010, respectively. This includes brokered deposits of \$9,663,000 at December 31, 2011 and 2010.

At December 31, 2011, the scheduled maturities of time deposits are as follows (*Amounts in thousands of dollars*):

2012	\$ 151,851
2013	45,824
2014	28,209
2015	21,790
2016	25,863
	<u>\$ 273,537</u>

8. Federal Home Loan Bank Advances

Advances from the Federal Home Loan Bank totaled \$5,500,000 as of December 31, 2010 and bore a weighted average interest rate of 4.95%. First mortgage loans of approximately \$7,333,000 were pledged as collateral on the advances. These advances matured during the year ended December 31, 2011 and no further advances were obtained.

9. 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, 2011 and 2010, the Company is allowed, for regulatory purposes, to include the entire \$15,000,000 of the capital securities issued by the Trusts in Tier I 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 (3.23% and 2.95% as of December 31, 2011 and 2010, respectively). 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 redeem at any time. 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, 2011 and 2010, the notional amount of the swap is \$5,000,000 with a fair value of \$(169,000) and (\$172,000) respectively recorded in other liabilities, and as a reduction 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 (3.53% and

3.25% as of December 31, 2011 and 2010, 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 redeem at any time.

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 redeem at any time. 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.

10. Preferred Stock, Series A, B, and C

In October 2008, Congress passed the Emergency Economic Stabilization Act of 2008 (EESA). One of the provisions resulting from the Act was 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 Preferred 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 could have been redeemed by the Company at any time, subject to approval of the Federal Reserve. Any redemption of the Series A and B Preferred Stock was to 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 had been redeemed or the Treasury had transferred all of the Series A Preferred Stock to one or more third parties, the consent of the Treasury was to 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 would equal its liquidation value.

On September 8, 2011, the Company issued 10,000 shares of Senior Non-Cumulative Perpetual Preferred Stock, Series C ("Series C Preferred Stock") to the U.S. Department of the Treasury ("Treasury") for an aggregate purchase price of \$10,000,000. The sale of Series C Preferred Stock is the result of an investment from the Small Business Lending Fund ("SBLF"), a fund established under the Small Business Jobs Act of 2010 that encourages lending to small businesses by providing capital to qualified community banks with assets of less than \$10 billion. As a requirement of the SBLF, simultaneously, the Company redeemed the 10,500 shares of Fixed Rate Cumulative Perpetual Preferred Stock, Series A and B ("Series A or B Preferred Stock"), at an aggregate price of \$10,500,000 plus accrued and unpaid dividends to the date of redemption of \$35,000. The Series A and B Preferred Stock was issued as a result of the Company's participation in the Treasury's voluntary Capital Purchase Program ("CCP") discussed previously.

The Series C Preferred Stock qualifies as Tier 1 capital for the Company. Non-cumulative dividends are payable quarterly on the Series C Preferred Stock, and the dividend rate is based on changes in the level of "Qualified Small Business Lending" or "QSBL" by the Company. Based upon the change in the bank's level of QSBL over the baseline level (as defined by SBLF, the baseline average of QSBL for the last two quarters of 2009 and the first two quarters of 2010), the dividend rate for the initial dividend period, which was from the date of issuance through September 30, 2011, was set at 2%, and the dividend rate for the fourth quarter of 2011 was set at 1%. For the 2nd through 10th calendar quarters, the annual dividend rate may

be adjusted to between 1% and 5%, to reflect the amount of change in the banks' level of QSBL. For the 11th calendar quarter through 4.5 years after issuance, the dividend rate will be fixed between 1% and 5%, based upon the increase in QSBL from the baseline level to the level as of the end of the ninth dividend period (i.e., as of September 30, 2013), or will be fixed at 7% if there is no increase or there is a decrease in QSBL during such period. In addition, beginning on April 1, 2014 and ending on April 1, 2016, if there is no increase or there is a decrease in QSBL from the baseline level to the level as of the end of the ninth dividend period (i.e. as of September 30, 2013), because of the Company's participation in the CPP, the Company will be subject to an additional lending incentive fee of 2% per year. After 4.5 years from the issuance, the dividend rate will increase to 9%.

The Series C Preferred Stock may be redeemed at any time at the option of the Company, subject to the approval of the Company's primary federal banking regulator. All redemptions must be in amounts equal to at least 25% of the number of originally issued shares at \$1,000 per share, or 100% of the then-outstanding shares (if less than 25% of the originally issued shares).

In accordance with the SBLF, the Company may pay dividends on all stock assuming Tier 1 capital levels remain at least 90% of the level existing upon the date of issuance, September 8, 2011. This threshold is subject to reduction depending on increases in the Company's QSBL.

The Series C Preferred Stock is nonvoting, other than for consent rights granted to Treasury with respect to (i) an authorization or issuance of shares ranking senior to the Series C Preferred Stock, (ii) any amendment to the rights of the Series C Preferred Stock, (iii) any merger, exchange, dissolution, or similar transaction that would affect the rights of the Series C Preferred Stock and (iv) any sale of all, or any material portion of, the Company's assets if in conjunction with such sale, the Series C Preferred Stock will not be redeemed in full.

If the Company misses five dividend payments, whether or not consecutive, the holder of the Series C Preferred Stock will have the right, but not the obligation, to appoint a representative as an observer on the Company's Board of Directors.

11. 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.

11. Commitments and Contingencies (Continued)

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, 2011 and 2010 is as follows (*Amounts in thousands of dollars*):

	2011	2010
Commitments to extend credit and unused lines of credit	\$ 67,384	\$ 59,406
Standby letters of credit	1,836	2,091

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

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements and, generally, have terms of one year, or less. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Bank holds collateral, as detailed above, supporting those commitments if deemed necessary. In the event the customer does not perform in accordance with the terms of the agreement with the third party, the Bank would be required to fund the commitment. The maximum potential amount of future payments the Bank could be required to make is represented by the contractual amount shown in the previous summary. If the commitment is funded, the Bank would be entitled to seek recovery from the customer. At December 31, 2011 and 2010, 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 \$4,545,000 and \$847,000 at December 31, 2011 and 2010, respectively.

These amounts include loans held for sale of 454,000 and none as of December 31, 2011 and 2010, respectively, and loan commitments, included in the summary in this Note, of \$4,091,000 and \$847,000 as of December 31, 2011 and 2010, 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, 2011 and 2010. 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 four institutions by a total of approximately \$12,378,000 as of December 31, 2011. In the opinion of management, no material risk of loss exists due to the financial condition of the institutions.

CONTINGENCIES

In the normal course of business, the Company is involved in various legal proceedings. In the opinion of management, any liability resulting from such proceedings would not have a material adverse effect on these consolidated financial statements.

12. 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 subsidiaries, a contribution may be made by the subsidiaries. Employees are 100% vested in the subsidiaries' contribution to the plan after five years of service. Employee contributions and vested subsidiaries contributions may be withdrawn only on termination of employment, retirement, death or hardship withdrawal.

Under the Employee Incentive Compensation Plan, the Bank and Trust Services are authorized at their 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 and Trust Services exceeds established income levels.

Contributions to the 401(k) plan for the years ended December 31, 2011 and 2010 totaled \$576,000 and \$383,000, respectively. Contributions made to the incentive compensation plan for the years ended December 31, 2011 and 2010 were \$37,000 and \$185,000, respectively.

13. 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, see Note 10, for other potential dividend restriction.

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 following table) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined) and of Tier I capital (as defined) to average assets (as defined). Management believes, as of December 31, 2011, 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.

13. 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	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2011						
Total Capital (to Risk Weighted Assets)						
Company	\$ 75,473	15.54 %	\$ 38,854	≥ 8.00 %	N/A	N/A
Bank	\$ 62,708	13.00 %	\$ 38,580	≥ 8.00 %	\$ 48,225	≥ 10.00 %
Tier I Capital (to Risk Weighted Assets)						
Company	\$ 71,295	14.68 %	\$ 19,427	≥ 4.00 %	N/A	N/A
Bank	\$ 57,521	11.93 %	\$ 19,290	≥ 4.00 %	\$ 28,935	≥ 6.00 %
Tier I Capital (to Average Assets)						
Company	\$ 71,295	9.99 %	\$ 28,535	≥ 4.00 %	N/A	N/A
Bank	\$ 57,521	8.14 %	\$ 28,270	≥ 4.00 %	\$ 35,337	≥ 5.00 %
As of December 31, 2010						
Total Capital (to Risk Weighted Assets)						
Company	\$ 70,165	15.43 %	≥ \$ 36,380	≥ 8.00 %	N/A	N/A
Bank	\$ 58,779	13.02 %	≥ \$ 36,121	≥ 8.00 %	≥ \$ 45,152	≥ 10.00 %
Tier I Capital (to Risk Weighted Assets)						
Company	\$ 66,827	14.70 %	≥ \$ 18,190	≥ 4.00 %	N/A	N/A
Bank	\$ 53,759	11.91 %	≥ \$ 18,061	≥ 4.00 %	≥ \$ 27,091	≥ 6.00 %
Tier I Capital (to Average Assets)						
Company	\$ 66,827	9.83 %	≥ \$ 27,191	≥ 4.00 %	N/A	N/A
Bank	\$ 53,759	7.98 %	≥ \$ 26,961	≥ 4.00 %	≥ \$ 33,701	≥ 5.00 %

14. Income Tax Matters

The components of income tax expense are as follows for the years ended December 31, 2011 and 2010 (*Amounts in thousands of dollars*):

Years Ended December 31,	2011	2010
Current	\$ 1,204	\$ 2,557
Deferred	1,120	186
	\$ 2,324	\$ 2,743

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*):

	2011 Amount	% of Pretax Income	2010 Amount	% of Pretax Income
Federal income tax at statutory rate	\$ 2,850	34.0 %	\$ 3,122	34.0 %
Changes from statutory rate resulting from:				
State tax, net of federal benefit	247	2.9	333	3.6
Tax exempt interest income, net	(823)	(9.8)	(701)	(7.6)
Increase in cash surrender value	(109)	(1.3)	(104)	(1.1)
Over (under) accrual of provision and other, net	159	1.9	93	1.0
Income tax expense	\$ 2,324	27.7 %	\$ 2,743	29.9 %

Net deferred tax assets consist of the following components as of December 31, 2011 and 2010 (*Amounts in thousands of dollars*):

	2011	2010
Deferred tax assets:		
Allowance for loan losses	\$ 1,993	\$ 1,854
Other-than-temporary impairment	290	279
Accrued expenses	272	223
Interest rate swap	64	65
	\$ 2,619	\$ 2,421
Deferred tax liabilities:		
Premises, furniture and equipment	\$ (2,024)	\$ (790)
Stock dividends	(146)	(140)
Prepaid expenses	(83)	(78)
Unrealized gains on securities available for sale, net	(2,958)	(860)
Intangibles	(502)	(371)
Other	(108)	(165)
	\$ (5,821)	\$ (2,404)
NET DEFERRED TAX ASSETS (LIABILITIES)	\$ (3,202)	\$ 17

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

14. 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,	2011	2010
Provision for income taxes	\$ 1,120	\$ 186
Statement of changes in stockholders' equity, accumulated other comprehensive income (loss), unrealized gains (losses) on securities available for sale, net	2,098	(596)
Interest rate swap	1	(74)
	<u>\$ 3,219</u>	<u>\$ (484)</u>

15. 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 using a hierarchy system, and requires disclosure of fair value measurements. The hierarchy is intended to maximize the use of observable inputs and minimize the use of unobservable inputs and includes three levels based upon the valuation techniques used. The three levels are 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 and liabilities 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. Loan impairment may be measured based upon the present value of expected future cash flows discounted at the loan's effective interest rate or the fair value of the collateral, if the loan is collateral dependent. Collateral may be real estate and/or business assets including equipment, inventory and/or accounts receivable. Fair value is determined based upon appraisals by qualified licensed appraisers hired by the Company, and are, generally, considered level 2 measurements. 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.

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 inputs that are observable or that can be corroborated by observable market data, and therefore, are classified within level 2 of the valuation hierarchy.

There have been no changes in valuation techniques used for any assets or liabilities measured at fair value during the year ended December 31, 2011.

ASSETS AND LIABILITIES RECORDED AT FAIR VALUE ON A RECURRING BASIS

The following table summarizes assets and liabilities measured at fair value on a recurring basis as of December 31, 2011 and 2010, 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, 2011 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 agency bonds	\$ 84,941	\$ -	\$ 84,941	\$ -
U.S. Government agency mortgage backed securities	68,101	-	68,101	-
State and political subdivisions	60,748	-	60,748	-
Corporate securities	386	-	386	-
Collateralized mortgage obligations	66,927	-	66,927	-
	<u>\$ 281,103</u>	<u>\$ -</u>	<u>\$ 281,103</u>	<u>\$ -</u>
Interest rate swap	<u>\$ (169)</u>	<u>\$ -</u>	<u>\$ (169)</u>	<u>\$ -</u>

Fair Value Measurements as of December 31, 2010 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 agency bonds	\$ 79,840	\$ -	\$ 79,840	\$ -
U.S. Government agency mortgage backed obligations	82,815	-	82,815	-
State and political subdivisions	53,864	-	53,864	-
Corporate securities	506	-	506	-
Collateralized mortgage obligations	60,223	-	60,223	-
	<u>\$ 277,248</u>	<u>\$ -</u>	<u>\$ 277,248</u>	<u>\$ -</u>
Interest rate swap	<u>\$ (172)</u>	<u>\$ -</u>	<u>\$ (172)</u>	<u>\$ -</u>

There were no transfers of assets or liabilities between levels 1, 2, and 3 of the fair value hierarchy during the year ended December 31, 2011.

15. 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, 2011 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	\$ 3,676	\$ -	\$ -	\$ 3,676
Other real estate owned	\$ 220	\$ -	\$ -	\$ 220

Fair Value Measurements as of December 31, 2010 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	\$ 1,731	\$ -	\$ -	\$ 1,731
Other real estate owned	\$ 1,845	\$ -	\$ -	\$ 1,845

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. Certain financial instruments and all non-financial instruments are excluded from these 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.

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

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

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

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

Federal Home Loan Bank advances: The fair value of Federal Home Loan Bank advances are estimated using discounted cash flow analyses, using interest rates currently being offered for similar borrowings.

Junior subordinated debentures: It is not practicable to estimate the fair value of junior subordinated debentures as instruments with similar terms are not available in the market place.

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, 2011 and 2010 are as follows (*Amounts in thousands of dollars*):

	2011 Carrying Value	2011 Fair Value	2010 Carrying Value	2010 Fair Value
Financial assets:				
Cash and due from banks	\$ 21,177	\$ 21,177	\$ 35,044	\$ 35,044
Securities held to maturity	532	561	1,481	1,498
Securities available for sale	281,103	281,103	277,248	277,248
Federal funds sold	3,238	3,238	2,167	2,167
Loans, net	370,203	372,480	332,538	334,274
Accrued interest receivable	3,271	3,271	3,289	3,289
Financial liabilities:				
Non-interest-bearing demand deposits	\$ 70,932	\$ 70,932	\$ 70,127	\$ 70,127
Interest-bearing demand deposits	203,435	203,435	184,727	184,727
Savings deposits	36,595	36,595	33,705	33,705
Time deposits	273,537	277,318	281,877	284,233
Securities sold under agreements to repurchase	48,769	48,769	37,604	37,604
Federal Home Loan Bank advances	-	-	5,500	5,686
Accrued interest payable	1,110	1,110	1,321	1,321

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